

RESEARCH



Q1 2016

OFFICE MARKET REPORT

Saint Petersburg

HIGHLIGHTS

Small 4% increase of the total leasable area against the previous quarter.

Gradual vacancy decline resulting from major transactions concluded during the quarter.

No changes of rents were registered.



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"Tenants were highly active during the first quarter of the year: there were lots of well-defined requests for relocation of offices. Companies came up with their development strategies. They either chose a tough optimization, reduction of premises and move to the class below. Or, in contrast, they improved conditions for employees by increasing the area of leased premises and moving to more quality buildings. Quality supply is becoming progressively smaller making landlords less willing to make concessions to current tenants, as they are not afraid to be left with vacant premises".

OFFICE MARKET REPORT SAINT PETERSBURG

Key indicators. Dynamics.*

	Class A	Class B
Total leasable area, thousand sq m	2,423.9	
including, thousand sq m	832.6	1,591.4
New delivery of Q1 2016	65.5	35.2
Vacancy rate, %	9.3 ▼	10.8 ▼
Average rents, rub./sq m/month, incl. VAT and OPEX	1,435	1,076
Average asset-by-asset rents change from the start of 2016, %	0	0
Rent rates range, rub./sq m/month, incl. VAT and OPEX	800–2,000	550–1,850

* Class affiliation of several business centres was revised

Source: Knight Frank St. Petersburg Research, 2016

Business centres delivered in Q1 2016 and offered for lease

Name	Address	Class	Leasable area, sq m
Megapark (phase II)	22, Zastavskaya St	B	14,120
Perspektiva	Litera A, 1, Kokkolevskaya St	B	6,125
Marx (phase II)	29, Izmailovskiy Ave	B	3,300
no name	Litera A, bld. 2, 83, Lakhtinskiy Ave	B	1,210

Source: Knight Frank St. Petersburg Research, 2016

Key events

The administration building was commissioned (106 thousand sq m) in Nevskaya Ratusha business district.

Big deal was closed in Flandria Plaza Business Centre located in Moskovskiy District was leased.

Class A business centre LENIZDAT (27 thousand sq m) was purchased by Piter Concern.

Supply

10 business centres (mostly Class B) were commissioned, including facilities for own use. Their total leasable area is a little more than 100 thousand sq m.

248,000 sq m were available for lease in St. Petersburg business centres in Q1 2016 (mostly in Class B – more than 170 thousand sq m). The total supply decreased by 2% against the previous quarter due to the demand of Russian companies for relatively inexpensive office centers.

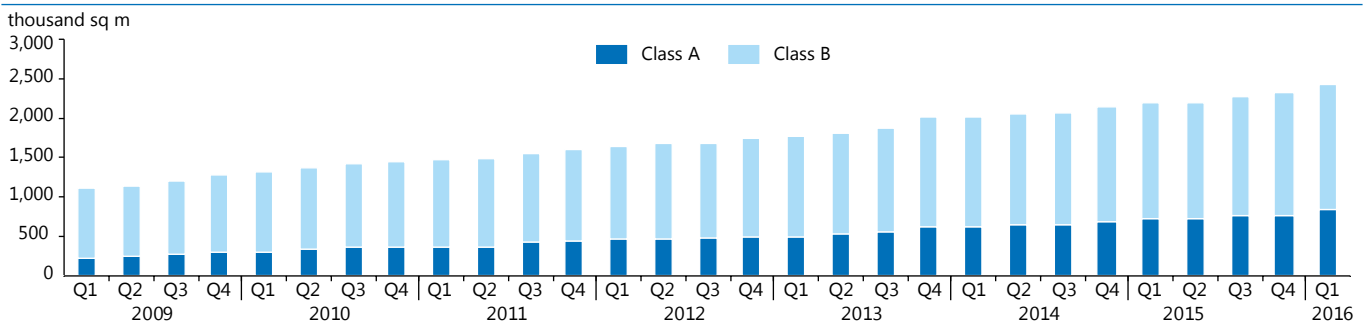
Demand

Gradual vacancy decline was observed falling to 10.3% in offices of both classes. The decrease was equal to 0.7 p. p. from the end of last year.

Vacancy fall is associated with the conclusion of large transactions started last year. In Class A offices the big deal was closed in the new object commissioned at the end of 2015: an office building in business centre Flandria Plaza was leased. Transactions in Class B offices took place in the remote districts of St. Petersburg.

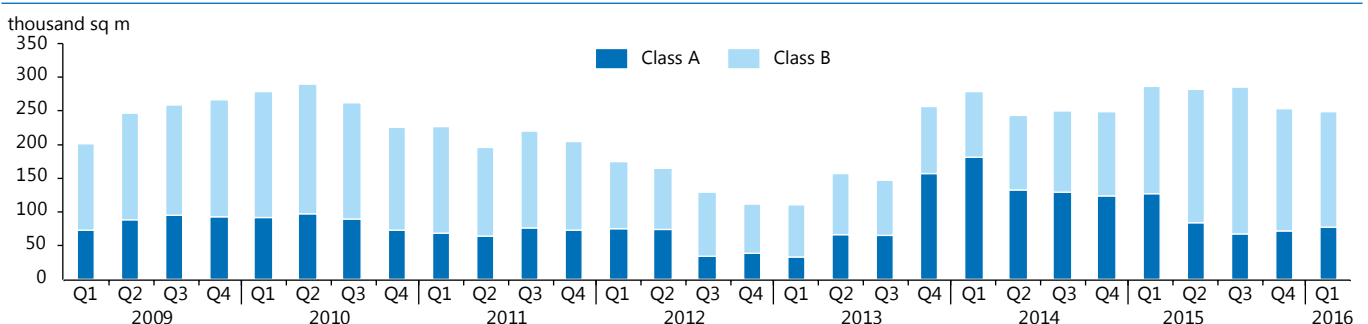
Net take-up is estimated at 38 thousand sq m, which is comparable with the level of the previous quarter. However, if compare with Q1 2015, there is a 19% decrease of the total quarterly take-up. A decline in the number of large transactions is registered due to unstable economic situation, reflecting on total take-up level.

Total leasable area dynamics, Q1 2009 – Q1 2016



Source: Knight Frank St. Petersburg Research, 2016

Dynamics of vacant premises for lease, Q1 2009 – Q1 2016



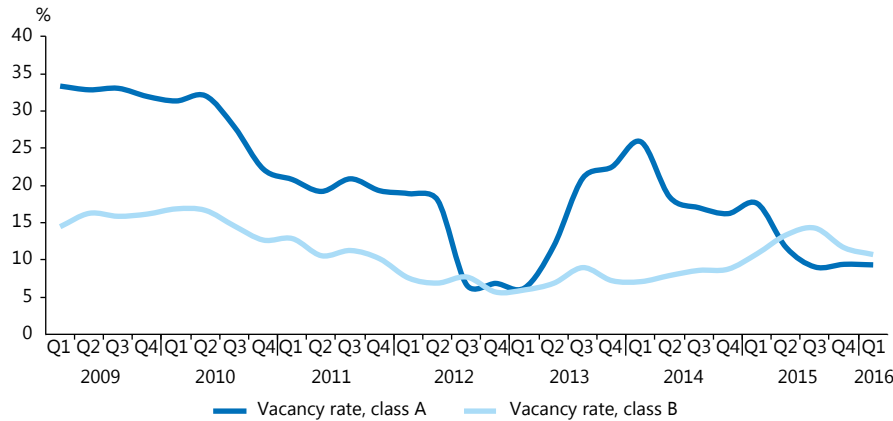
Source: Knight Frank St. Petersburg Research, 2016

Lease transactions (> 1,000 sq m)

Tenant	Leased space, sq m	Business Centre	Address	Class
Confidential	14,950	Flandria Plaza	3, Tashkentskaya St	A
PLATO Engineering	1,100	Senator	80, Bolshoy Ave	A
Arkadiya	6,000	Mezon Plaza	28, Bolshoy Sampsonievskiy Ave	B
Sky Net	3,000	Sky Trade	20, Repischeva St	B

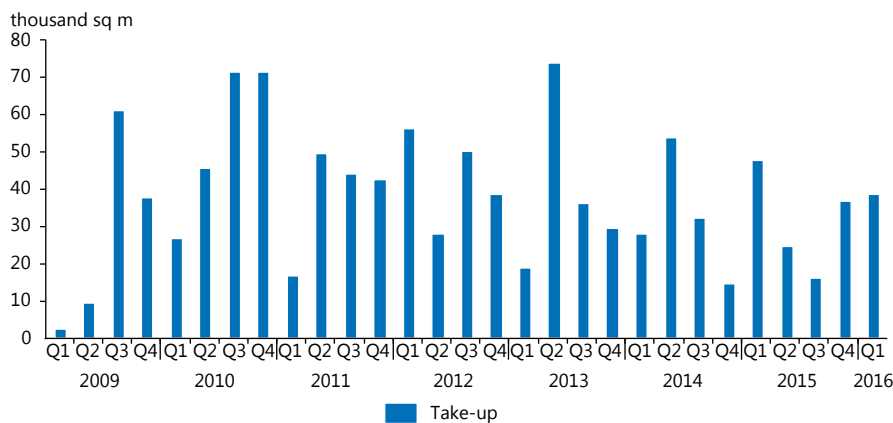
Source: Knight Frank St. Petersburg Research, 2016

Vacancy rate dynamics, Q1 2009 – Q1 2016



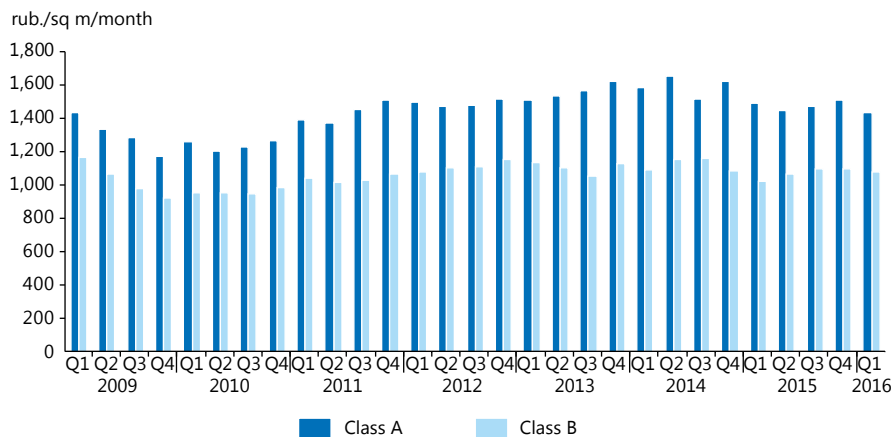
Source: Knight Frank St. Petersburg Research, 2016

Take-up dynamics, Q1 2009 – Q1 2016



Source: Knight Frank St. Petersburg Research, 2016

Average rents dynamics, Q1 2009 – Q1 2016



Source: Knight Frank St. Petersburg Research, 2016

Commercial terms

Rental rates in quality office centres are strong keeping the commercial terms at the level of the previous quarter in majority of the properties.

The average asking rental rates for Class A office centres reached 1,435 rub./sq m/month and 1,076 rub./sq m/month for Class B (incl. VAT and OPEX).

Forecast

Substantial delivery of new office space is expected by the end of the year in more than 30 buildings with total leasable area of about 300 thousand sq m. About half of them are built-to-suit or for sale.

New supply growth may increase vacancy by 2–3 p. p. till the end of 2016. In case of conservative scenario of office market development the total annual take-up will be at 120–140 thousand sq m.

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