



2011 OFFICE REAL ESTATE MARKET

Saint Petersburg

Knight Frank

EXECUTIVE SUMMARY

- In 2011, 143.8 thousand sq m of quality office space was commissioned, and more than a half of these entered the market in Q3.
- Over the last two years, take-up amount exceeded new commissioning volume on average by 20%.
- In 2011, the vacancy rate declined by 4.4 p.p. down to 10.6% of the total market stock. As of the end of the year, the total stock of vacant space equalled 174.1 thousand sq m.
- Over the year, rental rates grew: in Class A, the increase equalled 20.7% and in Class B – 8.1%.

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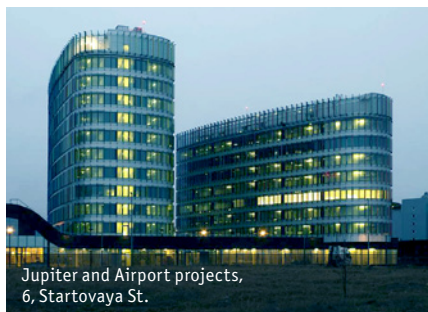
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Mikhail Tyunin
Head of the Commercial
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"The office market is gradually ceasing to be a "tenants' market". The owners of business centers with a successful concept and location are now reluctant to reduce their rental rates, and hold additional parking spaces only for large tenants. No discounts or special offers are available any more, and preferential period on many leases made during the crisis have expired. However, despite the fact that the office market is in its recovery phase, the current economic situation has a deterrent effect on both the tenants considering moving, and developers. Thus, many market players continue to delay the final decision taking a wait-and-see attitude."



Jupiter and Airport projects,
6, Startovaya St.

Key events

- Over the past few years, Pulkovo business district has been developing rapidly. This year, two Class A business centers were completed there: Jupiter and Airport, which both form part of Airport City (investor – Avielen A. G.) mixed-use

Key indicators	Class A	Class B
Total stock of high-quality office premises, thousand sq m	1,648.0	
including, thousands of sq m	407.9	1240.1
Change as compared to the previous year, %	+ 13.6% 	+ 6.4%
Commissioned in 2011, thousands of sq m	143.8	
including, thousands of sq m	51.9	91.9
Vacancy rate as of the end of 2011, %	13.3	9,7
Change as compared to the previous year, %	- 8.9 p.p. 	- 3.0 p.p.
Rental rates*, \$/sq m/year	350-880	190-630
Change as compared to the previous year, rubles, %	+ 20.5% 	+ 8.1%

** Excluding VAT (18%), including OPEX;
USD 1 = 31.24 RUR
Source: Knight Frank Research, 2012

project. In early 2012, the final high-quality office project is to enter the market as part of the Zeppelin business center project. By 2014, yet another business center is planned to be built here as part of the Pulkovo airport strategic development program (investor – Northern Capital Gateway). Currently, the share of office space located in the Pulkovo zone equals 6%, and the share of Moskovsky district is 11% of the total city's office market stock.

- Fregat company, a subsidiary of the Leader Group, is about to complete the Leader Tower, a 140 meter high skyscraper project

at the Konstitutsyi Square (Ploschad Konstitutsii). The new tower will be one of the first buildings in the city to exceed the height of the The Peter and Paul Cathedral steeple. The building has 38 floors and the total area of 49.5 thousand sq m.

- Large companies invest in office properties built for their own use. In September 2011, the new head office building of Bank Saint Petersburg was inaugurated at Malookhtinsky Ave. The bank occupies the total area of 47,440 sq m, and the building is a part of St. Petersburg Plaza business center.



In 2012, Transneft office building is planned for commissioning at Arsenalnaya Emb. Gazprom Neft is to move its head office to high-rise mixed-use project Lakhta Center, which is currently going through approval stages. In 2011, two large-scale transactions were closed to acquire an existing building for the acquirer's own needs. State unitary enterprise St. Petersburg Fuel and Energy Complex purchased more than half of all office space (5.2 thousand sq m) in the new business center at 6, Beloostrovskaya St., and the remainder of 4 thousand sq m was sold to Lenstroyinvest.

Supply

In 2011, the total supply of high quality office space increased by 143.8 thousand sq m to 1,648 thousand sq m. Krasnograddeysky district accounts for more than a third of the total office space amount commissioned, and the share of Moscovsky district equals 20%.

Comparison with previous years shows that the growth rate of new supply continues to decline. Thus, in 2011 the total amount of high-quality office space fell by 20% as compared to 2010 and almost by 40% as compared to 2009.



Projects commissioned in 2011

Business center	Address	Total area, sq m	Office space, sq m
Class A			
St. Petersburg Plaza (buildings 2, 3)	64 B, C, Malookhtinsky Ave	51,000	31,500
Yupiter	6, Startovaya St.	9,500	7,600
Airport	6, Startovaya St.	7,200	5,400
Grechesky	13-15, Ligovsky Ave	5,000	4,600
Class B			
Senator (3 phase)	29 G, Z, 18th Line of V.D.	16,600	12,200
Ploschad Konstitutsyi, 3	3, Konstitutsyi Sq.	17,200	12,000
Scandinavian House	69A, Revolyutsyi Hwy	16,800	11,700
Interkros SP	Industrial zone Parnas	16,500	11,000
Lighthouse	12, Pevchesky lane	10,550	9,200
Okhta-House	44, Industrialny Ave	14,500	8,100
Leto	44D, Sverdlovskaya Emb	7,600	5,800
Ligovsky, 266	266, Ligovsky Ave	6,000	4,800
Nart	60L, Sofiyskaya St.	8,500	4,500
Elizavetinsky (2 phase)	14, 13th Line of V.D.	3,700	3,200

Source: Knight Frank Research, 2012

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Main transactions of 2011

Company	Area, sq m	Project	Address
Gazprom Neft	11,000	Quattro Corti	3-5, Pochtamtorskaya St.
MRSK	6,000	3, Konstitutsyi Sq.	3, Konstitutsyi Sq.
GUP TEC	5,200	6, Beloostrovskaya St.	6, Beloostrovskaya St.
Exigen Services	5,000	Technopolis Pulkovo	30/4, Pulkovskoye Ave
Lenstroyinvest	4,000	6, Beloostrovskaya St.	6, Beloostrovskaya St.
Vodokanal (customer service center)	3,700	RESO	21, Gakkelevskaya St.
Renaissance Insurance	3,500	Technopolis Pulkovo	30/4, Pulkovskoye Ave
SPb Renovation	3,000	14, Nekrasova St.	14, Nekrasova St.
Metso	2,900	Technopolis Pulkovo	30/4, Pulkovskoye Ave
Finland Visa Service Center	3,200	Olympic Plaza	5/21, Marata St .
Philip Morris	2,300	14, Nekrasova St.	14, Nekrasova St.
NCC	1,900	Stockmann Nevsky Center	114, Nevsky Ave
Sberbank	1,800	Pulkovo Sky	2, Vlukovskaya St.
TGK-1-Service	1,800	Okhta-House	44, Industrialny Ave
Unisto-Petrostal	1,760	Okhta-House	44, Industrialny Ave
Coca-Cola HBC Eurasia	1,350	Obukhov Center	271A, Obukhovskoy Oborony Ave
Oriflame	1,300	Grechesky	13-15, Ligovsky Ave
Intervim	1,100	Senator	37, Professora Popova St.
Eltech SPb	1,030	Technopolis Pulkovo	30/4, Pulkovskoye Ave
Mitland	1,000	Eurika	11, Sedova St.
Fertoing	1,000	Technopolis Pulkovo	30/4, Pulkovskoye Ave
Schneider Electric	1,000	Technopolis Pulkovo	30/4, Pulkovskoye Ave

Source: Knight Frank Research, 2012



Demand

The vacancy rate continues to decline: over the year the market average index dropped from 14.9% down to 10.6%. In the Class A segment the vacancy rate fell by 8.9 p.p. down to 13.3%, in the class B segment – by 3 p.p. down to 9.7%.

A slight increase in vacant premises was registered only in Q3 2011, when the vacancy rate rose up to 13.7% as a result of new large-scale projects entering the market.

In absolute terms, the total market stock of vacant space was 174.1 thousand sq m as of the year-end.



Commercial Terms

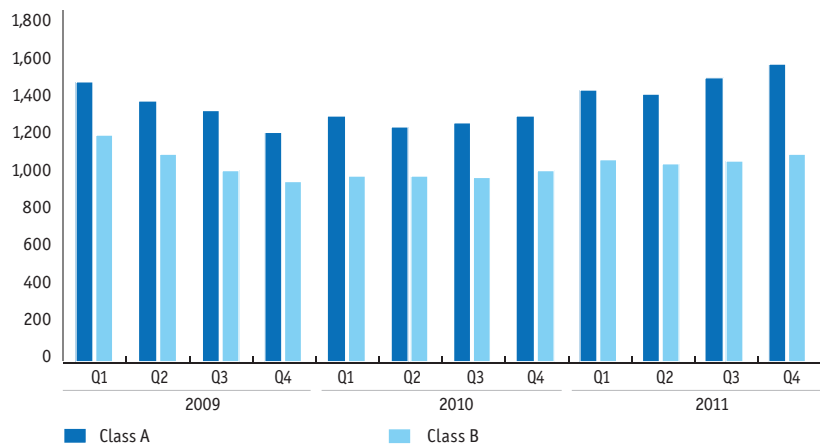
In 2011, rental rates in the Class A segment increased considerably: the increase equalled 20.7% in ruble terms, and in dollar terms it was slightly less – 18.7%. In the Class B segment, rental rates grew by 8.1% in ruble terms and by 6.3% calculated in foreign currencies.

The significant increase in rental rates was first reported as early as in Q1 2011 accompanied by positive trends of late 2010: market average rates jumped by 10% for Class A and by 3-4% for Class B properties. However office landlords had overestimated the market potential and in the next quarter ruble-denominated rental rates went slightly down, while USD-denominated rates continued to grow due to the USD exchange rate fall of 1.6 rubles over the quarter. In H2 2011, rates went up again. Class B showed stable growth, while in the Class A segment the growth was sharp, firstly, due to the market entry of modern, high-quality properties offered at rates that exceeded the segment average level, and, secondly, because ruble-denominated rates skyrocketed for properties, which had been originally offered at the rental rate denominated in a foreign currency, as the USD exchange rate rose by 3.24 rubles and the euro exchange rate by 1.78 rubles over a half year period.

As of 2011 year-end, rental rates for Class A properties were in the range of \$350-880 per sq m per year, including OPEX and excluding VAT. In the Class B segment, rates varied from \$190 to \$630 per sq m per year.

Q1 2011 saw the increase in ruble-denominated rates. Over the year, rental rates in Class A and B segments increased by 20.7% and 8.1%, respectively

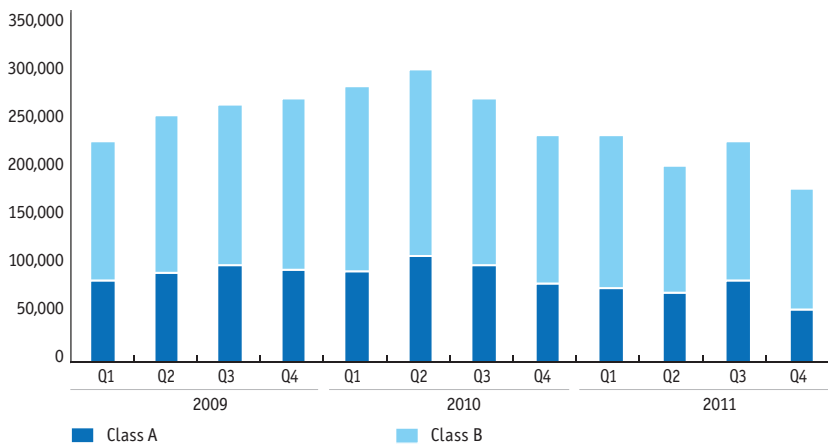
\$ per sq m



Source: Knight Frank Research, 2012

In 2011, the vacancy rate declined by 23.5% to 174.1 thousand sq m

thousand sq m



Source: Knight Frank Research, 2012

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Forecast

We expect 190-210 thousand sq m of high quality office space to enter the market in 2012.

Almost half of the projects announced for completion are concentrated in Moskovsky district. These include Leader Tower, a 38-floor skyscraper project at Konstitutsyi Sq., a 56 thousand sq m Adamant business center project at Tsvetochnaya St., and Zeppelin Business Center which is a part of mixed-use complex Airport City located in Pulkovo.



Main projects scheduled for completion in 2012

Project	Location	Developer	Office space, sq m
Class A			
Leader Tower	153 B, Leninsky Ave	Leader	38,000
Preobrazhensky	26, Liteyny Ave	Peterburgstroy	15,000
Zeppelin	6, Startovaya St.	Avielen A.G.	10,400
U Krasnogo Mosta	73-79 Reki Moiki Emb	BTK development	9,000
Senator	22, Bolshaya Pushkarskaya St.	Imperia	5,000
Univers	7-9-11, Universitetskaya Emb.	Bierre Lumiere Holding	4,600
Business Center	24A, Morskoy Ave	Elefact-M	4,500
Business Center	62, Synopskaya Emb.	Sfera	3,000
Class B			
Tsvetochnaya	25, Tsvetochnaya St.	Adamant	36,000
Russkie Samotsvety (2 phase)	8, Faberge Sq.	Russkie Samotsvety	18,000
Megapark	22 A, Zastavskaya St.	VEP	11,000
Vant (3 phase)	120, Obukhovskoy Oborony Ave	Vant	10,000
Dominat (2 phase)	30-32, Magnitogorskaya St.	VMB Trust	7,500
Senator (2 phase)	80, Bolshoy Ave of V.D.	Imperia	6,500
Tempo	104, Nevsky Ave	TCT	5,400
Moskva (4 phase)	2, Alexandra Nevskogo Sq.	Adamant	3,000

Source: Knight Frank Research, 2012



Main projects completed in 2011 and projects planned for commissioning in 2012



Source: Knight Frank Research, 2012



OVERVIEW

Europe

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Belgium
Czech Republic
France
Germany
Ireland
Italy
Monaco
Poland
Portugal
Romania
Russia
Spain
Switzerland
The Netherlands
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Kenya
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