

2013

OFFICE REAL ESTATE
MARKET

Saint Petersburg

HIGHLIGHTS

- The total leasable area of high-quality office space exceeded the mark of 2 million sq m.
- 247 thousand sq m of high-quality office space have been added to the market stock in 2013, thus demonstrating a growth of new supply by 15%.
- A slowdown in take-up could be observed: during the 2013, it amounted to 109 thousand sq m, which is 62% less than for the previous year.
- A trend of growing vacancy rates in Class A business centers is observed: their figure grew by 15.6 percentage points reaching 22.4% by the end of the year.
- A slight growth of vacancy rates occurred in Class B business centers: by the end of 2013, the figure has reached 7.5%.
- For the past year, the ruble lease rate for Class A office facilities grew due to the fluctuations in currency exchange rate.
- Due to the take-up of liquid supply stock in downtown areas, average lease rates for Class B office buildings have dropped.

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Marina Puzanova,
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"Addition of new decisively high-quality supply to the stock of office market, which has provided the tenants with a large range of options was one of the main trends of the past year.

Among the entrenched trends of 2013, one could name a growing importance of resettlement expenses invested into refurbishing of new properties for the companies considering moving to another office. Hence, in our opinion, in the current year, in the face of growing competition, the projects that will provide customers with finished facilities, whilst taking into account individual characteristics of each company, will be the most successful in terms of occupancy.

In ruble terms, the lease rates last year have shown gradual growth. Most likely, this trend will continue in the future, though one should without a doubt consider the weakening of the ruble and high costs of financing commercial real estate projects when making forecasts. In the coming year, we expect a number of major companies to relocate: taking advantage of the favorable situation for tenants, they will be able to move offices to more comfortable buildings of higher quality".

Key events

- A number of the city's landmark projects got delivered last year: two buildings of the business-administrative district Nevskaya Ratusha, the Leader Tower skyscraper, two projects of a development company Renaissance Development: Renaissance Pravda and Renaissance Premium, the 2nd stage of Technopolis Pulkovo business center, the new business center of Senator

Key indicators. Dynamics

Indicator	Class A	Class B
Total high-quality stock, thousand sq m	2,019.8	
including, thousand sq m	699.9	1,319.9
Changes since 2012, %	+34	+5
Delivered in 2013, thousand sq m	247	
including, thousand sq m	178.9	68.1
End of Q4 2013 vacancy rate, %	22.4	7.5
Changes since 2012 p. p.	+ 15.6 ▲	+ 1.7 ▲
Asking lease rates in operational business centers*, \$/sq m/year	277–870	185–780
Lease rates changes in the functioning business centers since 2012, %	+1 ▲	-8 ▼
Asking lease rates in business centers under construction*, \$/sq m/year	480–660	185–416

* excluding VAT (18%), including operational costs, 1 USD = 33 RUB.
Source: Knight Frank St. Petersburg Research, 2014

network (37 Prof. Popov Str.), Zolotaya Dolina office center.

- Several major transactions occurred on the lease market. Companies engaged in IT and telecommunications, development, and oil and gas sector have been particularly active. For example, the Luxoft company leased 5 thousand sq m in the Zima business center, while LOESK company leased a whole office building of 3.9 thousand sq m (business center on 42 Pesochny Emb.).
- Major investment transactions on the office market became known: the FORTGROUP company acquired five office centers from the LSR. Nedvizhimost-North-West company. Financial Holding company Empire has acquired the building of Frunzenskiy department store, which will be reconstructed into a Class A business center.





Supply

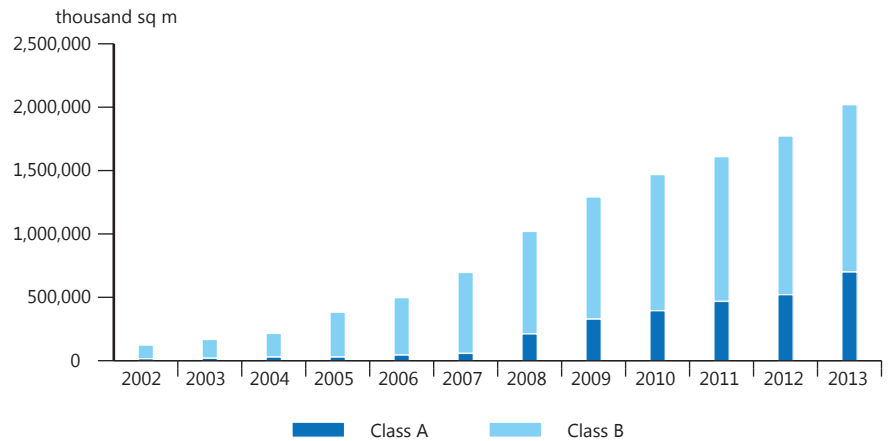
By the end of Q4 2013, the total leasable area of high-quality office space exceeded 2 million sq m.

One of the main events on the office real estate market of St. Petersburg last year was the delivery of a large quantity of high-quality office space – 247 thousand sq m. The new supply growth for the year was 15%. Geographically, the highest growth of new supply has occurred in the business district Moskovsky Ave accounting for 40% of new supply.

The upward trend in growth of Class A office centers is also worth a notice: in the past year, 72% of new supply belonged to this category.

By the end of Q4 2013, Moskovsky Ave business district became the leader in terms of high-quality office space in St. Petersburg. This results mainly from the fact that most of the new supply of 2013 was delivered here. It is followed by Central-2 business district, in which the volume of high-quality office space is only 1% smaller.

High-quality office space dynamics, 2002–2013



Source: Knight Frank St. Petersburg Research, 2014

Business centers delivered in 2013

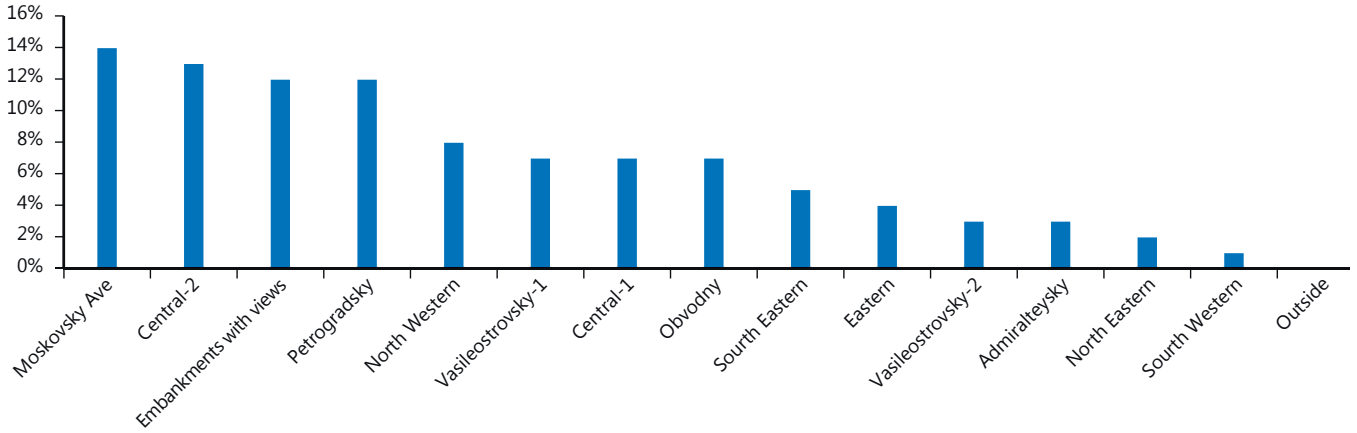
Name	Address	Class	Leasable office space, thousand sq m
Nevskaya Ratusha (Buildings 2, 3)	11A B Degtyarniy Ln.	A	40.5
Leader Tower	153 Leninskiy Ave.	A	38.0
Renaissance Pravda	12–14 Khersonskaya Str.	A	21.8
Senator	37SH' Professor Popov Str.	A	19.1
Technopolis Pulkovo	40/4 Pulkovskoye Hwy.	A	18.8
Renaissance Premium	14A Reshetnikova Str.	A	14.2
Faberzhe	26 Liteyniy Ave.	A	11.5
Zima	44 Sverdlovskaya Emb.	A	8.4
Osen	44 Sverdlovskaya Emb.	A	5.8
Velikan Park	Alexandrovsky park, 4	A	1.0
Zolotaya Dolina	8 Faberze Sq.	B	16.7
MegaPark	22A Zastavskaya Str.	B	11.8
Bazel	23 Novgorodskaya Str.	B	9.8
Alfa / Universal	19E Pulkovskoe Hwy.	B	5.6
Mariinskaya	158B Moskovsky Ave.	B	5.0
Fabrika	140 Moskovsky Ave. Bld. 2	B	5.0
Magnitogorskaya, 51	Magnitogorskaya Str., property 1, southwestern intersection past Energetikov Ave.	B	5.0
Administrative building (part of RC)	5 Kovensky Ln.	B	4.9
Al'piyskiy	29 Alpiyskiy Ln.	B	2.4
Hanin Plaza	6-8A Drovyanaya Str.	B	1.9
TOTAL			247

Source: Knight Frank St. Petersburg Research, 2014

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Distribution of high-quality office space according to business districts of St. Petersburg, Q4 2013



Source: Knight Frank St. Petersburg Research, 2014

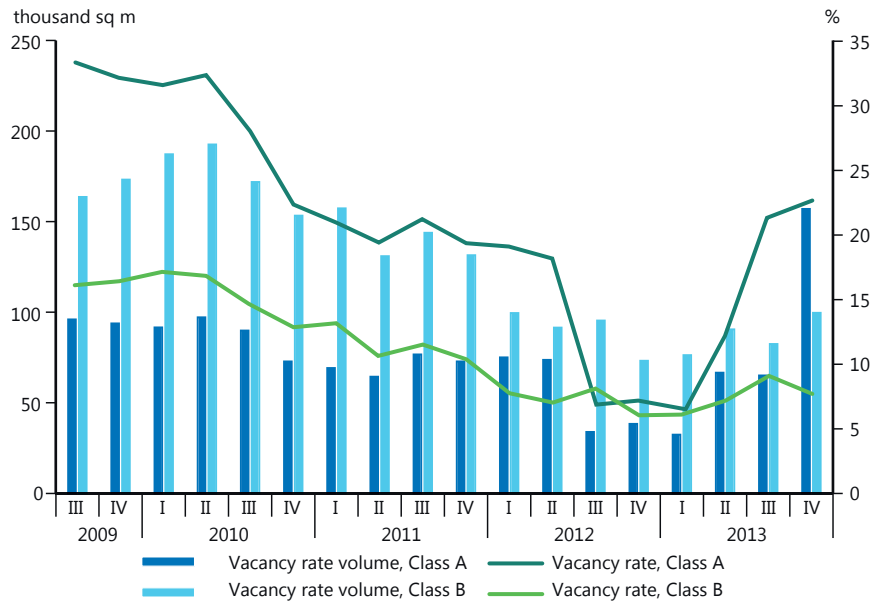
Demand

Throughout the year, one could observe a trend of growing vacancy rates in the segment of Class A business centers. Compared with Q4 2012, this figure has grown by 15.6 percentage points reaching 22% growth by the end of 2013. Such dynamics is associated with the market entry of new facilities with low occupancy.

As to the Class B office centers segment, this trend is not so obviously pronounced, the vacancy rates growth since the end of Q4 2012 amounted to only 1.7 percentage points. The end of Q4 2013 figure was 7.5%.

A slowdown in take-up rate on the high-quality office real estate market is worth a notice. During 2013, the market take-up has reached a figure of 109 thousand sq m. In comparison with 2012, the figure dropped to 62%. The most popular business district of the past year was Moskovsky Ave: about 50% of all the delivered high-quality office space was consumed there.

Vacancy rates and vacancy shares dynamics in Class A and B business centers



Source: Knight Frank St. Petersburg Research, 2014



Companies operating in the oil and gas sector were the most active tenants in 2013: they accounted for 18% of all transactions. Following are the companies engaged in the field of IT and telecommunications, leaving the third place to developers.

Despite the slowdown in take-up on the lease market, major transactions took place. Firstly, this goes for the lease of a whole building with an area of 3.9 thousand sq m by the LOESK energy sector company. Class A office building is located at 42 Pesochnaya Emb. Furthermore, Luxoft IT company leased five thousand sq m in the business center Osen and the logistics company Module leased 5 thousand sq m in the business center St. Petersburg Plaza. In addition, the oil and gas sector companies concluded several transactions of more than 3 thousand sq m in high-quality modern business centers of the city.

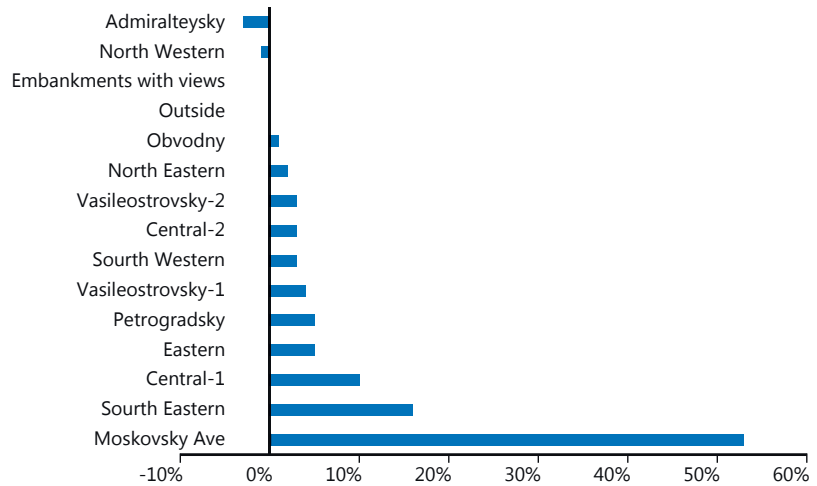
Commercial terms

The average weighted asking lease rate in operating Class A business centers at the end of Q4 2013 amounted to 499 \$/sq m/year (including operating expenses excluding VAT), while for Class B it was 347 \$/sq m/year (including operating expenses, VAT not included).

During the year, one could observe a trend of growth in average asking lease rates for Class A office centers in ruble terms. As compared with Q4 2012, the average lease rate has grown by 7% in ruble terms, while in dollar terms it has grown only by 1%. The average rates fluctuation is caused mainly by the changes of currency value, as a significant part of Class A office properties bids is denominated in dollars.

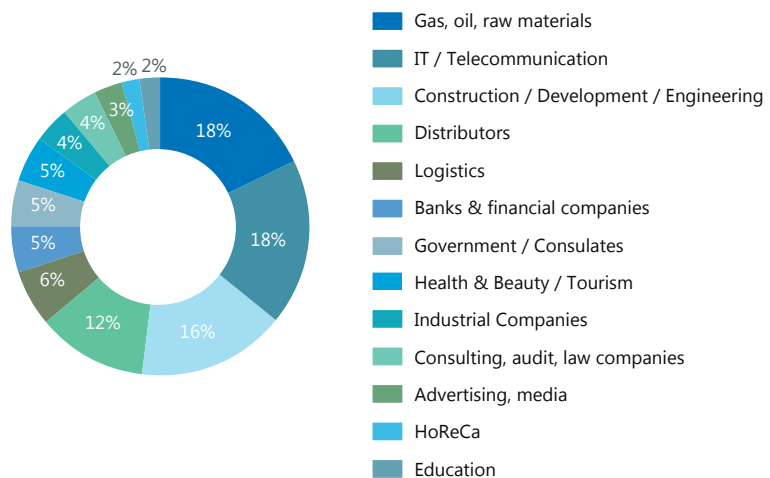
A reverse trend was observed in the segment of Class B office centers: there occurred a gradual drop in average asking lease rates in both ruble and dollar terms. As compared with the end of Q4 2012, the drop was 3% and 8% respectively.

Distribution according to business districts of St. Petersburg, 2013



Source: Knight Frank St. Petersburg Research, 2014

Transactions structure according to the tenants profiles, 2013



Source: Knight Frank St. Petersburg Research, 2014

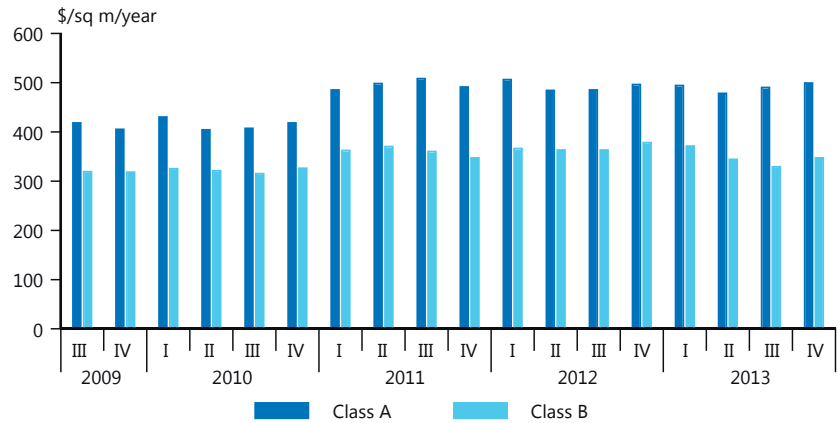


2013 OFFICE REAL ESTATE MARKET

Saint Petersburg



Lease rates dynamics for Class A and B offices for Q3 2009–Q4 2013
\$/sq m/year (excluding VAT, including operating expenses)



Source: Knight Frank St. Petersburg Research, 2014

This trend is associated with the predominance of leasable office space supply in business centers located at the periphery of St. Petersburg, where the rates are below the market average by 5%. Furthermore, it is worth noting that liquid space in Class B business centers located downtown is scarce and is quick to leave the market.

It should be noted that asking lease rates in the new business centers of Class A are significantly higher than those stated for the already functioning objects. The average asking lease rate in business centers under construction where the lease campaign has already started is 578 \$/sq m/year (including operating expenses excluding VAT). Needless to say, such high rates of new facilities have a negative impact on occupancy, as they do not reflect the expectations of potential tenants.

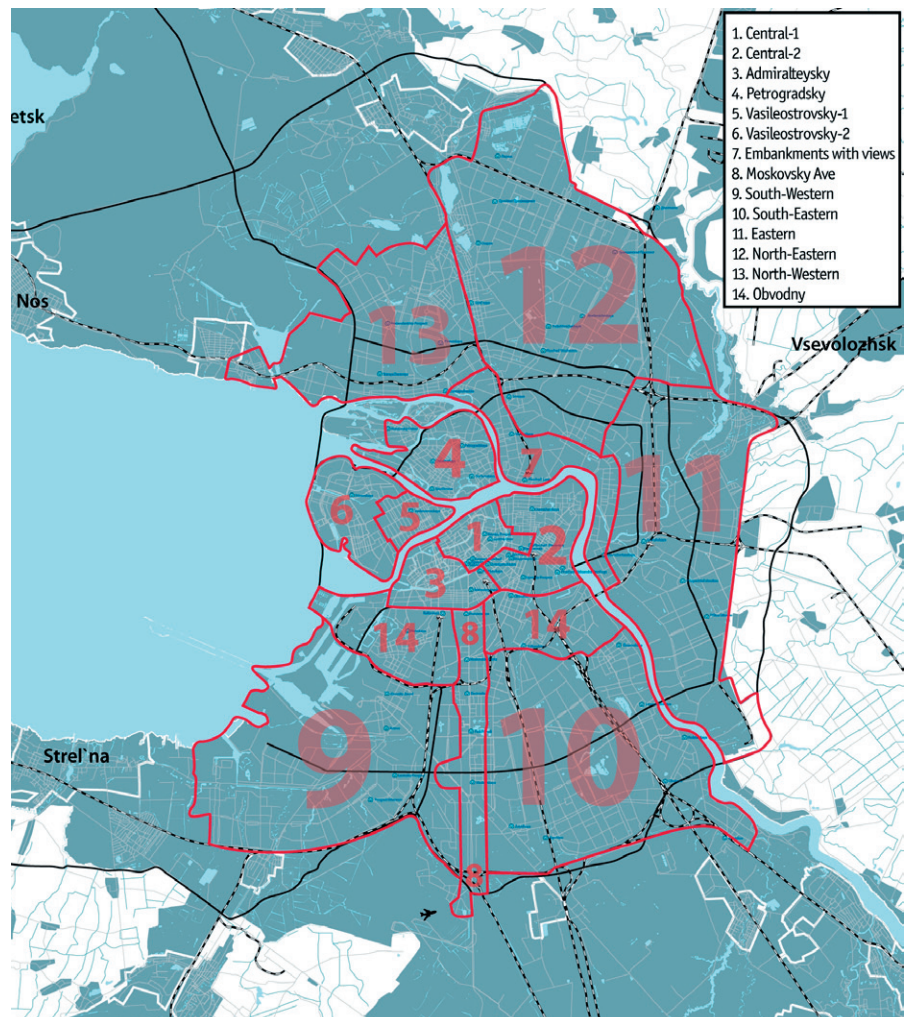
Forecast

More than 290 thousand sq m of high-quality office space are expected to be delivered in 2014. Active development of the Moskovsky Ave business district continues: more than a third of the declared space will be located in this business district of St. Petersburg.

High rate of new facilities construction may entail continuing the trend that has already emerged last year: a growing vacancy rate. By the end of 2014, this figure is expected to grow by 2–3 percentage points up to 15%.

However, considering the conditions of growing competition, asking lease rates in the new business centers with a low share of occupancy may drop. This fact may have a positive effect on the take-up rate and occupancy of new projects on the market.

Business districts of St. Petersburg



Source: Knight Frank St. Petersburg Research, 2014

Europe

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

Africa

Botswana
Kenya
Malawi
Nigeria
Tanzania
Uganda
Zimbabwe
Zambia
South Africa

Middle East

Bahrain
UAE

Asia Pacific

Australia
Cambodia
China
India
Indonesia
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