



H1 2013  
OFFICE MARKET  
REPORT  
Saint Petersburg

## HIGHLIGHTS

- The growth of high-quality office real estate stock in the first half of 2013 amounted to 2% – 31.6 thousand sq m.
- Take-up volume in the first half of 2013 amounted to 38 thousand sq m, which is a record low for the past 3 years.
- Overall (in Classes A and B), the vacancy rate rose by 2.8 percentage points and in the first half of the year was 8.8%. This growth is particularly noticeable increase in Class A.
- Average asking lease rates for Class A in ruble terms have increased since the end of 2012, however, in dollar terms, they show now significant changes. A decline is notable in average lease rates in the business centers of Class B due to the "washout" of liquidity supply from the market in the central part of the city and its redistribution to the peripheral areas of the city.

# H1 2013 OFFICE MARKET REPORT

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## OFFICE MARKET REPORT



**Marina Puzanova,**  
Head of the Office Real  
Estate Department, Knight  
Frank St. Petersburg

*"In the first 6 months of 2013, the situation on the office market was such that tenants' expectations did not coincide with financial plans of developers.*

*The picture of transactions reflected a conservative attitude of tenants to choosing properties: the majority of leases were signed on the properties, where rates were at the lower end of the range their segment. Meanwhile, there were only few transactions for business centers with high asking lease rates.*

*It should be noted, that new properties that are expected to be delivered on the market soon, would greatly expand the available stock, providing our customers with excellent choice opportunities. As a result, only the properties with high current occupancy will be able to afford retaining above average rates. The new properties on the market will face a situation of increasing competition. In the event that this will lead to preferential commercial terms for prospective tenants whilst respecting the interests of both parties concerned, the situation will ultimately lead to a balanced revitalized market".*



BC Trinity Place

### Key indicators. Dynamics

Key indicators	Class A	Класс B
Total volume of high-quality space, thousand sq m	1 790.5	
including, thousand sq m	432.6	1357.9
Changes since the end of 2012, %	+ 3%	+ 1%
Delivered in the H1 2013, thousand sq m	31.6	
including, thousand sq m	12.5	19.1
Vacancy share for the end of H1 2013, %	15.4	6.7
Changes since the end of 2012, %	+ 8.6 p.p. ▲	+ 1.2 p.p. ▲
Asking lease rates*, \$/sq m/year	280 - 803	194 - 622
Vacant properties lease rate changes in USD equivalent since the end of 2012, %	0	- 9 % ▼

\* excluding VAT (18%), including operating expenses, 1 USD = 32.7 rubles

Source: Knight Frank St. Petersburg Research, 2013

### Key events

- Five business centers were delivered. Among the new facilities, the most noteworthy and the largest one is a multifunctional retail and office complex Preobrazhenskiy with leasable office space of 11 thousand sq m.

- Developers GHP Group (Trinity), S.E.R. (Ingria Tower) and Avielen AG (Zeppelin) announced plans for construction of office buildings.
- Construction of a number of business centers is underway: office building at Pulkovo Highway (MC Omega Management), BC Senator on Kropotkin Street, 1 (Empire Holding), an

office building on Malookhtinsky Avenue, 45 (Leorsa), RENAISSANCE BUSINESS PARK (Renaissance Development), etc.

- Delivery of phase I of the administrative and business complex Neva Hall is planned for in August 2013.



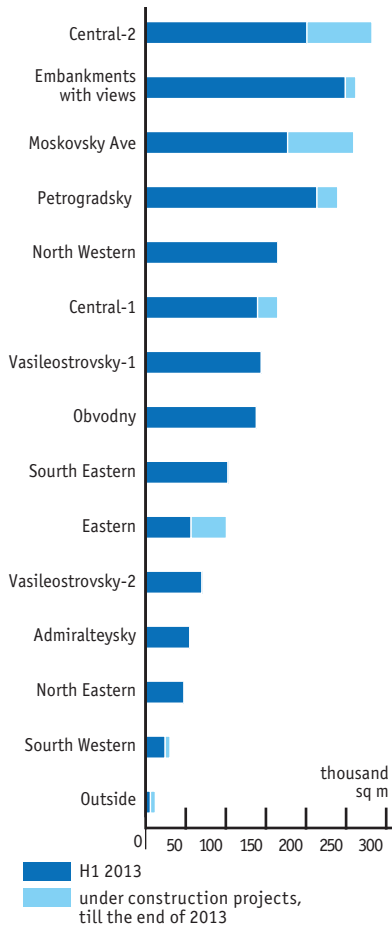
## Supply

The stock of high-quality office properties grew by 2% in the first six months of 2013: five office buildings with a total leasable area of 31.6 thousand sq m were added to the supply stock. However, two office buildings with a total area of 7.2 thousand sq m are for sale and are not offered on the lease market. Thus, for the first six months of this year, business centers Megapark, Preobrazhenskiy, and Velikan Park were officially delivered, and their office space is already filled with tenants.

A significant growth of high-quality office space stock is expected to occur until the end of 2013: 285 thousand sq m have been announced for delivery. The bulk of new supply is concentrated in the business districts: Moskovsky Ave and Embankments with views – more than 80 thousand sq m each. Counting the new supply, the total volume of high-quality office space on the market by the end of 2013 will exceed 2 mln sq m.

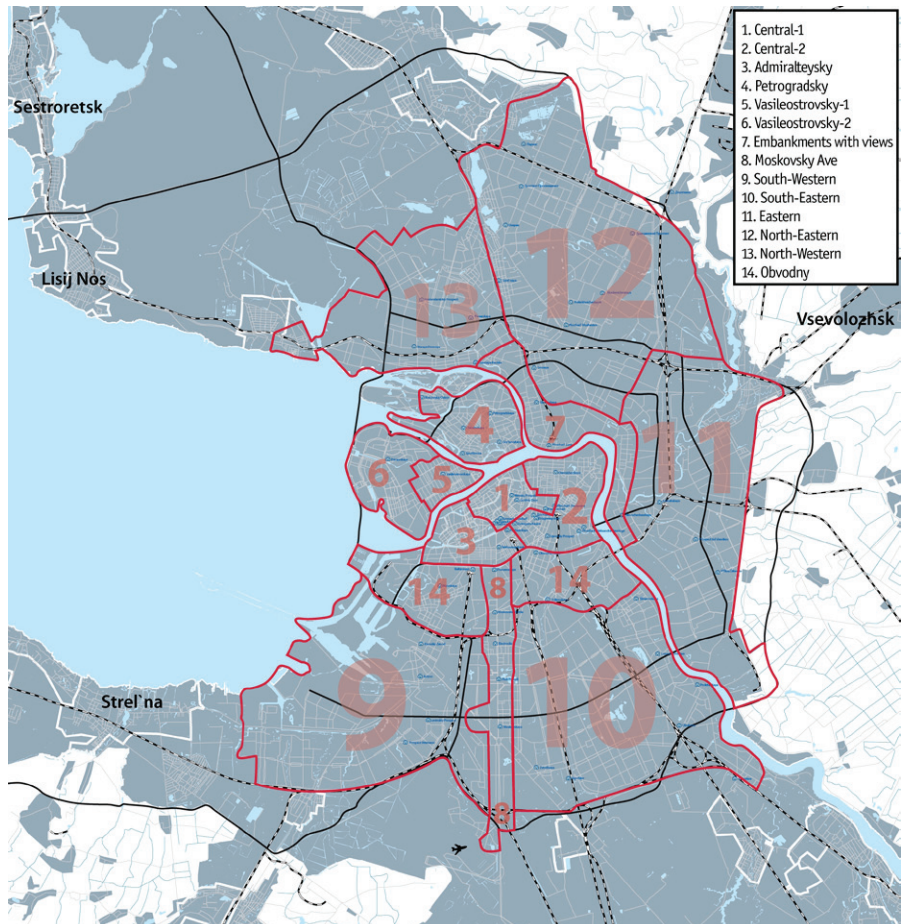


### Distribution of high-quality office space by business districts of St. Petersburg including new supply



Source: Knight Frank St. Petersburg Research, 2013

### Business districts of Saint Petersburg



Source: Knight Frank St. Petersburg Research, 2013

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## Demand

During the first six months of 2013, there was a decline in demand on the office real estate market, due to the excessively high expectations of owners regarding lease rates, which was especially evident in Class A office centers segment with their rather extended length of exposure on the market. This has led to an take-up slowdown on the lease market and an increase in vacancy rates in the business centers.

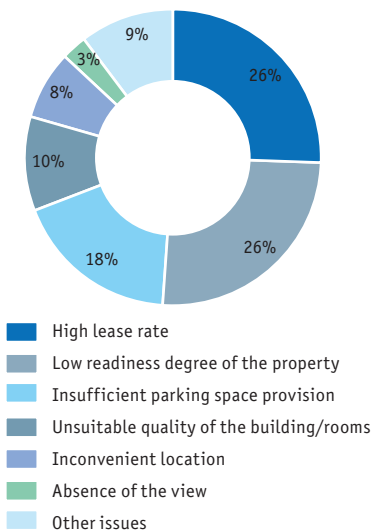
Vacancy rates in the business centers of Class A have grown during the first half of 2013 by 8.6 percentage points and amounted to 15.4%. There has also been a slight increase in vacancy rates of Class B office buildings – 1.2 percentage points, in the first half of the year the figure was 6.7%.

A significant increase in vacancy in Class A office buildings is connected with the delivery of new properties with lease rates exceeding the expectations of potential tenants. Potential tenants identified high lease prices and lack of specificity regarding the readiness of the object among the main factors that have a negative influence on the choice of office space in new Class A business centers.

It should be noted that the first year-half was marked by a redistribution of office space stock offer in Class B to the areas distant from the city center.

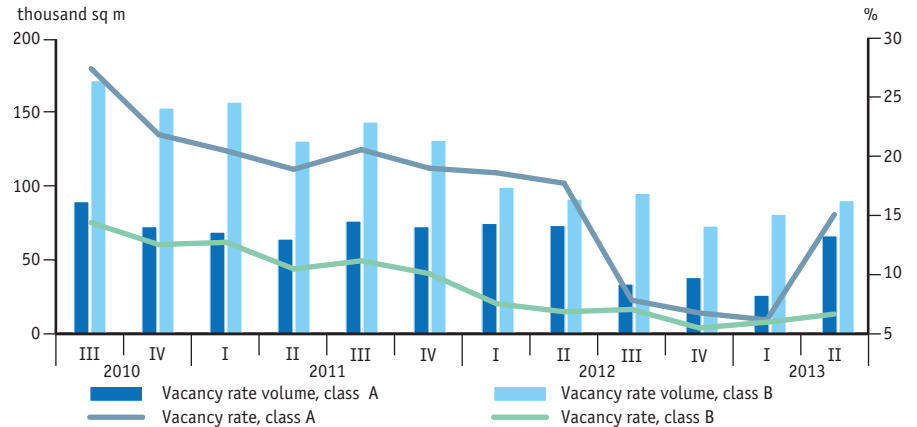
Total office space volume take-up for the first half-year of 2013 amounted to 38 thousand sq m, which is 2.2 times less than the same figures for the first half-year of 2012.

### Factors that have a negative influence on the choice of office space in new Class A business centers



Source: Knight Frank St. Petersburg Research, 2013

### Vacancy volume and shares dynamics by Classes, Q3 2010 – H1 2013



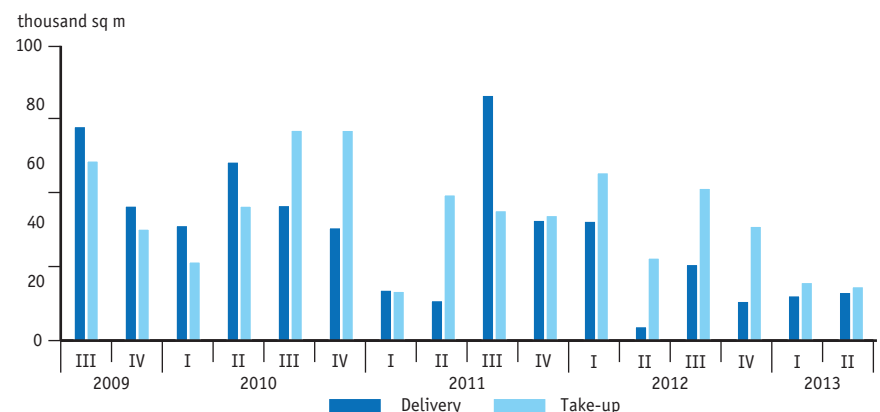
Source: Knight Frank St. Petersburg Research, 2013

### Main transactions concluded in the H1 2013 (starting from 1,000 sq m)

Company name	Transaction volume, sq m	Property title	Address
LOESK	3,913	Pesochnaya nab., 42	42 Pesochnaya Emb
Spetsobsluzhivaniye	2,591	Moskovskiy 151	151 Moskovskiy Ave
Confidential	2,150	Krasnaya Zarya	4 Gel'singforskaya Str
Mail.Ru Group	2,100	Renessans Pravda	12-14 Khersonskaya Str
Confidential	1,800	Zaozernaya Tekhnopark	8 Zaozernaya Str
Maintex	1,200	Tekhnopolis Pulkovo (stage 2)	40 Pulkovskoye Hwy
SGS Vostok	1,140	Aeroplaza	8 Startovaya Str
Gazprom Marine Bunker	1,120	Senator	76 7 <sup>th</sup> line V.O.

Source: Knight Frank St. Petersburg Research, 2013

### Delivery and take-up high-quality office space volume dynamics, Q3 2009 – H1 2013

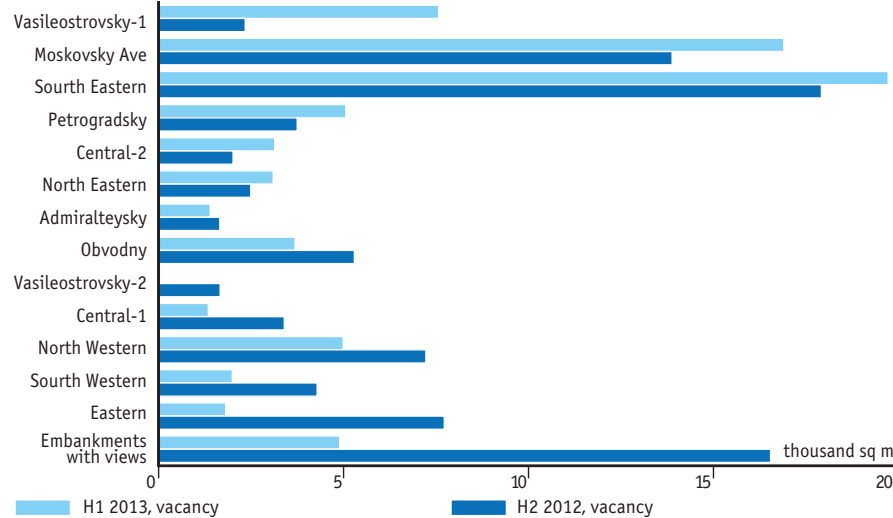


Source: Knight Frank St. Petersburg Research, 2013



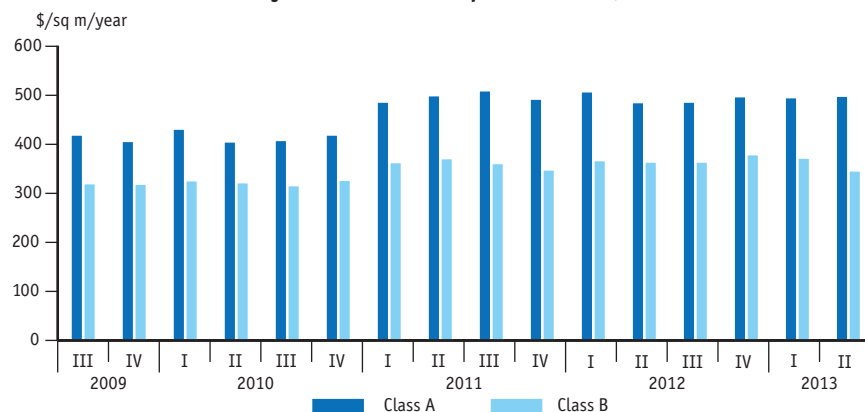


**Vacant space distribution in Class B business centers according to business districts of Saint Petersburg, H2 2012 / H1 2013**



Source: Knight Frank St. Petersburg Research, 2013

**Class A and B lease rates dynamics for office space facilities, Q3 2009 – H1 2013**



Source: Knight Frank St. Petersburg Research, 2013

**Commercial terms**

The weighted average asking lease rate for Class A office space at the end of the H1 2013 amounted to 497 \$/sq m/year (including operating expenses but excluding VAT), and in Class B – 345 \$/sq m/year (including operating expenses but excluding VAT).

Average asking lease rates for Class A office buildings in the first half of 2013 showed an increase in ruble terms by 6% compared with the end of 2012. In nominal dollar terms, the growth of lease rates did not occur, due to the exchange rate volatility.

During the first half of 2013, one could witness a gradual decline in average asking lease rates in Class B business centers: in ruble terms, the rate decreased by 4%, while in dollar terms – by 9% compared with the end of 2012 figures.

The drop of average rate is caused by the predominance of available office space in business centers located in the peripheral areas of St. Petersburg priced below the market average. This trend resulted from the fact that liquid space in Class B business centers located in the city centre is in short supply and quickly leaves the market.

**Forecast**

In all, a significant volume of new office space is expected on the market before the end of the year: 285 thousand sq m, with Class A office buildings constituting 65% of the new supply. Thus, the total leasable area of office space will slightly exceed the figure of 2 mln sq m.

There is a possibility of a drop in rental rates for Class A office space in the context of growing competition, or of a slowdown of take-up on the market.

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Belgium  
Czech Republic  
France  
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Monaco  
Poland  
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Russia  
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Switzerland  
The Netherlands  
UK  
Ukraine

Africa  
Botswana  
Kenya  
Malawi  
Nigeria  
Tanzania  
Uganda  
Zimbabwe  
Zambia  
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