



Q3 2013
OFFICE MARKET
REPORT
St. Petersburg

HIGHLIGHTS

- High-quality offices supply stock growth in Q3 2013 amounted to 2% – 36.4 thousand sq m.
- Take-up volume for Q1–3 2013 equals to 80.5 thousand sq m, which is 1.7 times fewer than in Q1–3 of 2012.
- The trend of ongoing vacancy rate growth resulting from the entry of new projects is preserved. The total vacancy rate (in Classes A and B) has grown by 8.1 percentage points reaching 14% by the end of Q3. The growth in Class A is particularly noteworthy.
- The average lease rate in dollar terms for the operating Class A business-centers has not changed during the past three quarters. There was a small (1%) drop due to the foreign currency exchange rate fluctuation. Meanwhile, a 3% growth in ruble terms has occurred since the beginning of the year.
- A further tendency of decline in the average lease rates for the operating Class B business-centers can be observed. This is a consequence of liquid supply stock "wash-out" from the market of the central parts of the city and the prevalence of properties located in peripheral areas in the total supply stock.

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Marina Puzanova,
Head of the Office Real
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Frank St. Petersburg

«For a modern company an office is not just a room for staff: first and foremost, it is a production facility. Accordingly, specific requirements of reliability, economic efficiency and convenience are applied to it. Results of Q3 show that the office real estate market of St. Petersburg is able to offer the tenants an excellent product of modern development. However, this product should be considered in advance. Despite the growing vacancy rate, the pool of "rent and move in" type premises for medium- and large-scale tenants is currently rather small. As finished and operational high-quality properties are absent in some parts of the city one is forced to wait either for the project itself to be finished or for the office space to be fully fitted.

According to our expectations, there will be no drastic changes to this situation until the end of the year, however, in Q1 2014, delivery of large volumes of new offices will trigger a response from the proprietors to promote their facilities including introduction of various benefit packages and office space refurbishing».

Key events

- Three business-centers were delivered: phase II of Technopolis Pulkovo (developed by Technopolis), Renaissance Premium (developed by Renaissance Development), Magnitogorskaya, 51 (developed by Agat).
- An active lease campaign has started in several office centers: Eightedges (developed by LEORSA), Zeppelin (developed by Avielen A.G.), Senator on B. Pushkarskaya Street (developed by LTD

Key indicators. Dynamics

Indicator	Class A	Class B
Total high-quality stock, thousand sq m	1,805.4	
including, thousand sq m	451.4	1,354
Changes since the end of 2012, %	+4	+2
Delivered in Q1-3 2013, thousand sq m	67.9	
including, thousand sq m	30.3	37.6
Vacancy rate by the end of Q3 2013, %	21	9
Changes since the end of 2012, p. p.	+ 14.2 ▲	+ 3.5 ▲
Asking lease rates in operating business-centers*, \$/sq m/year	282–813	196–626
Lease rate changes in operating business-centers since 2012, %	-1 ▼	-13 ▼
Asking lease rates in business-centers* under construction, \$/sq m/year	438–711	247–469

* excluding VAT (18%), including Operational Expenses, 1 USD = 32.5 RUB
Source: Knight Frank St. Petersburg Research, 2013



Senator), H2O (developed by Teorema) and a number of others. In total, the supply stock has grown by about 40 thousand sq m.

- At the end of October 2013, a delivery of phase I of administrative and business complex Nevskaya Ratusha is expected.



Supply

Business-centers Technopolis Pulkovo and Renaissance Premium located in the business district Moskovsky Ave were delivered in Q3 2013. Their total leasable area amounts to 31.4 thousand sq m. Another business center Magnitogorskaya, 51 was delivered in the business district of Eastern. Thus, the total supply stock of high-quality office space in Q3 2013 has grown by 2% compared to the previous quarter.

Supply stock of high-quality office properties in Q1-3 2013 has amounted to 3% or 67.9 thousand sq m.

Business-centers delivered in Q1-3 2013

Name	Address	Class	Office space, thousand sq m	
			Total	Leasable
Q1 2013				
Velikan Park	4 Alexandrovsky Park	A	1.3	1
MegaPark	22 Zastavskaya St	B	13.3	11.8
Alpiyskiy	29 Alpiyskiy Ln	B	3	2.4
Q2 2013				
Liteyniy, 26	26 Liteyniy Prospekt	A	15	11.5
Kovenskiy, 5	5 Kovenskiy Ln	B	6.5	4.8
Q3 2013				
Technopolis Pulkovo	40 Pulkovskoye Hw	A	20.3	17.8
Renaissance Premium	14 Reshetnikova St	B	20.5	13.6
Magnitogorskaya, 51	Plot 1 Magnitogorskaya St	B	6.6	5
TOTAL			86.5	67.9

Source: Knight Frank St. Petersburg Research, 2013

Business-centers expected to be delivered by the end of 2013

Name	Address	Class	Office space, thousand sq m	
			Total	Leasable
Nevskaya Ratusha	11 Degtyarniy Ln	A	46.4	40.5
Leader Tower	153 Leninskiy Prospekt	A	49.5	38.0
Reneissance Pravda	12-14 Khersonskaya St	A	29.9	21.8
Senator (phase 3)	37a Professor Popov St	A	25.0	19.1
Eightedges	45 Malookhtinskiy Prospekt	A	20.1	13.2
H2O	28 Khimikov St	A	12.0	9.0
Zolotaya Dolina	8 Ploshad Faberge	B	21.7	16.7
Lutch	7 Prospekt Metallistov	B	5.5	13.4
Pulkovo Star	28/A Pulkovskoye Hwy	B	14.5	12.4
Na Tsarskoselskih Holmah	Pulkovskoye Hwy	B	7.7	6.1
–	59 Prospekt Stachek	B	8.0	6.0
Alpha / Universal	19 Pulkovskoye Hwy	B	7.5	5.6
–	140 Moskovskiy Prospekt / 21 Koli Tomchaka St	B	6.4	5.0
–	55 Savushkina St	B	4.5	2.5
Finskiy Pereulok, 4	4 Finskiy Ln	B	2.5	2.0
–	6-8 Drovyanaya St	B	2.5	1.8
–	35 Sabirovskaya St	B	1.1	1.1
TOTAL			264.8	214.2

Source: Knight Frank St. Petersburg Research, 2013

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Demand

In Q3 2013, the vacancy rate in Class A business-centers (operating or under construction where lease campaign is in progress) has grown by 6 percentage points compared with the previous quarter and has reached 21%. Since the beginning of the year, this index has grown by 14.2 percentage points. By the end of Q3 2013, the vacancy rate in operating Class A business-centers reached 11%. Such a high rate as well as its overall growth have resulted primarily from the delivery of new business-centers with a large share of vacant space (in both those already operating and those in facilities under construction) to the lease market.

This trend, although not as pronounced, is also noticeable in Class B business-centers. Compared to Q2 2013, the vacancy rate has grown by 2.2 percentage points and since the beginning of the year – by 3.5 percentage points. By the end of Q3 2013, this figure has reached 9%.

The summer period is traditionally considered a “slack” period for the market. However, in Q3 2013, the demand has become active: the take-up volume has reached 36 thousand sq m, which is almost twice as much as the H1 figure. Furthermore, over a third of the transactions volume fell with natural resources companies.

However, current level of demand has not come close to pre-recession levels yet

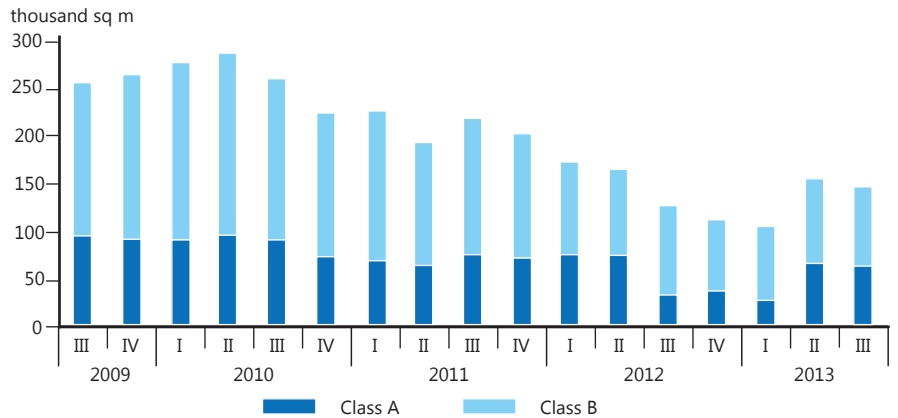
Commercial terms

The average asking lease rate in operating Class A business-centers at the end of Q3 2013 totaled 490 \$/sq m/year (including operating expenses but excluding VAT) and in Class B – 329 \$/sq m/year (including operating expenses but excluding VAT).

Having started at the end of 2012, the average asking lease rates tendency to grow for Class A business-centers continues to this day. The average lease rate for Class A offices has grown by 2% in ruble equivalent compared with Q2 2013 and for the first three quarters 2013 – by 3%. The growth rate is associated with “washing out” of relatively cheap supply stock from the market, as well as with fluctuations in currency exchange rates.

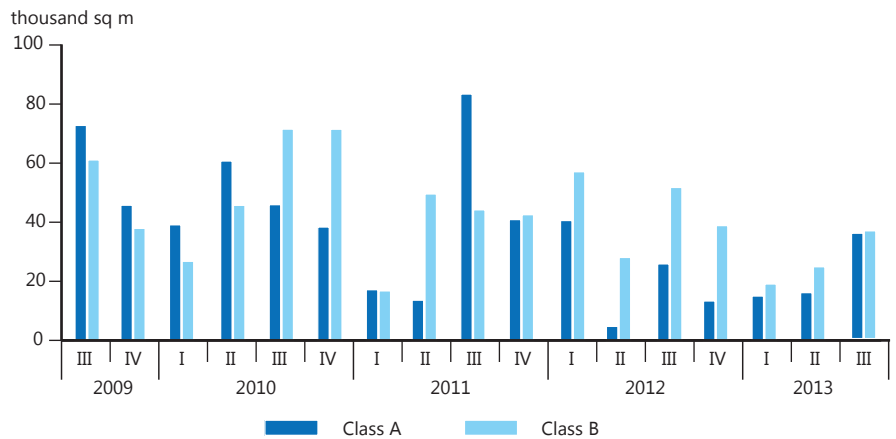
Although the growth rate for the quarter amounted to 3% in dollar terms, compared to its value at the end of 2012 the change is insignificant.

Vacancy rate dynamics by property Class, Q3 2009 – Q3 2013 sq m



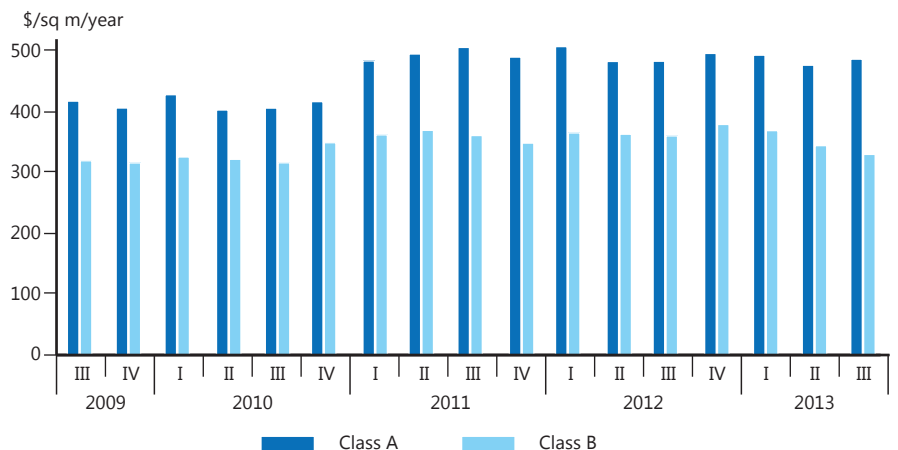
Source: Knight Frank St. Petersburg Research, 2013

High-quality office space delivery and take-up dynamics, Q3 2009 – Q3 2013



Source: Knight Frank St. Petersburg Research, 2013

Class A and B office space lease rates dynamics, Q3 2009 – Q3 2013, \$/sq m/year (excluding VAT, including operating expenses)



Source: Knight Frank St. Petersburg Research, 2013

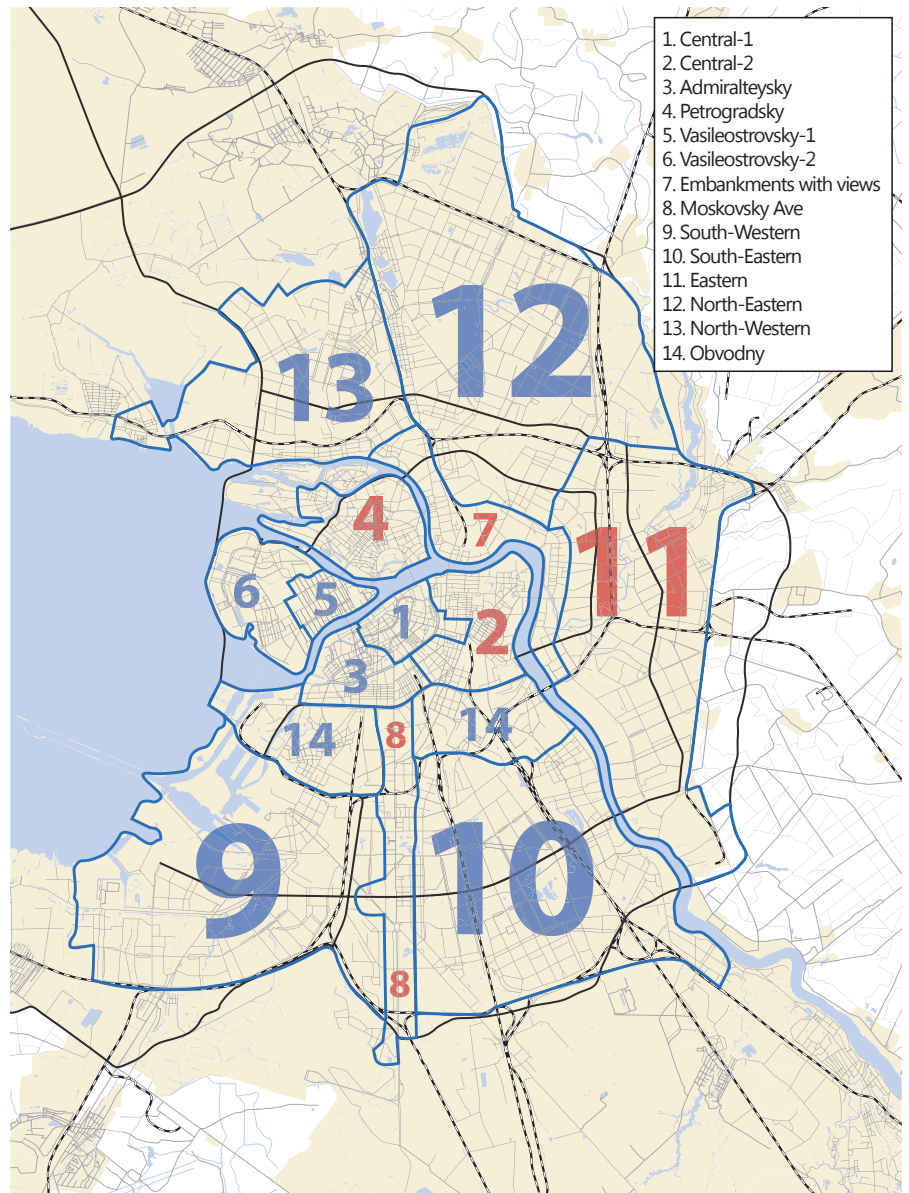


Since the end of 2012, the average asking lease for vacant space in Class B business-centers is gradually dropping: the rate for the quarter in ruble equivalent has dropped by 5%, and compared with the end of 2012 – by 9%. In dollar terms, the rate drop for the quarter was 4% and for the first three quarters – 13%.

A drop in the average rate is related to the predominance of a specific kind of office space available for lease: it is mostly located in business-centers in peripheral areas of St. Petersburg, where the lease rates are below the market average. This trend results from the situation when liquid space in Class B business-centers located in the central part of the city is in short supply and such properties quickly leave the market.

It should be noted that asking lease rates for new business-centers are significantly higher than those observed in the already functioning objects. The average asking lease rate in business-centers under construction where lease campaign has begun is 545 \$/sq m/year (including operating expenses but excluding VAT), and in Class B business-centers - 376 \$/sq m/year (including operating

Business districts of St. Petersburg (arrows indicate the zones in which a significant growth of supply stock is expected until the end of 2013)



Source: Knight Frank St. Petersburg Research, 2013

expenses but excluding VAT). It must be pointed out that such high rates in the new facilities negatively impact on occupancy, as they do not reflect the expectations of potential tenants.

Forecast

Overall, until the end of the year a significant volume of new office space delivery is expected: more than 200 thousand sq m, where 66% of the new

supply fall with Class A office buildings. Most of the new supply is concentrated in business districts Tsentralniy-2 and Moskovskiy Prospekt. The total volume of high-quality office space on the market including the new supply will exceed 2 mln sq m by the end of 2013.

A possible drop in lease rates for Class A office space against the backdrop of growing competition is forecasted, otherwise the continuation of the take-up rate slowdown trend on the market is inevitable.

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