

A low-angle, upward-looking photograph of a modern, curved glass office building. The building's facade is made of large glass panels reflecting the sky. The sun is visible as a bright, circular glow on the right side of the building. The sky is a clear, deep blue. The building's structure includes a series of horizontal lines and a curved roofline.

# H1 2014 OFFICE MARKET REPORT

Saint Petersburg

## HIGHLIGHTS

- The growth of high-quality office real estate in H1 2014 amounted to 2%.
- Compared to H1 2013, the take-up of high-quality office space in H1 2014 has grown 1.9 times, amounting to 83.9 thousand sq m.
- A drop in vacancy rates by 3.9 p. p., compared to the end of 2013, has taken place in Class A business centers, the reasons behind such development were a lease deal for an entire office building, as well as a number of other transactions.
- A small growth in vacancy rates by 0.6 p. p. resulting from rotation of tenants has taken place in Class B office centers segment.
- The average lease rate in Class A office centers in dollar terms grew by 3% compared with the same period last year.
- The average lease rate in Class B business centers remained unchanged over the past 12 months.

# H1 2014 OFFICE MARKET REPORT

Saint Petersburg

## OFFICE MARKET REPORT



**Marina Puzanova,**  
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department,  
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St. Petersburg

*"It is a pleasure to note that office real estate market has completed the six months period entirely in line with forecasts. Against the background of moderate delivery of new space, the expected rapprochement of landlords and tenants and the take-up rate have demonstrated a positive trend. A drop in Class A vacancy rate against the growth in Class B suggests that some of the tenants took advantage of the expected favorable situation and changed their former offices for those of higher quality, while benefitting from attractive commercial terms set by the landlords of the objects that are still in a state of fierce competition. It should be noted that, as such, there has been no significant drop in lease rates, and the success of some Class A facilities in filling up with tenants rests with well-chosen strategy in arranging commercial terms, which made the complexes economically attractive for the clients.*

*In our opinion, H2 will demonstrate higher activity in terms of new supply stock delivery: significant growth is to be expected. Besides, areas planned for delivery in 2015 will enter active phase of lease campaigns. Undoubtedly, the economic situation in the country and the overall political climate will have a huge impact on the market".*

### Key indicators. Dynamics.

Indicators	Class A	Class B
Total high-quality stock, thousand sq m	2,123.6	
including, thousand sq m	723.5	1,400.1
Changes since the end of 2013, %	+3 ▲	+2 ▲
Delivered in H1 2014, thousand sq m	74.1	
including, thousand sq m	43.1	31
Vacancy rates by the end of H1 2014, %	18.3	7.9
Changes since the end of 2013, p. p.	-4 ▼	+ 0.6 ▲
Asking lease rates in operating business centers*, \$/sq m/year	297–858	186–595
Lease rates changes in the operating business centers since the end of 2013, %	+2 ▲	+1 ▲
Asking lease rates in business centers under construction*, \$/sq m/year	397–675	291–401
* Excluding VAT (18%), including operational costs, 1 USD = 34.21 rub. Source: Knight Frank St. Petersburg Research, 2014		



### Key events

- ♦ High-quality office space sales activity was noted in the past six months: series of purchase transactions took place in operating office buildings and of a whole office center project.
- ♦ The FORTGROUP Company acquired Class A office center project named FORT TOWER in the Moskovsky district.
- ♦ Among the most significant deals worth noting is Gazprom's lease of an entire business center Electro.
- ♦ VTB Company leased the second building in the administrative and business district "Nevskaya Ratusha".
- ♦ The official delivery of several key business centers: Electro, Eightedges and Pulkovo Star took place.

## Supply

74.1 thousand sq m of high-quality office space were delivered in H1 2014: an overall stock growth of 2%. The larger part, 58%, of the new stock belongs to Class A.

The total leasable space of high-quality office centers by the end of H1 2014 amounted to 2,123.6 thousand sq m. The dynamics of the total leasable area accounts for data on the properties, which have already left the market.

## Demand

Over the past six months, the vacancy rate in Class A office centers segment has dropped to 18.3% by the end of H1. There is still a wide range of options in Class A business centers on the market concerning both the leasable space and the geographic location.

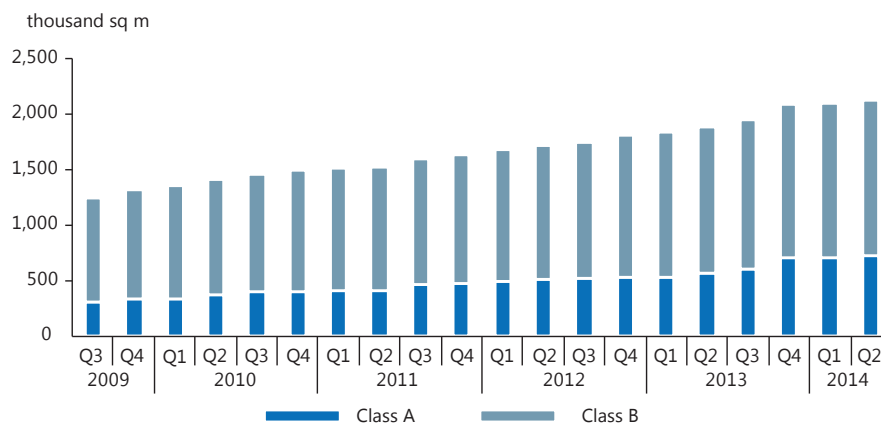
Following the rotation of tenants, a small index adjustment occurred in Class B office centers segment with the vacancy rate growing by 0.6 p. p., and amounting to 7.9%.

By the end of H1, about 240 thousand sq m of high-quality office space are available on the lease market, which represents 11.4% of the gross total leasable area of high-quality office space in St. Petersburg.

The biggest transaction for the past six months was a lease deal for Class A business center Electro located in the Moscovsky district. Conducted between the real estate Company GHP Group and the Gazprom Company, it caused a drop in vacancy rates for Class A office centers segment.

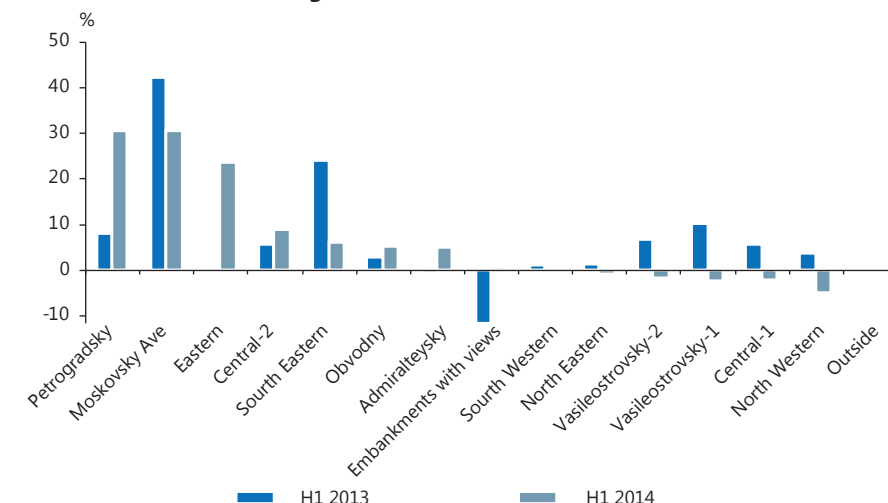
By the end of H1 the take-up amounted to 83.9 thousand sq m. Compared to the same period in 2013, the take-up grew 1.9 times. Most of these areas (60%) is concentrated in the business districts of "Petrogradsky" and "Moskovsky Ave". The figure for the business district "Western" grew significantly due to the relatively low lease rates, compared to the city average, and proximity to downtown. Most of the office buildings located in the business district are within walking distance from subway, which makes it attractive for tenants.

### Dynamics of changes in high-quality office space volume, Q3 2009 – Q2 2014



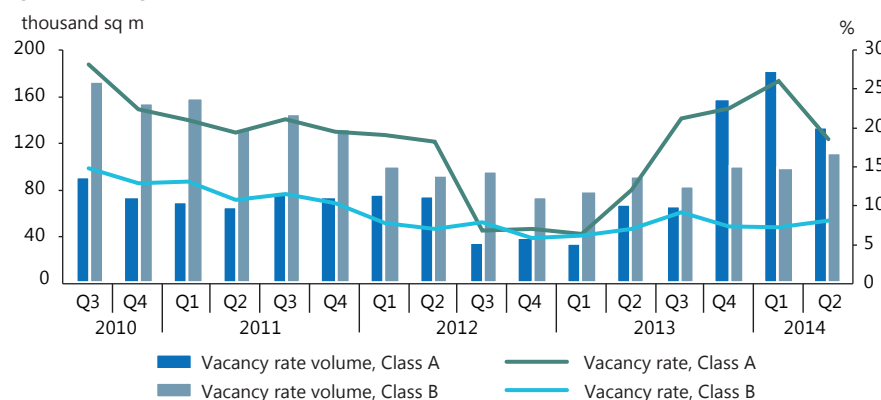
Source: Knight Frank St. Petersburg Research, 2014

### Take-up distribution in operating business centers according to business districts of Saint Petersburg, H1 2013 and H1 2014



Source: Knight Frank St. Petersburg Research, 2014

### Vacancy rates and volume changes dynamics in Class A and B business centers, Q3 2010 – Q2 2014



Source: Knight Frank St. Petersburg Research, 2014

# H1 2014 OFFICE MARKET REPORT

Saint Petersburg

## The most significant lease transactions (area above 1 thousand sq m)

Tenant	Leased office space, thousand sq m	Name	Class
Gazprom Structures Company	18.1	Electro	A
FosAgro	3.5	Senator (37 Professora Popova St)	A
A+Development	1.4	Technopolis Pulkovo	A
AdVisual	1.1	Senator (37 Professora Popova St)	A
M-Style	3.0	Zolotaya Dolina	B
Medical Clinic	2.8	Dostoyevskogo, 19	B
PMP	1.9	U Rostralnykh kolonn	B
Home Credit Bank	1.8	Grenaderskiy	B
UralSib Insurance	1.3	Krasnaya Zarya	B

Source: Knight Frank St. Petersburg Research, 2014

## Commercial terms

The weighted average asking lease rate in operating Class A business centers at the end of H1 2014 amounted to 491 \$/sq m/year (including operating expenses, excluding VAT) and in Class B – 343 \$/sq m/year (including operating expenses, VAT not included).

It should be noted that average lease rates are stable. Compared with H1 2013, the weighted average asking lease rates in the segment of Class A business centers grew by 3%. The growth can be attributed to the official delivery of the new office buildings with lease rates higher than those in the already operating complexes. Moreover, it should be noted that some landlords of new business centers began to include the cost of finish in the lease and divide floors into blocks, which also resulted in growth of the average rates. Another factor causing the rates growth was the change in foreign currency exchange rates.

Average lease rate in Class B business centers remained unchanged.

It should be noted that the stated lease rates exceed the expectations of potential tenants by 8% in Class A business centers of and by 7% in business centers of Class B.



## A map of business districts of St. Petersburg

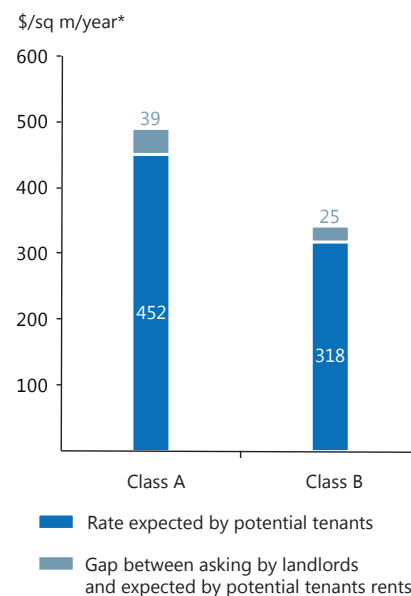


Source: Knight Frank St. Petersburg Research, 2014

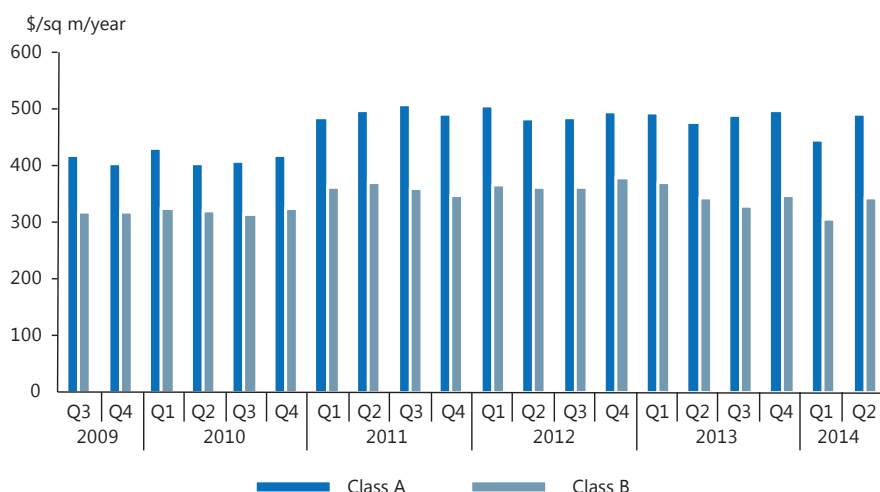
**The most significant business centers expected for delivery by the end of 2014 (total area above 3 thousand sq m)**

Name	Address	Class	Leasable office space, thousand sq m
Trinity Place	22 Admirala Lazareva Emb.	A	27.0
Flandriya	Tashkentskaya St, plot 1	A	24.4
Exhibition and Convention Centre "Expoforum"	Shushary, Peterburgskoye Hw	A	20.0
Senator	60/129 A, B Moskovskiy Ave	A	9.5
Passage / Italiyskaya, 17	17 A Italiyskaya St	A	7.0
Senator	1 Kropotkina St	A	6.7
Senator	22 A Bolshaya Pushkarskaya St	A	5.4
ECO Status	140 Ligovsky Ave	A	3.4
Victoria Plaza (stage 1)	2 A Ploshad Pobedy	B	15.0
Lutch	7 Metallistov Ave	B	13.3
SOVA	22 Marshal Tukhachevskiy St	B	9
Formida	Utkin Ave, plot 1	B	7.9
H2O	28 Khimikov St	B	6.8

Source: Knight Frank St. Petersburg Research, 2014

**The ratio of asking lease rates for high-quality office centers stated by landlords to the rates expected by potential tenants, Q2 2014**


\* Including operating expenses, excluding VAT  
Source: Knight Frank St. Petersburg Research, 2014

**Lease rates dynamics for Class A and B offices for Q3 2009 – Q2 2014**


Source: Knight Frank St. Petersburg Research, 2014

**Forecast**

We expect that a little over 170 thousand sq m of high-quality office space will be delivered by the end of 2014. With such a large delivery volume of high-quality office space, no growth of lease rates is expected in the new modern business centers. However, when it comes to the facilities already operating on the market with beneficial location and established tenants structure, a growth of rates in line with inflation is possible.

The projected level of take-up in conjunction with the expected delivery of new office centers will result in growth of vacancy rates for the whole market by 2–3 p. p.

Until the end of 2015, over 200 thousand sq m of office space are expected to be delivered, which will undoubtedly have an impact on the office market of St. Petersburg.

**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  
Malaysia  
New Zealand  
Singapore  
South Korea  
Thailand  
Vietnam

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