

44.8 thousand sq m
commissioned

4.5%
vacancy rate
in Class A

-23%
decrease in lease
transactions



Market 2020: Offices

through the prism of COVID-19

Saint Petersburg
H1 2020

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Megalit – Okhta Group announced a project to build a 91 thousand sq m multifunctional facility as part of the Primorsky Kvartal residential complex. The project will offer 43.1 thousand sq m of offices.

TRK Murino presented a design of the Novaya Oblast Business Centre to be built near the Devyatkino metro station. Its area will total 22 thousand sq m.

IMPORTANT MARKET DEVELOPMENTS

Imperiya Financial Holding Company has acquired the Tkachi multifunctional facility at 60 Obvodny Canal with a total area of 10 thousand sq m.

The Property Fund has sold the Parus Business Centre at 62/2 letter A 7-ya Liniya V. O. in an auction.

The Praktik, a St. Petersburg-based co-working chain, has entered the Moscow market by opening its first facility in the Basmanny Dvor public and business space.

Key indicators. Dynamics*

	Class A	Class B
Total leasable area of high-quality office facilities, thousand sq m	3,784	
including, thousand sq m	1,192	2,592
Commissioned in H1 2020, thousand sq m	44.8	
including, thousand sq m	8.8	36
Total vacant stock, thousand sq m	233.4	
including, thousand sq m	54	179.4
Vacancy rate, %*	4.5 (+1 p. p.)	6.9 (+1.5 p. p.)
Net absorption, thousand sq m	5.6	
Asking rental rate, RUB per sq m per month (including VAT and operating expenses)	2,285	1,588

Source: Knight Frank St Petersburg Research, 2020

* As compared to 2019



Mikhail Tyunin

Deputy Director General
Knight Frank St Petersburg

The office market has showed a notable response to the quarantine. The vacancy rate has risen, and the upward trend will continue in the second half of the year. Already now, tenants appear to be migrating from Class A to Class B properties, companies are curtailing their spaces, and the number of sub-leases is growing. Therefore, lease rates can be expected to go down by the end of the year, especially in the Class A segment. For many employers, distance work has become a usual thing and we expect this to continue at least until the end of 2020.

Supply

In H1 2020, five high-quality offices buildings was commissioned with the total leasable area of 44.8 thousand sq m, with Class B properties accounting for 80% of the total. This is almost two times as high as in the same period last year. All the projects commissioned are intended for lease.

The commissioning offices buildings in H1 2020 and reclassification¹ of the office market in the beginning of this year have increased the total leasable area to 3.7 million sq m.

As at the end of June 2020, the area of vacant spaces totalled 233.4 thousand sq m which is a 48% increase as compared to the end of 2019. First of all, the increase in vacant supply was driven by delivery of new spaces. Moreover, tenants seem to move from Class A business centres to less quality objects. In Class A the vacancy rate was 4.5%, which is a 1 percentage point increase as compared to the end of 2019. A similar situation is observed in the Class B, where the vacancy rate increased by 1.5 percentage points and reached 6.9% at the end of H1 2020. The highest increase in vacancy rates was observed in Central-1 and Central-2 locations where the total share increased by 7 percentage points. In addition, a significant increase (by 9 percentage points) in total share of vacancy rate was in Vasileostrovsky-1 and Vasileostrovsky-2 locations.

Demand

By the end of H1 2020, the amount of rented Class A and B office spaces was 33 thousand sq m. This is 23% less than in the same period of 2019. The highest decline was observed in the Class A, with a 30% drop in rented spaces as compared to H1 2019. The average area of leased spaces increased by 24% and has reached 1,654 sq m.

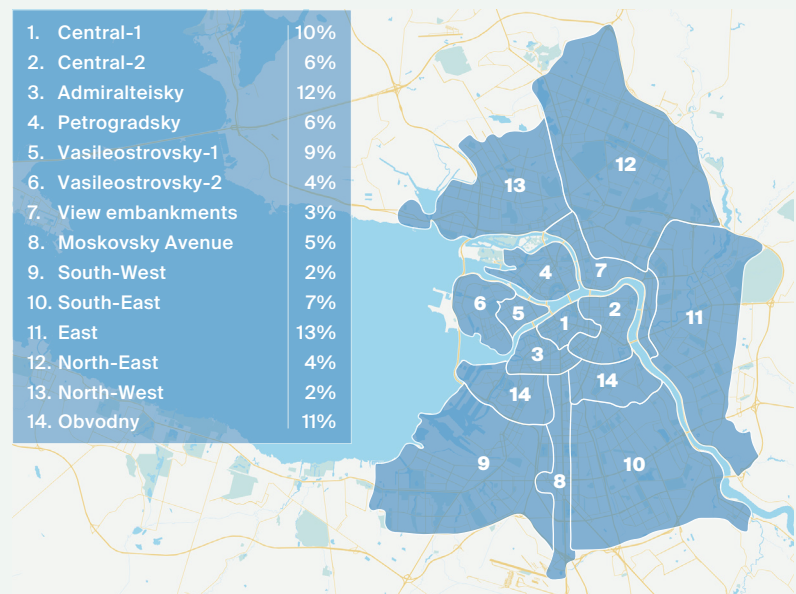
Oil and gas companies were the most active and accounting for 35% of the total amount of lease transactions

Business centres commissioned in H1 2020

Name	Address	Class	Area, thousand sq m
Premier-Liga (Phase 3)	266M Ligovsky Ave	B	15.4
Obvodny 28	28 Obvodny Canal Emb	B	11.9
Bronka Space	10-120 Krasnogo Tekstilshchika St	B	8.9
Nevsky 1	1/4 Nevsky Ave	A	4.8
AVENUE-PAGE (co-working)	18 Aptekarskaya Emb	A	4

Source: Knight Frank St Petersburg Research, 2020

Vacancy rates by business location



Source: Knight Frank St Petersburg Research, 2020

Major transactions in H1 2020

Company	Area, thousand sq m	Property/Address	Property class
Gazprom (a division)	8.8	Depo/ 2/9V Mitrofanievskoye Hwy	B
United Shipbuilding Corporation	7.0	Senator/ 22 17-ya Liniya V. O.	A
CRT	4.4	Stockholm/ 45E Vyborgskaya Emb	B
ER-Telecom Holding	2.0	Luch/ 7 Metallistov St	B
Russian Post	1.5	AVENUE-PAGE/ 18 Aptekarskaya Emb	A
Etazhi	1.3	Premier Liga/ 266 Ligovsky Ave	B

Source: Knight Frank St Petersburg Research, 2020

¹Properties were reevaluated in terms of qualitative parameters according to the office market classification developed and applied by leading consultants in St. Petersburg.

(+9 percentage points as compared to H1 2019). At the same time, the share of IT sector has shrunk significantly (by 20 percentage points) to 31% of the total amount of transactions. Notably, industrial companies have risen to prominence and ranked third in terms of the number of leased spaces.

In H1 2020, the net absorption was only 5.6 thousand sq m, which is 85% less than in the same period of the previous year. This is because tenants did not show much interest and the number of vacant spaces increased due to the vacation of some properties.

This situation on the office market has considerably influenced the tenants' demands. This is shown by a survey conducted by Knight Frank St Petersburg in the period from the beginning of April to the end of June 2020. The survey encompassed all prospective clients who considered leasing office spaces in St. Petersburg and sought for help from Knight Frank in searching for properties.

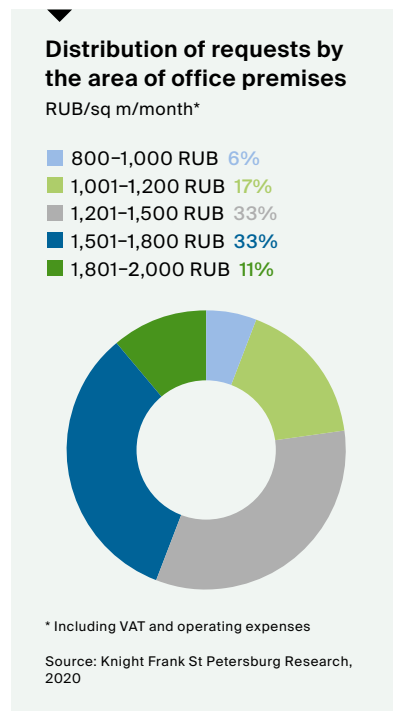
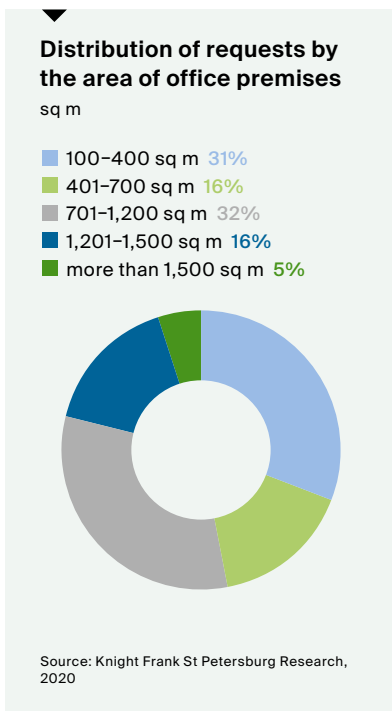
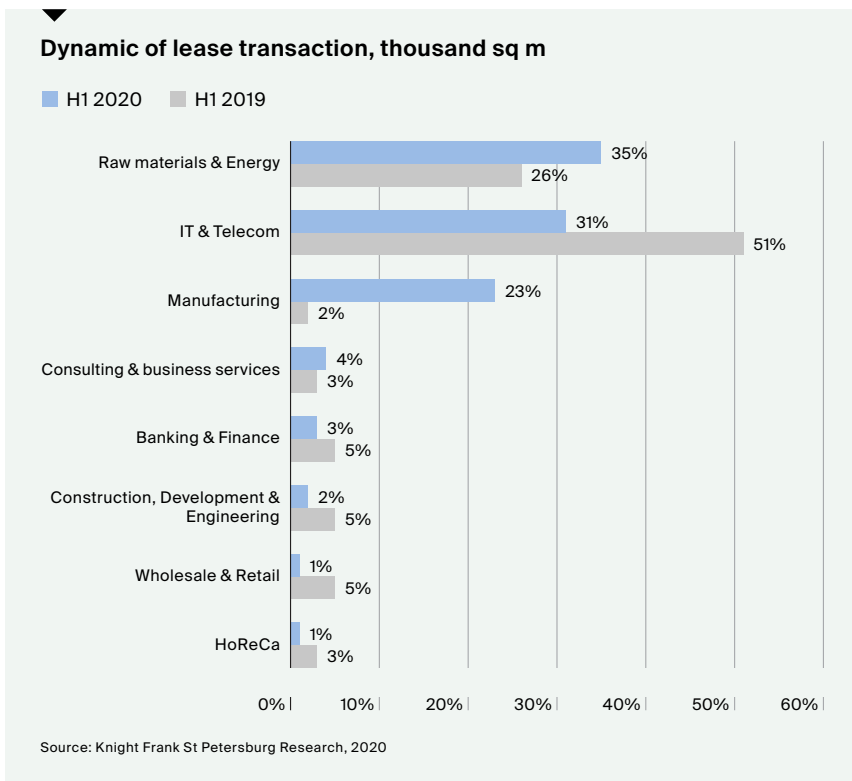
According to the survey results, the most sought-after properties are Class B business centres in Central and Petrogradsky Districts (67% of all requests). At the same time, the potential clients concerned for small premises with an area of either between 100 and 400 sq m (31%) or between 701 and 1,200 sq m (32%).

It is important to note that 66% of companies looked for properties with rental rates within the range of RUB 1,200 to 1,800 per sq m per month (including VAT and operating expenses). At the same time, potential tenants were not eager to pay more than RUB 2,000 per sq m per month (including VAT and operating expenses).

Commercial terms

Despite the epidemiological situation and as a consequence a difficult economic environment, the asking rental rates in most office properties did not change in the first half of 2020 (the average change in asking rental rates was 0.9% in Class A and 0.3% in Class B).

The position of some owners of business centres with respect to tenants



has led to increased levels of vacant supply and resulted in an increase in the average weighted rental rates. Since spaces vacated were mainly expensive offices in popular business locations, the average weighted rental rate for Class A properties reached RUB 2,285 per sq m per month (including VAT and operating expenses), a 14% increase as compared to the end of 2019. In the Class B, the average weighted rental rate

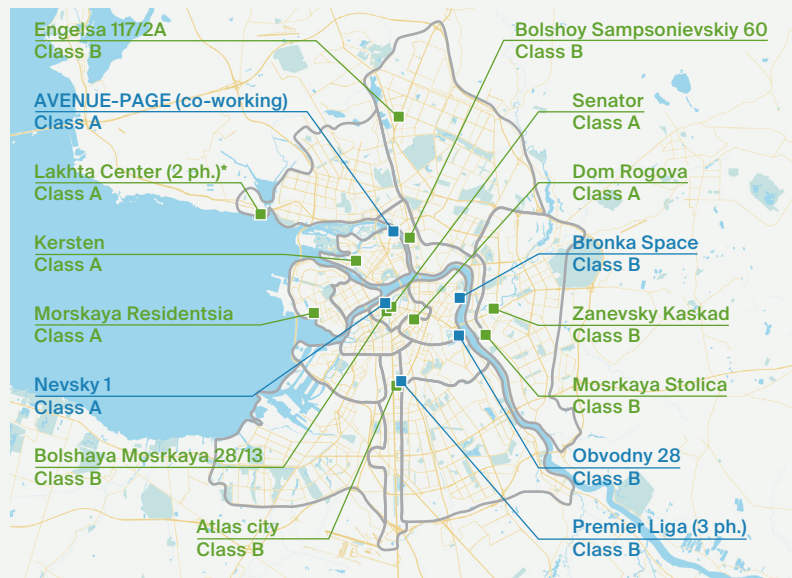
increased more significantly - by 23% and reached RUB 1,588 per sq m per month (including VAT and operating expenses).

Forecast

In total, about 230 thousand sq m of office spaces that are currently under construction are to be commissioned by the end of 2020. If the active dynamics

Map of business centers planned for commissioning in 2020

■ Commissioned in H1 2020 ■ Planned for H2 2020



Source: Knight Frank St Petersburg Research, 2020

* Completed in Q3 2020

in construction of business centres persists, the performance in the first six months of 2020 gives us reasons to expect that the end-year commissioning figures will reach the levels announced.

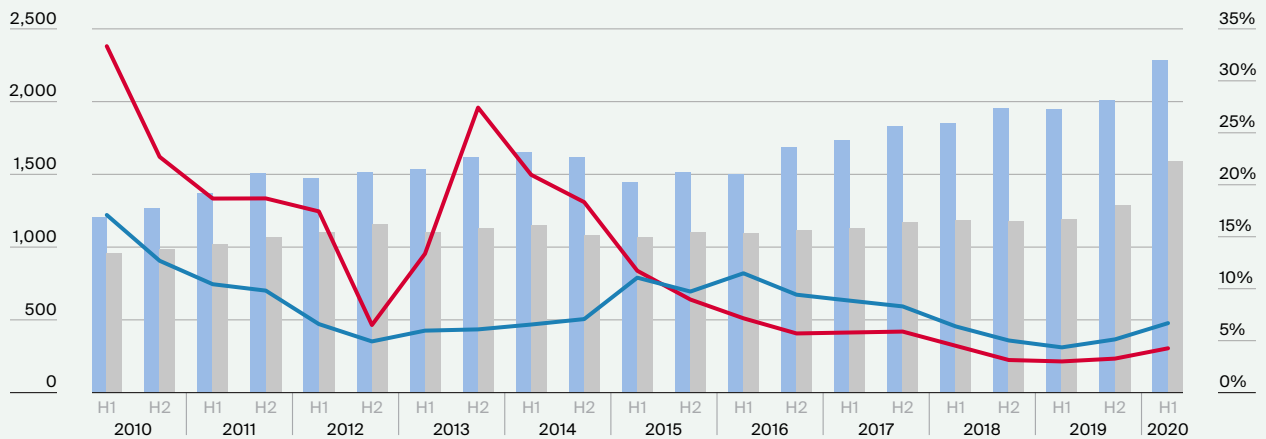
Until the end of 2020, the market will continue to grow of vacant supply which can reach 10%. The increasing supply driven by the commissioning of new projects along with optimization due to the vacation of the existing spaces may lead to a reduction in asking rental rates.

It is becoming apparent that businesses will have to live against the background of the reality of restrictions at least until the end of the year; therefore the trend of shifting to distance work arrangements still remains relevant. In this connection, the co-working format will continue to develop aggressively and can become a strong competitor to conventional offices.

Dynamics of rental and vacancy rates

rub/sq m/month*

■ Rental rate, Class A, RUB/sq m/month ■ Rental rate, Class B, RUB/sq m/month
 — Vacancy rate, Class A, % — Vacancy rate, Class B, %



Source: Knight Frank St Petersburg Research, 2020

* Including VAT and operating expenses



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