

2016

WAREHOUSE MARKET REPORT

Saint Petersburg



HIGHLIGHTS

252 thousand sq m of quality warehouse space were delivered in 2016, boosting the total supply volume by 9%.

50% of the 2016 total delivery were built-to-suit projects.

Rental rates increased in dollar terms due to the depreciation of the US dollar against the ruble by the end of 2016. The average asking rental rate for Class A premises was 76 \$/sq m/year and 65 \$/sq m/year for Class B, including OPEX, net of VAT.

The annual net take-up level showed 30% growth against 2015 and ran at 243 thousand sq m.



Mikhail Tyunin
Associate director,
Knight Frank St. Petersburg

"The current state of the market is characterized by declining vacancy rate, deficiency of new facilities in the market and the stop of rental rates drop. It seems that the turning point is about to come, when the supply will again become difficult-to-obtain. Existing vacant supply could seriously drop down by the middle of 2017 given the current take-up rate, which should lead to rental rates rise. Then one of two scenarios will be observed: it is old and well-known to the market built-to-suit format and the construction of new facilities. Some developers are already actively forming a bank of land plots for the construction of future warehouse facilities".

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Key indicators. Dynamics*

Index	Class A	Class B
Total quality stock, thousand sq m	3,106 ▲	
including, thousand sq m	1,988	1,118
New delivery in 2016, thousand sq m	252 ▲	
Total quality stock for lease, thousand sq m	1,735 ▲	
Total vacant supply, thousand sq m	180 ▲	
Take-up for 2016, thousand sq m	243 ▲	
Vacancy rate, %	4.9 ▼	7.3 ▲
Average asset-by-asset change of the rent in rubles, %	-7	-2
Asking rental rates, \$/sq m/year, including OPEX, net of VAT (18%)	69–89	48–80

* Against the end of 2015

Source: Knight Frank St. Petersburg Research, 2017

Key properties delivered in 2016

Property	District	Class	Quality warehouse space, thousand sq m	Developer
Magnit (2 nd phase)	Tosnensky, the Leningrad Region	A	34.2	Magnit
Petersburg – South Distribution centre of X5 Retail Group (Armada Park)	Pushkinsky	A	27.9	Adamant
Novosel'e Business Park	Lomonosovsky, the Leningrad Region	B	27.5	Gepard
A Plus Park Saint Petersburg-1 (Auchan)	Pushkinsky	A	23.5	A Plus Development
A Plus Park Saint Petersburg-1 (AKM-2)	Pushkinsky	A	21.0	A Plus Development
Ulmart, Suburban Fulfilment Centre	Krasnogvardeisky	A	18.5	A Plus Development

Source: Knight Frank St. Petersburg Research, 2017

Key events

Eurosib Group of companies sold Eurosib-Shushary Logistics Terminal to Modul company.

Blackstone Investment Company acquired PNK Shushary 2 Complex.

The construction of 40 industrial enterprises was completed during 2016.

A Plus Development became the leader in the annual delivery volume accounting for 39% of all commissioned warehouse space in 2016.

Supply

The total quality warehouse stock of both St. Petersburg and the Leningrad Region exceeded 3.1 million sq m as a result of 2016. 252 thousand square meters of warehouse space were put into operation boosting the total supply by 9%. Notice also that 61% of the 2016 total delivery belonged to the format of distribution centres.

The total stock of quality speculative warehouses amounted to 1.7 million sq m by the end of 2016, 71% of them corresponded to Class A.

The total stock of quality warehouse space approaching the market during the year did not have a significant impact on the total amount of vacant space, since most of the facilities were intended for own needs of the companies, and 50% of the total delivery volume were built-to-suit projects. Only 18% of the total delivery amount were listed at the open market and agreements for a number of these premises were even signed during the construction stage.

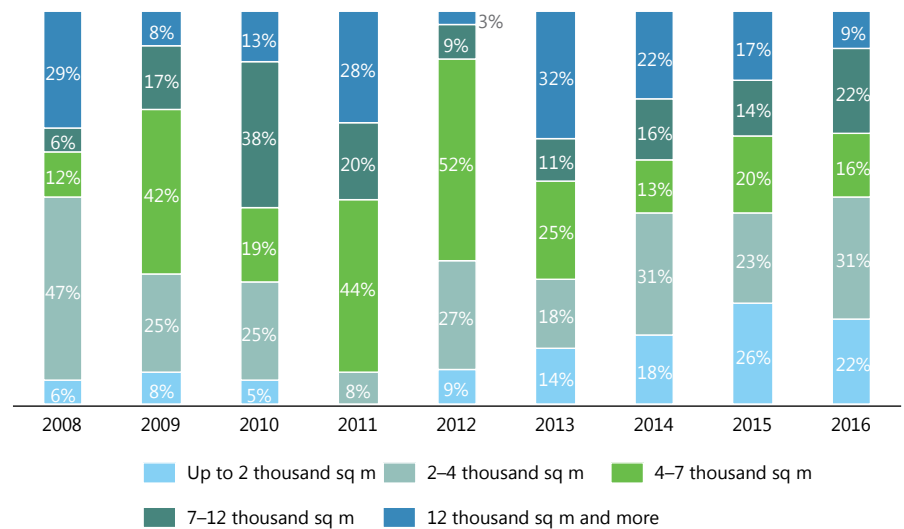
The Class A vacancy rate dropped by 1.3 p.p. to 4.9% by the end of 2016 in comparison with the final indicator of 2015. Class B, on the contrary, witnessed a slight increase till 7.3%, which was 1.4 p. p. higher than in 2015. The total vacant supply in the market of quality warehouse real estate rose by 5% to 180 thousand sq m if compared to 2015.

Delivery dynamics and vacant supply volume of quality warehouse space



Source: Knight Frank St. Petersburg Research, 2017

Transactions breakdown depending on their area



Source: Knight Frank St. Petersburg Research, 2017

The growth of vacant supply occurred mainly in Class B and is associated with the vacation of large units in a number of warehouse complexes commissioned before 2016.

The construction of 40 industrial enterprises was completed in the territory of St. Petersburg and the Leningrad Region within 2016, including the subsequent stages of already functioning ones. More than half of delivered industrial enterprises belonged to the following profiles: radio engineering, electronics, chemical industry and building materials. The first phase of Ladozhsky Industrial Park with an area of 10.2 hectares was commissioned in Vsevolozhsky district in 2016, forestry enterprises were planned there as anchor tenants.

Demand

The net take-up amount in the market of quality warehouse facilities was 243 thousand sq m – 30% higher against 2015.

In 2016, major purchase transactions of warehouse complexes were completed: Eurosib Group of companies sold Eurosib-Shushary Logistics Terminal to Modul company, and Blackstone Investment Company acquired PNK Shushary 2 Complex.

During the year, Magnit acquired an additional land plot of 26 hectares in Tosnensky district in order to expand its logistics complex, and Okhta Group purchased a 9 ha land plot in Krasnogvardeisky

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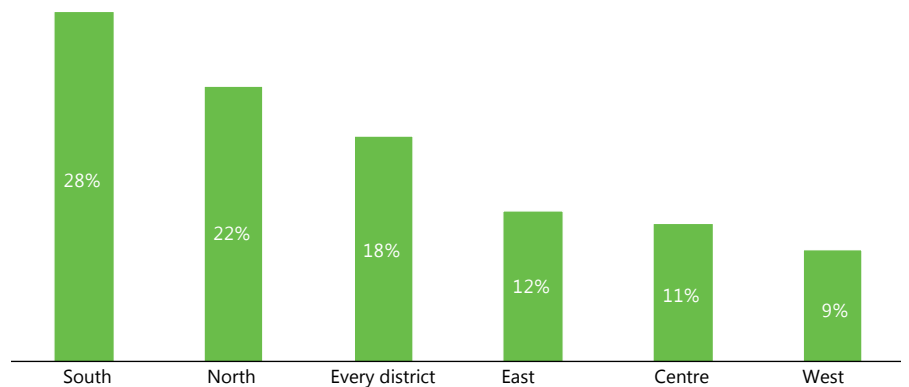
district to expand its PGSK Industrial Park. Note that agreements were concluded for almost all additional premises by the end of the year.

The total volume of transactions signed during 2016 ran at 189 thousand sq m of quality warehouse space. There was an increase in demand for premises with an area of 2–4 thousand sq m along with 20% decline in the total volume of transactions compared to 2015. 53% of the 2016 total demand volume were targeted at warehouse premises with an area of less than 4 thousand sq m.

Retailers were still actively leasing warehouse premises. Interestingly, the share of space occupied by logistics companies was more than three times than in 2015 and reached a total of 36%.

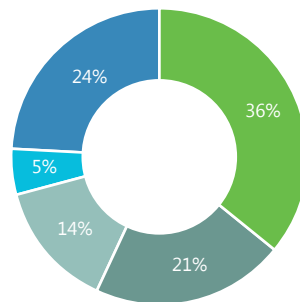
The analysis of requests received by Knight Frank in 2016 showed that the main demand for the lease of industrial purpose premises came from already functioning companies, while the search motive of 48% of the total number of requests was the expansion of the company. The companies expected to be located on an area of up to 2 thousand sq m in the overwhelming number of requests. The leader in terms of the number of requests was the southern direction.

Demand for industrial purpose premises depending on the direction, 2016



Source: Knight Frank St. Petersburg Research, 2017

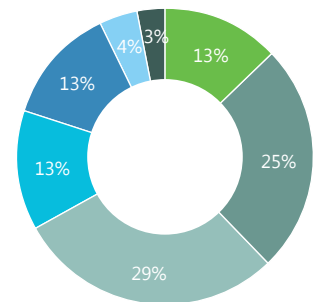
Breakdown of the total area of major transactions by companies' profile, 2016



- Logistics
- Retail
- Manufacturing
- Distribution
- Others

Source: Knight Frank St. Petersburg Research, 2017

Requests for industrial purpose premises depending on the area, 2016



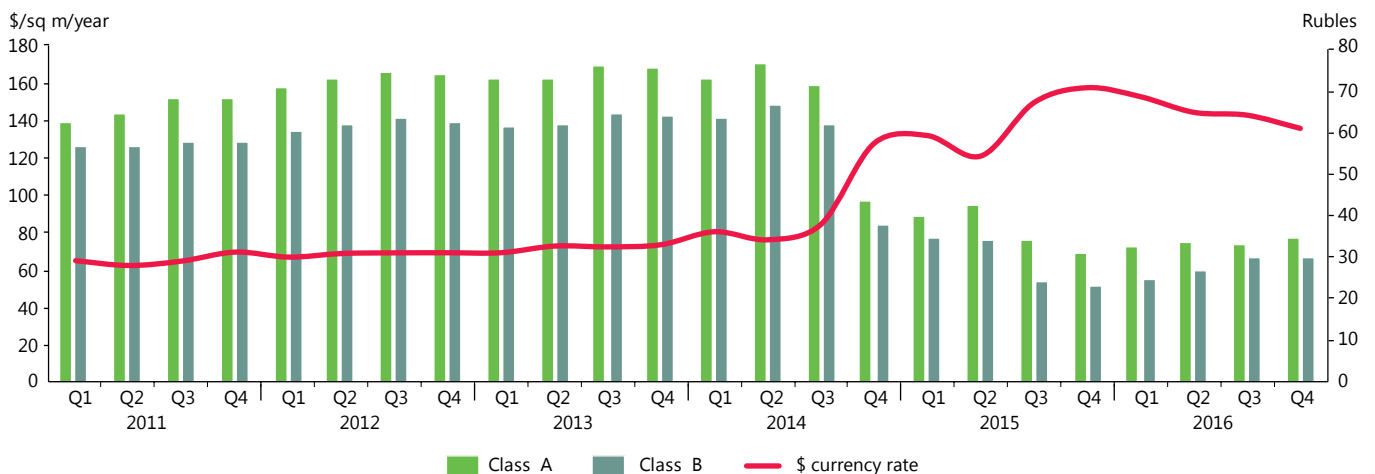
- Up to 500 sq m
- 500–700 sq m
- 700–1,000 sq m
- 1,000–1,500 sq m
- 1,500–2,000 sq m
- 2,500–3,500 sq m
- From 3,500 sq m

Source: Knight Frank St. Petersburg Research, 2017

Commercial terms

The asking rental rates in rubles in quality warehouse complexes stopped their decline. This drop was constrained until then by the profitability index of the facilities. The average asking rental rates in dollar terms got a boost due to

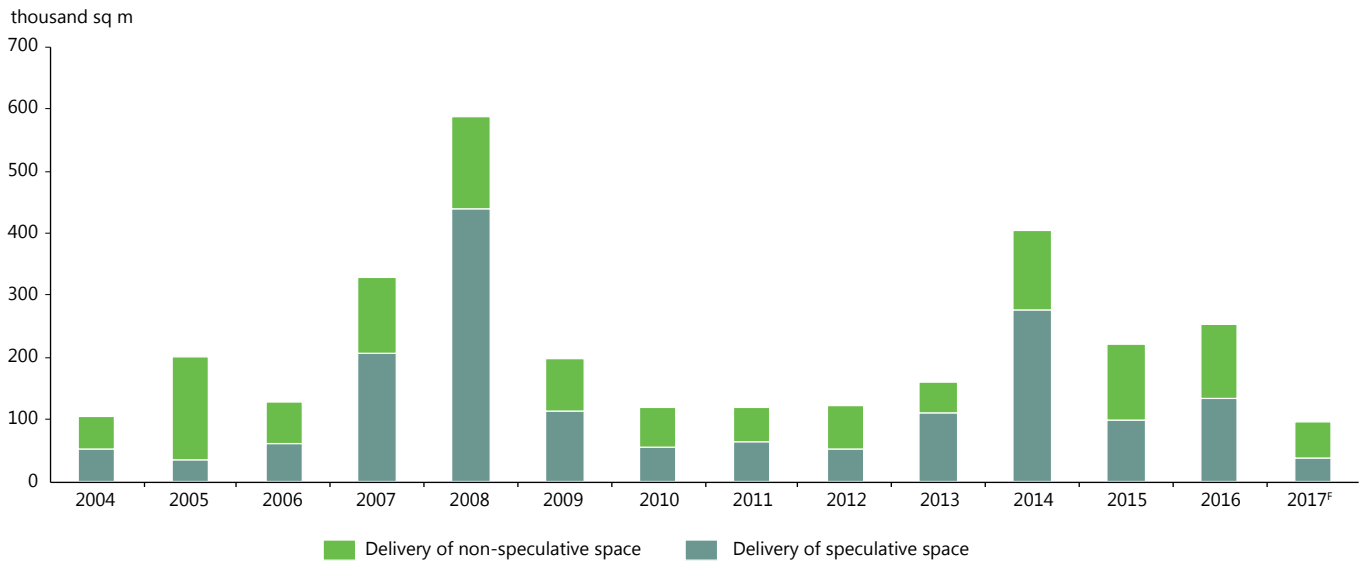
Asking rental rates dynamics*



* including OPEX, net of VAT (18%)

Source: Knight Frank St. Petersburg Research, 2017

Delivery dynamics of quality warehouses



Source: Knight Frank St. Petersburg Research, 2017

the depreciation of the dollar against the ruble – by 10% in Class A and by 28% in Class B if compared to the end of 2015. The average asking rental rate of 2016 was 76 \$/sq m/year in Class A and 65 \$/sq m/year in Class B, including OPEX, net of VAT.

Forecast

The delivery of about 100,000 sq m of quality warehouse space was announced by the end of 2017. But, no more than 40% will enter the lease market according to the plans of developers. The 5th and 6th buildings of Octavian Complex with an area of more than 29 thousand sq m is one of the key projects worth noting. This Class A facility is located in Vsevolozhsky district, warehouses are intended for speculative lease.

The built-to-suit scheme remains the main vector of warehouse market development as before, but the popularity of other formats of the relationship between the developer and the tenant is also growing: they are property finance lease and rental purchase.

In 2017, the construction start of several large warehouse and industrial complexes is planned, which are currently under design stage. The facilities are mainly intended for the own needs of companies or implemented in accordance with built-to-suit scheme. In general, high construction

activity is expected throughout the year together with more significant delivery volume in 2018. The following major projects can be distinguished: the third phase of Magnit Logistics Centre on Moskovskoye Highway with an area of about 60 thousand sq m as well as the industrial complex of 10 thousand sq m in the territory of Mar'ino Industrial Park, where the premises will be intended for purchase and lease.

There is a shortage of industrial premises within the city at the moment, and the demand for them will rise in case of "industrial belt" redevelopment. In 2018, A Plus Development company plans the construction start of two more industrial parks. Other developers also have large-scale plans. Therefore, we can confidently talk about the stable development of the market and its high potential.

The enterprises of the defence sector, machine building, pharmaceutical industry and shipbuilding are being developed: their high growth rates are expected in the long term due to the planned increase of export volumes.

In general, there is a stable demand for quality warehouse properties in the market. We expect a gradual increase of the asking rental rates in rubles during H2 2017 due to the low delivery of new warehouse complexes intended for the open lease market during 2016 and the low planned delivery in 2017.

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