



Q3 2011 WAREHOUSE REAL ESTATE MARKET

Saint Petersburg

Knight Frank

EXECUTIVE SUMMARY

- Positive trends presented in the warehouse real estate market of Saint Petersburg in H1 2011 were also noticed in Q3 2011. Thus, rental rates continued to grow after a certain pause, and the vacancy rate dropped down to the pre-crisis level.
- This current favorable market situation made developers start active construction of new projects.

WAREHOUSE REAL ESTATE
MARKET

Indicator	Class A	Class B	change as compared to Q2 2011
Total stock of high-quality warehouse premises, thousand sq m	1,823		→
including, thousand sq m	1,085	738	→
Total stock of high-quality warehouse premises offered for lease, thousand sq m	1,023		→
including, thousand sq m	734	289	→
Commissioned in Q1-Q3 2011, thousand sq m	0	3.6	→
Vacancy rate, %	4.5	2	↓
Rental rates (triple net), \$/sq m/year	100-118	105-110	↑
Operating expenses, \$/sq m/year	35-45	25-35	→

Source: Knight Frank Research, 2011



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The warehouse real estate market of Saint Petersburg has been demonstrating the sharp growth of demand since the beginning of the year. The main reason for this is pent-up demand which continues to turn into actual deals as almost two years the warehouse real estate market spent in stagnation. Leased area expansion deals make the most part of new absorption, and this proves the fact that tenants' business growth is stable.

Trends

- In Q1-Q3 2011 no new speculative warehouse projects entered the market.
- The market vacancy rates for both class A and B continue to decline.
- Rental rates continued to grow after a slight stabilization of Q2.

Key Events

- Advance company announced the plans of its first own project's construction – it will be a warehouse complex with total area of 33 thousand sq m built within the next 3-5 years. The land plot area, meant for the project's construction and located in the Torfyanovo-Prigorodnoe industrial zone (Gatchinsky district, the Leningrad region), equals 10 ha. The project includes construction of 15 thousand sq m meant for own production and storage needs, and the remaining areas are to be let on lease.
- In July, 2011 Fiat Group declared that the company considered a possibility of plant construction in Saint Petersburg. While researching the market the company took an interest in the project of Yuzhny satellite town (project's developer – Satellite Development) as it is planned to create nearby Doni-Verevo industrial park. Fiat Group plans to finally choose the plant's location till the year-end.
- In Q3 2011 Renaissance Construction company, which announced its plans of construction

an industrial park in the Leningrad region at 2010 year-end, chose the land plot of 150 ha located at Kievskoe Hwy to develop the project there. The company plans to fill the park with resident companies within 3-4 years.

- In September, 2011 Karat Group company, a leading distributor of motor oils in North-western Federal District, leased 6.5 thousand sq m in Norway warehouse complex for 5 years (the complex is now under construction and located in Shushary-2 industrial zone). The key decision-making driver for choosing a potential warehouse complex for lease was the possibility of future expansion, which is impossible to do in the most warehouse projects in operation. Knight Frank Saint Petersburg acted as a broker of the deal.

Supply

Just like in H1 2011, in Q3 no new speculative warehouse projects entered the market either. High demand and lack of new supply led market to face the shortage of high-quality warehouse premises available for lease in Q3 2011. As for Q3 end just about 40 thousand sq m are available for lease in the market.

Developers responding to the current favorable market situation started active development of both new projects and those suspended during the crisis period. However, the number of projects under construction and their total areas are still insignificant, and the soonest commissioning will take place no earlier 2012.

Demand

In Q3 2011, market demand continued to grow; the market has been showing this trend during the whole current year. In Q3 the market absorption equaled 52 thousand sq m, and the total absorption for 9 months amounted to 175 thousand sq m, and this is same to the total annual amount of 2010.

In Q3 the number of major deals (leased areas exceed 10 thousand sq m) closed was insignificant due to the lack of vacant speculative premises of large areas (15-20 thousand sq m) located in the same warehouse complex.

The vacancy rate continued to decline: the market average indicator nearly achieved the pre-crisis level. In Q3 2011 it halved and equaled 3.9%. Over Q3 in class A market segment the vacancy rate dropped by 6 pp down to 4.5%, in class B the same index declined by 0.7 pp down to 2%.

For the first time since the end of the crisis the market practice of leasing premises in complexes under construction returned. There are two main reasons for this. First, tenants often can not find appropriate premises due to shortage of vacant space. Second, a wish for securing themselves drives them to make such deals as the market can not immediately respond to the current deficiency with new ready-to-use supply, so rental rates are probably to grow further.

Commercial Terms

After a slight stable period of Q2 rental rates went on increasing and this was caused by high demand activity accompanied by the lack of new market supply. As result, since the 2010 year-end class A average rental rate have grown by 14%, class B – by 20%.

Thus, the rental rate range for class A equaled 100-108 \$/sq m/year (triple net). The supply of class B warehouse complexes remains unchanged, most of the projects are located within the city borders and there is almost no vacant space, so in this market segment we see quite high rental rates nearly similar to class A: 105-110 \$/sq m/year (triple net).

Forecast

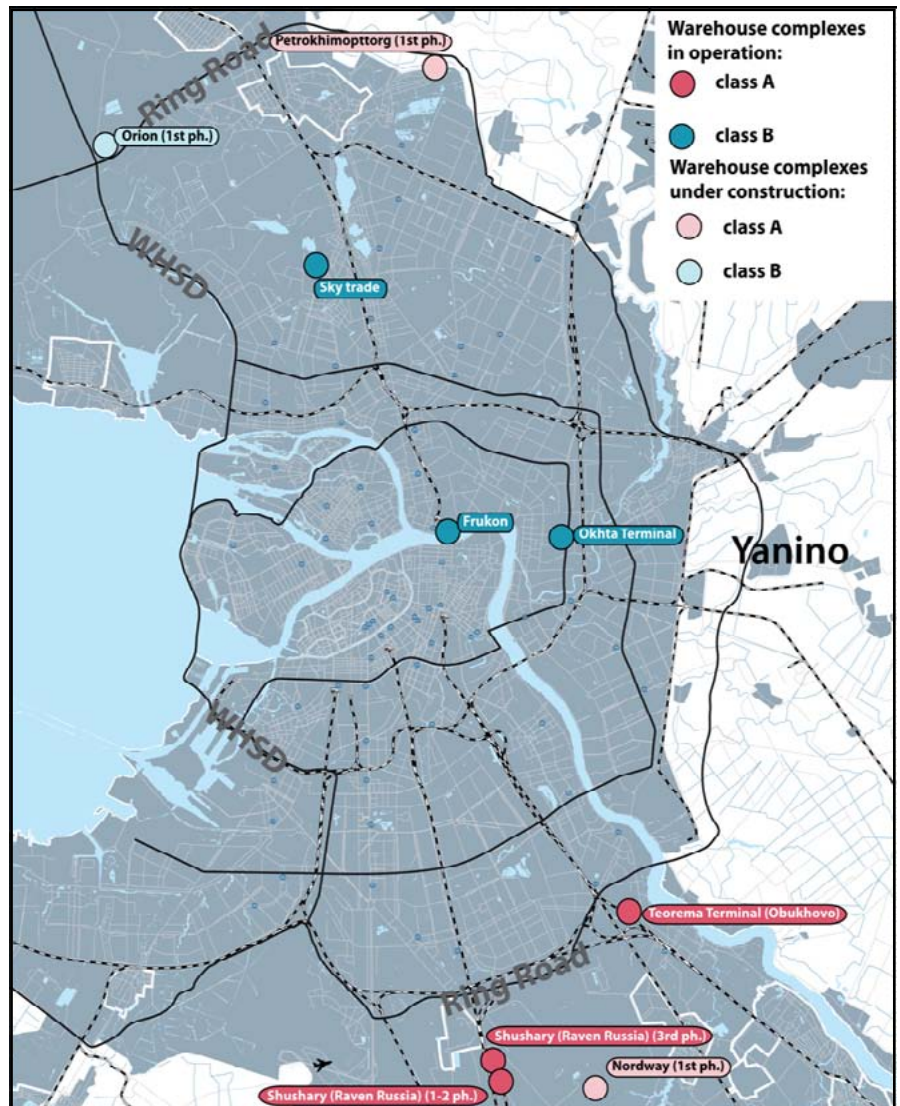
Now the market faces the deficiency of high-quality warehouse space available for lease. Though developers have already started active construction of new projects, we do not expect newly build speculative projects to enter the market by the year-end. Thus, if demand remains at the current level, absorption of speculative areas will continue rising and exceed by 10% the level of the previous year; in the end this will lead the vacancy rate to drop down to the level of 2004-2005 (about 2%).

If such market situation remains, rental rates will continue growing, and by the year-end the increase may probably equal close on 5%.



Gorigo class A warehouse complex, Gorelovo industrial zone

Speculative warehouse complexes of Saint Petersburg offering available for rent premises



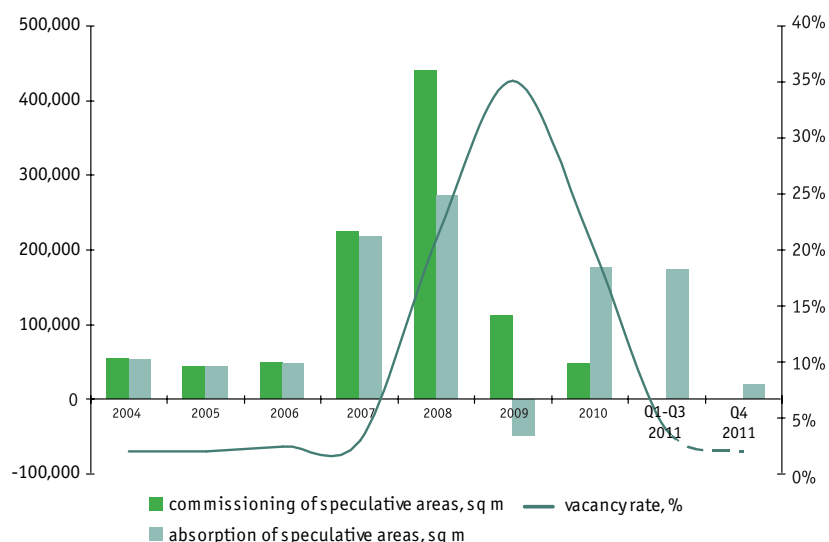
Source: Knight Frank Research, 2011

Q3 2011

WAREHOUSE REAL ESTATE MARKET

Saint Petersburg

For Q1-Q3 2011 the absorption achieved the annual level of 2010



Source: Knight Frank Research, 2011

Meanwhile, pre-leasing deals with premises in warehouse complexes under construction will probably make up the most part of absorption as now tenants have a narrow range of choice

and are interested in leasing premises on more beneficial terms than offer already commissioned complexes.



Key projects planned for commissioning in Q1 2012

Name	Location	Class	Warehouse area, sq m	Developer / Project party
Nordway (1st ph.)	Shushary-2 industrial zone, 5 km from the Ring Road	A	40,000	Hanner AB
Petrokhimoptorg (1st ph.)	Vyborgskoe Hwy / the Ring Road, Pargolovo	A	52,000	Invest-Bugry, Petrokhimoptorg
Orion (1st ph.)	Kamenka industrial zone, Gorskoe Hwy	B	10,000	Orion

Source: Knight Frank Research, 2011





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