



Q3 2014 OFFICE MARKET Saint Petersburg

EXECUTIVE SUMMARY

- The quality office property market shows stability.
- In Q3 2014, the offering of quality office property increased by 1%. According to official data, 17,000 sq m of quality office property has been commissioned.
- A 1.3 p.p. decrease of the vacancy rate was observed in A class business centers. The vacancy rate at the end of the quarter was 17%.
- Vacancy rate for B class business centers did not change and stood at 8%.
- Within first three quarters of 2014, total acquisition amounted to 116,000 sq m, which was comparable with the aggregate amount for the first three quarters of 2013.
- Average rental rates in rubles did not change. There was a slight downward correction within the past quarter by 5% in the A class office center segment. There were no changes in the average indicator for the B class business center segment.

OFFICE MARKET



Marina Puzanova,
Head of office
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"The third quarter with its traditionally long period of vacations was stable for the office market. Against minor official commissioning of new spaces, the rental rates experienced almost no change, and the projects commissioned in the previous periods managed to improve their occupancy rate.

Economic and political factors influenced the behavior of tenants – when developing long-term strategies, they are not ready to assume financial obligations for the period exceeding three years, but suggest that the owners review their rental terms with respect to the market situation.

Positive trends included a continued practice of moving to newer, quality projects from older buildings. However, most of these moves are performed with rental budgets remaining unchanged, through optimization of occupied areas, or due to favorable terms offered by lessors in new locations.

Increase in the currency rate against the ruble further reduced the number of contracts settled in foreign currency. And even if such contracts appear, they provide a "corridor" - the upper and lower limit of the exchange rate applied in payments.

The most popular facilities are still turnkey solutions, where the tenants make no initial investments in finishing and further equipping of premises, and lessors offer these solutions more frequently, while also providing free services. They help clients draw up terms of reference, take care of planning at their own expense, and then carry out construction and installation operations."

Key indicators. Dynamics	Class A	Class B
Total amount of quality area, thousand sq m	2,141.9	
including, thousand sq m	728.9	1413
Changes after the end of H1 2014, %	+ 1 ▲	+ 1 ▲
Commissioned in Q3 2014, thousand sq m	17	
including, thousand sq m	5.4	11.6
Vacancy rate at the end of Q3 2014, %	17	8
Changes after the end of H1 2014, %	-1,3 ▼	-0.1
Requested rental rates in business centers in operation*, \$/sq m/year	265-800	174-590
Changes in average rental rates in business centers in operation starting from H1 2014, %	-14,1 ▼	-9,7 ▼
Requested rental rates in business centers under construction*, \$/sq m/year	402-685	232-368

* VAT excluded (18%), operating expenses included, 1USD = 37.95 RUR.
Source: Knight Frank St. Petersburg Research, 2014



Key events

- Trubetskoy A class Business Center located in the Central District of St. Petersburg was sold. The purchaser of the Business Center was MC Flagman, the vendor was FORTGROUP.
- Another transaction was closed for the rental of a business center by development company GHP Group. Trinity Place Business Center was fully occupied before official commissioning.
- Senator A class Business Center at Bolshaya Pushkarskaya St was officially commissioned, project developer being Imperia Holding.

Business centers commissioned in Q3 2014

Project Name	Address	District	Class	Total office area, thousand sq m	Rentable area of office premises, thousand sq m
Senator	22-A Bolshaya Pushkarskaya St	Petrogradsky	A	8.6	5.4
Administrative office building	59-V Stachek Ave1	Kirovsky	B	8	6
No name	Plot 19, 17th Line, V.O.	Vasileostrovsky	B	7.5	5.6

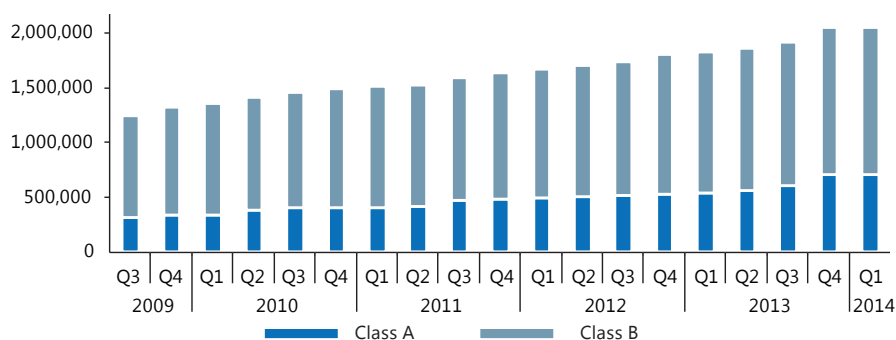
Source: Knight Frank St. Petersburg Research, 2014

Supply

In Q3 2014, according to official data, 17,000 sq m of quality office property has been commissioned. In Q3 2014, the amount of quality office property on offer increased by 1%. Total rented area of quality office centers amounted to 2,141,900 sq m at the end of Q3 2014.

More than a half of office centers in St. Petersburg are concentrated in the center and adjacent districts: Moskovsky Avenue, Embankments with Views, Petrogradsky, and Central-2.

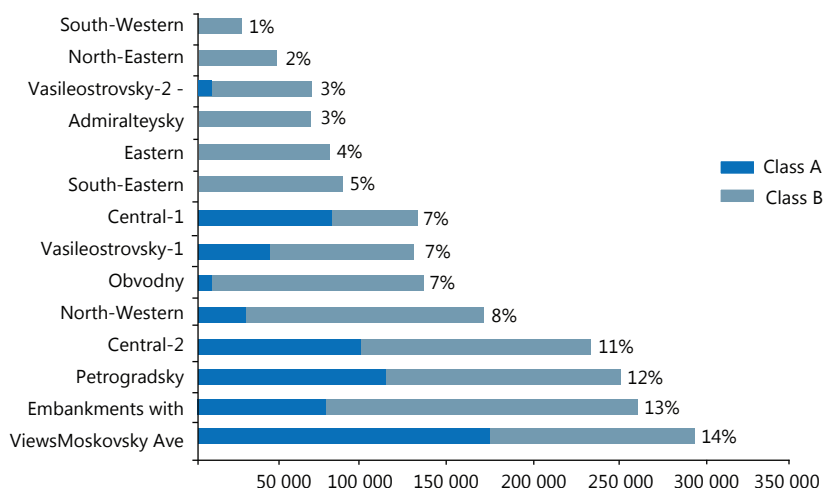
Dynamics of total rented area in quality (A and B class) business centers of St. Petersburg, Q3 2009 – Q3 2014



Source: Knight Frank St. Petersburg Research, 2014



Distribution of total rentable area among business districts of St. Petersburg broken down by class of business centers, Q3 2014



Source: Knight Frank St. Petersburg Research, 2014

Q3 2014 OFFICE MARKET

Saint Petersburg

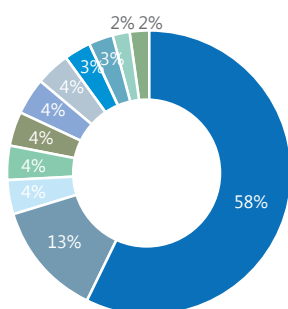
Demand

In Q3 2014, there was minor decrease in the vacancy rate for A class business centers due to a number of large-scale transactions, in addition to a slight increase in new office spaces. The vacancy rate was 17% at the end of Q3. The decrease amounted to 1.3 p.p. compared to the first half of the year.

Vacancy rate in the B class office center segment was stable; there was insignificant increase by only 0.1 p.p. The share of vacant areas stood at 8%.

Within first three quarters, the market acquired 116,000 sq m, which was comparable with the indicator for the first three quarters of 2013 – 128,000 sq m. The total area of all rented spaces in A and B class business centers amounted to 123,000 sq m. It should be noted that more than a half of rented areas (57%) were occupied by oil and gas companies

Distribution of rented areas in quality business centers broken down by the tenant's profile



Source: Knight Frank St. Petersburg Research, 2014

Commercial terms

The average weighted rental rate for A class business centers in operation at the end of Q3 2014 amounted to 422 \$/sq m/year (including operating expenses and excluding VAT); for B class it was 309 \$/sq m/year (including operating expenses and excluding VAT).

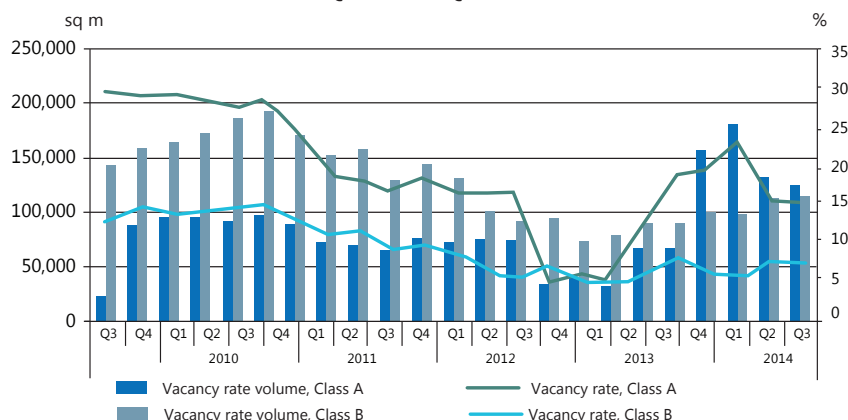
Since the office premises rental market is denominated mostly by national currency, and the third quarter showed drastic depreciation of the ruble, this resulted in a decrease of rental rates expressed in dollars. Average rate in A class reduced by 14%, in B class – by 10%. It is noteworthy that this factor does not reflect market changes with respect to commercial terms of rental rates.

Forecast

We expect that about 120,000 sq m of quality office premises will be commissioned by the end of 2014. No substantial rise in rental rates at new modern business centers may be forecast against such a strong commissioning rate of quality office property.

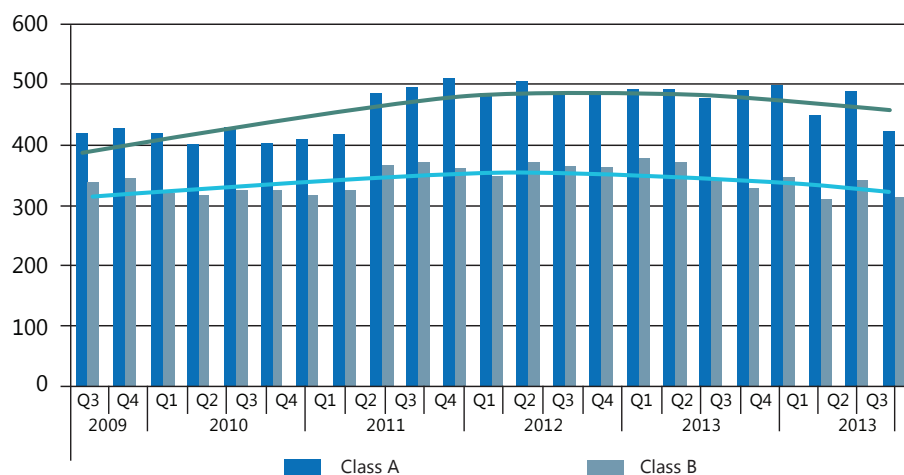
The forecast amount of acquisition in combination with expected commissioning of new office centers will result in an increase in the share of vacant spaces in the market in general by 2–3 p.p.

Dynamics of the amount of vacant space and the share of vacant spaces in A and B class business centers, Q3 2010 – Q2 2014



Source: Knight Frank St. Petersburg Research, 2014

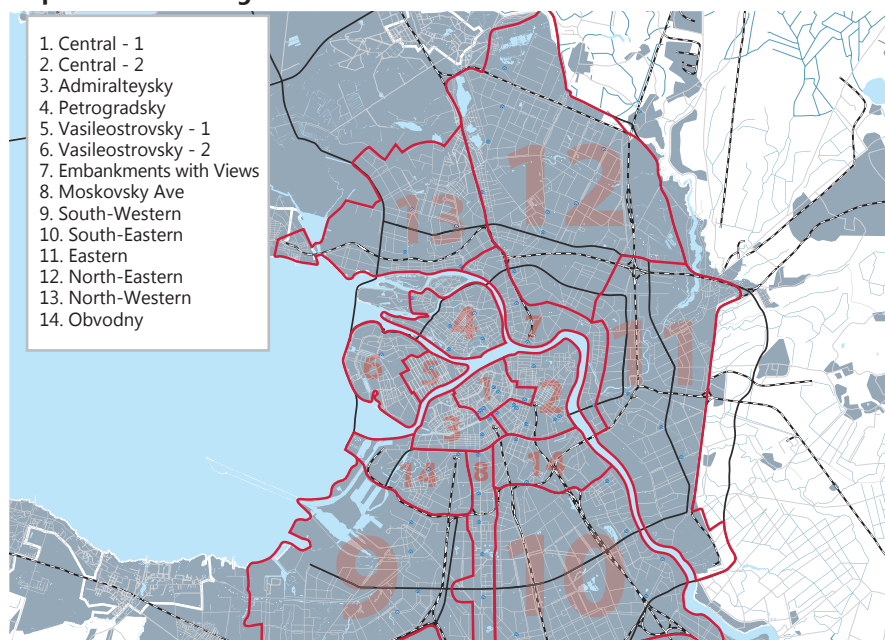
Dynamics of rental rate changes for A and B class office premises in Q3 2009 – Q3 2014, \$/sq m/year (VAT excluded, operating expenses included)



Source: Knight Frank St. Petersburg Research, 2014

Business district	Vacancy
Moskovsky Ave	26%
Central - 2	20%
Embankments with Views	14%
Petrogradsky	6%
Admiralteysky	6%
Central - 1	5%
Obvodny	4%
North-Western	4%
Eastern	3%
South-Western	3%
South-Eastern	3%
Vasileostrovsky - 1	3%
Vasileostrovsky - 2	1%
North-Eastern	1%
Source: Knight Frank St. Petersburg Research, 2014	

Map of St. Petersburg business districts



Source: Knight Frank St. Petersburg Research, 2014

Key business centers expected to be commissioned by the end of 2015 (over 5,000 sq m)

Project Name	Address	Class	Declared year of commissioning	Rentable area of office premises, sq m
Trinity Place	22 Admirala Lazareva Emb	A	2014	27 000
Flandria	Plot 1, Tashkentskaya St	A	2014	24 407
ExpoForum Convention and Exhibition Center	Shushary, Peterburgskoye Hwy	A	2014	20 000
No name	Plot 1, Varshavskaya St	A	2015	21 700
Zeppelin	6 Startovaya St	A	2015	12 265
Senator	60/129 - A, B Moskovsky Ave	A	2014	9 500
Passage/Italyanskaya 17	17-A Italyanskaya St	A	2014	7 000
Senator Kropotkina	1 Kropotkina St	A	2014	6 700
Gardner Center	28 Bolshoy Sampsonievsky Ave	A	2015	21 200
Golden Tulip Hospitality Group	5-3 Kievskaya St	B	2015	17 000
Victoria Plaza	2-A Pobedy Sq	B	2014	15 000
Luch	7 Metallistov Ave	B	2014	13 300
Marx	29 Izmaylovsky Ave	B	2014	11 400
Lakhta	4-K Optikov St	B	2014	10 300
Melnik	10-K Melnichnaya St	B	2015	10 000
No name	8-1-A Sofiyskaya St	B	2015	9 825
SOVA	22 Marshala Tukhachevskogo St	B	2015	9 000
No name	Plot 1, Kushelevskaya Rd	B	2015	8 880
Formida	Plot 1, Utkin Ave	B	2014	7 940
H2O	28 Khimikov St	B	2014	6 850
Na Tsarskoselskikh Kholmakh	Shushary Village, Pulkovskoye Hwy	B	2014	6 125
Source: Knight Frank St. Petersburg				

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Malawi
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