

An architectural rendering of two modern, multi-story office buildings with a brick-like facade and numerous windows. The buildings are set against a cloudy sky. In the foreground, there are green trees and a paved area with some people walking.

Q1 2014 OFFICE REAL ESTATE MARKET Saint Petersburg

HIGHLIGHTS

- No growth of high-quality office space has taken place in Q1 2014.
- Compared with Q1 2013, the take-up of high-quality office space in Q1 2014 has grown by 26%, amounting to 23.8 thousand sq m by the end of the quarter.
- Compared with Q4 2013, the vacancy rate in Class A office centers has changed only slightly, with the index having grown by 0.2 percentage points. However, compared to the same period of the previous year, this figure grew by 16.1 percentage points due to the significant inflow of new supply in the last two quarters of 2013.
- Compared with the end of 2013, a slight drop in vacancy rates by 1.1 percentage points has been noted with Class B office centers. In all, the vacancy rate has grown by 0.3 percentage points compared with Q1 2013.
- A drop in average lease rates in dollar terms is recorded for A and B Classes due to the volatility of the exchange rate. Compared with the previous quarter, the decline amounted to 11% for both classes. In ruble terms, however, the lease rates remain stable.

OFFICE REAL ESTATE MARKET



Marina Puzanova,
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"The office real estate market has not been very active in Q1. Leasing campaigns in the newly delivered business centers and projects close to delivery continued. The weakening of the ruble has affected tenants' preferences: they now started favoring the projects with rates denominated in rubles. Business centers with foreign currency rates had to lower them and / or implement a "corridor". The new major projects offer tenants high-quality facilities, most of which will be finished according to the requirements of the tenant. This new trend allows tenants to change their office space into a more comfortable one without significant one-time investment".

Key indicators. Dynamics

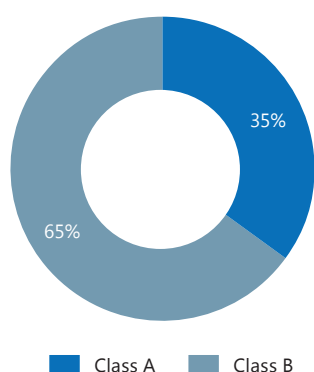
Indicators	Class A	Class B
Total high-quality stock, thousand sq m	2,052.8	
including, thousand sq m	711.7	1,341.1
Changes since 2013, %	0	0
Delivered in Q1 2014, thousand sq m	0	
Vacancy rates by the end of Q1 2014, %	22.3	6.3
Changes since 2013, p. p.	+ 0.2 ▲	-1.1 ▼
Asking lease rates in operating business centers*, \$/sq m/year	267–870	185–780
Lease rates changes in the operating business centers since 2013, %	-11 ▼	-11 ▼
Asking lease rates in business centers under construction*, \$/sq m/year	394–675	197–380
* excluding VAT (18%), including operational expenses, 1 USD = 36.12 RUB Source: Knight Frank St. Petersburg Research, 2014		

Key events

- The official opening of two buildings in the business-administrative district Nevskaya Ratusha with the total leasable area of 40.5 thousand sq m took place in March. Both buildings are Class A office facilities.
- The Baltic Monolith Companies Group has started construction of a multifunctional complex Docklands. This object will include Class B office centers, which are planned for delivery by the end of 2016.

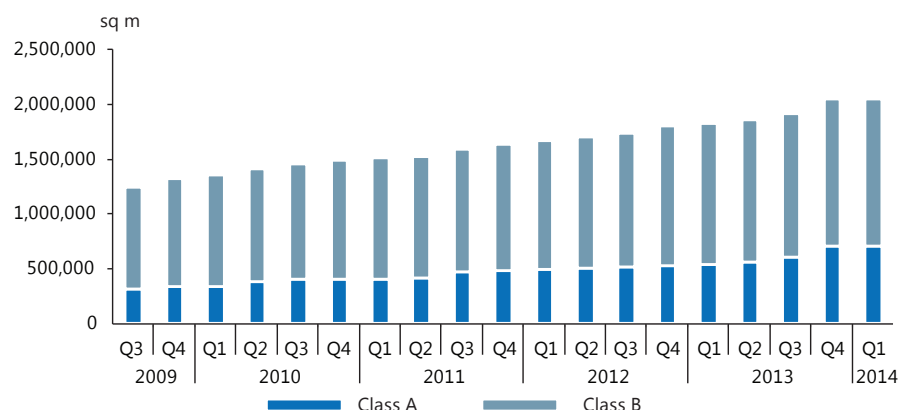


Class A and B office centers shares in the total supply stock of Q1 2014



Source: Knight Frank St. Petersburg Research, 2014

High-quality office space stock dynamics, Q3 2009 – Q1 2014



Source: Knight Frank St. Petersburg Research, 2014

Supply

No high-quality office centers were delivered in Q1 2014. The total leased space in high-quality office centers amounted to 2052.8 thousand sq m by the end of Q1 2014.

The main share of supply stock is represented by Class B business centers: they account for 65% of all supply in St. Petersburg

Demand

The total vacancy rate has decreased by 5% in the past quarter. At the end of Q1, over 240 thousand sq m of high-quality office space in operating facilities are vacant on this market. The highest vacancy rate of 30% is noted in the business district Central-2. Such a high vacancy rate results from the fact that major properties that were delivered last year have not yet been filled with tenants.

Overall, having grown by 0.2 percentage points, the vacancy rate in Class A office centers market segment has remained virtually unchanged compared with the previous quarter. By the end of Q1 2014, the figure was 22.3%. Over 12 months, its value has grown by 16.1 percentage points. Such a significant growth resulted from the situation where high-end price segment properties were delivered, and those are filled with tenants at a slower pace.

Having started last year, the market trend of liquid Class B office center supply "washout" continues. For the quarter, vacancy rate has shrunk by 1.1 percentage points. Compared with Q1 2013, the rate remained almost unchanged, having adjusted by 0.3 percentage points upward.

Major business centers expected for delivery by the end of 2014

Name	Address	Class	Leasable office space, thousand sq m
Trinity Place	22 Admirala Lazareva Emb.	A	27.0
Flandria	Tashkentskaya St., Plot 1	A	24.4
Congress-exhibit center ExpoForum	Shushary, Peterburgskoe Hwy	A	20.0
Electro	156 Moskovskiy Ave	A	15.7
Eightedges	45A Malookhtinskiy Ave	A	13.2
Senator	60/129 A, B Moskovskiy Ave	A	9.5
Passage/Italyanskaya, 17	17A Italyanskaya St.	A	7.0
Senator	1 Kropotkina St.	A	6.7
Senator	22A Bolshaya Pushkarskaya St.	A	5.4
ECO Status	140 Ligovskiy Ave	A	3.4
Victoria Plaza	2A Pobedy Sq.	B	15.0
Pulkovo Star	2A Pulkovskoe Hwy	B	12.4
Formida	Utkin Ave, Plot 1	B	7.9
H ² O	28 Khimikov St.	B	6.8
N/A	94A Moskovskiy Ave	B	5.6

Source: Knight Frank St. Petersburg Research, 2014

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Saint Petersburg



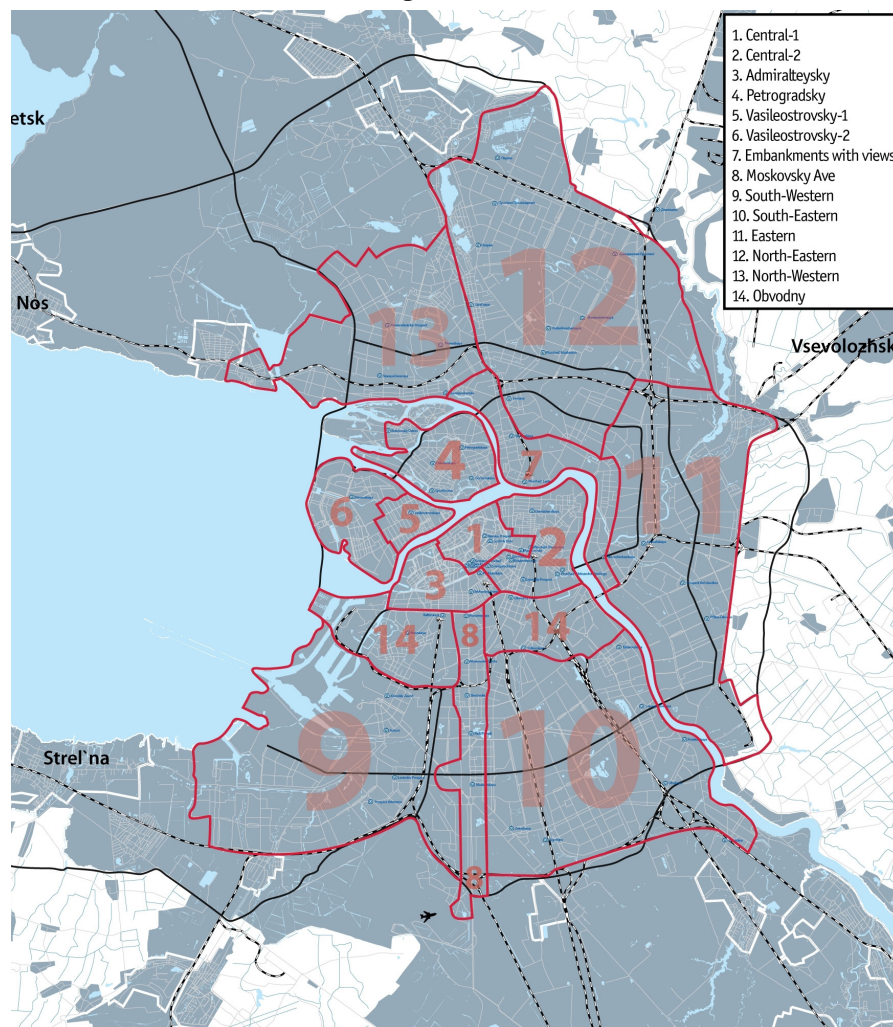
The market take-up in Q1 2014 has amounted to more than 23.8 thousand sq m of office space. Most of this space was taken up in the peripheral business district Western, accounting for more than 60% of the total leased space.

Market participants have noted a new trend: in order to expedite the take-up of their properties, the proprietors of new office centers are frequently offering their prospective tenants to carry out office rooms finish for them.

Commercial terms

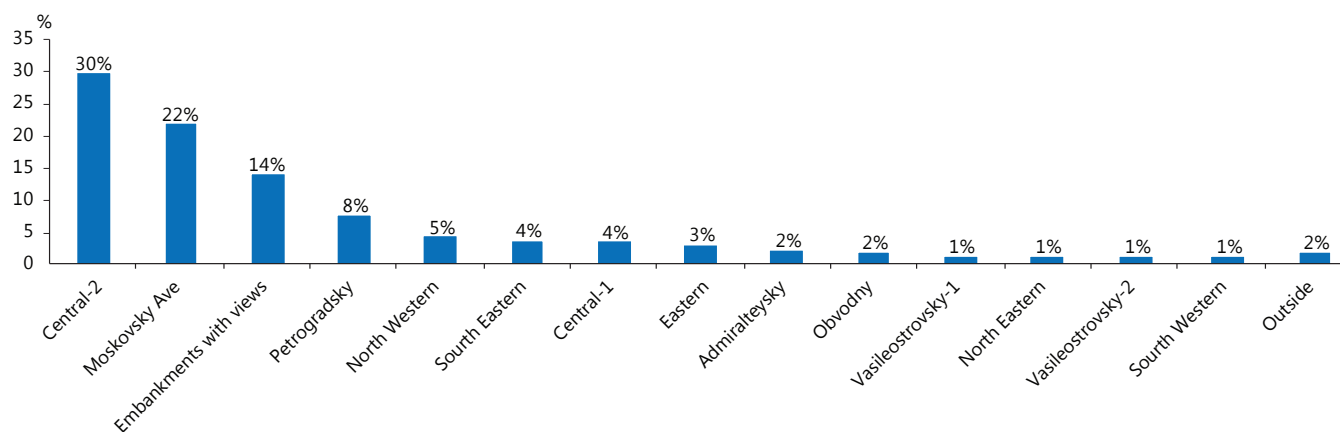
The average asking lease rate in operating Class A business centers at the end of Q1 2014 amounted to 446 \$/sq m/year

Business districts of Saint Petersburg



Source: Knight Frank St. Petersburg Research, 2014

Vacancy rate shares distribution in operating business centers according to the business districts of Saint Petersburg, Q1 2014



Source: Knight Frank St. Petersburg Research, 2014



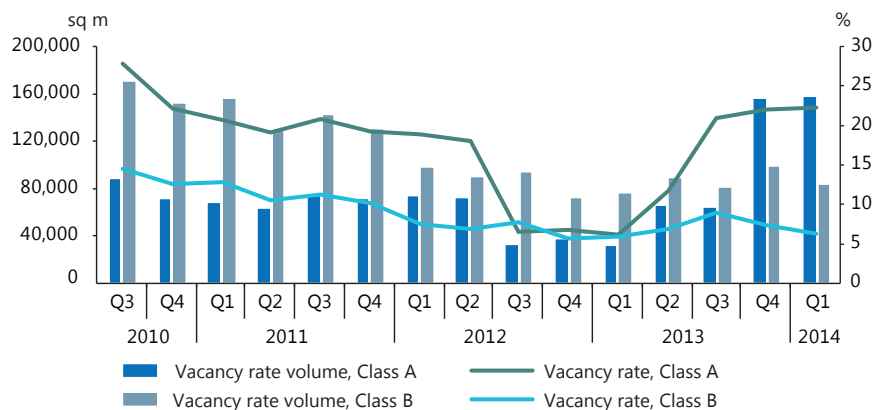
(including operating expenses, excluding VAT), and in Class B – 307 \$/sq m/year (including operating expenses, excluding VAT).

Due to the growth of the currency exchange value, the conversion of average lease rates listed in dollar terms has resulted in a drop of weighted average lease rates by 11% in both Class A and Class B office centers segments.

Forecast

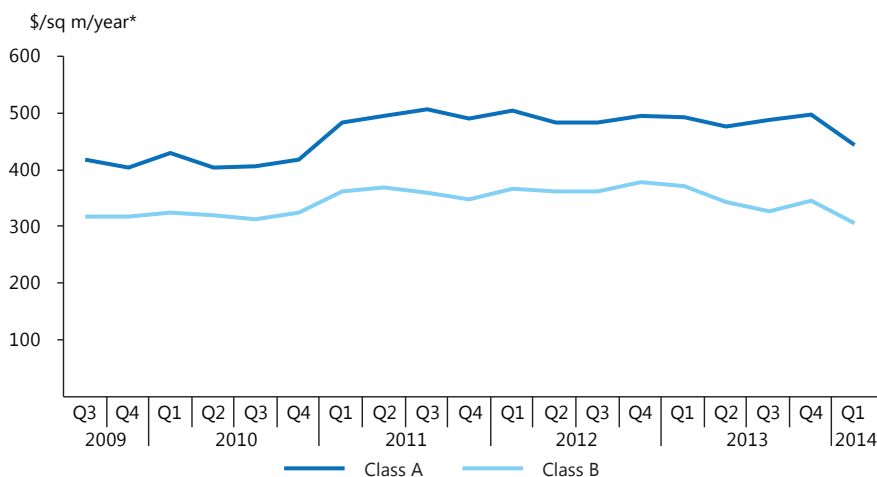
More than 214 thousand sq m of high-quality office space is expected for delivery by the end of 2014. It is worth noting that Class A office centers will constitute the major part of the new supply stock of 66%.

Vacancy rates and vacancy shares dynamics in Class A and B business centers, Q3 2010 – Q1 2014



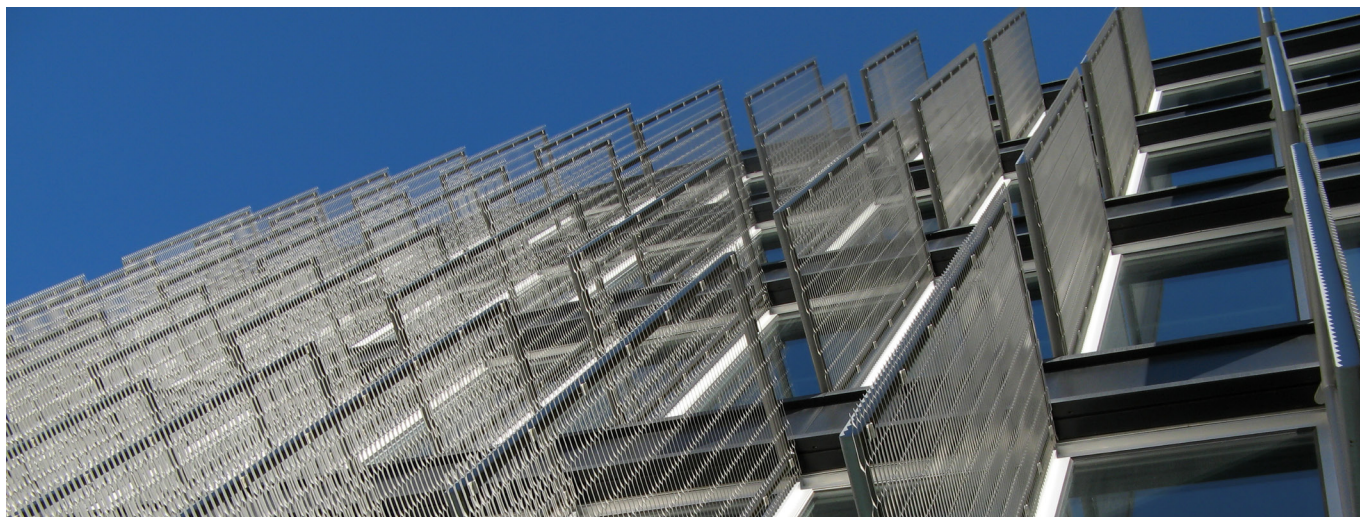
Source: Knight Frank St. Petersburg Research, 2014

Lease rates dynamics for Class A and B office facilities, Q3 2009 – Q1 2014



* excluding VAT (18%), including operational expenses

Source: Knight Frank St. Petersburg Research, 2014



Europe

Austria
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Ireland
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Poland
Portugal
Romania
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Spain
Switzerland
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Ukraine

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Kenya
Malawi
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Uganda
Zimbabwe
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