H1 2019
OFFICE MARKET REPORT
Saint Petersburg

HIGHLIGHTS

As at the end of H1 2019, total leasable area in high-quality business centres in St. Petersburg was more than 3.2 million sq m.

At the end of the reporting period, 137 thousand sq m of spaces remained vacant, and the average level of high-quality vacant spaces has dropped to 4.2%, a 0.5 p. p. decrease compared to the same period of the previous year.

Demand on the lease segment totalled about 43 thousand sq m of office spaces, with the IT and telecommunications sectors accounting for the greatest shares among tenants.

Net take-up was 1.8 times the amount of new commissioned spaces.

Mikhail Tyunin

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With the advent of new companies in St. Petersburg and rapid development of young IT companies, business activity is increasing and driving demand.

The lease market will probably expand by just about 30% of the total of 120 thousand sq m announced for commissioning in 2019. Therefore we expect the high-quality vacant supply to continue to decline, especially for Class A properties.

High demand for quality offices fuels developers' and owners' interest in renovation of their own facilities and revision of outdated concepts. This can ensure that properties will be leased out as early as during the construction stage. We expect this to be a major development thrust within a year or two.

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Key indicators. Dynamics*

	Класс A	Класс B
Total leasable area, thousand sq m	3,284	
including, thousand sq m	1,069	2,215
New delivery in H1 2019, thousand sq m	23.8	
including, thousand sq m	0	23.8
Total vacant stock, thousand sq m	137.4	
including, thousand sq m	35	102.4
Vacancy rate, %	3.3 ▼	4.6 ▼
Asking rental rates in operating business centres, rub./sq m/year, incl. OPEX, VAT (20%)	1,300–2,300	700–2,100
Average asset-by-asset change of the rent in rubles in operating business centres, %	0.4 ▼	0.9 ▲

* Comparison with Q4 2018 results
Source: Knight Frank St Petersburg Research, 2019

Supply

During the H1 2019 the area of commissioned office spaces (GLA) totalled 23.8 thousand sq m in four high-quality business centres. In addition, the lease market was expanded by the delivery of Imperia Holding's buildings in Bolshaya Morskaya Street numbers 20, 22, 24, 26 and 30, with a total area of 22.8 thousand sq m.

At the end of the H1, the supply shortage increased, with 137.4 thousand sq m of spaces remaining vacant at the end of the period, and the average level of vacant spaces was 4.2%, a 0.5 p. p. decrease compared to 2018.

Some of the new office properties commissioned in the H1 2019

Property	Address	Business district	Class	Leasable office area, thousand sq m
Nalichnaya 44	44/1 Nalichnaya St	Vasileostrovsky-2	B	15.5
Pifagor	12 Kahovskogo lane	Vasileostrovsky-2	B	3.6

Source: Knight Frank St Petersburg Research, 2019

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Dynamics of net take-up by classes
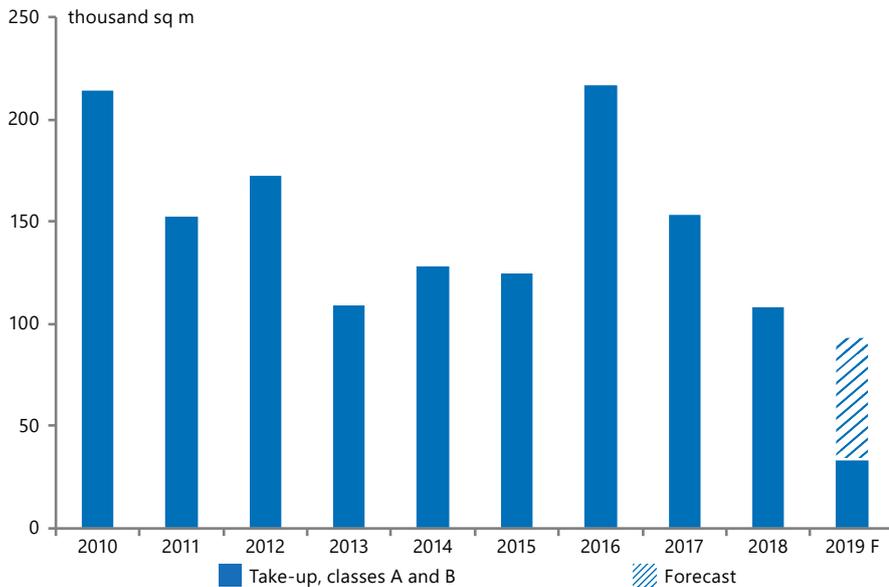
Source: Knight Frank St Petersburg Research, 2019

Key lease transactions involving spaces of more than 1 thousand sq m were as follows:

Tenant	Property	Leased office area, thousand sq m
Gazprom Neft Shelf	Nevsky 38	5,189
Tele2	Primium	4,181
Infobip	Senator, 2nd Sovetskaya St	1,836
Skaut	Lahta-2	1,030

Source: Knight Frank St Petersburg Research, 2019

Demand

The area of high-class office spaces leased in the H1 2019 was just above 49 thousand sq m, which is 17% less than in the same period of the previous year. The break-down of lease transactions by class was dominated by Class A properties (54%). The major share (59%) in the total amount of transactions was accounted for by tenants engaged in the IT and telecommunications sectors.

The net take-up was 33.9 thousand sq m which is 1.8 times the amount of new commissioned spaces. Due to the shortage of spaces and minimum delivery of offices to the lease market, this figure has been decreasing since 2018.

Commercial terms

At the end of the H1 2019, the average-weighted rental rates showed a moderate trend of change. For Class A properties, it has slightly changed (by 0.4%) to reach 1,951 rub./sq m/month, including VAT and operating expenses. For Class B properties, the average-weighted rental rate has reached 1,190 rub./sq m/month, including VAT and operating expenses, which is a 1% increase from the end of 2018.

The dynamics of vacancy rates have not changed significantly either, with a decrease of 0.1 p. p. in Class A and of 0.7 p. p. in Class B. The resultant vacancy rates were 3.3% and 4.6%, respectively.
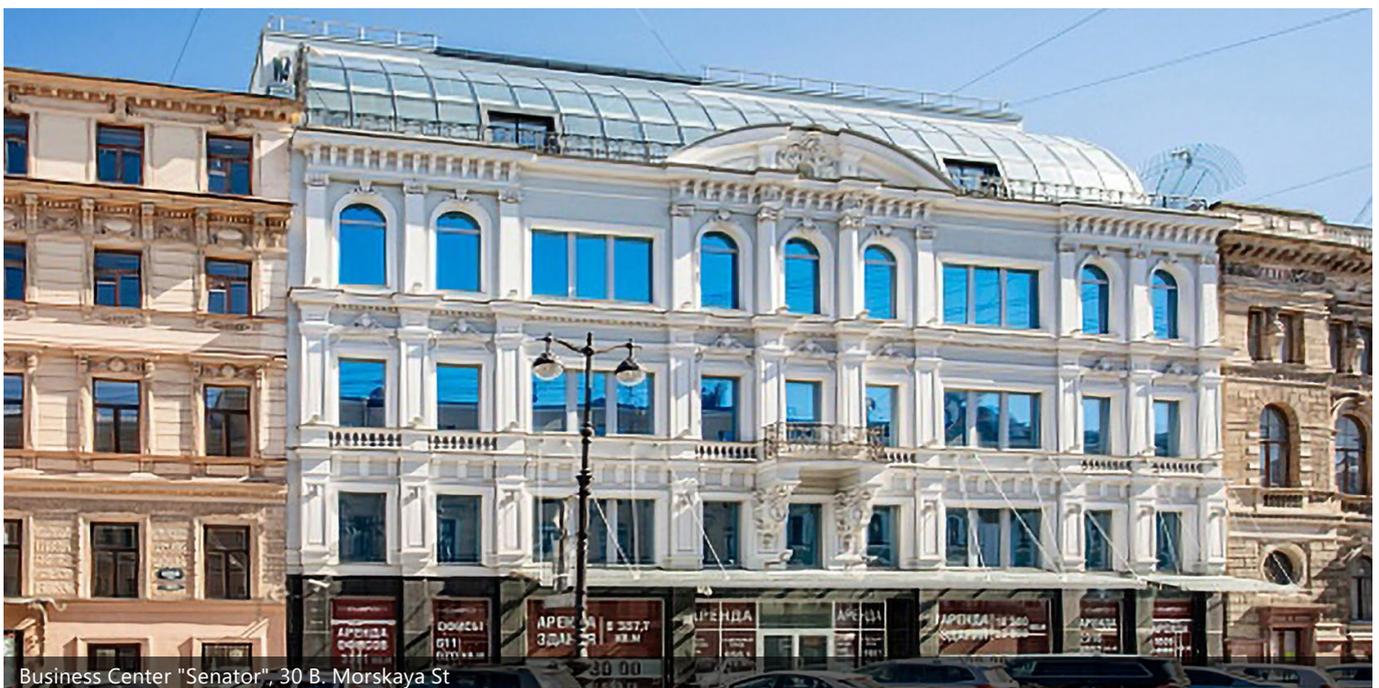

Business Center "Senator", 30 B. Morskaya St

Dynamics of rental and vacancy rates
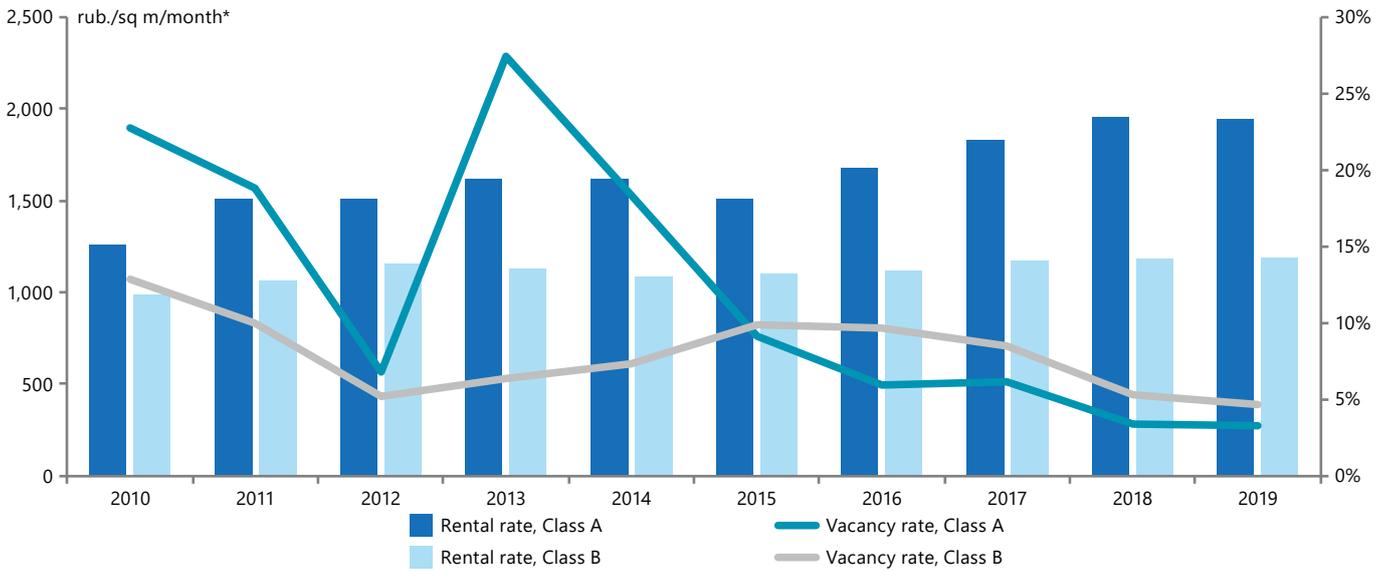
* Incl. OPEX, VAT
Source: Knight Frank St Petersburg Research, 2019
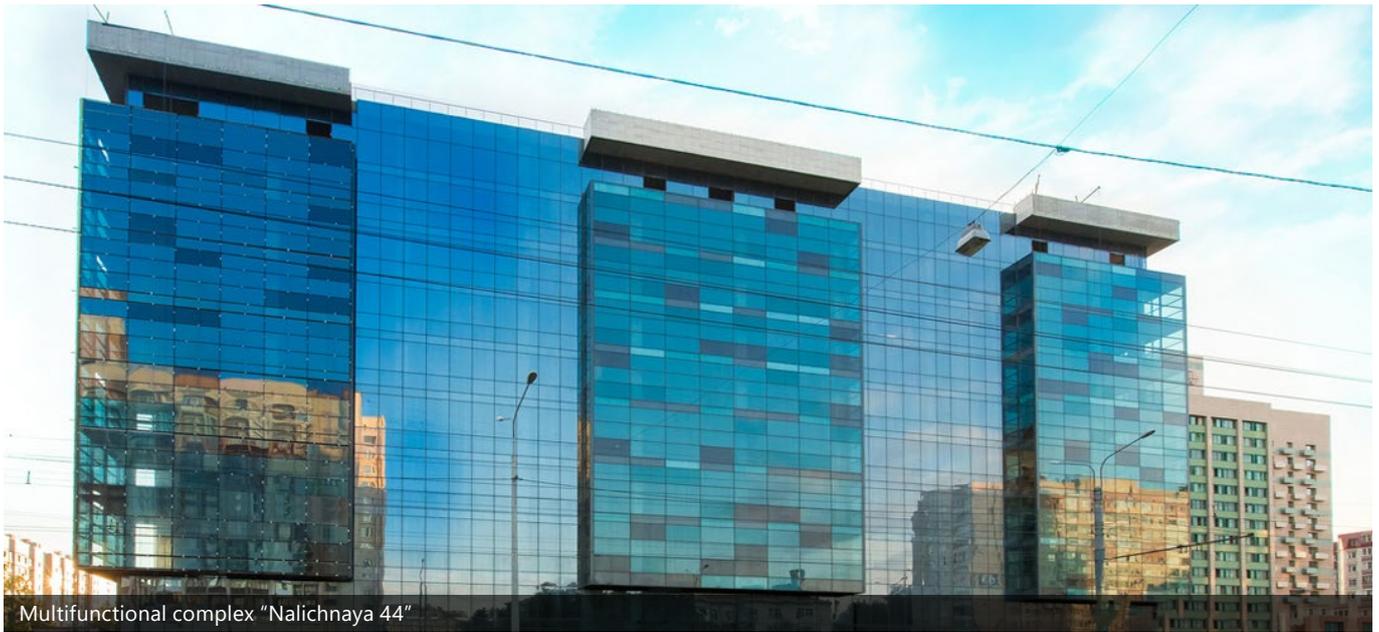
Multifunctional complex "Nalichnaya 44"

Forecast

About 120 thousand sq m of high-quality office spaces scheduled for commissioning in 2019 are still under construction or reconstruction, including business centres intended for internal use. Delivery of the amounts scheduled for commissioning can increase the vacancy rate to 5%. Given that a large number of properties are at different percentages of completion and some projects have already had their completion dates postponed several times, the real delivery may be much smaller than announced.

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