Q1 2014
INDUSTRIAL AND WAREHOUSE REAL ESTATE MARKET
Saint Petersburg

HIGHLIGHTS

• Two high-quality warehouse facilities with the total area of 45 thousand sq m were delivered in Q1 2014.
• The lease rates for warehouse facilities remain stable.
• Vacancy rates on the market continued to grow reaching the figure of 7.8% by the end of Q1 2014.
• The delivery of speculative high-quality warehouse space alone in 2014 promises to exceed 200 thousand sq m.
• Demand for industrial property remains consistently high. Against the background of almost complete absence of operational supply stock in the segment of high-end industrial real estate, this leads to the reorientation of the tenants towards lower class facilities.
In Q1 2014, several companies at a time have announced plans to build new logistics complexes in the region. CJSC Wuerth Severo-Zapad (part of the Wuerth Group) has begun construction of a logistics complex for own use in Shushary. The plans to build the complex were announced before the recession, however, the project was suspended. The complex is being built on a plot of 26 hectares, and its total area is 14.3 thousand sq m.

LLC Sfera Uslug plans to build a logistics complex with a total area of 120–130 thousand sq m in the Gatchina district of Leningrad region. The project has already been approved by the interdepartmental commission on the distribution of industry in the region. The complex will occupy an area of 30 hectares and will consist of nine terminals, designed for specific groups of products. The developer plans to invest up to $70 million in the project.

The Government of the Leningrad Region has created an information database for potential investors with Brownfield (sites with finished engineering and constructed buildings and facilities) and Greenfield (unprepared sites) sections, containing information about more than 80 plots with a total area of about 300 thousand sq m. The system already shows implemented investment projects and the development plans of infrastructure organizations. About a half of these plots is in state or municipal ownership. Another 50% include the private Brownfield and Greenfield plots, as well as those of the companies that are in the process of bankruptcy and the mortgaged property belonging to banks.

The second stage of NordWay logistics complex with a total area of 40 thousand sq m (delivery permit has already been obtained back in December 2013) became operational. A refrigerator-warehouse of Admiral logistics group located in the industrial zone Gorelovo was delivered. The total area of this facility is 9.5 thousand sq m.

Thus, the total stock of high-quality warehouse space market has reached 2,277 thousand sq m, having grown by 2% in Q1 2014. The delivery volume of speculative space for the reported period amounts to

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Class A</th>
<th>Class B</th>
<th>Dynamics*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total high-quality stock volume, thousand sq m</td>
<td>2,277</td>
<td></td>
<td>+2%</td>
</tr>
<tr>
<td>including, thousand sq m</td>
<td>1,239</td>
<td>1,038</td>
<td>+4%</td>
</tr>
<tr>
<td>Total stock volume of leased high-quality space, thousand sq m</td>
<td>1,283</td>
<td></td>
<td>+3%</td>
</tr>
<tr>
<td>including, thousand sq m</td>
<td>845</td>
<td>438</td>
<td>+4%</td>
</tr>
<tr>
<td>Delivered in Q1 2014, thousand sq m</td>
<td>45</td>
<td></td>
<td>+21%</td>
</tr>
<tr>
<td>including, thousand sq m</td>
<td>45</td>
<td>0</td>
<td>+39%</td>
</tr>
<tr>
<td>Leasable high-quality space take-up, thousand sq m</td>
<td>-8</td>
<td></td>
<td>-100%</td>
</tr>
<tr>
<td>Vacancy rate, %</td>
<td>9.1</td>
<td>3.9</td>
<td>+3.8 p. p.</td>
</tr>
<tr>
<td>Asking lease rates**, $/sq m/year</td>
<td>125–135</td>
<td>100–120</td>
<td></td>
</tr>
<tr>
<td>Operating expenses, $/sq m/year</td>
<td>35–45</td>
<td>30–35</td>
<td></td>
</tr>
</tbody>
</table>

* compared with Q4 2013
** excluding VAT, operational costs and utility bills
Source: Knight Frank St. Petersburg Research, 2014

As for the market of industrial facilities, the largest volume of deals in this segment is formed by the built-to-suit format projects and by the sale of land in the industrial park zones where prices are impossibly high. Unfortunately, the majority of developers are not ready to offer a product that meets the tenants’ needs: finished high-quality industrial premises of 1–3 thousand sq m.

Key events

- LLC Sfera Uslug plans to build a logistics complex with a total area of 120–130 thousand sq m in the Gatchina district of Leningrad region. The project has already been approved by the interdepartmental commission on the distribution of industry in the region. The complex will occupy an area of 30 hectares and will consist of nine terminals, designed for specific groups of products. The developer plans to invest up to $70 million in the project.
- The Government of the Leningrad Region has created an information database for potential investors with Brownfield (sites with finished engineering and constructed buildings and facilities) and Greenfield (unprepared sites) sections, containing information about more than 80 plots with a total area of about 300 thousand sq m. The system already shows implemented investment projects and the development plans of infrastructure organizations. About a half of these plots is in state or municipal ownership. Another 50% include the private Brownfield and Greenfield plots, as well as those of the companies that are in the process of bankruptcy and the mortgaged property belonging to banks.

Supply

Two high-quality warehouse facilities were delivered in Q1 2014. The second stage of NordWay logistics complex with a total area of 40 thousand sq m (delivery permit has already been obtained back in December 2013) became operational. A refrigerator-warehouse of Admiral logistics group located in the industrial zone Gorelovo was delivered. The total area of this facility is 9.5 thousand sq m.

Thus, the total stock of high-quality warehouse space market has reached 2,277 thousand sq m, having grown by 2% in Q1 2014. The delivery volume of speculative space for the reported period amounts to
36 thousand sq m, or 79% of the total delivery volume.

With the gradual introduction of new high-quality warehouse space, which began in the second half of 2013, one can witness a decline in the shortage of affordable finished leasable supply on the market. By the end of Q1 2014, the market of St. Petersburg is offering about 90–100 thousand sq m for lease.

Presently, there are 14 actively developing and completed projects in the industrial parks with a total area of 871 hectares in St. Petersburg and Leningrad region, of which 395 hectares are already sold or leased.

**Demand**

Demand for high-quality warehouse space remains consistently high. However, due to the emptying of several blocks in large warehouses and the delivery of several warehouse complexes with incomplete occupancy in the last two quarters, – the average market vacancy rate has grown by 3.4 percentage points comparing with the figure at the end of 2013.

Q1 can be called the shortest (due to Christmas holidays) and the least active quarter on the market. It is also for this reason that the volume of transactions for the period is always relatively low out of the total annual figure: about 16 thousand sq m were leased out in Q1.

The query analysis of potential tenants showed that more than 65% of demand is concentrated on the 1-year or shorter-term warehouse space lease.

The demand for industrial real estate is also consistently high. The average requested premises space in this segment is 2,800 sq m. At present, such requests can only be satisfied by the industrial complexes offering their own unused facilities.

**1,000–5,000 sq premises remain the most popular with the tenants of high-quality warehouse real estate, accounting for 57% of demand in this market segment**

**Industrial facilities of up to 3,000 sq m were in the highest demand with potential tenants, accounting for 80% of total demand in Q1 2014**

Source: Knight Frank St. Petersburg Research, 2014
Commercial terms

The lease rates for high-quality warehouse space remained stable in Q1 2014 and were consistent with the level of late 2013: 125–135 $/sq m/year (triple net) for Class A and 100–120 $/sq m/year for Class B.

With regard to the figures in the segment of industrial premises, here, just as earlier, every case is unique, though on average they are in the range 350–380 rub/sq m/month (including VAT, utilities and operating expenses).

Forecast

The total delivery volume of high-quality warehouse space intended for lease in 2014 will exceed 200 thousand sq m according to our prognoses.

This amount of space will help in meeting the demand that has accumulated over the previous two years of market stagnation. Furthermore, the delivery of this much space should prevent further growth in lease rates, which will allow them to stabilize at their current level (125–135 $/sq m/year for Class A).

Due to the low stages of completion of most industrial parks, as well as almost complete lack of small-sized premises in them, we can confidently predict further growth of demand for finished industrial facilities as well as the deficit growth in this market segment.

### Key projects planned for delivery in 2014

<table>
<thead>
<tr>
<th>Name</th>
<th>Location</th>
<th>Class</th>
<th>Area, sq m</th>
<th>Developer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armada Park</td>
<td>industrial zone Shushary, Moskovskoe Hwy</td>
<td>A</td>
<td>75,000</td>
<td>Adamant Holding</td>
</tr>
<tr>
<td>Osinovaya Roshya (stage 3)</td>
<td>Vyborgskoe Hwy, Pargolovo</td>
<td>A</td>
<td>50,000</td>
<td>GK Sterkh</td>
</tr>
<tr>
<td>Troitskiy Logopark (stage 3)</td>
<td>295 Obukhovskoy oborony Ave</td>
<td>A</td>
<td>43,000</td>
<td>Resolute Asset Management LLP</td>
</tr>
<tr>
<td>STK</td>
<td>Bugry</td>
<td>B</td>
<td>27,000</td>
<td>LLC InvestBugry</td>
</tr>
</tbody>
</table>

Source: Knight Frank St. Petersburg Research, 2014
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