

OFFICE MARKET



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“As of today potential tenants of office premises have a possibility to choose premises which fully meet their requirements in terms of quality, rental rates, and other contract terms. Due to a high number of new projects delivered, vacancy

in the segment of quality business centers is actively growing. This tendency will stimulate owners to increase management efficiency of premises by cost optimization, and not by increase in rental rates”.

TOTAL VOLUME ↗

VACANCY ↗

RENTAL RATES →

SUMMARY

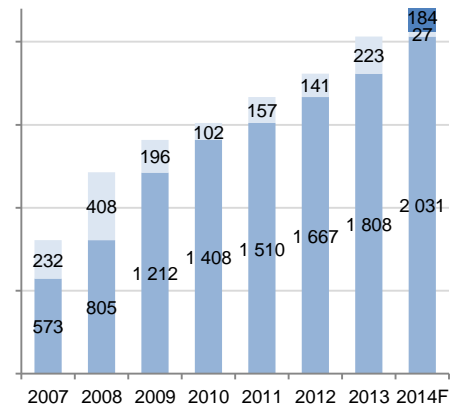
- In Q1 2014 the overall gross leasable area (GLA) amounted to 2,058.5 thou. sq.m.
- In the reporting period three business centers with the overall GLA of 27.3 thou. sq.m were commissioned. In the April – December period another 183.8 thou. sq.m of office premises will be delivered in St. Petersburg. As a result, the overall supply will increase by 10.4% over the year.
- By the end of Q1 2014 due to the high level of competition among quality projects and limited demand, the changes in rental rates have not exceeded 2.5% in ruble terms.
- Over the period under review vacancy rate in Class A and B+ changed differently: the increase in Class A amounted to 3.5%, when in Class B+ the number decreased by 1.8%. Vacancy in Class B has slightly changed.
- New supply scheduled to be commissioned during Q2 – Q4 period of 2014 includes mostly offices of Class A (63.4%). In terms of location supply growth will be mainly observed in Petrogradskiy, Moskovskiy, and Krasnogvardeiskiy districts of the city.

KEY INDICATORS

Indicator	Class A		Class B+		Class B	
	Q4 2013	Q1 2014	Q4 2013	Q1 2014	Q4 2013	Q1 2014
Total GLA of office centers at the end of the period, sq.m	64,580	22,500	24,000	4,800	13,340	-
Vacancy, %	13.9%	17.4%	8.2%	6.4%	7.0%	7.3%
Average asking rental rates, RUB/sq.m/month, net of VAT, including utilities and operating costs	1,439	1,406	1,061	1,115	953	932

Source: ASTERA an alliance member of BNP Paribas Real Estate

Dynamics of gross leasable area of Class A and B offices



- GLA of existing office centers at the beginning of a year, 000 sq.m
- GLA of office centers commissioned in the course of the year, 000 sq.m
- GLA of expected supply to be commissioned by the end of a year, 000 sq.m

Source: ASTERA an alliance member of BNP Paribas Real Estate

PERSPECTIVES

In 2014 the supply will be still significantly higher than the demand. As a result, in our opinion, vacancy rate in high quality office centers will continue to grow. There will be slight changes in rental rates.

SUPPLY

Office premises commissioned in Q1 2014

In the reporting quarter three new projects were delivered to the market. As a result, the total office market volume increased by 27.3 thou. sq.m. Following the results of Q1 2014 the overall supply of quality business centers totaled up to 2,058.5 thou. sq.m of GLA.

Projects delivered in Q1 2014

Name	District	Address	GLA, sq.m	Class
Electro	Moskovskiy	Moskovskiy pr., 156	15,700	A
Senator on B. Pushkarskaya	Petrogradskiy	Bolshaya Pushkarskaya, 22	6,800	A
Zanevskiy Kaskad - III	Krasnogvardeiskiy	Zanevskiy pr./ Energetikov pr.	4,800	B+
TOTAL			27,300	

Source: ASTERA an alliance member of BNP Paribas Real Estate

There are sixteen projects to be commissioned during Q2 – Q4 2014 with the overall GLA of 183.8 thou. sq.m. It is important to note that among new projects there are six renovation projects.

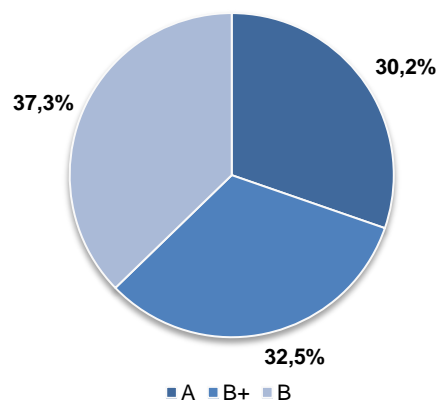
New projects mostly concentrate on offices of Class A – 63.4% (16.3% in Class B+; 20.3% in Class B). In terms of location the main supply volume will be observed in Petrogradskiy and Moskovskiy districts of the city – 31.8% and 23.8% correspondingly.

Office centers delivering in the period of Q2-Q4 of 2014

Name	District	Address	GLA, sq.m	Class	Comm ission date
LUKOIL	Petrogradskiy	Aptekarskaya emb.	18,600	A	Q2 2014
Eightedges	Krasnogvardeiskiy	Malookhtinskiy pr., 45	11,900	A	Q2 2014
Passage	Central	Italyanskaya ul., 17	7,000	A	Q2 2014
ECO Status	Central	Ligovskiy pr., 140	4,000	A	Q2 2014
SetlCenter	Moskovskiy	Leninskiy pr., 153A	13,800	B	Q2 2014
Finsky per., 4	Kalininskiy	Finsky per., 4	1,500	B	Q2 2014
Pulkovo Star	Moskovskiy	Pulkovskoe sh., 28	9,900	B+	Q2-Q3 2014
Trinity Place	Petrogradskiy	Admirala Lazareva emb., 22	27,000	A	Q3 2014
Bolshaya Morskaya 51	Admiralteiskiy	Bolshaya Morskaya, 51	4,800	A	Q3 2014
Luch	Krasnogvardeiskiy	Metallistov ul., 7	13,300	B	Q3 2014
Renaissance Business Park	Vyborgskiy	Smolyachkova ul., 6/1	20,165	A	Q4 2014
Senator on Kropotkina (new building)	Petrogradskiy	P.S., Kropotkina ul., 1	8,055	A	Q4 2014
Senator on Moskovskiy pr.	Admiralteiskiy	Moskovskiy pr., 60	15,000	A	Q4 2014
Victoria Plaza (1 st phase)	Moskovskiy	Ploschad Pobedy, 2	20,000	B+	Q4 2014
KrummelHaus	Petrogradskiy	Bolshaya Posadskaya ul., 12	4,800	B	Q4 2014
On Tsarskoselskiy holmah	Pushkinskiy	Peterburgskoe sh.	4,000	B	Q4 2014
TOTAL			183,820		

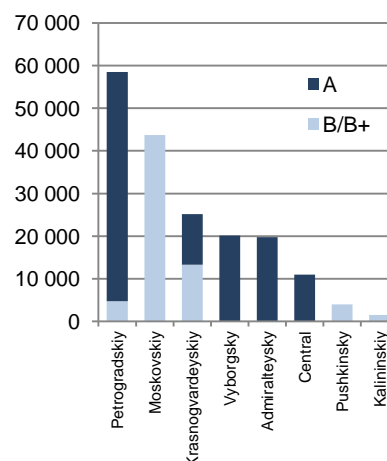
Source: ASTERA an alliance member of BNP Paribas Real Estate

Breakdown of total supply by Class, March 2014



Source: ASTERA an alliance member of BNP Paribas Real Estate

Projects in the pipeline for Q2-Q4 of 2014, sq.m



Source: ASTERA an alliance member of BNP Paribas Real Estate



"Senator", B. Pushkarskaya ul.



"Eightedges"

In Q1 2014 the following large projects were announced:

- Chain of ‘Senator’ office centers made a deal to purchase the building of Frunzensky Univermag (Department Store) in the end of 2013 which strengthened its positions on the office property market. The building will be reconstructed into a business center of Class A;
- 7-storey building on 2a, Ostrovsky Square will be converted into an office center where one of Gasprom’s structures will be located. The project is planned to be implemented in 2015.
- KVS Company has begun the construction of Melnik business center (Class B). The project is planned to be commissioned in two years.
- Etalon Group started its renovation project of business center for its own purposes. Total area of the premises will amount to about 18 thou. sq.m;
- LLC ‘Vneshstroyproekt’ announced a construction project of a 22-storey MFC (apartments and office premises), which will be built in Kalininskiy District. Total area of this office center of Class B+ will estimate approximately to 40 thou. sq.m;
- Geostroy Company will build a new business center in Nevsky District (2nd Luch ul.). The project will be implemented in 2016 and its total area will measure 5 thou. sq.m;
- On Leninskiy prospect, 160, lit. B there will be an 18-storey business center raised. Project implementation period is Q1 2015 – Q1 2017.

DEMAND

Business index in service sector in Russia demonstrated significant decrease from the beginning of the year. In 2013 employment of St. Petersburg population decreased by 4%. Thus, with all these factors there is no use to talk about demand growth in office property market in the short- and long-run.

Gazprom’s structures significantly influence the demand in the short-run. Over the year Gazprom Mezhhregiongaz Company and also a number of its contractors will probably move. However, when Lakhta-Center is commissioned (Corporation official headquarters), significant volume of occupied premises in office centers will become vacant. In order to fill in their premises tenants will have to decrease rental rates eventually.

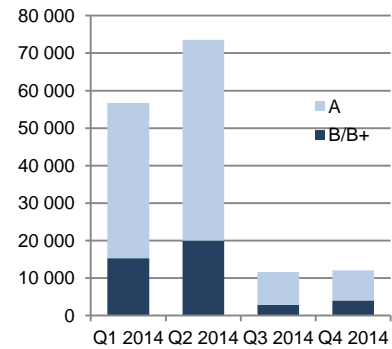
Central business districts remain the most popular among potential tenants, but ASTERA consultants have noticed decreased interest in Moskovskiy district.

Since tenants are not ready to maintain all repair and finishing works on their own, full interior finish stays an integral factor when choosing an office.

According to analysis of inquiries received by ASTERA during reporting period, the main demand for office premises was created by service enterprises, construction companies, and retailers (70% of inquiries). Consulting and IT companies were the most active ones among service companies.

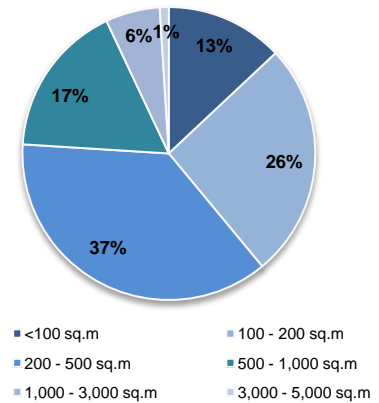
Offices with the area of 200-500 sq.m were the most requested in Q1 2014. 6% of all inquiries were from large companies demanded premises with area from 1,000 sq.m.

The 2014 supply scheduled during the year, thou. sq.m



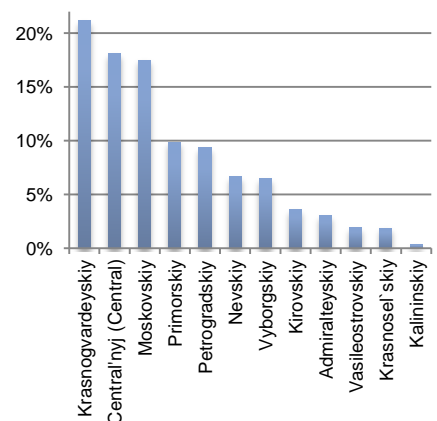
Source: ASTERA an alliance member of BNP Paribas Real Estate

Breakdown of demanded space formats in Q1 2014



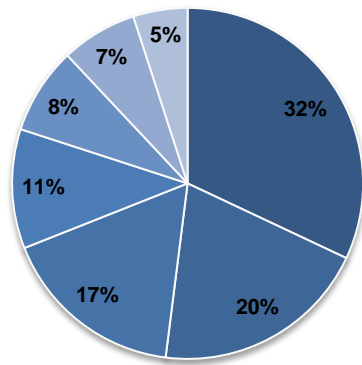
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Vacancy in offices by districts, March 2014

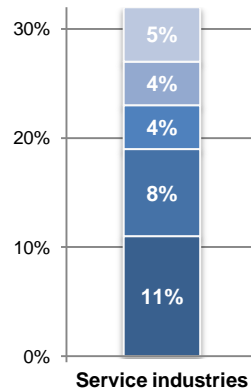


Source: ASTERA an alliance member of BNP Paribas Real Estate

Breakdown of high-quality offices demand by tenants' specialty



- Service industries
- Construction companies
- Retail companies
- Public catering
- Industrial companies
- Transportation & Logistics
- State Institutions & Banking
- Management companies



- Consulting
- IT
- Recruitment agencies
- Insurance companies
- Others

Source: ASTERA an alliance member of BNP Paribas Real Estate

Some projects delivering in Q1 2014

Tenant	Office Center	GLA, sq.m	Type of transaction
One of Gazprom structures	Zeppelin	15,000	lease
CJSC 'PMP'	U Rostralnyh kolonn	1,881	lease
Bank	Grenadersky	1,800	lease
Med. Company	Pulkovo Star	1,600	lease
Bars Porcelain gres	Faberge	365	lease

RENTAL RATES AND VACANCY

Changes in external political situation, ruble depreciation by approximately 9% against the dollar and the euro, observed in Q1 2014 did not practically affect office property market of Saint Petersburg. Changes in rental rates have not exceeded 2.5% in ruble terms. To a great extent this is due to the high level of competition among quality projects at limited demand.

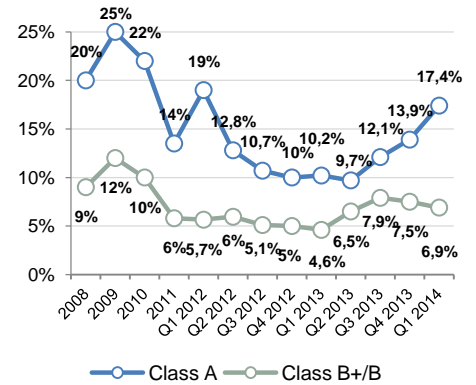
In March average weighted rental rate in offices of Class A reached the mark of 1,406 RUB/sq.m/month and decreased for the first three months by 2.3%.

Over the quarter average weighted rental rate in Classes B+ and B increased by 2.1% and estimated 1,014 RUB/sq.m/month.

As of Q1 2014 average vacancy in all Classes amounted to 10.5%. Comparing to the final result of 2013 vacancy rate increased by 1.4%. Thereafter, over the year (from April 2013 to March 2014) this number increased by 4.1%.

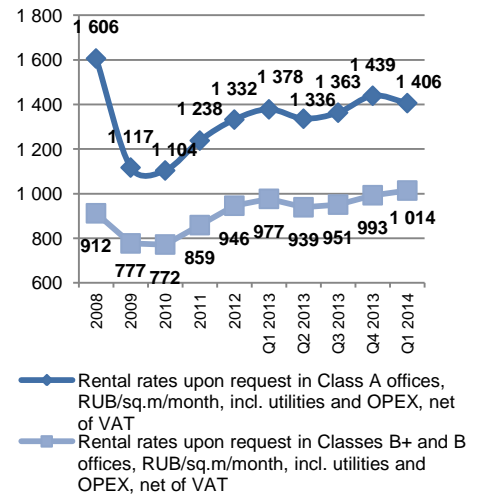
Following the results of Q1 2014 vacancy rate in business centers of Class A measured 17.4%, in Class B+ and B – 6.4% and 7.3% respectively. Over the year both Classes were added by 2.2%.

Vacancy dynamics in Classes A and B offices



Source: ASTERA an alliance member of BNP Paribas Real Estate

The average asking rental rates in dynamics



Source: ASTERA an alliance member of BNP Paribas Real Estate

ABOUT ASTERA

ASTERA an alliance member of **BNP Paribas Real Estate** is an international consulting company, providing professional consulting services in commercial and elite residential real estate. The Company has been actively working on Russian real estate market since 1992. The Company's offices are located in Moscow, St. Petersburg and Kiev.

According to Annual First Brokers' Rating, ASTERA was recognized as the best brokerage company of Saint Petersburg in terms of commercial real estate volume realized in 2013.

ASTERA is the partner of **BNP Paribas Real Estate** in Russia and Ukraine. BNP Paribas Real estate is a leading international real estate company and the largest company by gross turnover among European consulting companies by year 2012, according to annual rating of authoritative publication "Source Euromoney".

An alliance with BNP Paribas Real Estate gives ASTERA the opportunity to represent the interests of their clients abroad and to attract foreign investments into Russian development projects.

ASTERA portfolio comprises retail, office, industrial, warehouse and hotel projects, including large multi-functional complexes and commercial premises of street retail format, detached buildings, 'built-to-suit' projects and land plots.

ASTERA portfolio includes over **500 implemented projects** of strategic and investment consulting and the exclusive data base consisting of **30,000 objects** in all segments of commercial real estate. Since 1992 ASTERA consultants have leased and sold **more than 6,000,000 sq.m.** of commercial premises and concluded over **9,000 transactions** on commercial real estate market in Russia and Ukraine.

ASTERA has assisted over **4,000 clients**, including major international and Russian financial, investment, trading and industrial corporations and networks.

ASTERA provides a full range of services for investors, developers, owners, tenants and buyers of commercial and elite residential real estate:

- Consulting services
- Investment consulting
- Real estate valuation
- Brokerage services
- Pre-brokerage
- Representing the client's interests
- Property management
- Legal services
- Real estate projects promotion

A reputation of ASTERA is confirmed by being a member of the leading Russian and international professional organizations:

- Guild of Managers and Developers (GUD)
- Russian Shopping Malls Council
- Russian Realtors Guild
- Russian-British Chamber of Commerce
- European Business Association

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