

# OFFICE MARKET

## Alexey Gulevsky

Head of Department of Consulting, ASTERA an alliance member of BNP Paribas Real Estate



*"We expect that the vacancy will continue growing in the fourth quarter of 2013 on new completions of business-centers. However, the rental rates won't seem to drop sharply in perspective".*

TOTAL VOLUME



VACANCY



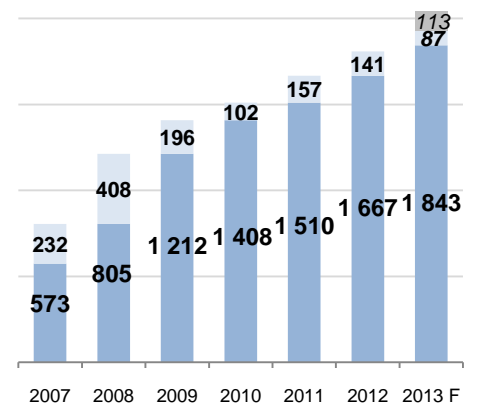
RENTAL RATES



## SUMMARY

- In the reporting period St. Petersburg office market experienced nine completions with the overall gross leasable area (GLA) of 86.7 thou. sq.m. Moskovskiy district concentrated about 50% of new supply. As of the end of the third quarter of 2013, the total stock amounted to 1,929.9 thou. sq.m.
- There are seven office centers to be commissioned in the fourth quarter of 2013 with the overall GLA of 112.7 thou. sq.m. If there are no delays, the growth of supply will be the highest for five consecutive years measuring 233.7 thou. sq.m (+13%).
- With the beginning of autumn period, ASTERA consultants expect that the demand generated by tenants will continue to grow until the end of 2013. The office premises were mainly demanded by service industries, industrial and retail companies.
- In the third quarter of 2013, the average weighted vacancy rate in high-quality office centers increased to 9% compared with 7.5% in the previous quarter due to new deliveries.
- Over the year (from October 2012 to September 2013) the office rental rates had generally increased. The highest growth was registered in Class A offices. However, in Class B offices there was no change in rental rates.

*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 a 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

## KEY INDICATORS

Indicator	Class A		Class B+		Class B	
	Q3 2012	Q3 2013	Q3 2012	Q3 2013	Q3 2012	Q3 2013
Total GLA of office centers at the end of the period, sq.m.	9,500	38,000	0	30,460	22,100	18,260
Vacancy, %	10.7%	12.1%	4.7%	7.6%	5.5%	8.1%
Average asking rental rates, RUB/sq. m/month, net of VAT, including utilities and operating costs	1,274	1,363 (+7%)	1,026	1,047 (+2%)	893	888 (-0,6%)

Source: ASTERA an alliance member of BNP Paribas Real Estate

## PERSPECTIVES

The actual volume of new office supply provide evidence that the market is being actively developed. At the same time high-quality projects (Class A) that located in city center and popular business areas are mostly preferable for investors.

Offices that meet international ecological standards has become popular in the market. This factor can bring additional competitive advantage to the office centers adopted green standards.

## SUPPLY

In the reporting period St. Petersburg Office market experienced nine completions with the overall gross leasable area (GLA) of 86.7 thou. sq.m. Moskovskiy district concentrated about 50% of new supply. As of the end of the third quarter of 2013, the total Office market volume amounted to 1,929.9 thou. sq.m.

### Projects commissioned in the third quarter of 2013

Name	District	Address	GLA, sq.m.	Class
<b>Technopolis</b> (2nd phase)	Moskovskiy	Pulkovskoe sh., 40	19,000	A
<b>Senator</b>	Petrogradskiy	Prof. Popova, 37	19,000	A
<b>Renaissance Premium</b>	Moskovskiy	Reshetnikova ul., 14A	17,000	B+
<b>Kovenskiy, 5</b>	Central	Konvenskiy per., 5	6,500	B+
<b>Osen'</b> (Polyustrovo)	Kalininskiy	Zhukova ul., 2	5,760	B+
<b>Velican Park</b>	Petrogradskiy	Alexandrovskiy Park	1,200	B+
<b>Alpha</b>	Moskovskiy	Pulkovskoe sh., 19	6,600	B
<b>H<sub>2</sub>O</b>	Krasnogvardeiskiy	Khimikov ul., 28	6,660	B
<b>Krol on Energetikov</b>	Krasnogvardeiskiy	Energetikov pr., 10, lit. A	5,000	B
<b>TOTAL</b>			<b>86,720</b>	

Source: ASTERA an alliance member of BNP Paribas Real Estate

There are seven office centers to be commissioned in the fourth quarter of 2013 with the overall GLA of 112.7 thou. sq.m. If there are no delays, the growth of supply is to be the highest for five consecutive years measuring 233.7 thou. sq.m (+13%).

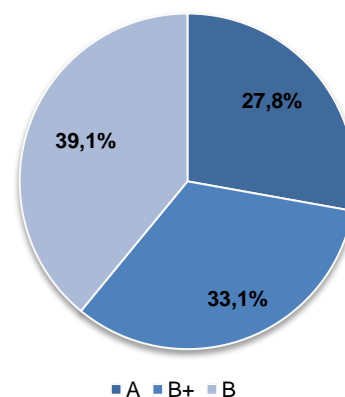
### Office centers delivering in the fourth quarter of 2013

Name	District	Address	GLA, sq.m.	Class
<b>Nevskaya Ratusha</b> (1st phase)	Central	Novgorodskaya ul.	37,980	A
<b>Leader Tower</b>	Moskovskiy	Leninsky pr, 153	26,600	A
<b>Russkie Samocveti</b> (3d phase)	Krasnogvardeiskiy	Karla Faberge ul., 8, lit. B	24,000	B+
<b>Fontanka, 57</b>	Central	Fontanka River emb., 57	15,000	A
<b>Moskovsky, 94</b>	Moskovskiy	Moskovsky pr., 94	5,600	B+
<b>Finsky Pereulok, 4</b>	Kalininskiy	Finsky per., 4	1,500	B
<b>No name («S.E.R.»)</b>	Vasileostrovskiy	17th line of V.I.	2,000	B
<b>Total</b>			<b>112,680</b>	

Source: ASTERA an alliance member of BNP Paribas Real Estate

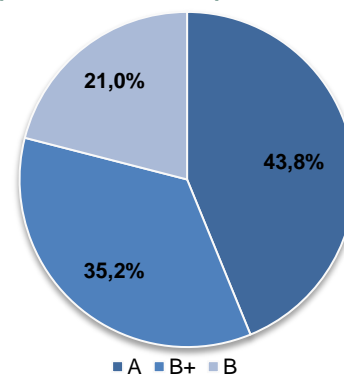
Office center Eightedges (GLA 11,9 thou. sq.m.) on Malookhtinsky pr., 45 was announced to be put in commission in Q4 2013. However, the developer Leorsa postponed the delivery of the business center to the next quarter. At the moment, Leorsa had almost finished installing a monolithic building frame. The anchor tenant, an international company, occupies 40% of GLA in the project.

### Breakdown of total supply by Class, September 2013



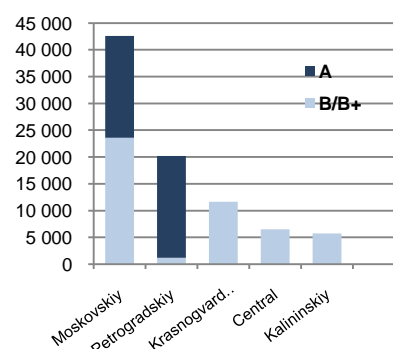
Source: ASTERA an alliance member of BNP Paribas Real Estate

### Breakdown of new supply of the projects in the pipeline for the fourth quarter of 2013



Source: ASTERA an alliance member of BNP Paribas Real Estate

### Projects in the pipeline for the third quarter of 2013, sq.m.



Source: ASTERA an alliance member of BNP Paribas Real Estate

St. Petersburg office real estate market grows at a quick rate compared to the retail and warehousing property markets. Apart from new office development, the projects of old buildings reconstruction take large part of new supply.

- In the third quarter of 2013 the group of companies "SU-155" announced reconstruction of the Guriev House on Liteinny pr., 62 into a business center. According to ASTERA, considering the building's characteristics and location, the business center with the area of 10 thousand sq. m. will be classified to Class B/B+.
- Group of companies Energo that had previously announced the reconstruction of Badaevskie warehouses into Class B+ offices, will start works at the beginning of 2014. The completion of the project is scheduled for Q1 2015.
- One of the Vereteno manufactory's building (Admiralteysky district, Obvodnoy Kanal emb., 223-225) is planned to accommodate office and administration buildings.
- In the first quarter of 2014 the company Jensen Group is planning to put in commission Class A offices (circa 8,2 thou. sq.m of GLA) as a part of the shopping center "Passage".

During the reporting quarter new construction projects were announced:

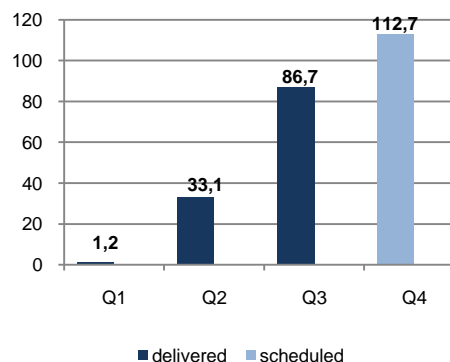
- LLC Potentsial Invest presented its project of a 10-stories business-center with the total area of 40 thou. sq.m. at the corner on Varshavskaya ulitsa and Korpusny proezd, opposite to shopping center Mebelny Kontinent, with the realization period of mid 2013 – mid 2014.
- The Prominvestgroup development company is going to construct a business center on Ligovskiy pr., 140. The project realization will take a year, however, as of September 2013 the company has not yet received the necessary license. According to ASTERA estimates, business center's total area must not exceed 1.5 thou. sq. m.

Both environmental sustainability and energy efficiency are an emerging trend in office developments of St. Petersburg:

- A project of the company S.E.R – Ingria Tower, which is presently on the stage of coordination of project documentation for construction, will be certified in compliance with the environmental standard LEED according to the developer's announcement.
- Business center Renaissance Pravda became the first operating office center in Russia which received LEED Gold certificate.
- Business center Electro on Moskovskiy pr., 156 is going to be the first office center in St. Petersburg compliant with the British standard BREEAM.

Additionally, business centers Eightedges and Technopolis were certified for compliance with the LEED standard. Meeting ecological standards can be highly beneficial for office centers' stakeholders due to investment attractiveness and ability to host those global companies that consider only "green" offices for rent.

*The 2013 supply delivered and scheduled during the year, thou. sq. m.*



Source: ASTERA an alliance member of BNP Paribas Real Estate



*"Senator", Prof. Popova ul.*



*Office center "Renaissance Pravda"*



*MFC "Velican Park"*

## DEMAND

The St. Petersburg commercial real estate market traditionally experienced a period of little activity in summer. Nevertheless, in the opinion of ASTERA consultants, with the beginning of the fall season and due to forthcoming of lease agreements expiry dates, the tenants activity will last until the end of the

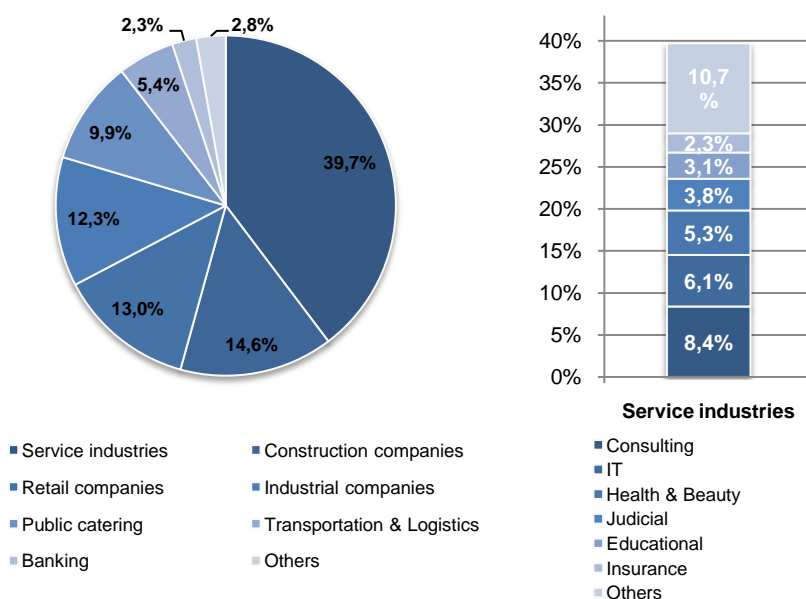
year.

According to statistics of the inquiries received by ASTERA in the third quarter of 2013, the demand for office premises was mostly driven by construction and retail companies, which share constituted 27.6% of total demand. Service industries remained the main driver of the demand (40%), including consulting companies of management, personnel and hi-tech industries.

Facilities ranging from 100 to 500 sq. m. were in great demand among tenants in the reporting period (approximately 60% of all inquiries). The demand for large-sized blocks (from 1 000 sq. m.) in high-quality offices amounted to less than 10% of all inquiries.

It is important to note that closed plan offices are dominated in offices of Class B. However, it is quite opposite to Class A offices which usually organized as open space zones.

**Breakdown of high-quality offices demand by tenants' specialty**



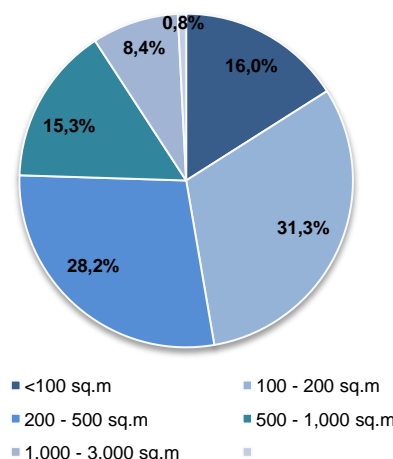
Source: ASTERA an alliance member of BNP Paribas Real Estate

**Some projects delivering in the third half of 2013**

Tenant	Office center	GLA, sq. m.	Type of transaction
<b>Gasprom Export</b>	Senator Prof. Popova ul., 37	12,300	lease
<b>Redmond</b>	Zima	1,400	lease
<b>Nikken</b>	Zima	600	lease
<b>Ramsay Health Care</b>	City Center	370	lease
<b>N/A</b>	Eightedges	4,300	lease

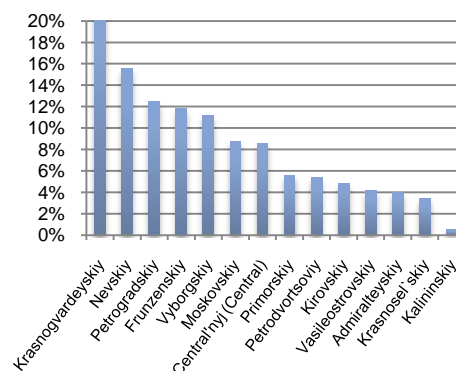
From the beginning of the year Gazprom departments have been actively renting offices in St. Petersburg. In office market one of the largest transactions was concluded in the reporting period. Gazprom Export, a subsidiary of Gazprom, leased 12,3 thou. sq.m. in Senator on Prof. Popova ul., 37. At the time, investment and engineering departments of Gazprom intend to move to business center Jupiter in Pulkovo.

**Breakdown of demanded space formats in the third quarter of 2013**



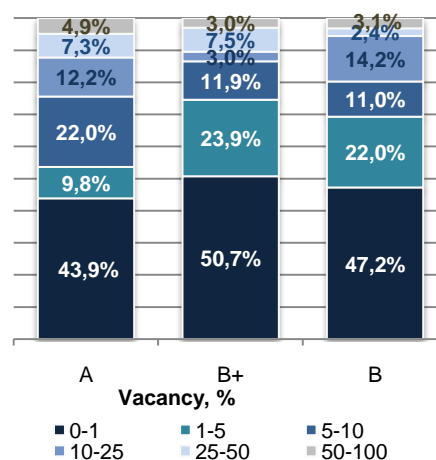
Source: ASTERA an alliance member of BNP Paribas Real Estate

**Vacancy in offices by districts, September, 2013**



Source: ASTERA an alliance member of BNP Paribas Real Estate

**Breakdown of BC according to vacancy level**



Source: ASTERA an alliance member of BNP Paribas Real Estate



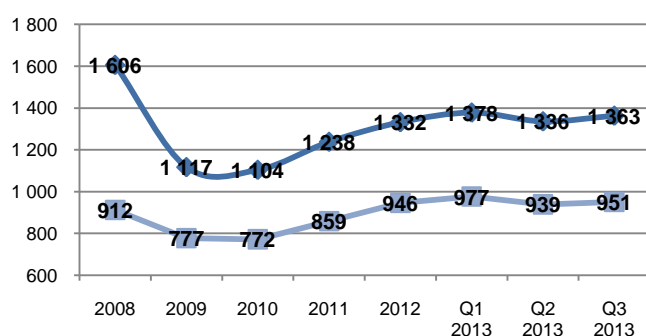
## RENTAL RATES AND VACANCY

In the third quarter of 2013, the average weighted vacancy rate in high-quality office centers increased to 9% compared with 7.5% in the previous quarter due to new supply delivered to the market. Furthermore, over the year (from October 2012 to September 2013) the office rental rates had grown by 7% and 2% in Class A and Class B offices respectively. However, in Class B offices there was no change in rental rates.

As of the end of September 2013 the average weighted vacancy in class A, B, and B+ office centers amounted to 12.1%, 7.6% and 8.1% respectively. The vacancy had grown by c. 2.3% in total over the year (from October 2012 to September 2013) generally due to new supply delivered in this period on the office real estate market. Net absorption for the third quarter of 2013 measured c. 50 thou. sq.m.

According to ASTERA analysts, the vacancy will continue growing in the fourth quarter of 2013 on new completions of business-centers. The new supply will only gradually be taken up by the market. However, the rental rates won't seem to drop sharply in perspective.

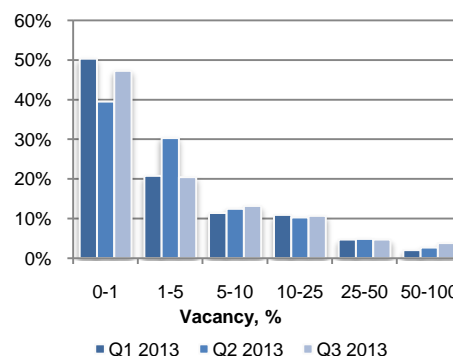
*The average asking rental rates in dynamics*



- Rental rates upon request in Class A offices, RUB/sq.m/month, incl. utilities and OPEX, net of VAT
- Rental rates upon request in Classes B+ and B offices, RUB/sq.m/month, incl. utilities and OPEX, net of VAT

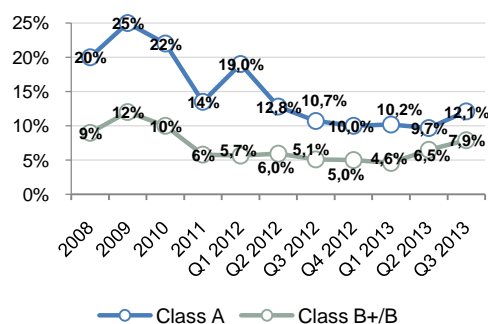
Source: ASTERA an alliance member of BNP Paribas Real Estate

*Breakdown of vacancy dynamics in office centers by groups*



Source: ASTERA an alliance member of BNP Paribas Real Estate

*Vacancy dynamics in Classes A and B offices*



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.

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 2010, according to annual rating of authoritative publication Property Week.

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 clients' interests
- Property management
- Legal services
- Real estate projects promotion

*A reputation of ASTERA is 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

## Moscow Office

Tel.: +7(495) 925-00-05  
Fax: +7(495) 981-05-65

## St. Petersburg Office

Tel.: +7(812) 703-00-03  
Fax: +7(812) 703-00-04

## Kiev Office

Tel.: +380(44) 501-5010  
Fax: +380(44) 501-5011

[www.asteragroup.ru](http://www.asteragroup.ru)  
[marketingspb@asteragroup.com](mailto:marketingspb@asteragroup.com)