

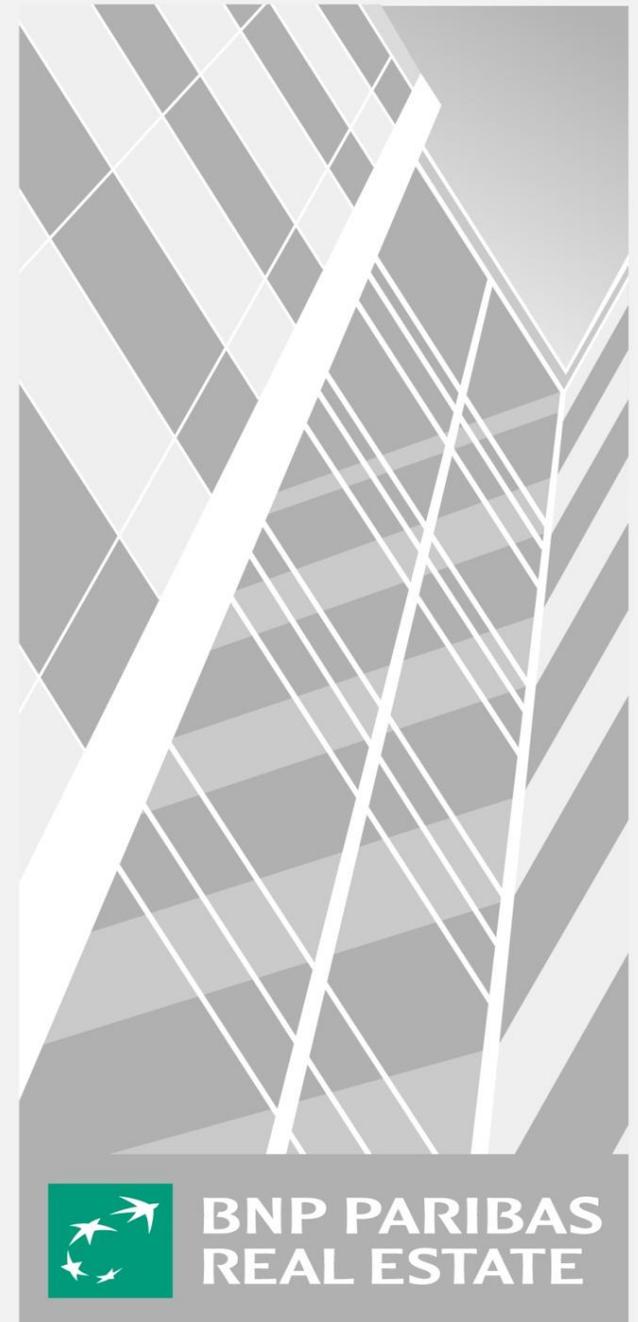


PROFESSIONAL  
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SERVICES

**St. Petersburg  
Office Real Estate Market Review**  
**1H 2010**

**August 2010**

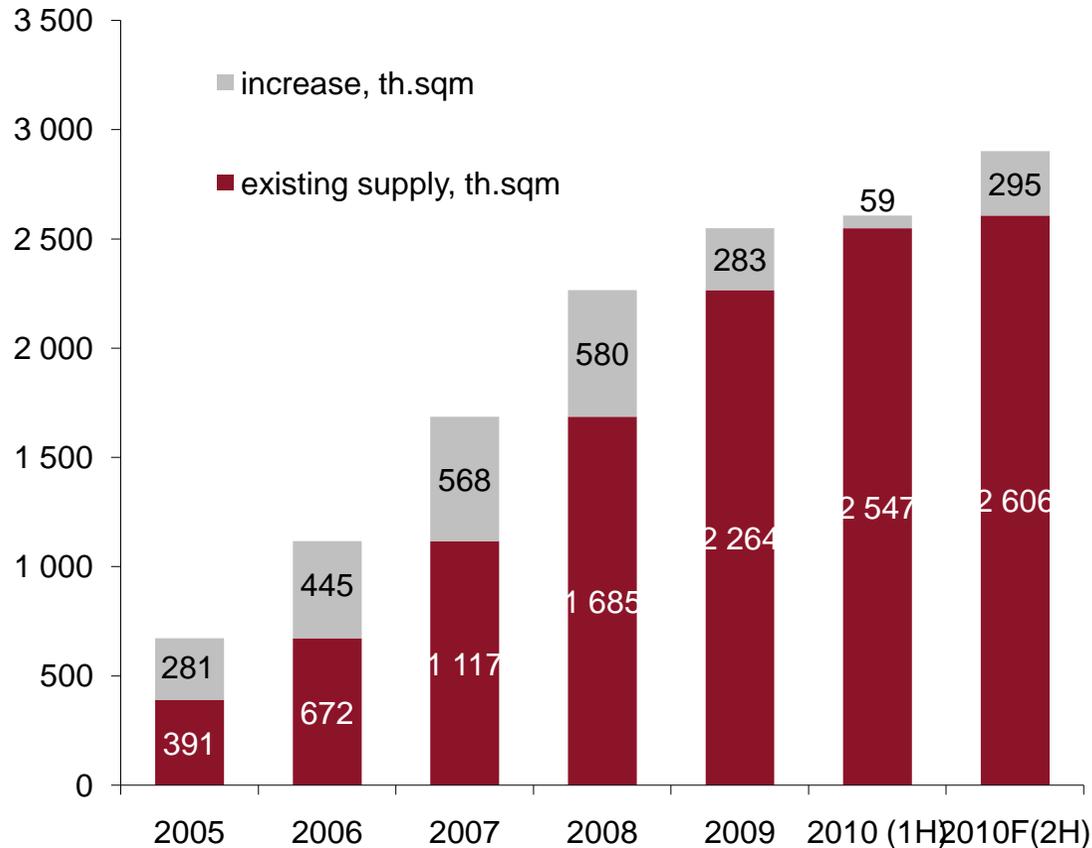
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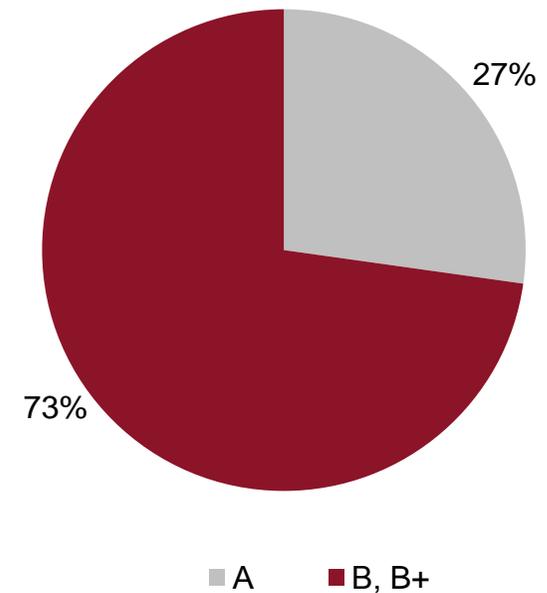
**There have been no remarkable changes in St. Petersburg office real estate market in 1H 2010 – the rent rates have remained at the same level, tenants’ activity has slightly increased due to recovery of market players’ financial welfare.**

- ✓ During 1H 2010 about 60 000 sqm of new class A and B offices were commissioned, thus, total supply of high-quality offices reached 2.6 mln sqm.
- ✓ B and B+ class business centres still prevail in total high-quality supply of office space in St. Petersburg, their share accounts for 73%, share of A class offices is only 27%.
- ✓ In class A business centres the level of tenants’ activity in 1H 2010 remained the same as at the end of 2009. The rent rates stay at the same level except several cases when the owners of high-quality business centres with good location and high occupation ratio increased their rates by 10-15%.
- ✓ In B class business centres the rent rates haven’t practically changed during 1H 2010, only the upper bound of the price bracket increased by 7-10%.
- ✓ Vacancy rate in high-quality business centres with good location in business districts of the city reduced by 10% on average.
- ✓ Business centres’ owners work out new leasing schemes to meet demands and interests of both already existing and new tenants and to win in the current intense competition conditions.

By the end of 1H 2010 about 2.7 million sqm of A, B and B+ class office space are available in St. Petersburg. We expect it will increase by about 300 000 sqm in 2010.



St. Petersburg's office space dynamics, thousand sqm



Structure of St. Petersburg's office space, 1H 2010

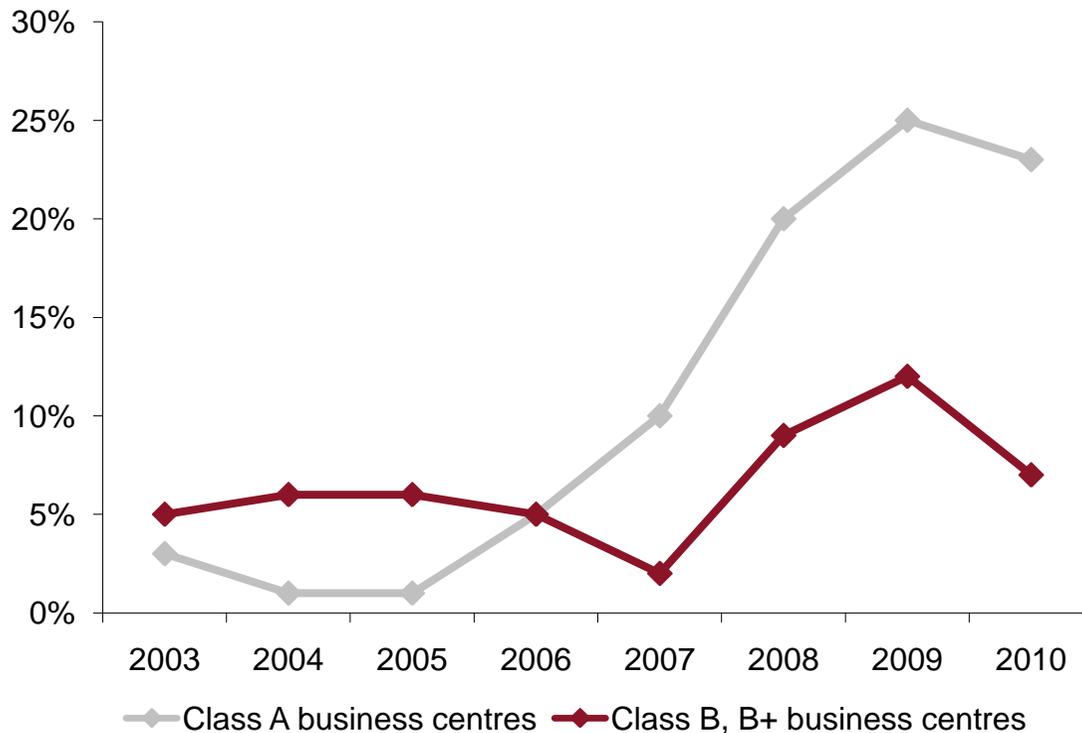
During 1H 2010 5 business centres with total area 59 117 sqm were commissioned in St. Petersburg (total GLA is about 39 980 sqm)

	Name	Address	District	Class	GBA, sqm	GLA, sqm	Commission date
1	Birzha	15, building 2a, 26 <sup>th</sup> line V.O.	Vasileostrovskiy	B+	23 107	16 500	1Q 2010
2	Quattro Corti	3-5, Pochtamtskaya st.	Central	A	15 000	8 000	2Q 2010
3	Novo-Isakievsky	24, Yakubovicha st.	Central	A	2 500	650	2Q 2010
4	Marvel	11 Sedova st.	Nevskiy	B	8 880	7 100	2Q 2010
5	Nevskiy Plaza	55, 57, 59 Nevskiy pr.	Central	A	9 630	7 730	2Q 2010
<b>TOTAL</b>					<b>59 117</b>	<b>39 980</b>	

**In 2H 2010 11 business centres with total area 300 000 sqm are announced to be commissioned. Most of new projects will enter the market at the end of 2010.**

	Name	Address	District	Class	GBA, sqm	GLA, sqm	Commission date
1	Pulkovo Sky, 2 <sup>nd</sup> stage	2, Vnukovskaya Street	Moskovskiy	B	58 000	47 000	3Q 2010
2	Gelsingforsskiy	2F, Gelsingforsskaya st.	Vyborgskiy	B+	8 000	6 700	3Q 2010
3	Smile	27A, Bolshevikov pr.	Nevskiy	B	10 970	7 435	3Q 2010
4	Senator (4th building)	37, Professora Popova st.	Petrogradsky	A	34 814	25 000	3Q 2010
5	Senator (2nd phase)	15, Chapaeva st.	Petrogradsky	B+	14 100	10 827	3Q 2010
6	Senator (2nd phase)	80, Bolshoy pr. V.O.	Vasileostrovskiy	B+	4 850	6 200	3Q 2010
7	Technopolis	40, Pulkovskoe highway	Moskovskiy	A	24 000	19 000	4Q 2010
8	14, Nekrasov	14, Nekrasova st.	Central	A	11 550	9 600	4Q 2010
9	Vant (2nd phase)	120, Obukhovskoy Oborony pr.	Nevskiy	B+	28 500	25 000	4Q 2010
10	Stockmann Nevskiy Centre	2, Vosstaniya st. / 114-116 Nevskiy pr.	Central	A	95 000	40 000	4Q 2010
11	Business-Liner	Verbnaya st. / Novokolomyazhsky pr.	Primorskiy	B	5 600	3 200	4Q 2010
<b>TOTAL</b>					<b>295 384</b>	<b>199 962</b>	

**Demand correction caused by negative influence of the world financial crisis was visible through whole 2009. In 1H 2010 the situation stabilised and number of requests for offices increased in relation to 2009.**



Vacancy ratio, %

- ✓ Vacancy rate in St. Petersburg's business centres is still high:
  - In A class – 20-23%;
  - In B class – 7-10%.
- ✓ The lowest occupation ratio is observed in newly built high-quality business centres which were commissioned during 2009.
- ✓ Premium business centres which don't reduce their rent rates face deficit of tenants and wait for economic recovery when some clients will be ready to re-assign high budgets for location at premium offices.
- ✓ Premises in a range of 50-250 sqm are most demanded by tenants, 700-1000 sqm offices are second most popular.

**We expect the demand for offices in St. Petersburg will increase at a slow pace in 2H 2010.**



Annual rent rates, USD/sqm (excl. VAT)

- ✓ After the steep fall in rent rates in 1Q 2009 (reduction by 25-30%), at the beginning of 2010 offices rent rates in St. Petersburg remained stable.
- ✓ Several owners increased the rent rates in their business centres by 10-15%.
- ✓ The owners provide 10-15% discounts to large spaces occupiers.
- ✓ At the beginning of 2010 annual rent rates in A class business centres were 350-500 USD/sqm (excl. VAT)
- ✓ Annual rates in B class business centres were 200-370 USD/sqm (excl. VAT).
- ✓ Size of the rent rate is mainly influenced by the area of the leased premises: the smaller the area, the higher the rate.

**In 2H 2010 the rent rates for office real estate in St. Petersburg will remain stable, small rise is possible.**

- ✓ About 300 000 sqm of high-quality office space are announced to be put into operation by the end of 2010. Total supply of office space in St. Petersburg can reach about 3.0 mln. sqm.
- ✓ Despite the crisis, the five-years' time benchmark of commissioning about 250 000 – 300 000 sqm annually continues in 2009 and 2010.
- ✓ During the next 2-3 years the dynamics of offices commissioning will slow down as a result of negative influence of the world financial crisis, this will subsequently lead to reduction in vacancy ratio in the operating business centres.
- ✓ The level of rent rates in St. Petersburg's business centres is expected to be stable. The demand will demonstrate positive dynamics, which will contribute to the absorption of vacant office spaces.
- ✓ The main criteria of choosing an office are the size of the rent rate and location of business centre. Additional bonuses, such as a favourable lease period, are also provided by the owners. Fit-out of the offices at owner's expenses became a common practice.

**Office real estate market changed cardinally in 2009 – tenant took power in setting lease terms. This situation is most likely to last till 2011.**



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