

H1 2022

Office market

Russia | St. Peterburg

Table 1
Key market indicators

Source: Nikoliers

	H1 2020	H1 2021	H1 2022
Total stock, million sq m	3.55	3.76	3.83
Class A	1.11	1.29	1.32
Class B	2.44	2.46	2.51
Completions, thousand sq m	44.6	83.7	18.5
Net absorption, thousand sq m	31.0	90	26.8
Vacancy rate, %	6.7	6.3	6.3
Class A	4.5	5.8	6.1
Class B	7.8	6.6	6.4
Weighted average rental rate, RUB/sq m/month*			
Class A	1,666	1,702	1,790
Class B	1,099	1,131	1,133

* Hereinafter, rental rates include operating expenses, exclude VAT.

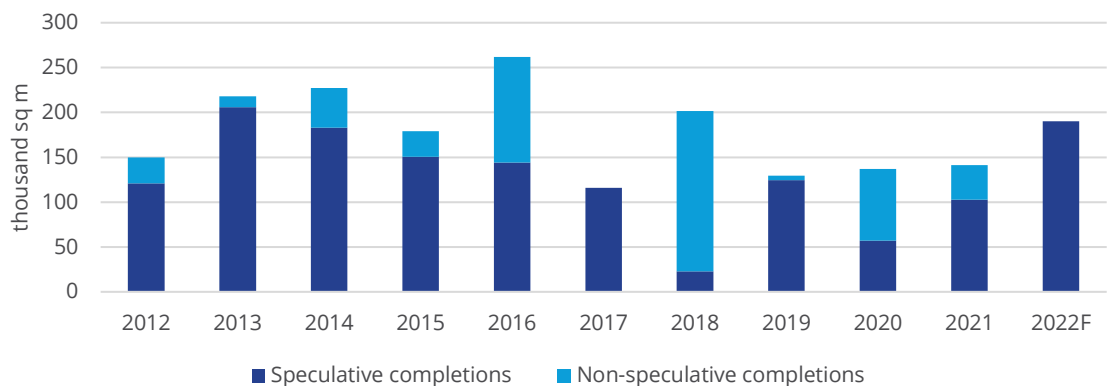
Supply

The total volume of office supply in St. Petersburg amounts to 3.83 million sq m by the end of H1 2022. In the first six months, three new properties have replenished the market: office building "Kersten" (GLA 5,955 sq m), "Obvodny, 118" (GLA 5,015 sq m) and a new office space in the shopping centre Atlantic City, the second floor of which has been converted into offices (GLA 7,500 sq m). Thus, the total volume of the new supply reached 18,470 sq m, which is 10% of the expected volume of commissioning by the end of 2022.

Against the background of the introduction of new sanctions packages, the suspension of business processes in Russia of numerous foreign companies, announcements about the withdrawal of international corporations from the Russian market, the activity of office tenants significantly decreased in the period from the end of February to the end of April, until the situation stabilized in some way. However, since May we have been recording an increase in activity and demand, which indicates a gradual adaptation of the business to the changed realities.

Chart 1
Office completions

Source: Nikoliers



Demand

Against the background of a decline in business activity in March-April due to sanctions and rapidly changing external conditions, the demand for offices was low — the volume of net absorption in the first six months amounted to 26,800 sq m, which is 3.4 times less than a year earlier, being comparable to the indicator of H1 2020, when the business activity was on pause due to the COVID-19 pandemic.

In the structure of deals, the maximum share fell on the IT&T segment — 58% of the total volume, which arrives from the purchase by Huawei of the Kantemirovsky Business centre (GBA 49,500 sq m) for its own needs at the beginning of the year. Several large IT companies launched the relocation process to other countries in the spring of 2022 and vacated their offices in St. Petersburg. According to our estimates, after the departure of these companies in Q2, about 38,500 sq m of office space entered the open market, some of which have already found new tenants.

In the second place were the structures of PJSC Gazprom, forming a share of 19% in terms of the volume of transactions in the first half of the year. In general, the office market of St. Petersburg has seen an increase in the activity of Gazprom structures after a comparative lull in 2020-2021.

The retail segment in January – June 2022 formed 8% of the total volume of transactions. The lease deal of the business centre Obvodny, 118 by Magnit was one of the most notable in this segment.

In terms of the size of rented offices, small offices, up to 100 sq m (37% of the total number of lease transactions) were in the greatest demand. Such blocks were most often rented by commercial, industrial and financial companies.

Vacancy rate and rental rates

By the end of Q2 2022, the average vacancy rate was 6.3%, which is 0.6 p.p. QoQ higher, and 0.7 p.p. higher than at the end of 2021. The vacancy rate increased in both classes, while in Class A the share of vacant space increased by 1.4 percentage points, to 6.1%, in Class B — by only 0.3 percentage points, to 6.4%. In absolute terms, the volume of available offices increased by 28,100 sq m in six months and reached 240,300 sq m total. At the same time, the volume of the so-called "hidden vacancy" of offices preparing for release by the end of the year totals about 84,000 sq m.

Rental rates by class showed different dynamics for the first half of the year. In Class A premises, the weighted average rental rate increased by 5.2%, reaching RUB1,790/sq m/month (excluding VAT). In Class B office buildings, the rates have not changed on average, remaining at the level of RUB1,133/sq m/month. The growth of the indicator in Class A is associated with the entry of a number of high-quality offices in good locations with rents exceeding the average market values, into the exposition.

Chart 2
Vacancy rate by class

Source: Nikoliers

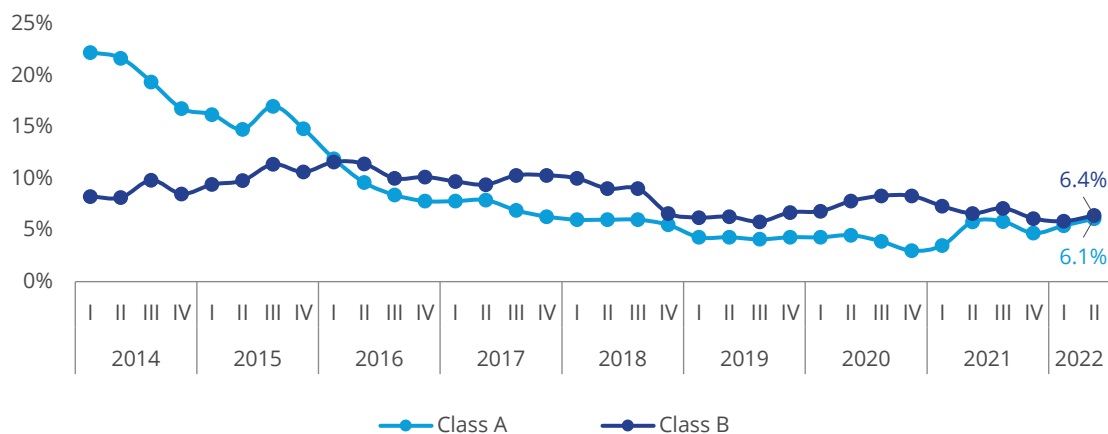


Chart 3
Distribution of deals by tenant type

Source: Nikoliers

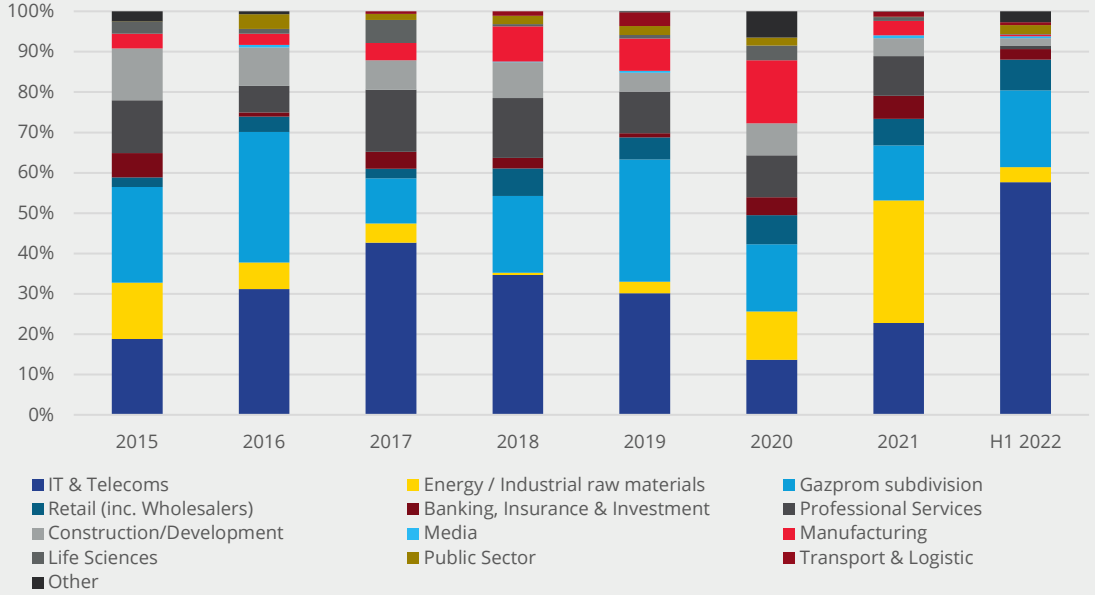


Chart 4
Distribution of deals by size of office space

Source: Nikoliers

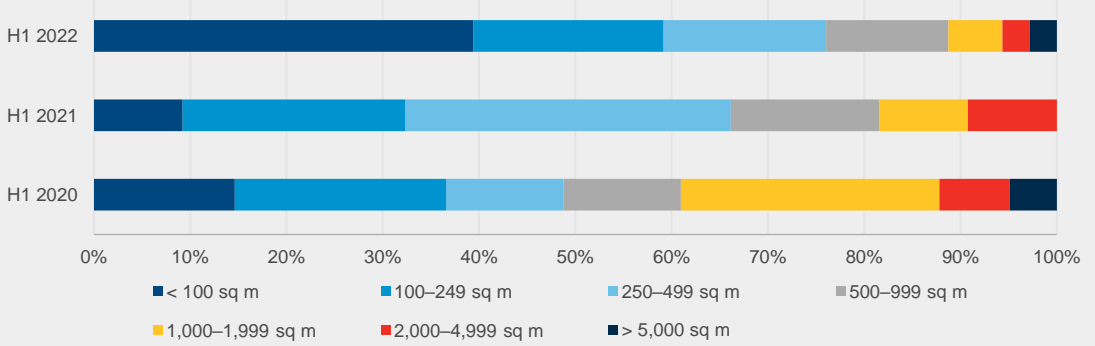
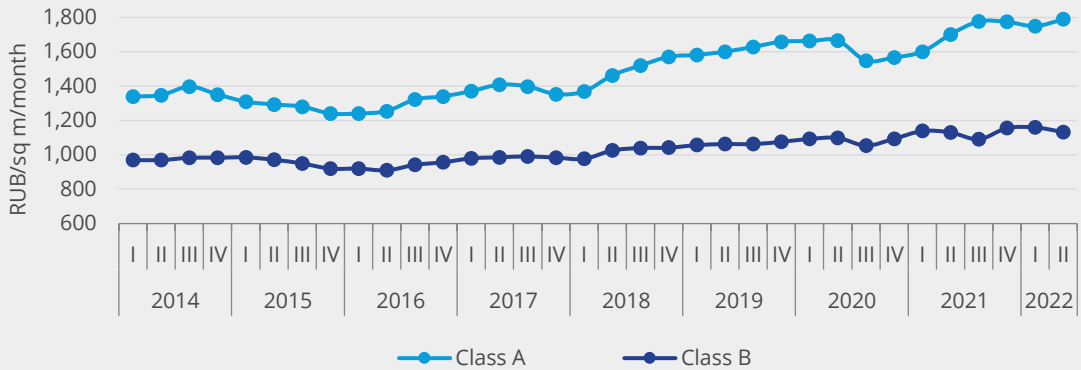


Chart 5
Change in rental rates by class

Source: Nikoliers



* Rental rates include operating expenses, excluding VAT.



Trends and forecast

- The majority of foreign corporations operating in the Russian market by the beginning of 2022 announced their withdrawal from the international network and continued to operate as independent companies with subsequent rebranding. IT companies were an exception; with their main business being connected with foreign customers. After the departure of a number of IT companies, high-quality offices with modern engineering appeared on the market, arousing high interest of tenants looking for opportunities to move, expand or improve rental conditions. It comes first of all about companies from the oil and gas sector — according to our estimates, they are interested in about 60% of the volume of offices releasing.
- The share of vacant premises in the office market shows a smooth growth. At the same time, rental rates in most objects remain at the same level. According to our estimates, rental rates will also not show significant dynamics until the end of 2022 as growth will be restrained by free supply on the market, and a fall is not expected due to high operating costs of owners.
- On the market, there is an increase in demand for the purchase of office buildings for the own needs. Among the business centres acquired by end users in the first half of 2022 are: Nobel Business centre, GBA 5,330 sq m (buyer - Petrovich), President Business centre, GBA 5,700 sq m (buyer — Perviy Bit), Aqualina Business centre, GBA 6,800 sq m (individual buyer). Buying their own offices allows companies to reduce rental costs in the long term and invest reliably, saving them from inflation.

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