

H1 2023

Office market

Russia | St. Petersburg

Table 1
Key market indicators

Source: Nikoliers

	H1 2021	H1 2022	H1 2023
Total stock, million sq m	3.76	3.83	4.07
Class A	1.29	1.32	1.45
Class B	2.46	2.51	2.62
Completions, thousand sq m	83.7	18.5	68.2
Net absorption, thousand sq m	90	26.8	82.2
Vacancy rate, %	6.3	6.3	9.9
Class A	5.8	6.1	9.8
Class B	6.6	6.4	10.0
Weighted average rental rate, RUB/sq m/month*			
Class A	1,702	1,790	1,755
Class B	1,131	1,133	1,189

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

Supply

In the first half of 2023 the office market of St. Petersburg grew by 68,200 sq m due to the commissioning of seven business centers, four of which opened in Q2: "Senator" on Millionnaya str., 5 and 6 (8,800 sq m and 11,400 sq m, respectively), "Senator" at 7 Medikov str. (11,200 sq m), office building at 199-201U Obvodny Canal Quay (2,400 sq m), as well as remodeling of the fourth floor in the Ligov shopping mall into office space (4,300 sq m). The increase in supply was 3.7 times higher than during the similar period last year.

As for the distribution of new supply of quality office space across the city, 72% is concentrated in the historical center: Admiralteysky, Vasileostrovsky, Central and Petrograd districts.

In the second half of 2023, six class A and B office centers with a total gross leasable area of 56,900 sq m are slated for commissioning. Thus, quality office space supply on the market is expected to increase by 3.1% in 2023.

Chart 1
Office completions

Source: Nikoliers



Vacancy rate and rental rates

In the midst of growing activity in the office market, the supply of quality offices is shrinking. As of the end of June 2023, the vacancy rate in quality business centers of St. Petersburg was 9.9%, or 404,400 sq m (vs. 10.5% at the end of 2022). In Class A the indicator decreased over six months from 10.3% to 9.8% to 141,700 thousand sq m, in Class B – from 10.6% to 10.0%, or 262,700 sq m.

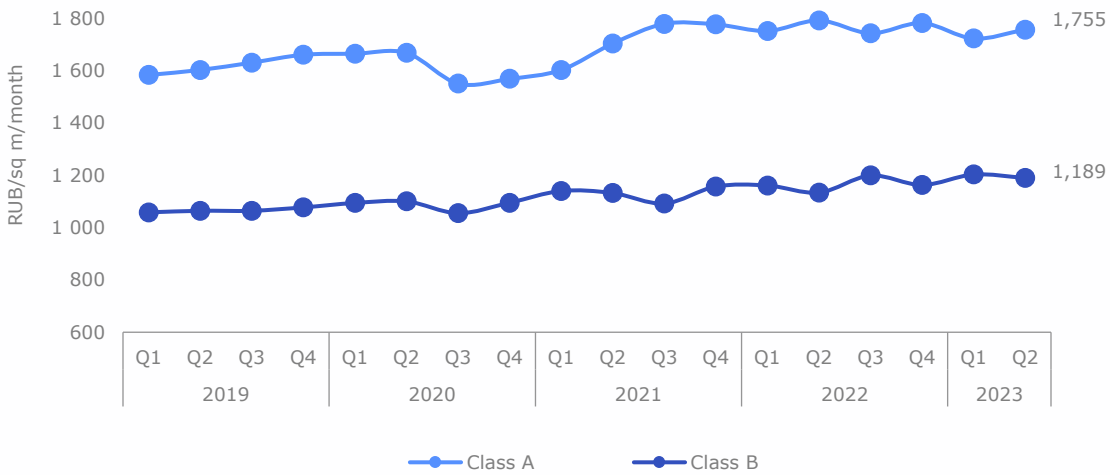
At the moment, the supply of highly liquid premises ready for lease, vacated during 2022, is practically exhausted. Now the prevailing offer on the market is premises with basic fit-out, which require renovation, as well as a number of high-quality properties that do not require owner's fit-out. Meanwhile, the search for offices with fit-out has become especially relevant in the midst of rising cost of building materials.

Since the end of 2022 rates in quality business centers of class A and B have not changed significantly and amount to 1,755 rub/sq m/month and 1,189 rub/sq m/month respectively. That said, in business centers with less than 50% occupancy, landlords are ready to discuss commercial terms and consider discounts from the announced price within 10-15%.

Due to the shorter planning horizon, many companies are seeking to conclude agreements with more flexible terms of lease cancellation. Yet, we do not see a trend for the reduction of the basic term of lease on the market: companies are oriented towards the term of 3-4 years.

Chart 3
Change in rental rates by class*

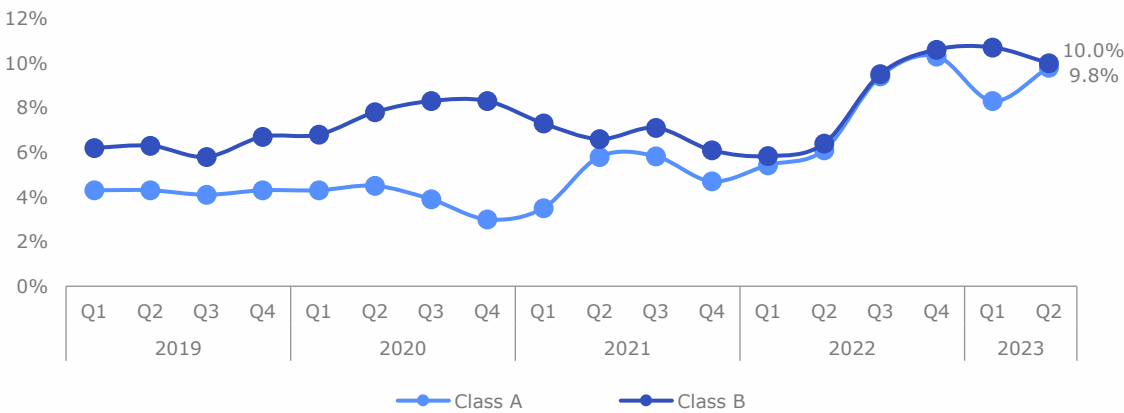
Source: Nikoliers



*Rental rates include operating expenses, excluding VAT.

Chart 4
Vacancy rate by class

Source: Nikoliers





Total stock, under-construction volume, vacancy and rental rates*

01 ADMIRALTEYSKIY

- 342,341
- 9.1%
- 1,421 RUB/sq m/month
- 1,666 RUB/sq m/month
- 1,290 RUB/sq m/month

02 VASILEOSTROVSKIY

- 345,645 sq m
- 10.0%
- 1,246 RUB/sq m/month
- 1,317 RUB/sq m/month
- 1,175 RUB/sq m/month

03 VYBORGSKIY

- 212,427 sq m
- 9.2%
- 1,356 RUB/sq m/month
- -
- 1,270 RUB/sq m/month

04 KALININSKIY

- 172,552 sq m
- 19.3%
- 1,522 RUB/sq m/month
- 1,888 RUB/sq m/month
- 1,356 RUB/sq m/month

05 KIROVSKIY

- 69,115 sq m
- 3.4%
- 1,050 RUB/sq m/month
- -
- 907 RUB/sq m/month

06 KRASNOGARDEYSKIY

- 246,747 sq m
- 11.7%
- 1,496 RUB/sq m/month
- 1,750 RUB/sq m/month
- 1,050 RUB/sq m/month

07 MOSKOVSKIY

- 698,680 sq m
- 10.3%
- 1,494 RUB/sq m/month
- 1,745 RUB/sq m/month
- 1,242 RUB/sq m/month

08 NEVSKIY

- 173,936 sq m
- 18.5%
- 1,304 RUB/sq m/month
- -
- 1,070 RUB/sq m/month

09 PETROGRADSKIY

- 466,455 sq m
- 9.2%
- 1,378 RUB/sq m/month
- 1,696 RUB/sq m/month
- 1,304 RUB/sq m/month

10 PRIMORSKIY

- 586,404 sq m
- 2.1%
- 1,270 RUB/sq m/month
- 1,123 RUB/sq m/month
- 1,060 RUB/sq m/month

11 FRUNZENSKIY

- 69,750 sq m
- 10%
- 1,449 RUB/sq m/month
- 1,583 RUB/sq m/month
- 897 RUB/sq m/month

12 CENTRALNIY

- 646,212 sq m
- 13.7%
- 1,635 RUB/sq m/month
- 1,783 RUB/sq m/month
- 1,299 RUB/sq m/month

DISTRICT NAME

- Existing Stock
- Vacancy Rate
- Average rate by district
- Weighted average rental rate of Class A
- Weighted average rental rate of Class B

* Rates presented include OPEX and exclude VAT.

Source: Nikoliers



Flexible space openings

There are currently 58 classic co-working centers in St. Petersburg with a total area of 68,100 sq m: 64% numerically and 69% in terms of total area are occupied by chain operators such as: PAGE and Praktik (eight projects each), Smart (six projects), &Place! (three projects), and others.

In the first half of 2023, one co-working center of the Smart network with 147 workstations opened in the Northern Capital as part of the Alexandria Residential Development. By the end of the year, 10 more co-working spaces are scheduled for opening, seven of which will be launched by chain operators. Thus, the total area of co-working spaces operating in St. Petersburg will increase by 12,000 sq m to 80,100 sq m by the end of 2023.

Table 2
The largest flexible space openings scheduled for H2 2023

Source: Nikoliers

No	Name	Address	District	GLA, thousand sq m
1	Chekhov's Praktik	18, Chekhov Str	Central	3,850
2	&Place!	46B, Gorokhovaya Str	Central	3,000
3	PARK PAGE	149, Narodnogo Oppolzha Ave	Kirovsky	1,290
4	PAGE in BC Petrovsky Fort	4, Finland Ave	Vyborgsky	1,000
5	Non-network co-working center in BC ReForma	15, Levashovsky Ave	Petrogradsky	800
6	OFIX Sennaya	2, Efimova Str	Central	640
7	Buffer 21	21, Kuybysheva Str	Petrogradsky	480
8	Grow Up at We&I Ramada by Vertical Aparthotel	44, Ordzhonikidze Str	Moskovsky	400
9	Non-network co-working center in BC ReForma	8, Pridorozhnaya Al	Vyborgsky	300
10	Non-network co-working center in BC Parnas	4, Domostroitelnaya Str	Vyborgsky	300

Trends and forecast

New office development remains limited.

Both in 2023 and in 2024 the plan calls for the commissioning of ca. 125,000 sq m of office space, which is 29% below the same indicator for 2022 (177,000 sq m). The rising cost of construction significantly affects the plans of many developers.

The occupant activity is high.

During the year many companies have had enough time to get adapted to the new reality. Amid the grown activity of occupants, we do not expect the completion of construction on new large speculative office projects in the second half of 2023 to spur the vacancy rate: the average market vacancy indicator may sink by 1-2 p.p. till the year's end, which might also lead to the upward correction of the asked rental rates in quality facilities.

Looking for offices with fit-out is especially relevant.

Occupants and buyers often choose units or assets that do not require any extra outlay on fit-out and engineering services. With occupants optimizing their costs, shell & core premises are in lesser demand; they can only attract clients with non-trivial requests. Among the key clients are representatives of big Russian business and state-owned companies interested to enlarge and improve their office spaces or to bring together different business units.

Chain operators of co-working spaces ramp up their presence in the market.

Ten co-working spaces are slated for opening till the year's end, of which seven will be launched by chain operators. Leasing office space in such projects enables companies to use a quality serviced office with up-to-date repair, furniture and equipment, as well as to minimize their operating expenses and to be flexible in selecting the number of necessary workplaces for their employees. It is for this reason that the given product is so popular nowadays, rapidly developing on the market.



For more information

Office Group

Victoriya Goryacheva

Associate Director
+7 812 718 3618
Victoriya.Goryacheva@nikoliers.ru

Research department

Bazaeva Alina

Head of the Research Department,
St. Petersburg
+7 812 718 3618
Alina.Bazaeva@nikoliers.ru

Julia Bykova

Analyst
+7 812 718 3618
Julia.Bykova@nikoliers.ru

Marketing & PR

Olga Bakulina, MCIM

Regional Director
+7 495 258 5151
Olga.Bakulina@nikoliers.ru

Anna Sabinina

Director, St. Petersburg
+7 812 718 3618
Anna.Sabinina@nikoliers.ru

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 **Nikoliers**

191186 St. Petersburg
3 Volynsky Lane
BC Senator
+7 812 718 36 18
www.nikoliers.ru