Nikoliers

Results 2023

Office market

Russia | St. Petersburg

Table 1
Key market indicators

Source: Nikoliers

		2022	2023	2024F
Total stock at the end of the period, million sq m*		4	4.14	4.24
	Class A	1.4	1.47	1.53
	Class B	2.6	2.66	2.71
Completions for the period, thousand sq m		177	133.8	97.7
Net absorption for the period, thousand sq m		46	184.5	164
Vacancy rate, %		10.5	8.4	6.7
	Class A	10.3	8.8	5.6
	Class B	10.6	8.2	7.3
Weighted average rental rate, RUB/sq m/month**				
	Class A	1,780	1,741	1,793
	Class B	1,162	1,222	1,271

**The supply of quality office space was revised and updated towards enlargement in Q4 2023 (+7 000 sq m).*
***Hereinafter, rental rates include operating expenses, exclude VAT.*

Supply

In 2023, new office space amounting to 133,800 sq m hit the market due to 13 new projects, as well as re-conception of the fourth floor in the Ligov shopping mall that now houses business space. In Q4 2023, business centres such as Jakov Chernihov (15,000 sq m) and Derzhavinsky (7,000 sq m) were commissioned.

In terms of geographical footprint, the largest increase in office space was recorded in Vasileostrovskiy (36,800 sq m) and Central (36,000 sq m) districts. In each of them three business centres were commissioned, most of them following a renovation.

In 2024, the completion of seven facilities with a total leasable area of 97,700 sq m is anticipated. The new supply mainly consists of class B buildings in districts adjacent to the historical core of the city. It should be noted that more than 75% of this new space will not be rolled out to the open market.

Chart 1
Office completions

Source: Nikoliers

Demand

By the end of 2023, the absorption rate exceeded the business centre construction rates. The total net absorption amounted to 184,500 sq m versus 46,000 sq m a year earlier.

Vasileostrovskiy (39%), Central (22%) and Moskovskiy (14%) districts were the leaders in terms of leased space. Vasileostrovskiy District is at the top of the rating thanks to a vacant office development with a leasable area of 24,500 sq m, which was subsequently let out.

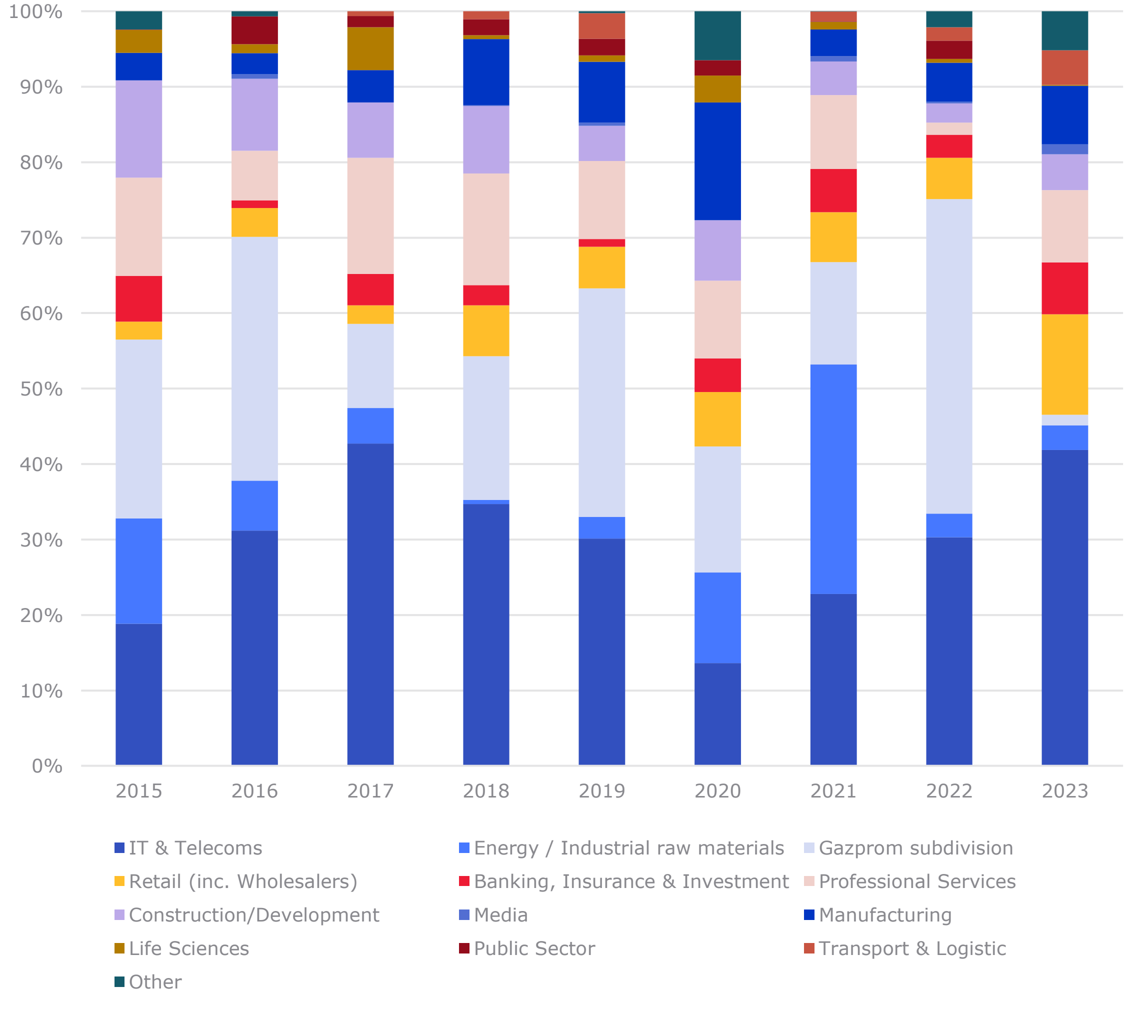
In 2023, the share of IT&T companies totaled to 42% among the occupants. The largest transactions (over 3,000 sq m) in this segment were concluded in Vasileostrovskiy and Central districts. Thus, Sberbank leased three business centres owned by Maxidom with an aggregate floor area of 24,500 sq m, whereas an international IT&T company occupied 3,800 sq m in M22 office centre.

Trading companies (13% in 2023 vs. 5% in 2022) and professional services (10% in 2023 vs. 2% in 2022) showed the largest increase in transaction volumes in 2023. Some of them took the opportunity to expand their office space in business centres where they are stationed, while others moved to a higher quality facility.

In terms of floor area, premises in the range of 100 to 250 sq m remained in highest demand as in the year before. Developers, building contractors and companies providing professional services were most interested in such office units. A significant part of office units with the area of 1,000 sq m plus was leased by major players to improve the quality of their offices.

Chart 2
Distribution of deals by tenant type

Source: Nikoliers



Vacancy rate and rental rates

High business activity during 2023 led to the average vacancy rate going down to 8.4% versus 10.5% in December 2022. Vacant office space in the St. Petersburg market shrank to 348,500 sq m and was dispersed across 178 properties. That said, 1,000 sq m plus units can be found in less than 46 business centres, which complicates the search for large office premises.

All areas in the city, except for Vasileostrovskiy and Vyborgskiy districts, showed a reduction in vacant office space by the end of the year. The increase in vacancies in Vasileostrovskiy District was due to the commissioning of a speculative 15,000 sq m facility in Q4 2023.

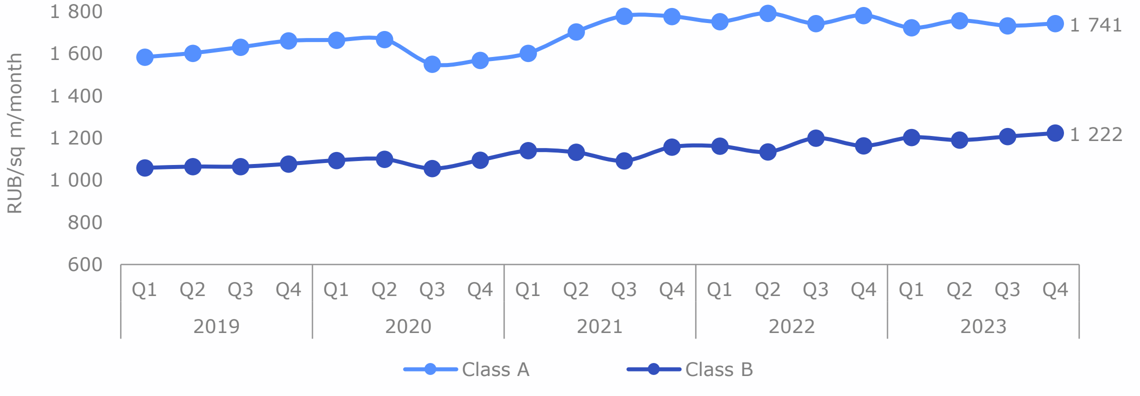
The most noticeable decrease in vacancies – by 2.4 p.p. since the end of 2022 – occurred in Class B, with 218,800 sq m on offer in absolute terms. In Class A, by the end of the year, the vacancy rate sank by 1.5 p.p., 129,700 sq m remaining vacant.

Since the end of 2022, the asking rental rate in the Class A office segment slid by 2% (-39 RUB/sq m/month) amounting to 1,741 RUB/sq m/month. The change was due to the revision of rates in accordance with commercial terms in those properties where a significant amount of office space had previously been vacant. In Class B, on the contrary, the rent rose by 5% (+60 RUB/sq m/month) to 1,222 RUB/sq m/month.

The growth of rates in 2023 was recorded mainly in business centres located in Central, Petrogradskiy and Primorskiy districts. In some office facilities the rent surged by 10% since the beginning of the year.

Chart 3
Change in rental rates by class*

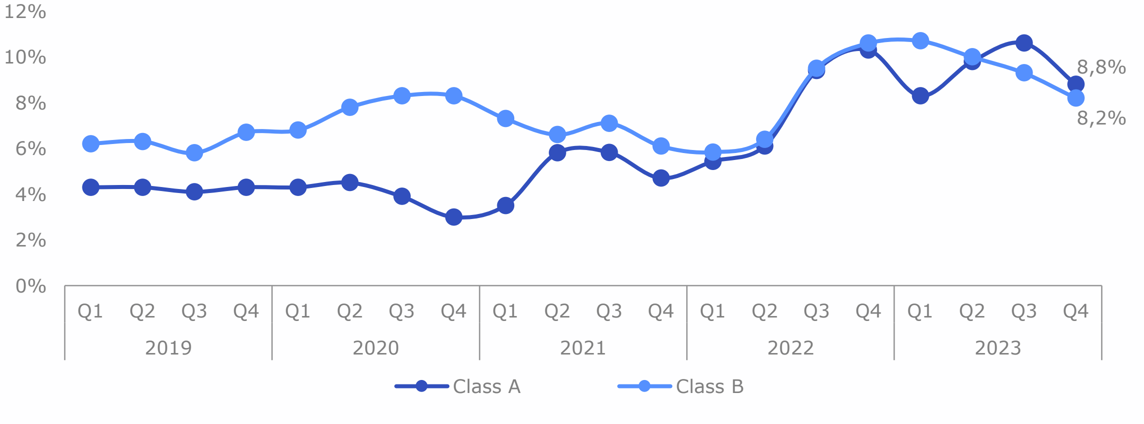
Source: Nikoliers



**Rental rates include operating expenses, excluding VAT*

Chart 4
Vacancy rate by class

Source: Nikoliers

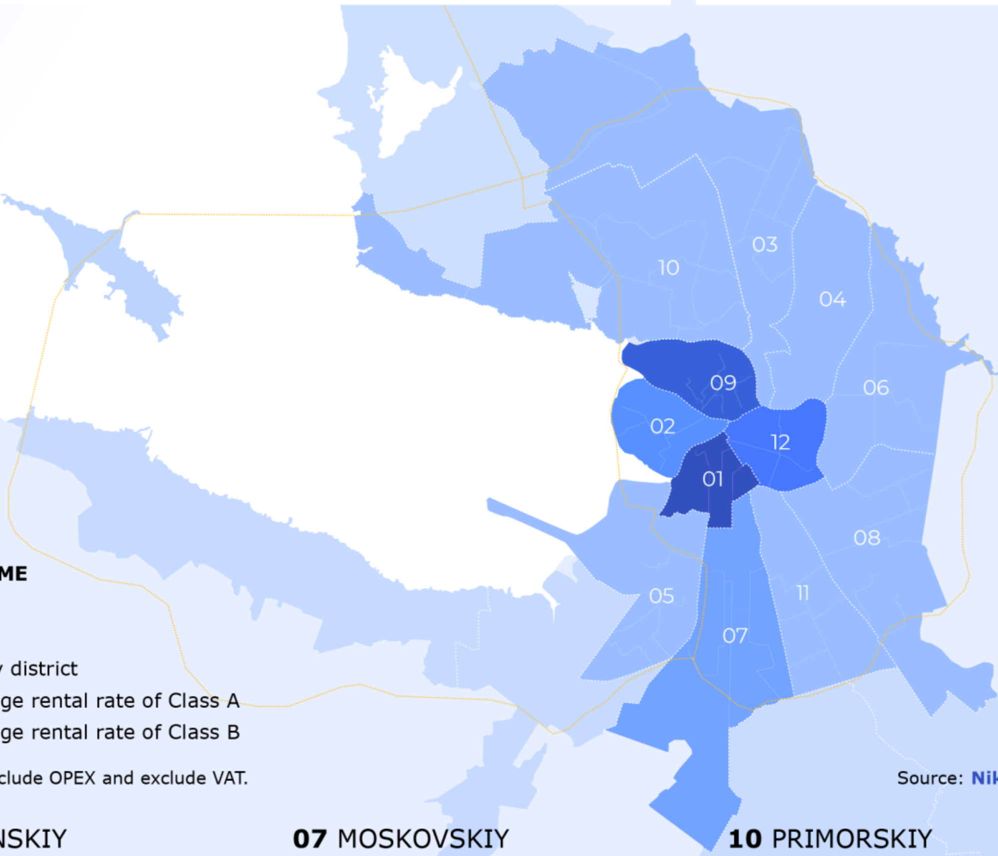


Total stock, under-construction volume, vacancy and rental rates*

01 ADMIRALTEYSKIY
- 349,096 sq m
- 5.6%
- 1,384 RUB/sq m/month
- 1,475 RUB/sq m/month
- 1,326 RUB/sq m/month

02 VASILEOSTROVSKIY
- 373,950 sq m
- 11.4%
- 1,251 RUB/sq m/month
- 1,342 RUB/sq m/month
- 1,168 RUB/sq m/month

03 VYBORGSKIY
- 212,427 sq m
- 10.0%
- 1,273 RUB/sq m/month
- -
- 1,269 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**

04 KALININSKIY
- 172,552 sq m
- 18.5%
- 1,691 RUB/sq m/month
- 1,902 RUB/sq m/month
- 1,000 RUB/sq m/month

07 MOSKOVSKIY
- 703,528 sq m
- 8.9%
- 1,366 RUB/sq m/month
- 1,688 RUB/sq m/month
- 1,331 RUB/sq m/month

10 PRIMORSKIY
- 600,821 sq m
- 3.2%
- 1,195 RUB/sq m/month
- 1,332 RUB/sq m/month
- 1,173 RUB/sq m/month

05 KIROVSKIY
- 69,115 sq m
- 2.0%
- 885 RUB/sq m/month
- -
- 900 RUB/sq m/month

08 NEVSKIY
- 173,936 sq m
- 19.6%
- 1,057 RUB/sq m/month
- -
- 1,068 RUB/sq m/month

11 FRUNZENSKIY
- 69,570 sq m
- 3.3%
- 1,260 RUB/sq m/month
- 1,648 RUB/sq m/month
- 975 RUB/sq m/month

06 KRASNOGVARDEYSKIY
- 246,747 sq m
- 6.9%
- 1,118 RUB/sq m/month
- 1,750 RUB/sq m/month
- 1,112 RUB/sq m/month

09 PETROGRADSKIY
- 466,455 sq m
- 5.5%
- 1,460 RUB/sq m/month
- 1,769 RUB/sq m/month
- 1,336 RUB/sq m/month

12 CENTRALNIY
- 662,060 sq m
- 10.7%
- 1,751 RUB/sq m/month
- 2,005 RUB/sq m/month
- 1,558 RUB/sq m/month

Flexible space openings

Based on the results for 2023, the bulk of quality co-working space supply is formed by 59 spaces with 70,450 sq m available. Of these, 41 are chain projects, with Praktik (23%) and PAGE (18%) chains accounting for the largest share in this segment.

As for the territorial distribution of flexible offices, most of them can be found in the Central District (40%, or 28,300 sq m). Petrogradskiy (11,400 sq m) and Kalininskiy (6,200 sq m) districts are second and third due to the largest existing classic projects in the city: Yasnaya Polyana (6,200 sq m) and Laboratorium (5,000 sq m), respectively.

New flexible office spaces keep on hitting the St. Petersburg market. In 2023, the supply of co-working space increased by 6,200 sq m. Co-working centres such as &Place! in Seno space (3,000 sq m), Smart Coworking on Novgorodskaya (1,200 sq m), OFIX Sennaya (640 sq m), Buffer 21 (470 sq m) were opened, while the area of non-chain co-working centre Pushkin was enlarged, reaching 1,500 sq m (+900 sq m).

In 2024 the plan calls for the opening of 12 flexible spaces with a total area of 13,800 sq m, which is 2.2 times more than in 2023.

Table 2
The largest flexible space openings scheduled for 2024

Source: Nikoliers

№	Name	Address	District	GLA, thousand sq m
1	Chekhov's Praktik	18, Chekhov Str	Central	3,850
2	Benua Campus PAGE	17, Tihoretskiy Ave	Kalininskiy	1,890
3	Nekrasov's Praktik	3–5, Nekrasova Str	Central	1,500
4	PARK PAGE	149, Narodnogo Oppolzha Ave	Kirovskiy	1,290
5	Grow Up at the Ramada Encore by Wyndham	44, Ordzhonikidze Str	Moskovskiy	1,200
6	PAGE in BC Petrovsky Fort	4, Finland Ave	Vyborgskiy	1,000
7	Multispace Pravda	12–14, Hersonskaya Str	Central	1,000
8	Non-network co-working center in BC ReForma	15, Levashovsky Ave	Petrogradskiy	800
9	Grow Up at Digital Village Vertical Aparthotel	44, Ordzhonikidze Str	Moskovskiy	400
10	Non-network co-working center in BC ReForma	8, Pridorozhnaya Al	Vyborgskiy	300
11	Non-network co-working center in BC Parnas	4, Domostroitelnaya Str	Vyborgskiy	300
12	Non-network co-working center	110, Obuhovskoy Oborony Ave	Nevskiy	300

Trends and forecast

End users are increasingly keener on acquiring quality business centres. However, their supply in the St. Petersburg market is limited.

The current economic situation continues to affect office development: inflation, rising construction costs and the key rate, as well as limited project financing significantly reduce developers' ability to build speculative office projects.

Given that few new projects are launched and some projects slated for commissioning in 2024 have been leased prior to their official commissioning, we expect further shrinking of vacant office space in both classes, as well as a shortage of quality 5,000 sq m plus office units.

We believe that in 2024, in the midst of declining vacancies, rental rates in quality business centres will soar. Owners of high-class facilities will be able to significantly increase the asking rate due to the existing scarcity of office space.

Tangible growth of rental rates may become an incentive for the construction of new projects.

The co-working space market will keep expanding. The opening of 12 flexible spaces is scheduled for 2024, of which most (seven projects) will be accommodated in the city's business centres.

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