

Q1 2024

Warehouse and Industrial Market

Russia | Saint Petersburg

Macroeconomic situation

Key market macroeconomic indicators

Source: Bank of Russia

	2022	2023	2024F	2025F	2026F
GDP (%, y/y)	-1.2	3.6	1.8	1.5	1.5
CPI (% Dec. vs. Dec. last year)	11.9	7.4	5.2	4.1	4.0
Key interest rate (% per annum, year's average)	10.6	9.9	14.5	9.4	7.5
USD/RUB exchange rate (RUB per USD, year's average)	67.4	85.2	91.2	93.8	95.0
Unemployment rate (%, Dec.)	3.6	3.0	3.0	3.1	3.2
Export of goods and services (USD billion per year)	641	465	472	489	490
Import of goods and services (USD billion per year)	347	379	384	397	408
Brent oil price (USD per barrel, year's average)	99	82	80	78	75

Maintaining the CBR key rate at 16% continues to keep the cost of project financing at a high level, which affects both the rates of building warehouse facilities and the decisions to build them. This, in turn, affects the quotation of rental rates, making them less affordable for potential consumers.

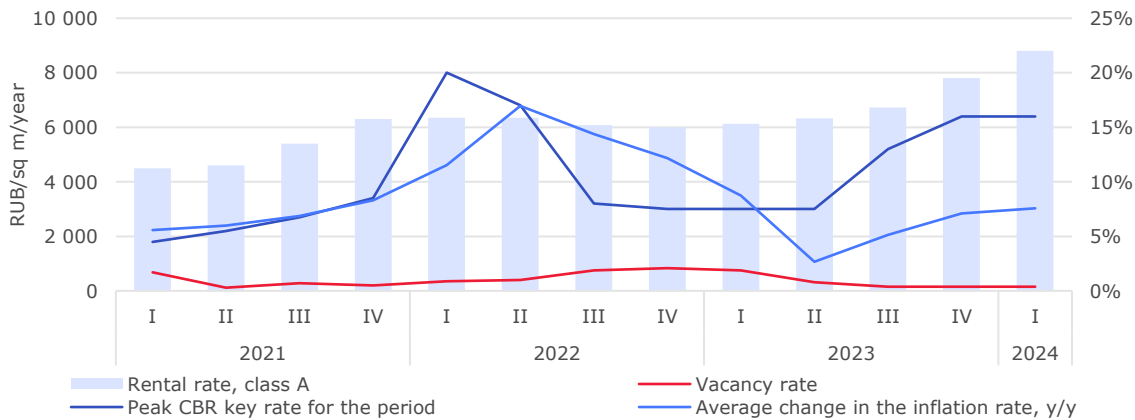
In the second half of this year, a slight decrease in the key rate of the Central Bank is expected, even though it will presumably remain at a relatively high level.

Accumulated inflationary pressures from previous years, as well as growth restraining factors in 2022, led to a marked leap in rental rates in 2023 amid record demand and near-zero vacancy.

The expected downward adjustment of the CPI to 5.2% this year will help stabilize operating prices and owner costs, and will also increase the likelihood of a reduction in the Bank of Russia's key rate by year-end. More affordable debt financing terms and continued growth of rental rates may boost development activity.

Correlation of weighted average rental rate (excluding OPEX and VAT), vacancy rate, key interest rate and inflation

Source: Nikoliers



Key market indicators

Source: Nikoliers

	2022	2023	Q1 2024	2024F
Total supply, thou sq m	4,427	4,809	4,822	5,595
Completions, thou sq m	547	383	119	891
Total take-up, thou sq m	318	966	60	602
Vacancy rate, %	2.1%	0.4%	0.4%	0.1%
Asked rental rate, RUB/sq m/year*				
Class A	6,000	7,800	8,800	9,355
Class B	5,500	6,840	7,200	8,560

*The rental rates do not include OPEX and VAT.
Median OPEX figures for warehouse premises of classes A and B are in the range of 1,000–1,500 RUB/sq m/year.

Key market indicators

The trends which took shape in the second half of 2023 are still apparent in Saint Petersburg warehouse estate market.

The growth of rental rates to record highs for the history of the market development amid the acute shortage of vacant space directly affects the behavior of all market participants and satisfied demand indices, which at the end of Q1 2024 amounted to 60,000 sq m.

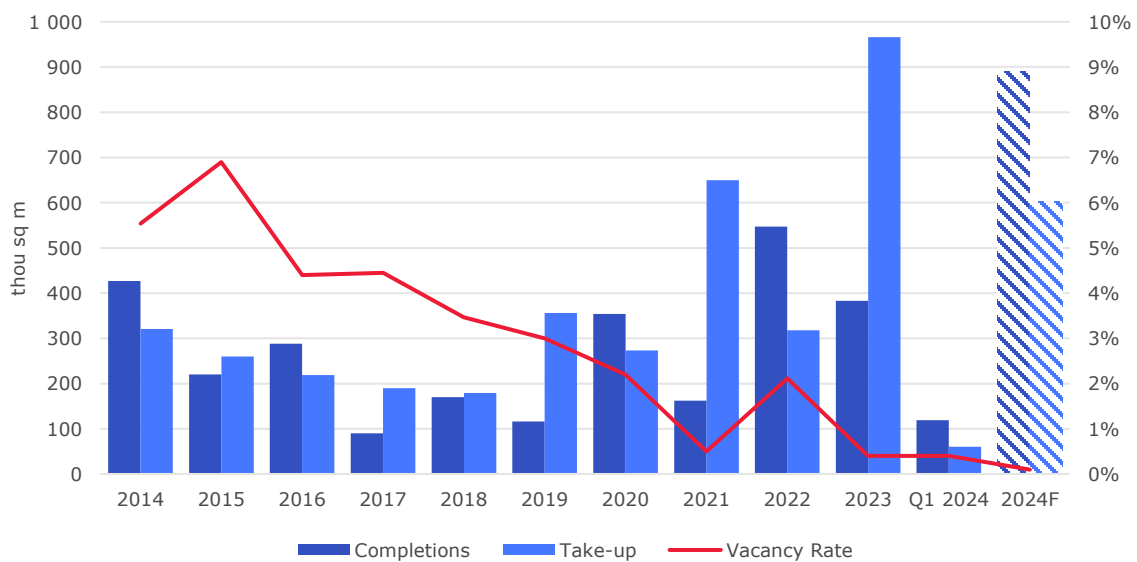
At the moment, there are no prerequisites for drastic changes in the current situation: new speculative supply expected to be commissioned in 2024 will not be able to fully satisfy all interested tenants due to the fact that most of the

storage space has already been contracted. Meanwhile, customers in need of large areas in most cases have no other alternative but to sign BTS deals.

Throughout the year it is expected that rental rates will continue to grow and the vacancy rate will drop to record low levels.

Dynamics of new space commissioning, transaction amounts and vacant space

Source: Nikoliers

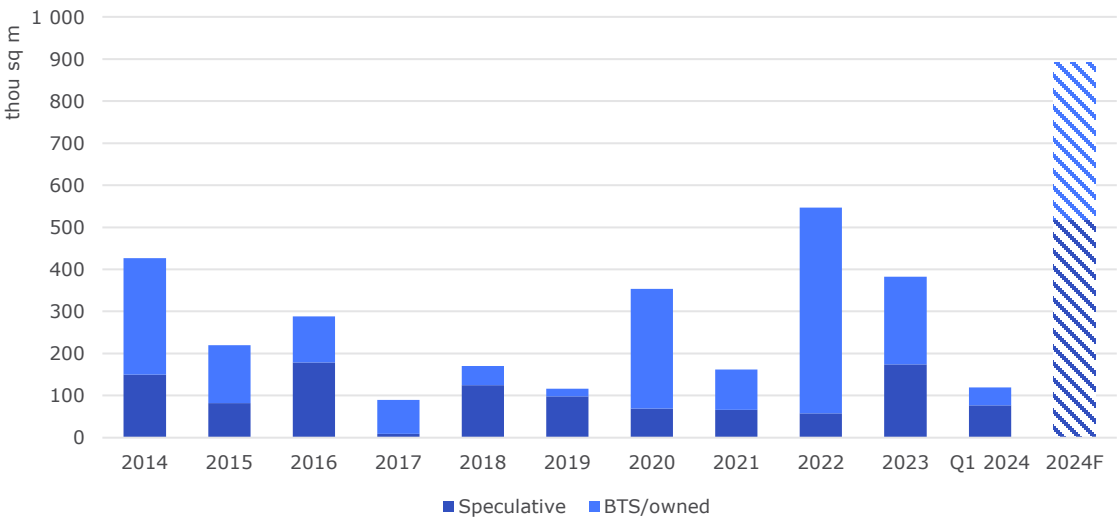


Supply

In Q1 2024, the warehouse estate market of St. Petersburg showed the maximum amount of warehouse space commissioning versus similar periods of all previous years – more than 119,000 sq m, which was mostly caused by the commissioning of a major 69,000-sqm transport and logistics complex from Admiral Group on Volkhonsky Highway, which had fully been leased by Ozon marketplace at the end of last year, and 27,000-sqm SKRAP Bugry warehouse, which was a build-to-suit project for the needs of a wholesale supplier. These facilities together account for 80% of the new commissioning in Q1 2024.

Speculative and BTS construction

Source: Nikoliers

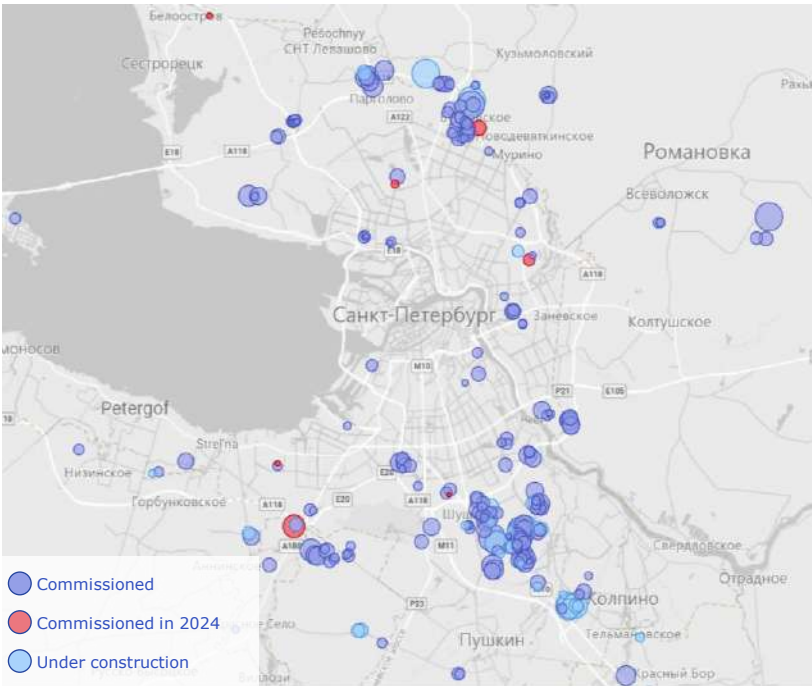


As of today developers have announced the annual commissioning at the level of 900,000 sq m, of which 42% falls to the share of build-to-suit projects and in-house construction, with speculative projects accounting for 58%.

Provided that all of the announced projects will have been built, the total storage space supply in St. Petersburg may hit the 5-million sq m mark.

Geographical distribution
of warehouse facilities
in Saint Petersburg

Source: Nikoliers



Demand

According to the results of Q1 2024, the demand in the warehouse estate market of St. Petersburg agglomeration amounted to 60,300 sq m. This is 2.5 times less than for the first quarter of 2023. However, such an impressive decline does not represent a reduction in the need for warehousing space, but on the contrary, indicates that there are few options available on the market, capable of meeting the demands of interested parties.

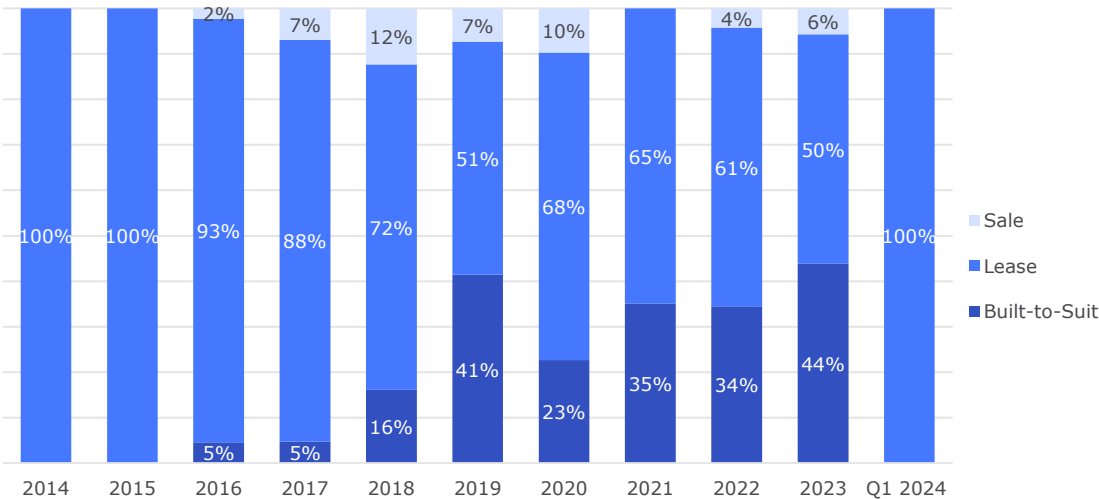
Transactions made by marketplaces, which rented a total of 49,000 sq m, accounted for 81% of all lease and sale deals. The largest transaction in the first three months of this year was the sublease of a 28,000-sqm warehouse unit by online retailer Wildberries from VseInstrumenty.ru in PNK Park Shushary 3 industrial park.

No build-to-suit deals were recorded in the first quarter; yet under the acute shortage of vacant warehouse space, such contracts are expected to be signed during the year.

In total, by the end of 2024 the amount of concluded lease and sale transactions is expected to be at a relatively high level, albeit 38% below the figure for 2023 – 600,000 sq m.

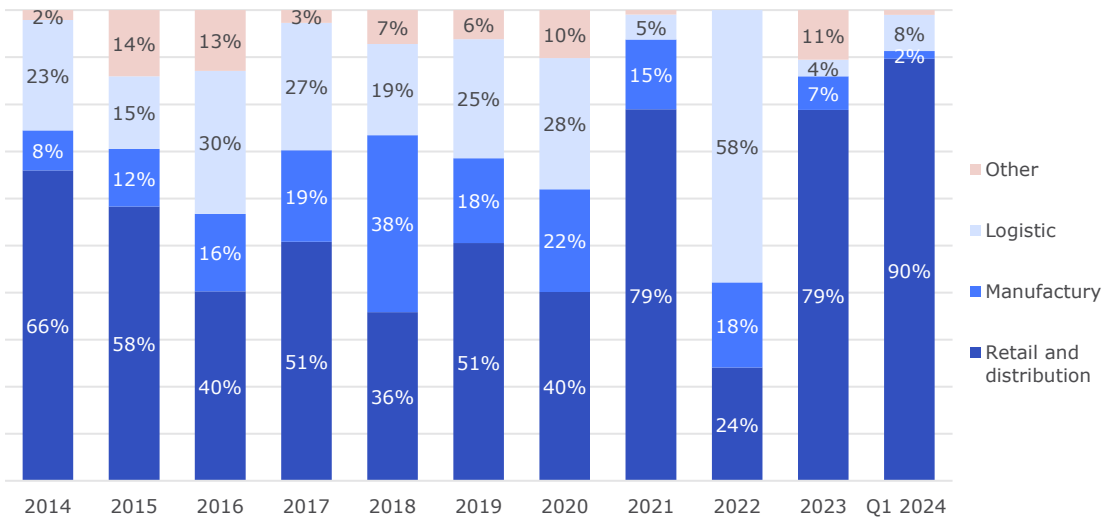
Breakdown of demand by transaction type

Source: Nikoliers



Breakdown of demand by tenant profiles

Source: Nikoliers



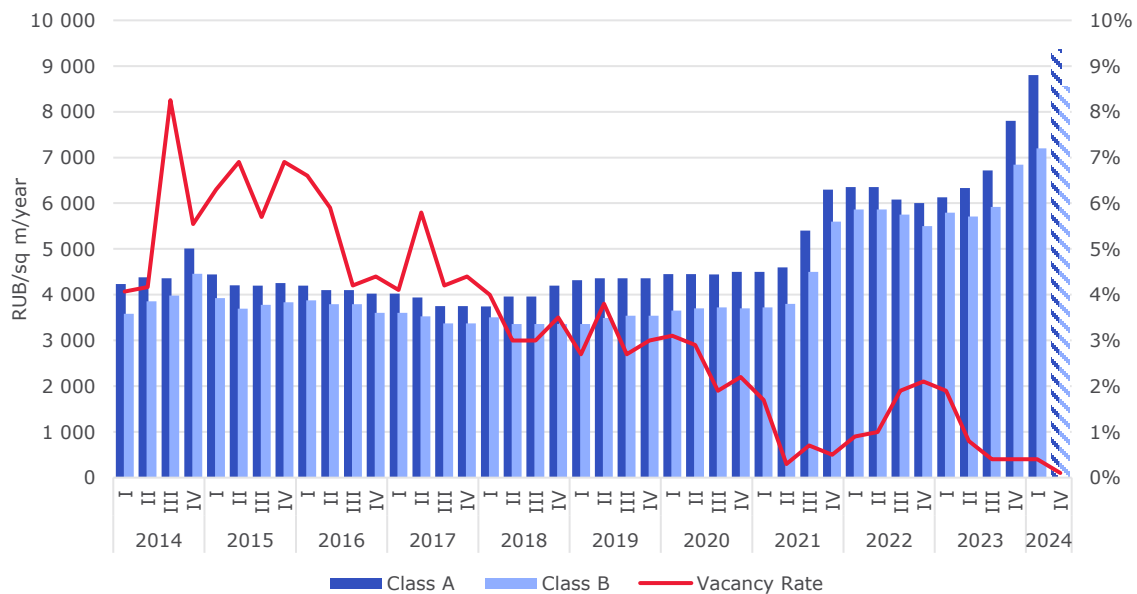
Vacancy and rental rates

The real estate market of St. Petersburg still faces a shortage of vacant warehouse premises, despite the expected commissioning of a large volume of speculative supply on the market. High business activity in 2023 led to rapid absorption of available options. Thus, the vacancy rate in the market has remained below 1.0% for 4 quarters in a row. At the end of March, the index was fixed at 0.4% (or 18,000 sq m). In the meantime sublease supply, which was rather abundant in 2022-2023, has been totally absorbed and disappeared from the market.

Weighted average rental rate for ready vacant Class A warehouse units in Saint Petersburg has been appreciated by 44% to 733 RUB/sq m/month (excluding OpEx and VAT) year-on-year. Thus, the rental payment, including operating expenses and VAT, in ready vacant class A units sometimes reaches 1,000 RUB/sq m/month. However, it is not uncommon to find cases when during “auctions” among the applicants for particularly attractive units the rental rate is noticeably higher than the average figures.

Vacancy and asked rent dynamics by classes*

Source: Nikoliers



*The rental rates do not include OPEX and VAT.

Median OPEX figures for warehouse premises of classes A and B are in the range of 1,000-1,500 RUB/sq m/year.



Trends and forecast

Growing tenant rotation in response to skyrocketing rental rates for warehouse premises

Amid surging rental rates for warehouse premises we see tenant rotation on the rise.

Tenants, faced with new contractual terms, in particular, higher rates, are forced to either agree to these changes, putting their financial stability at risk, or look for alternative options.

Alternatives include finding warehouses with more affordable rents, but often this means concessions in quality and convenience.

A number of tenants are eyeing relocation to lower class properties with poorer characteristics. Other clients are looking for similar premises, but at a greater distance from the city or even in another nearby region.

Growing interest in acquisition and buildup of owned warehousing assets

Tenants increasingly often opt for acquisition of their own warehouse premises or even land plots for subsequent development of warehousing assets to suit their own needs.

In 2023 a significant increase in the number of land acquisition transactions for industrial development was recorded in the agglomeration, with more than 100 hectares purchased in total. This is the clear evidence that companies seek to

provide themselves with sustainable warehousing capacity under stiffening competition and limited supply in speculative facilities.

The economic justification of this approach lies in the premise that owned warehouse premises or plots of land allow companies to keep their costs under control, invest income surplus and develop their own industrial and logistics operations.

This trend will most likely continue in the years to come in response to persistent scarcity of storage space and pressure on rental rates.

Victor Afanasenko

Regional Director
Head of Warehousing & Industrial Real Estate Department

"Saint Petersburg as the second largest industrial real estate market in the country is always in demand among consumers, being also attractive for developers and investors.

At the present moment the northern capital can be characterized as the landlord's market, which is the result of absorption of nearly all vacant space in 2023.

To strike a balance, the market needs an extra amount of speculative supply. Developers are interested in creating warehousing infrastructure in the agglomeration, but they are currently waiting for market conditions to change. In the present-day economic environment vibrant speculative construction cannot be expected sooner than 2025."



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Marketing

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