

Q3 2023

Office market

Russia | St. Petersburg

Table 1
Key market indicators

Source: Nikoliers

	Q3 2021	Q3 2022	Q3 2023
Total stock, million sq m	3.79	3.89	4.1
Class A	1.32	1.37	1.47
Class B	2.57	2.52	2.63
Completions, Q1–Q3, thousand sq m	119.2	68.3	110.0
Net absorption, Q1–Q3, thousand sq m	112	7.4	32.0
Vacancy rate, %	6.6	9.5	9.8
Class A	5.8	9.4	10.6
Class B	7.1	9.5	9.3
Weighted average rental rate, RUB/sq m/month*			
Class A	1,777	1,741	1,731
Class B	1,091	1,198	1,206

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

Supply

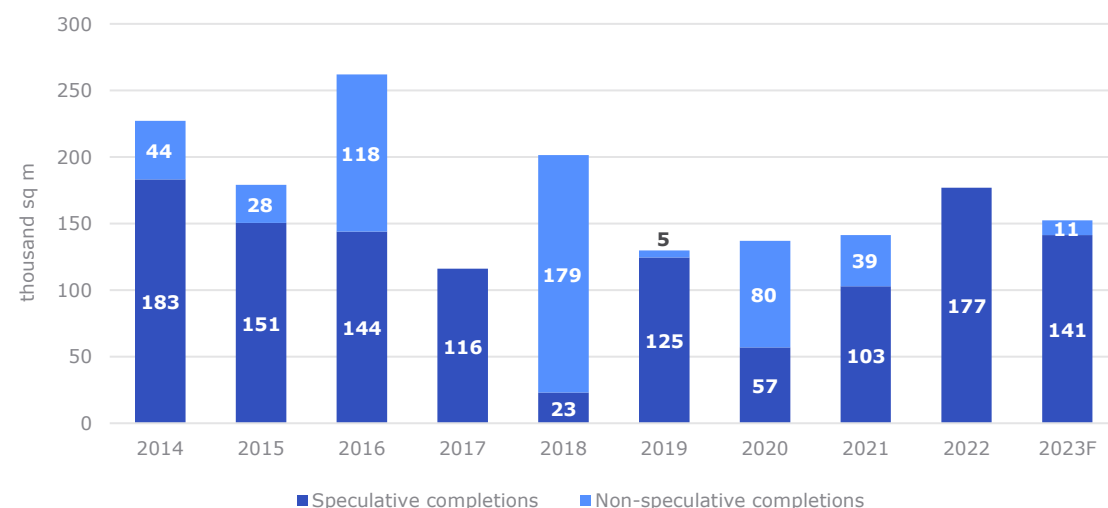
Since the beginning of 2023, the total quality office space supply has grown by 110,000 sq m, up 61% year-on-year. In Q3 2023, the construction of three projects with the leasable area of about 41,800 sq m was completed.

Two projects cropped up in the business core of the city, namely M22 office building (Central district) and Tesla (Vasileostrovsky district). One more facility is located in Primorsky district, namely BC Sabirovsky.

Five office centres with the aggregate leasable area of 42,300 sq m are currently at a high stage of readiness and can be commissioned till the end of 2023. Four of them are speculative, except for the second phase of Atlas City (11,000 sq m of GLA).

Chart 1
Office completions

Source: Nikoliers



Demand

The total volume of net absorption of office space at the end of three quarters of 2023 amounted to 32,000 sq m, which is 4.3 times more than during the same period last year (7,400 sq m).

As per the results of three quarters, business districts of St. Petersburg (Admiralty, Vasileostrovsky, Petrograd, Central districts) accounted for more than 70% of total lease transactions concluded. The leadership of Vasileostrovsky district as per the number of major transactions is due to the availability of office premises having the area of 5,000 plus sq m with fit-out and market rental rates in this location.

In the structure of deals, IT&T companies remain high on the demand side. From January to September they rented more than 42,000 sq m of office space. Among the major deals of Q3 2023, we can mention the relocation of the Russian IT company Kodeks to a new 6,000 sq m office in BC Ostrov, Vasileostrovsky district and the lease by an international IT company of a 3,800 sq m office in the new BC M22.

In terms of leased office space, IT&T companies, retailers and manufacturers were the leaders in Q3 2023. The top three key tenant groups as per the number of transactions also included

IT&T companies, builders and mercantile businesses which more often chose class B business centres in near-central districts of the city. For example, the BC Megapark in Moskovsky district accommodated the trading company RT-Engineering (500 sq m), as well as the innovative company SkyTechnologies (500 sq m).

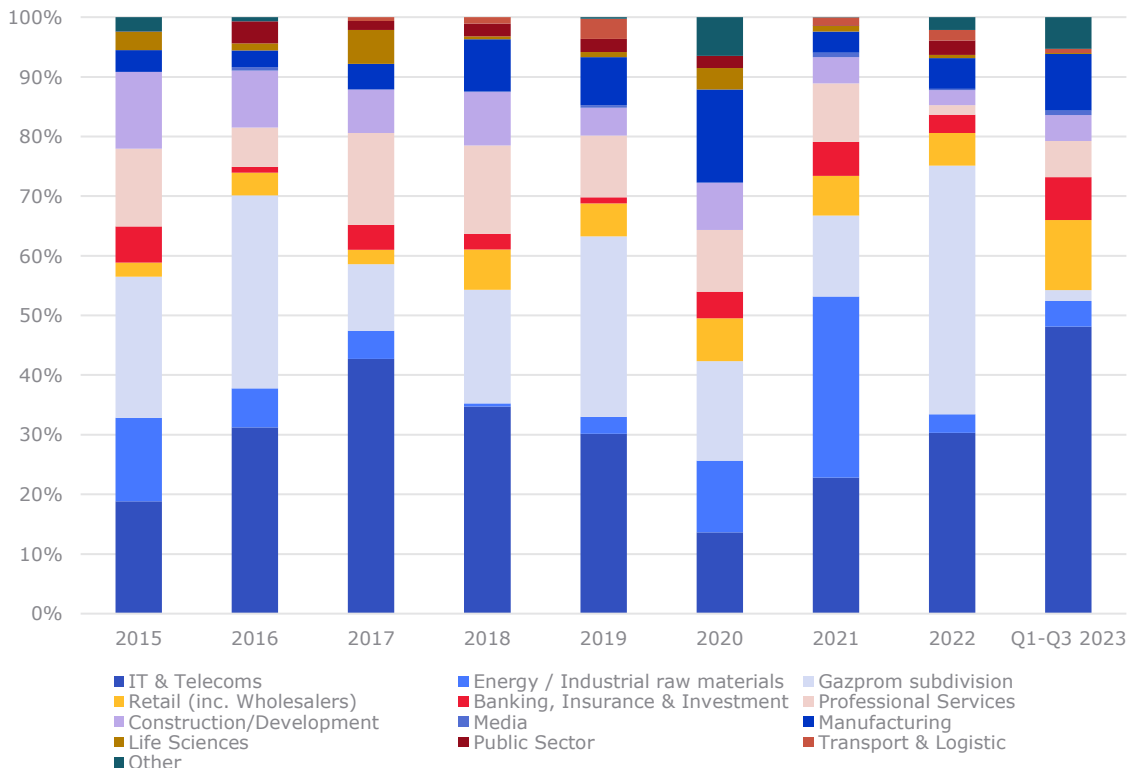
Office units with an area from 100 to 250 sq m are still the most popular, accounting for one third of all transactions. Offices of this size are in particularly high demand among companies providing professional services: educational centres, travel and law firms, as well as consulting and engineering companies.

At the moment there are companies on the market, which are interested in leasing large offices from 5,000 sq m and more. However, it takes more time to finalize such deals in order to grope for a tradeoff between the client's wishes and the current offer. These are mainly Russian IT&T companies, as well as companies with a large share of state involvement.

Chart 2

Distribution of deals by tenant type

Source: Nikoliers



Vacancy rate and rental rates

The total vacant office space at the end of Q3 2023 amounted to 401,400 sq m. Despite three new speculative properties entering the market, the average vacancy rate decreased from 9.9% to 9.8% during the quarter. Active demand from companies expanding in Saint Petersburg, as well as tenants' relocation to larger offices, both within the same business centre and to other facilities, contributed to the reduction of vacant supply.

At the end of Q3 the share of vacant premises in class A increased by 0.8 p.p. as compared to the previous quarter to as high as 10.6% mainly due to the commissioning of two large projects (156,130 sq m in absolute terms). In class B the indicator decreased from 10% to 9.3% (245,260 sq m in absolute terms) due to rising tenant activity in business centres of this class.

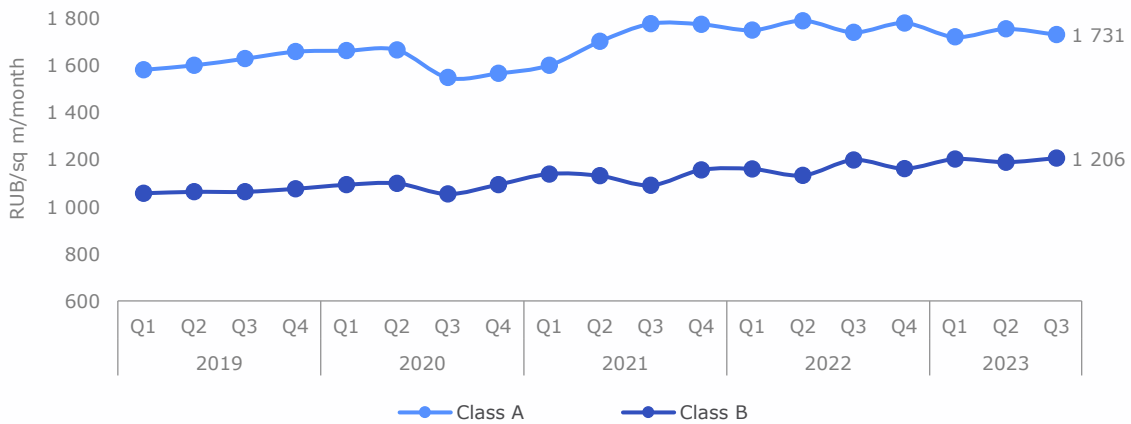
At the end of Q3, the weighted average asking rental rate in class A business centres stood at 1,731 RUB/sq m/month (-1.4% to Q2 2023), in class B – at 1,206 RUB/sq m/month (+1.4% to Q2 2023).

On the whole, the asking rental rates have remained stable over the last one year and a half. Limited fluctuations occur due to new supply emerging or rapid absorption of the available supply (including more liquid offers, with fit-out and interior decor in place). This trend is particularly apparent in the dynamics of indicators by districts: the selective growth of rental rates in some districts was due to the marketing of new facilities and the vacation of quality offices, with rental rates for these exceeding the average rates in a given district.

Chart 3

Change in rental rates by class*

Source: Nikoliers

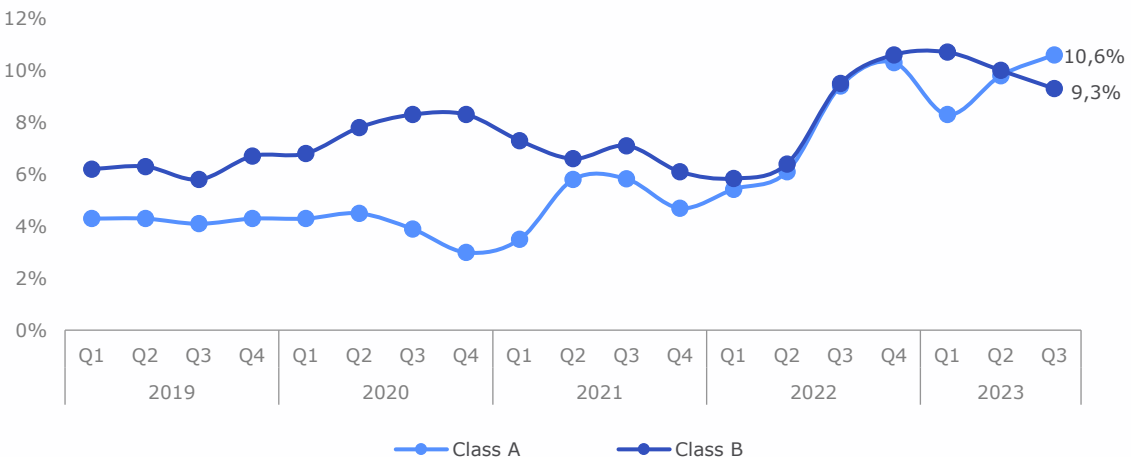


*Rental rates include operating expenses, excluding VAT

Chart 4

Vacancy rate by class

Source: Nikoliers





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

01 ADMIRALTEYSKIY

- 342,341 sq m
- 6.9%
- 1,393 RUB/sq m/month
- 1,475 RUB/sq m/month
- 1,297 RUB/sq m/month

02 VASILEOSTROVSKIY

- 358,985 sq m
- 10.2%
- 1,240 RUB/sq m/month
- 1,360 RUB/sq m/month
- 1,168 RUB/sq m/month

03 VYBORGSKIY

- 212,427 sq m
- 9.6%
- 1,246 RUB/sq m/month
- -
- 1,262 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
- 18.6%
- 1,640 RUB/sq m/month
- 1,903 RUB/sq m/month
- 1,509 RUB/sq m/month

07 MOSKOVSKIY

- 698,680 sq m
- 9.5%
- 1,312 RUB/sq m/month
- 1,746 RUB/sq m/month
- 1,224 RUB/sq m/month

10 PRIMORSKIY

- 598,977 sq m
- 3.4%
- 1,131 RUB/sq m/month
- 1,180 RUB/sq m/month
- 1,117 RUB/sq m/month

05 KIROVSKIY

- 69,115 sq m
- 2.7%
- 950 RUB/sq m/month
- -
- 951 RUB/sq m/month

08 NEVSKIY

- 173,936 sq m
- 22.9%
- 1,028 RUB/sq m/month
- -
- 1,041 RUB/sq m/month

11 FRUNZENSKIY

- 69,570 sq m
- 9.2%
- 1,116 RUB/sq m/month
- 1,647 RUB/sq m/month
- 975 RUB/sq m/month

06 KRASNOGVARDEYSKIY

- 246,747 sq m
- 9.3%
- 1,095 RUB/sq m/month
- 1,750 RUB/sq m/month
- 1,076 RUB/sq m/month

09 PETROGRADSKIY

- 466,455 sq m
- 7.5%
- 1,425 RUB/sq m/month
- 1,695 RUB/sq m/month
- 1,298 RUB/sq m/month

12 CENTRALNIY

- 662,060 sq m
- 14.5%
- 1,527 RUB/sq m/month
- 1,921 RUB/sq m/month
- 1,394 RUB/sq m/month



Trends and forecast

The office property market continues to develop. High business activity of tenants contributed to a 0.7 p.p. decrease in the vacancy rate from the end of 2022, from 10.5% to 9.8% - due to the deferred or pent-up demand of tenants who needed more time to come up with a new development strategy. We expect vacancy to decline further amid the high activity of Russian IT&T companies, companies with a large share of state participation, as well as those expanding their businesses in the midst of the current window of opportunity.

The quality of buildings and fit-out is one of the main factors when making an office selection decision. Tenants who rent up to 500 sq m prefer ready-to-move-in premises with fit-out, while major companies opt for unfinished premises with a discount in the amount of the cost of the basic fit-out package offered by the landlord.

However, the number of premises with high-quality renovation is dwindling, and there are practically no options left with fit-out and furniture after tenant departure. At the turn of 2023, the office space left after the exit of international IT&T companies was 22,500 sq m. As of the end of September,

less than 8,000 sq m of this supply remained in the market. That is why some of the interested parties with previously pent-up (deferred) demand are again eyeing offices with basic fit-out and the possibility for the owner to perform redecoration.

At the moment we observe the interest of end-users in the purchase of office buildings. Representatives of successfully developing businesses are interested in switching from rent to acquisition of office space, to save their money. Such a low number of completed office purchase transactions in Q3 can be explained by the fact that most companies made a decision to buy an office at the beginning of the year, and by the fact that the cycle of such transactions ranges from 9 to 12 months, on average. In this connection we will most likely see such deals at the turn of next year. The given situation is also due to the fact that companies are carefully analyzing the possibilities of acquiring office premises from several angles: first of all, this is satisfaction with the final product (quality of the office space, its fit-out, and so on), and secondly, this should be a liquid asset (they are ready to pay a premium, but not higher than 30%). It is also worth noting that such offers are limited on the market.

Contacts

Office Group

Igor Temnyshev

Partner
+7 495 266 49 09
igor.temnyshev@nikoliers.ru

Denis Revutskiy

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

Victoriya Goryacheva

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

Research department

Alina Bazaeva

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

Julia Bykova

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

Marketing & PR

Olga Bakulina, MCIM

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

Anna Sabinina

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

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 **Nikoliers**

191186 St. Petersburg
3A, Volynsky Lane
BC Severnaya Stolitsa

Tel. +7 812 718 36 18
www.nikoliers.ru