

Results 2023

Investment Market

Russia | St. Petersburg

Table 1
Key market indicators

Source: Nikoliers

	2021	2022	2023
Total investment, RUB billion / USD million	157 / 2,123	108 / 1,659	190 / 2,217
In existing assets, RUB billion / USD million	27 / 367	34 / 516	79 / 976
In land plots, RUB billion / USD million	130 / 1,756	74 / 1,143	112 / 1,241
Cap rates in Saint Petersburg, prime, %			
Offices	9–10	10–11	10–11
Retail	9–10	10–11	10–11
Industrial	11–12	11–13	11–13

*Totals may not add up to the sum of their parts due to rounding.

Main results

In St. Petersburg, investment in existing assets as well as development land totaled RUB 190 billion over the year. This result was 76% higher than in 2022 and 21% higher than in 2021.

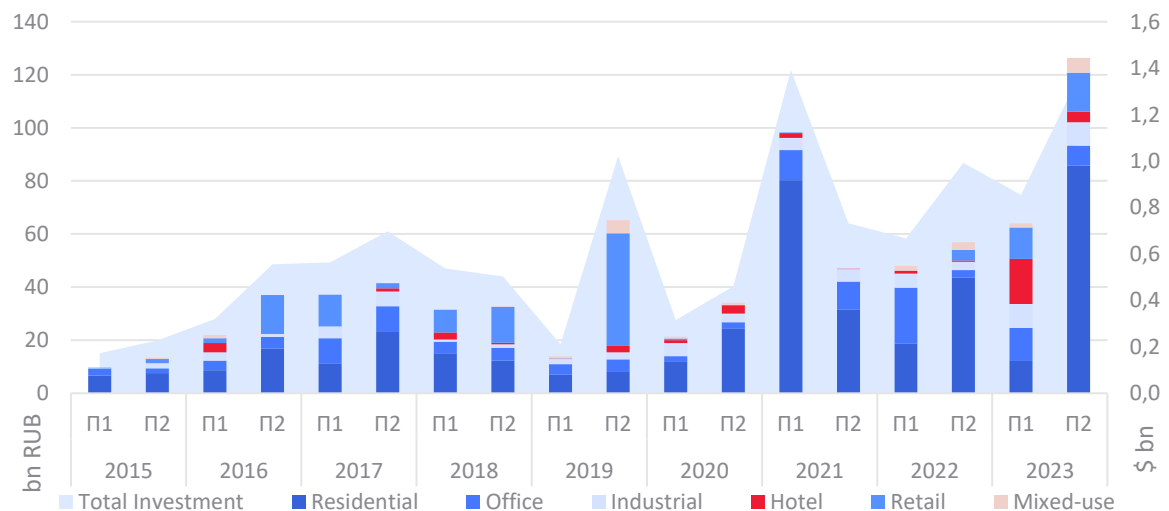
The share of investment in existing assets significantly increased: in 2021 they accounted for 17% of total investment, in 2022 – for 31%, and in 2023 – for already 41%. Investment in commercial real estate broke a record for the entire history of the market, standing at RUB 79 billion.

The demand appeared to be quite balanced, with retail accounting for 33% or RUB 26.2 billion, offices – for 24% or RUB 19 billion, hotels – 22% or RUB 18 billion rubles, and warehouse – 20% or RUB 16 billion rubles.

RUB 112 billion was invested in construction sites in the St. Petersburg agglomeration, up 51% year-on-year. Compared to 2022, the investment in sites for housing construction saw a 40% increase, whereas investment in sites for commercial needs quadrupled.

Chart 1
Investment volume by sector (incl. investments in development land)

Source: Nikoliers



*Data as of 28.12.2023.

The investment volume in this report does not include transactions with industrial sites.

Investment in existing assets and key transactions

Retail claimed 33% of the total investment, or RUB 26.2 billion (USD 309 million):

- Gazprombank purchased a portfolio of MEGA malls from Sweden-based Ingka Centres, including MEGA Dybenko and MEGA Parnas malls;
- PPF Real Estate sold Nevsky Center in St. Petersburg;
- Atrium European Real Estate fund sold the Park House retail chain, including Park House Saint Petersburg, to Romex Group.

The main bulk of investment in the retail segment was generated by “forced” portfolio transactions with foreign companies that exited the Russian market.

RUB 19 billion, or 24% of the transaction amount (USD 238 million), was invested in the office segment:

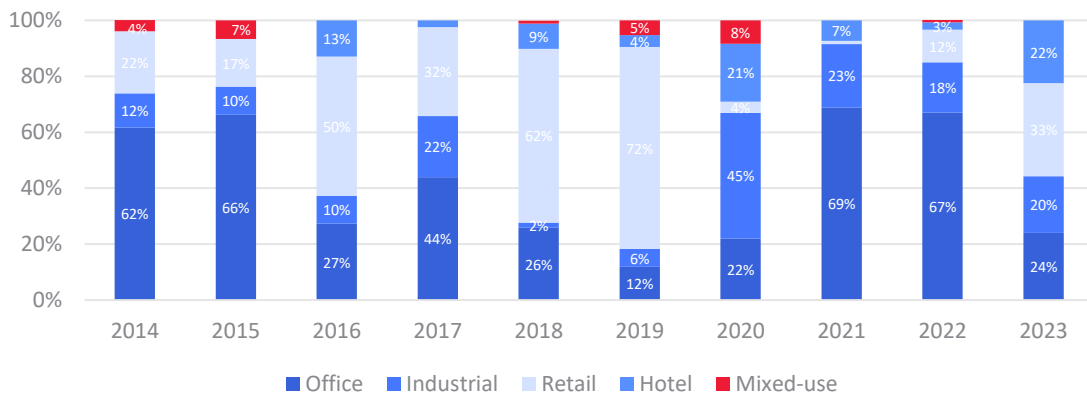
- the Armenian real estate fund Balchug Capital acquired Pulkovo Sky BC from Finland-based EKE and Vicus;
- DIY retailer Petrovich purchased office facilities and a site for the construction of a comparable size project from JetBrains based in Czech Republic;
- VK bought Zinger JSC from Alfa Bank to be entitled to the lease of the entire Zinger House which is home to the company’s head office;
- The development company Polis sold Polis Centre BC to Dieta-18 importer.

More than a half of the office assets were purchased by end users.

Chart 2

Breakdown of investment by types of real estate, % of the transaction volume

Source: Nikoliers



The hotel segment accounted for 22% or RUB 18 billion (USD 235 million):

- Cosmos Hotel Group (AFK Sistema) acquired a hotel portfolio from Norway-based Wenaas Hotel Russia AS, with six hotels located in Saint Petersburg;
- Voznesensky Prospekt bought the SO five-star hotel in the heart of the city;
- SOGAZ Real Estate bought the White Nights sanatorium in Kurortny district of St. Petersburg in order to turn it into a recreational facility.

Booming domestic tourism sparks the interest of investors in quality hotels, recreation and holiday resorts, such as the sanatorium sites in the city’s northern part, known for its resorts.

The share of the industrial segment stood at 20% or RUB 16 billion in absolute terms (USD 194 million):

- Modern Real Estate Funds MC acquired Vkusvill DC in PNK Park Shushary 3;
- MC added a warehouse cluster, earlier owned by the

European company Logicor, to its portfolio, and together with Orientir development company it chipped in the construction of a new DC for OZON, which is immediately sold and let via PARUS Asset Management closed-end mutual investment fund;

- Arosa, an importer, acquired a warehouse in PNK Park Sofiysky KAD from Denmark-based Maersk.

The companies managing mutual investment funds continue building up their investment portfolios. They mainly acquire quality speculative developments with stable rental revenues or projects delivered by developers for nationwide retail chains and key marketplaces as well as logistics companies backing their activities.

Chart 3

Breakdown of investment in existing assets by types of asset use

Source: Nikoliers

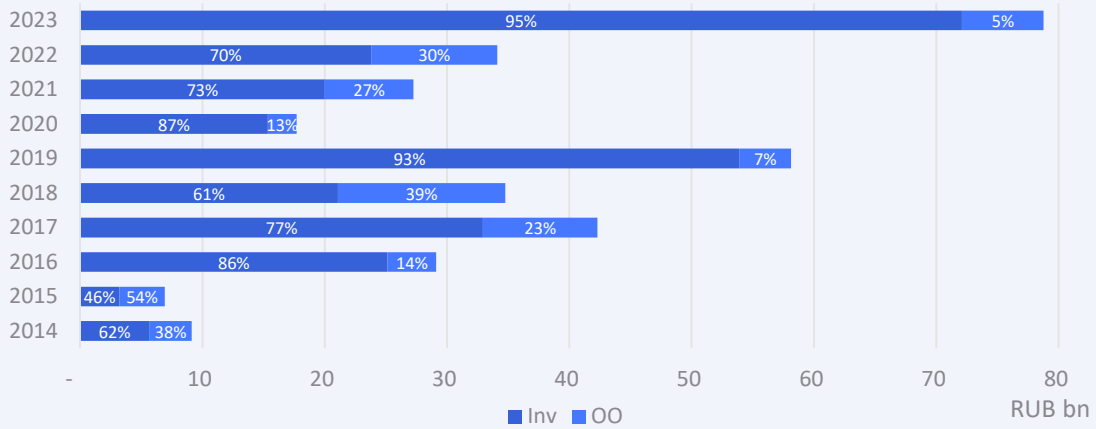


Chart 4

Breakdown of investment in existing assets by seller/buyer's source of capital (2023)

Source: Nikoliers

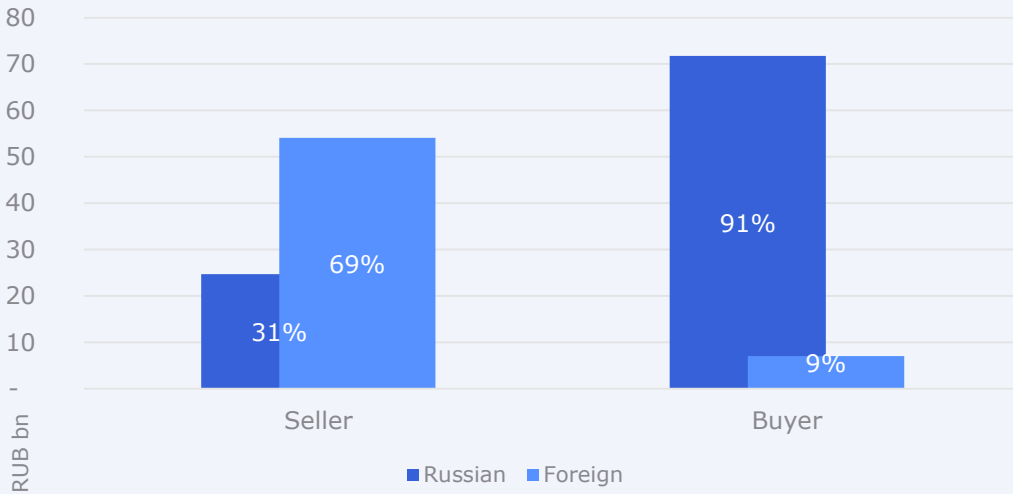
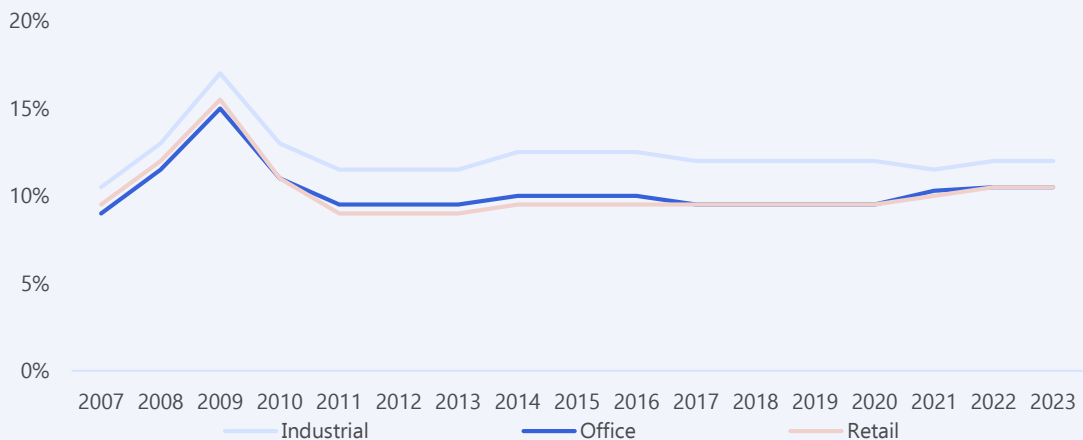


Chart 5

Cap rates in Saint Petersburg, "prime"

Source: Nikoliers



Investment in land plots and key transactions

In 2023, investments in land plots totaled RUB 112 billion, which is 51% more than in 2022, but 14% less than in 2021. Overall, developers bought 1,248 hectares, of which 1,071 ha (worth RUB 98 billion) are intended for the construction of residential property and apartments.

A significant part of "land" transactions in 2023 are plots for which town-planning documentation had already been developed. The Central Bank of the Russia's key rate appreciation put into question the investment purchase of projects without town-planning documentation, where it is impossible to obtain project financing, and therefore acquisitions without an expensive bridge loan (the "bridge" rate is plus 3-5% to the Central Bank's key rate) are a no go.

For the seller, such a deal is a way to fix profits, while the buyer can immediately obtain project financing and start implementing a project.

- Setl Group acquired a 933-ha plot of land in Primorsky district from Nordest Group;
- Legenda bought a 10.2-ha site in the territory of former SevkaBel plant from LSR;
- Stroytrest acquired a 3.97-ha plot of land from LSR at 19, Shkipersky protok;
- Element Development became the owner of a 2.2-ha parcel purchased from LSR in Petrovsky Island with a ready project of an apartment cluster;
- DVA Group bought an apartment construction project on Moscow Highway (1.1 ha) from FSK.

As many as 177 hectares (worth RUB 13.5 billion) were purchased for the construction of commercial real estate in the agglomeration. A

number of transactions in 2023 back the trend for recreational property development in the region. The growth of domestic tourism is a strong impetus for the development of recreational facilities and clusters near St. Petersburg, which is already one of the main family holiday and weekend tour destinations.

- Element Development bought a 2.5-ha land plot in Sestroretsk for the construction of a SPA centre;
- Stroytrest bought the unfinished recreation facility LNPO Avangard in Orekhovo (32 hectares) for resort construction.

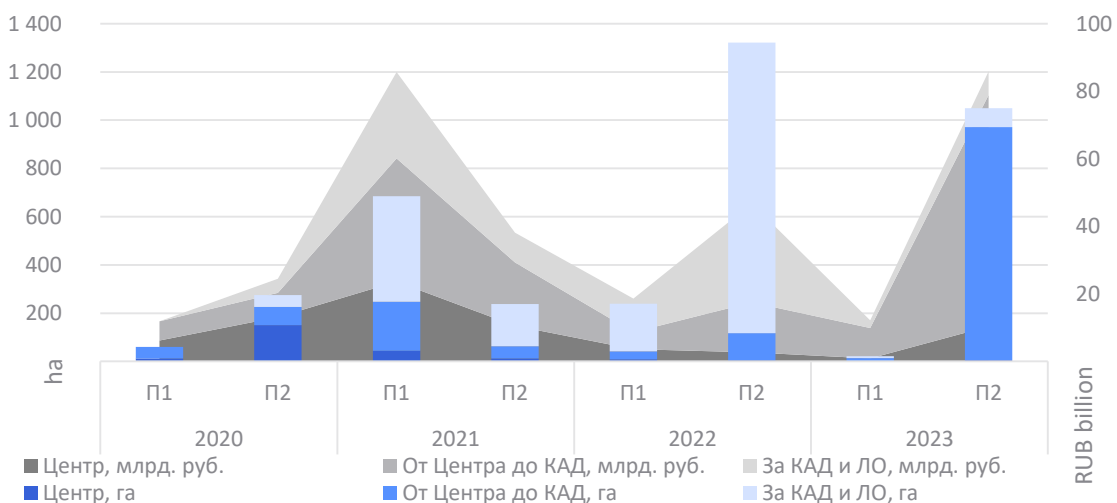
Most of the land plots acquired are intended for warehouse and industrial projects. The existing supply is not adequate to meet the current demand of tenants, so there is a growing number of requests to purchase land plots for the construction of industrial buildings for companies' own needs under the build-to-suit scheme. For many companies, this becomes the only option to get the facility they actually need.

- Wildberries purchased a 29.8-ha site within M10 industrial park;
- The pharmaceutical group Polysan (11 ha), construction company SMT (2 ha), furniture manufacturer Sovlab (1.15 ha) bought sites in Sofiysky industrial park;
- Prombox acquired a 4.7-ha site in Greenstate industrial park from Etalon.

Chart 6

Investment in land plots for housing construction by zones

Source: Nikoliers





Trends and forecast

Around 70% of investments in Saint Petersburg's existing assets were generated by transactions with foreign companies: Swedish Ingka Centres sold a portfolio of MEGA Malls (including MEGA Dybenko and MEGA Parnas malls), the European fund Atrium European Real Estate sold a portfolio of Park House shopping centres (including Park House Saint Petersburg), Norwegian company Wenaas Hotel Russia AS sold a portfolio of hotels, six of which are located in Saint Petersburg. Investors from Russia and friendly countries were able to add quality properties to their real estate portfolios due to the changing geopolitical situation and the mass exodus of western companies from the Russian market.

Both the reduction of institutional quality assets for sale and expensive debt financing will be a restricting factor for commercial real estate investments in 2024. The high key rate set by the Central Bank of the Russian Federation restrains investment in finished projects and new developments, unless the interest rates are subsidized.

The market situation for residential developers is still unstable: after the Bank of Russia's key rate increase, the conditions for project financing and bridge lending have deteriorated, and the reduced affordability of mortgage loans may soon result in flagging demand. Major federal players that have their own production and construction capacity, as well as a strong brand on the market, that ensures high audience loyalty and stable demand, feel more confident and secure.

Many developers have accumulated an impressive land bank: over the last three years, developers have bought about 3,000 hectares in the agglomeration. Therefore, some companies make

a decision to sell some of their land plots, thus fixing their profits, and to invest their proceeds in the construction of current projects. Since most of the land plots in the inner city were purchased several years ago before a significant price spike, for many developers withdrawal from a project after receiving the construction permit is a very lucrative option.

Furthermore, given the shortage of land plots cleared for housing construction, several developers often claim the same lot boasting a good location, so landowners have the opportunity to choose the most attractive terms of the deal. As soon as the demand becomes more stable and predictable, the companies that have accumulated a land bank will revisit their plans to launch new projects. For now, developers have refocused on the development of existing sites.

Services



Offices



Industrial



Retail



Residential




Hotels



Land plots



Property management




Construction project management




Strategic consulting




Property and business valuation




Investment




Agency (property lease&sale)



Tenant representation



Analytics



Marketing

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