

Q1 2024

Office market

Russia | St. Petersburg

Key market indicators

Source: Nikoliers

	2022	2023	Q1 2024	2024F
Total stock at the end of the period, million sq m	4	4.14	4.16	4.23
Class A	1.4	1.47	1.47	1.52
Class B	2.6	2.66	2.68	2.71
Completions for the period, thousand sq m	177	133.8	18.6	94.4
Net absorption for the period, thousand sq m	46	184.5	99.5	191.5
Vacancy rate, %	10.5	8.4	6.4	5.9
Class A	10.3	8.8	6.1	5.4
Class B	10.6	8.2	6.6	6.3
Weighted average rental rate, RUB/sq m/month*				
Class A	1,780	1,741	1,873	1,793
Class B	1,162	1,222	1,240	1,271

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

Supply

From January to March 2024, two new class B projects – K-37 and Lakhta Plaza with total leasable area of 18,600 sq m – were added to the office space market. K-37 office facility is already occupied by a mono tenant, which indicates that speculative office buildings find occupants at the construction stage.

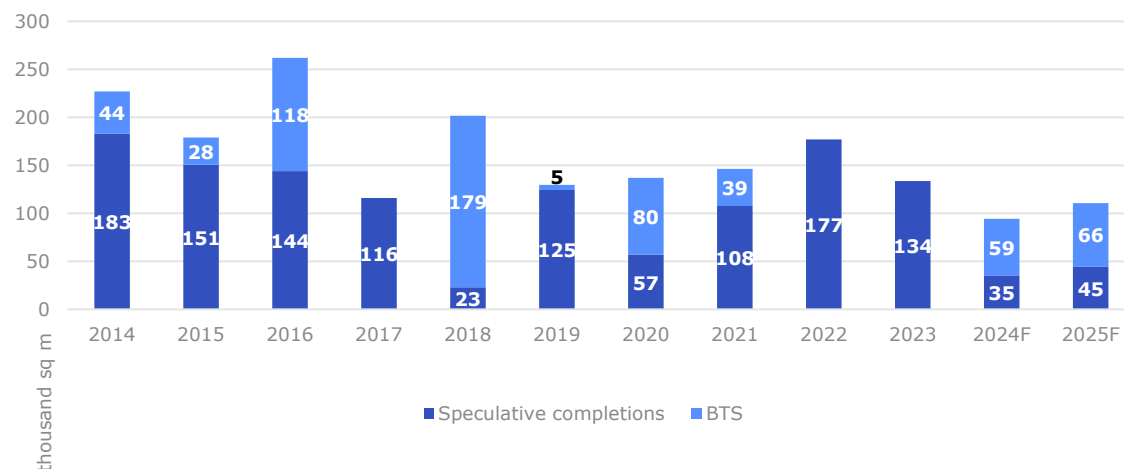
At least five more projects with GLA totaling to 75,800 sq m have been announced to be commissioned till the end of the year. However, most of these premises (more than 75%) will not enter the open market.

In terms of new supply geography, this year the biggest growth – about 48,000 sq m – is anticipated in the Centralniy district.

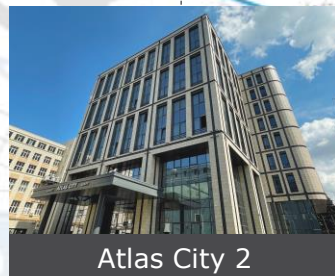
The pace of construction on new office projects remains restrained, and the share of speculative facilities in the total amount of construction is going down. Developers do not consider the construction of new office centres due to economic inexpediency. However, a significant growth of rental rates for office units may reinvigorate developers.

Office completions

Source: Nikoliers



Key projects to be commissioned in 2024



Commissioned project

Project scheduled for
commissioning

Vacancy rate and rental rates

The high occupant activity continues to contribute to the reduction of the vacancy rate, while the entry of new facilities into the market does not result in occupancy growth. Since the end of the previous year the occupancy rate on the market has dropped from 8.4% (348,500 sq m) to 6.4% (267,800 sq m).

The vacancy rate has sunk in all city districts. The most significant reduction (from 18.5% to 1%) occurred in Kalininskiy District due to the fact that Ferrum II business centre was fully leased by Tinkoff.

Since the end of 2023, the rate in quality Class A business centers has risen to 1,873 RUB/sq m/month (+8%), and to 1,240 RUB/sq m/month in Class B (+1%).

Due to limited supply, rental rates show high volatility within short periods of time, and the gap in the cost per square metre between classes is gradually narrowing. The rollout of even small units at rates below or above the market leads to noticeable dynamics in the average rate. The rent for individual premises can reach 3,500 RUB/sq m/month, but these are single offers, which pull up the rate in some areas of the city.

Vacancy rate by class

Source: Nikoliers



Change in rental rates by class*

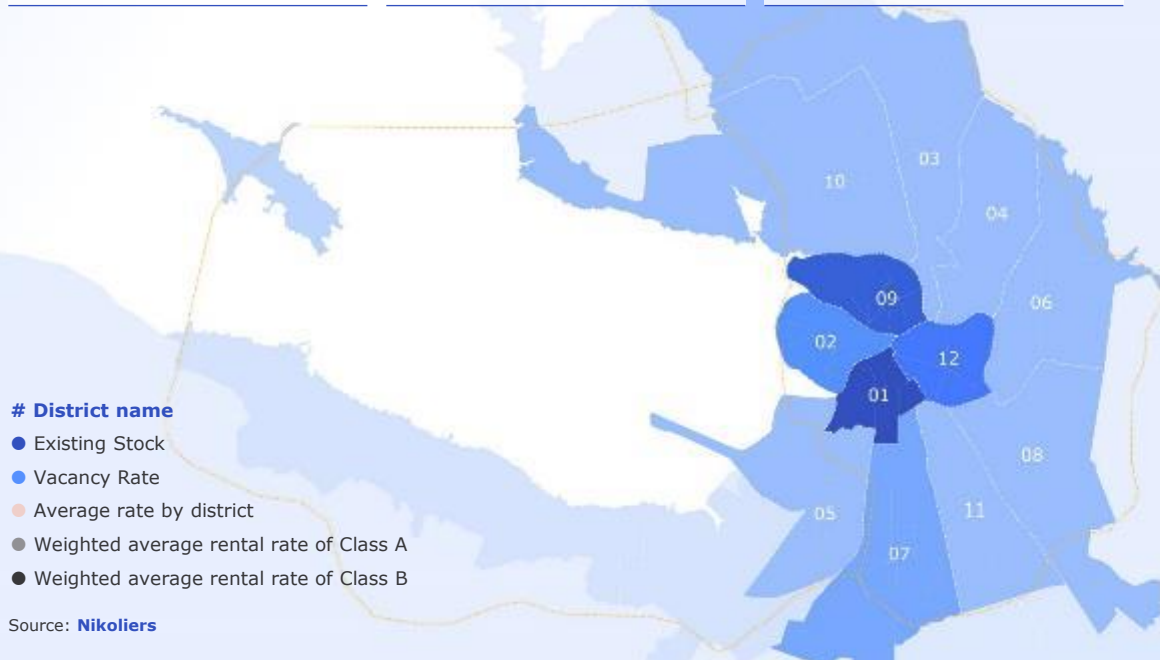
Source: Nikoliers



*Rental rates include operating expenses, excluding VAT

Key market indicators by districts*

01 Admiralteyskiy	02 Vasileostrovskiy	03 Vyborgskiy
● 349,341 m ²	● 373,950 m ²	● 227,562 m ²
● 3.7%	● 10.6%	● 7.2%
● 1,432 RUB/sq m/month	● 1,270 RUB/sq m/month	● 1,288 RUB/sq m/month
● 1,471 RUB/sq m/month	● 1,374 RUB/sq m/month	● -
● 1,372 RUB/sq m/month	● 1,190 RUB/sq m/month	● 1,272 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

Source: Nikoliers

04 Kalininskiy ● 172,552 m ² ● 1.0% ● 1,617 RUB/sq m/month ● 1,960 RUB/sq m/month ● 958 RUB/sq m/month	07 Moskovskiy ● 703,528 m ² ● 7.6% ● 1,368 RUB/sq m/month ● 1,693 RUB/sq m/month ● 1,295 RUB/sq m/month	10 Primorskiy ● 604,272 m ² ● 3.1% ● 1,386 RUB/sq m/month ● 3,500 RUB/sq m/month ● 1,099 RUB/sq m/month
05 Kirovskiy ● 69,115 m ² ● 1.4% ● 750 RUB/sq m/month ● - ● 750 RUB/sq m/month	08 Nevskiy ● 173,936 m ² ● 17.4% ● 1,108 RUB/sq m/month ● - ● 1,107 RUB/sq m/month	11 Frunzenskiy ● 69,570 m ² ● 1.2% ● 981 RUB/sq m/month ● - ● 1,010 RUB/sq m/month
06 Krasnogvardeyskiy ● 246,747 m ² ● 6.0% ● 1,145 RUB/sq m/month ● 1,750 RUB/sq m/month ● 1,139 RUB/sq m/month	09 Petrogradskiy ● 466,455 m ² ● 3.2% ● 1,554 RUB/sq m/month ● 1,762 RUB/sq m/month ● 1,432 RUB/sq m/month	12 Centralniy ● 662,060 m ² ● 9.6% ● 1,752 RUB/sq m/month ● 1,981 RUB/sq m/month ● 1,540 RUB/sq m/month

*Rates presented include OPEX and exclude VAT.

Demand

The net absorption at the end of three months of 2024 was almost 4.5 times higher than in Q1 of the previous year (99,500 sq m vs. 22,200 sq m, respectively), which is explained by the persistent high business activity of market players.

A large number of major transactions at the beginning of the year is justified by the fact that many companies decided to buy or lease office centres in the first half of the previous year. Taking into account that the completion of such transactions takes from 6 to 12 months on average, the contracts have actually been signed at the beginning of the current year.

The top 3 districts by the amount of occupied space include Kalininskiy (29%), Primorskiy (24%) and Vyborgskiy (15%). The leading positions of these districts are conditioned on the signing of major office space lease or purchase deals (more than 10,000 sq m), with some office buildings rented or bought in their entirety due to the lack of suitable supply in other locations.

Given the tendency towards consolidation, there is an increase in demand for units of 1,000 sq m or larger. However, if in December 2023 such premises were offered in 46 facilities, by the end of March this number has dropped to 33. The remaining office space is eyed by many companies.

Key lease transactions in St. Petersburg office market, Q1 2024

Source: Nikoliers

Company	Area, sq m	Business centre	Class
Tinkoff 	29,950	Ferrum II	A
Special Technology Centre	14,400	K-37	B
Stroyexpert	4,500	Morskaya stolitsa	B
Blago	3,500	M22	A
Samolet	2,200	Renaissance Plaza	A
MIA Clinic	1,410	Crystal	B
AST and Azbuka-Atticus	1,270	Renaissance Pravda	A
PLATO Engineering	1,000	Ostrov	B

Transactions by occupant's profile

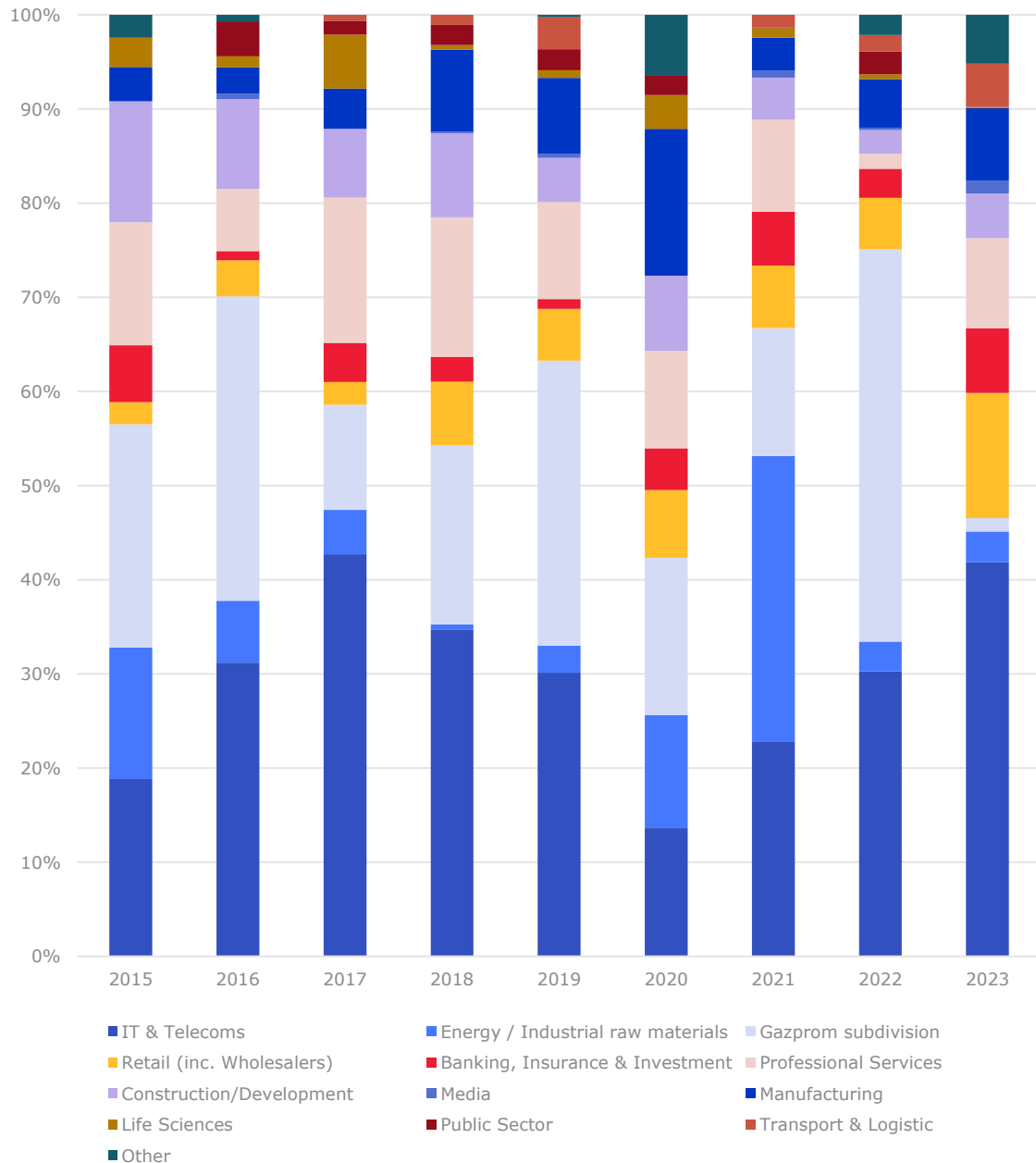
The IT & Telecoms segment once again claimed the largest share of the total leased office space during the initial three months of the year, which is due to another major deal. Tinkoff chose Ferrum II BC (more than 29,000 sq m of GLA) to accommodate the bank's development centre there.

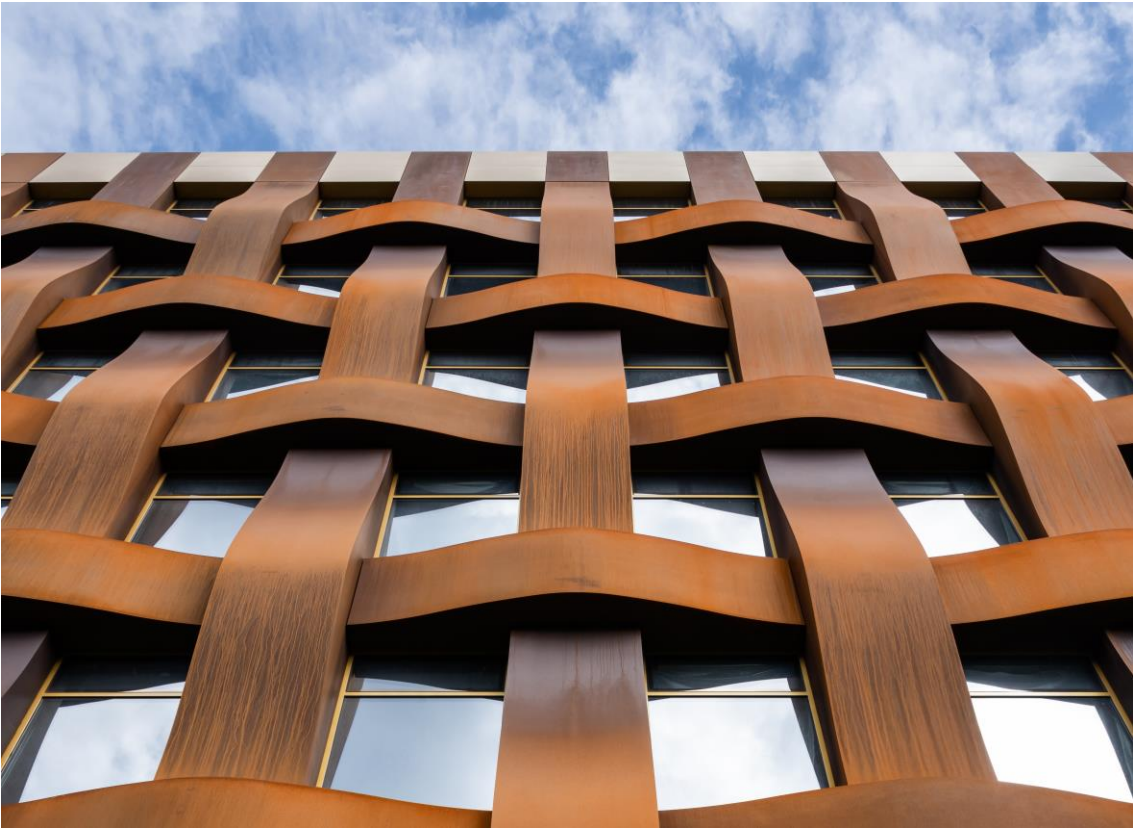
Another major deal of the first quarter was the lease of 14,400 sq m (GLA) in K-37 office centre by Special Technology Centre, which has lifted the manufacturing segment to the third place.

However, office units from 100 to 250 sq m are still extremely popular and in very short supply at that.

Distribution of deals by tenant type

Source: Nikoliers





Trends and forecast

Office space scarcity

Restrained construction rates and high occupant activity are aggravating the shortage of quality office units. No new projects have been announced for launch this year, and since the development cycle lasts from two to four years on average, the scarcity will persist in the medium term outlook.

Rent rise

Due to the shortage of quality office space and the narrowing gap between classes, asking rental rates will keep growing, especially in the key business districts of St. Petersburg, above all in the most sought-after properties where demand exceeds supply.

The share of speculative projects going down

Because of the low developer activity in terms of building office space for subsequent lease, the share of speculative space in total new supply will not exceed 45% in the two years to come. Construction companies are waiting for changes in the market conditions.

Lease and purchase of business centres in their entirety

The trend for office buildings being rent or purchased by end users will remain relevant. This being said, while the purchase of business centres is mainly related to capital preservation strategies, the lease of office buildings is most often initiated by the process of consolidation and expansion.

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