

## Hot Topics

- Decline of office premises vacancy level
- The share of deals with companies from energy&oil sector has increased
- Rising popularity of shopping centers' reconception
- New trends on hotel market – apartment hotels and boutique hotels
- The minimum vacancy level on warehouse market
- Development of industrial parks
- Reduction of housing completions

## OVERVIEW OF COMMERCIAL PROPERTY MARKET

### OFFICE MARKET

- **Decline of office premises vacancy level**

In 2012 the vacancy level continued to decline. In class A office centers the vacancy level reached 13% (4% points lower than in last year), in office centers class B - 9%.

- **The share of deals with companies from energy & oil sector has increased**

The share of leasing deals with companies in the energy & oil sectors increased by 6 percentage points compared with 2011, this is due to the movement of some major departments of Gazprom.

### RETAIL MARKET

- **Rising popularity of shopping centers' reconception**

Currently, more than 1,000,000 square meters (25% of the total market), of retail space are aging and require revision of concepts and physical renovation. In 2012, the mixed-use complex Tolstoy Skver and Aura Boutique Center underwent reconception projects. Also in September, the shopping center Felicita closed for reconception. Upon completion in 2013, the building will reopen under the new name, London Mall.

### HOTEL MARKET

- **New trends on hotel market – apartment hotels and boutique hotels**

There is a new hotel format, which is developing quickly in the marketplace – apartment hotels. Among the projects announced in 2012, the largest is the apartment hotel in Moscovskiy prospect, 73-75, the project by Concord company in Lahta, the project of Stremberg next to the Park of the tri-centenary of St. Petersburg.

Demand for apart-hotels is increasing, especially in cities where there is business activity. After the relocation of Gazprom structures to St.Petersburg the demand for rent and purchase of high-class residential real estate increased dramatically.

The boutique hotels concept is actively developing in St. Petersburg. By the end of 2012 three boutique hotels were operating in St. Petersburg: The Golden Garden Boutique Hotel, Rossi, and Alexander House. In 2012, the boutique hotel Rossi was awarded the World Travel Awards as the Best Boutique Hotel in Russia 2012. In 2013, it is planned to open the first network boutique hotel in St. Petersburg - Indigo (operator InterContinental).

### WAREHOUSE MARKET

- **The minimum vacancy level**

In 2012, released to the warehouse market was a total of 113,000 square meters. This amount is insufficient to meet the demand for quality warehouse space. This has led to the elimination of excess stock quality market offer and the reduction of vacancy rates from 6% to 2% in class A, and from 3% to 1% in class B.

- **Development of industrial parks**

Industrial parks are continuing their development. In 2012 the first phase of the industrial park "Marino" in Petrodvortsovy district was introduced. About 60% of the total area has been already sold to several anchor residents. The most well-known industrial parks in Saint-Petersburg are Greenestate, Fedorovskoye, Doni-Verevo, Marienburg, etc.

### RESIDENTIAL MARKET

- **Reduction of housing completions**

In 2012, there was a slight reduction in housing construction by 5% compared with 2011. According to experts this decrease was caused by the changing political situation in the city. Also sited was an increase in housing construction in the Leningrad region and the lack of supply of free land plots for construction.



**OFFICE MARKET**

**TOTAL STOCK**

By the end of 2012 the total stock of office premises in high quality class A and B business centers amounted to 2.37 million sq m.

In 2012 172,000 square meters of quality office space were put into operation. That amount is 20% less than in 2011.

Amongst new objects 60% (100,000 square meters) belong to class B. The share of new class A office buildings is 40%.

The share of class A properties has increased by one percent. The share of class B decreased from 75% to 74% in the total stock of existing office projects. The amount of high quality office buildings will increase in 2013-2014, the lion's share of objects under construction belong to class A.

In 2012 the share of office buildings has increased from 12% to 13% in Moskovskiy district thanks to the opening of office center Sobranie, the 2nd phase of office building on Ligovskiy pr. 266 and office building on Moskovskiy pr. 151. The geographical distribution of office real estate stays the same. The biggest number of offices is located in Central (17%) and Petrogradskiy (14%) districts.

**Office market key figures 2012**

	Class A		Class B	
Total stock, square meters	620,000	↑	1,760,000	↑
Delivery in 2012, square meters	71,560	↓	100,940	↓
Vacancy rate	13%	↓	9%	↓
Lease terms	3-5 years	←	11 months - 3 years	←
Capitalization rate	10-11%	↓	11-12%	↓
Average rental rate, rub/sq. m/ month including VAT and OPEX	1,500	←	1,120	↑

Source: Maris | Part of the CBRE Affiliate Network

**DEMAND**

The demand has maintained last year's trends. It is characterized by rises in the early spring and fall, as well as declines during summer and winter holidays. Annual take up volume in the office sector (classes A and B) was approximately 150,000 square meters.

In 2012, the office market experienced strong demand in class A, where the majority of large transactions have taken place (60%).

The main part of the demand structure was taken by existing companies (89%). The share of new companies in the demand structure is 11% (according to transactions by brokers). This figure increased significantly in comparison with 2011 (7%).

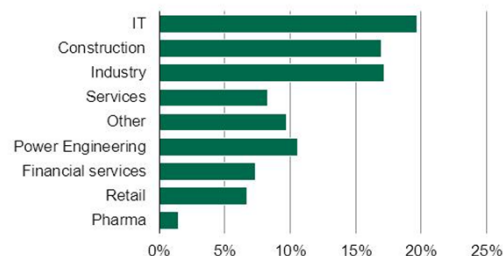
In the total transaction volume by industry in 2012 the largest share were amongst IT companies, manufacturing and construction sectors. The share of transactions with companies from energy & oil sectors increased by 6 percent compared to 2011 due to the movement of some major structures of Gazprom.

**Stock by class**



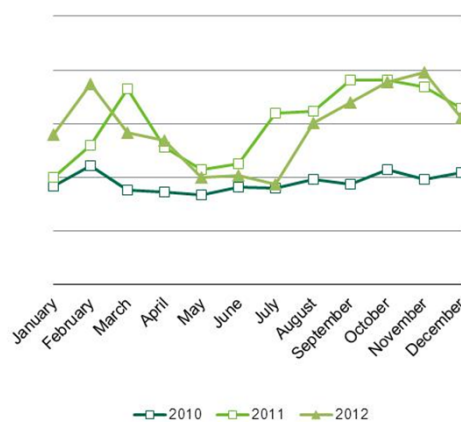
Source: Maris | Part of the CBRE Affiliate Network

**Lease transactions by industry**



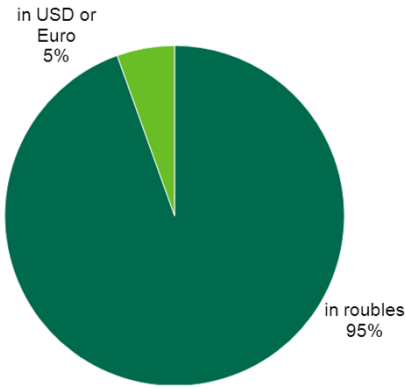
Source: Maris | Part of the CBRE Affiliate Network

**Demand activity**



Source: Maris | Part of the CBRE Affiliate Network

### Rental rates in St. Petersburg



Source: Maris | Part of the CBRE Affiliate Network

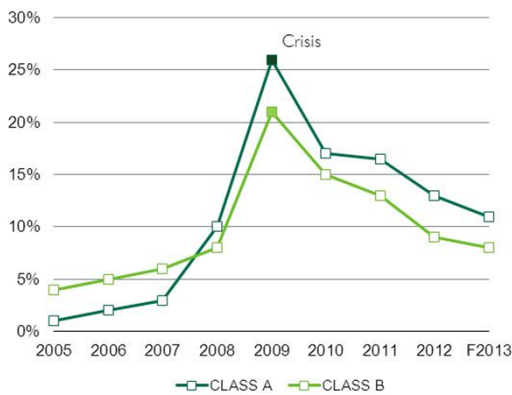
### Major lease transactions in 2012

Tenant	Size, sq m	Office center (class)
Gazprom Invest Zapad*	10,010	AIRPORTCITY St.Petersburg (A)
Jet Brains	6,300	Universe (A)
Dorproekt	3,500	Sky Trade (B)
Gazprom	3,330	Ligovskiy, 61B (B)
North-West Suburban Passenger Company	2,572	1ya Sovetskaya, 6 (B)
Gazprom Transgaz	2,263	Veda House (A)

\*Broker – Maris

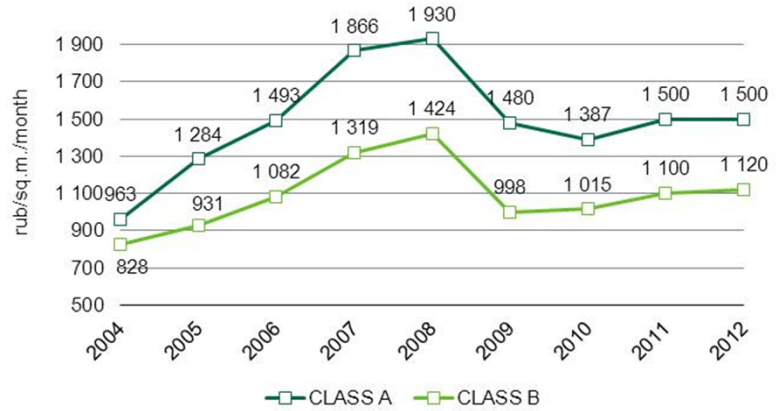
Source: Maris | Part of the CBRE Affiliate Network

### Vacancy



Source: Maris | Part of the CBRE Affiliate Network

### RENTAL RATES, rub/sq m/month, incl. VAT and opex



Source: Maris|part of the CBRE Affiliate network

In 2012 rental rates increased insignificantly. Intense competition on the market does not allow developers to raise rental rates.

Class B office premises went up by 2%. Existing class A office premises rental rates didn't change.

At the end of 2012, the average level of rental rates came to RUR 1,400-1,700 per sq. m per month (including VAT and OPEX) for class A business centers and RUR 900-1,200 for class B.

In St. Petersburg, rental rates of existing business centers are calculated mainly in Rubles (95%), less popular options for calculation in US dollars and Euros (5%).

### PARKING

Rental rates for parking spots haven't changed in 2012 due to the stable demand. The range of the requested rental rates of one parking space in an out-door parking lot is quite broad – from 1,500 to 8,000 RUR/month including VAT (on average RUR 4,400). Rental rates in in-door multi-level or for underground parking are higher – from RUR 4,000 to RUR 10,000 (on average RUR 7,000).

### VACANCY

In comparison to 2011 the vacancy level has declined. In class A office buildings it reached 13%, that is 4 percent lower than in the previous year, in class B buildings only 9% are vacant (4 p.p. lower than in 2011).

56% of class A and 61% of class B office centers have one hundred percent occupancy. 12% of class A office buildings and 3% of class B office buildings are occupied less than 50%.

The level of occupancy of office buildings depends mainly on the location. Usually, business centers in the central part of the city have a minimum amount of vacant premises. In 2012, in class A business centers on Nevsky prospect and nearby streets, only 10% of space was vacant, in class B - 7%. In areas located away from the center 28% of space are vacant in class A office centers and 7% - in class B.

### INVESTMENT TRANSACTION

In 2012 on the St.Petersburg market two investment transactions were closed. Elephakt-M company sold an office center on Krestovskiy island. Concern Piter bought an office building on Malaya Morskaya Street. The value of the transactions, according to experts, were 770 million rubles and 500 million rubles respectively.



## RETAIL MARKET

### TOTAL STOCK

In 2012 the retail market continued to develop.

By the end of 2012 the total stock of operating shopping centers in St. Petersburg came to 3.9 million square meters. In 2012, 13 new shopping centers were put into operation with a gross area of 313,000 square meters. This figure increased insignificantly in comparison to 2011.

Among the city districts, the leaders in terms of number of shopping centres are the residential districts, which account for 86.2% of overall space. The largest shares are held by Primorsky district (18%) and Vyborgsky district (12%), both in the North of the city, as well as Moskovsky district (15%) in the South.

The gradual (phased) opening of new shopping centers has appeared in St. Petersburg and is a new trend. As the first one or two anchor tenants begin to work, the rest of the facilities are leased out incrementally. For example, in the shopping and entertainment center RIO, the hypermarket O'Key was the first to open, and in the mixed-use center Piterland, only the water park was opened at the beginning. Another example could be the shopping center Mercury / DLT which opened in Q3 2012. At the moment only the first four floors are open, the other two will be opened later. Moreover in the shopping and entertainment center Kontinent on Bukharestskaya, the supermarket Prizma was opened several weeks earlier than the center itself.

Currently more than 1,000,000 square meters, 25% of the total market, of retail space are showing their age and require revision of concepts and renovation. In 2012, the mixed-use complex Tolstoy Skver and Aura Boutique Center underwent reconception. Also in September, the shopping center Felicita closed for reconception. After renovation in 2013, the object will work under the name London Mall.

### DEMAND

In 2012 leasing activity in retail market declined due to the lack of quality premises in shopping centers, which are more popular among tenants.

The most active trading operators that are expanding and are looking for retail space in 2012 were grocery stores. Thus, food supermarkets Prizma (Finland) and Land opened new stores. The network of supermarkets in the middle class segment Setka has increased its presence. The first food store K-Ruoka was opened by a Finnish company.

Luxury jewelry and watch brands have become active on the market (boutique Van Der Bauwede Geneve, Victor Mayer and Quinting brands). Moreover the world-famous coffee house network Starbucks came to the market (Piterland, Nevskiy Center, Mega Dibenko). On Nevskiy prospekt opened the first Chanel boutique, which works straight with the manufacturer.

### COMMERCIAL TERMS

In 2012 there was no significant changes in requested rental rates in shopping centers. For existing tenants rental rates were growing according to the escalation in the agreements (5-10% on average).

### INVESTMENT TRANSACTION

In 2012 Gals Development became the only owner of the shopping center Leto with a total area of 116,000 square meters in St.Petersburg, by acquiring a 50% share from Apsys Group company. According to the experts' opinion the value of deal was about \$100 mln.

Jensen Russian Real Estate Fund became the owner of the former supermarket Supersiva on Savushkina Street with a total area of 9,200 square meters. According to experts, the value of the deal was roughly 400 million. rub.

Bekar company acquired the shopping center Smile on Bolshevikov prospect 27 with a gross area of 10,969 square meters. The transaction price was 510 million rubles.

## SHOPPING CENTERS OPENED IN 2012



Piterland



Mezhdunarodniy



Mercury/DLT



Kontinent on Bukharestskaya

## HOTELS PLANNED TO OPEN IN 2013



The Hermitage Hotel

Four Seasons Hotel Lion Palace  
St. PetersburgHotel Indigo St. Petersburg  
Tchaikovsky

Hotel on Raz'ezhaya st., 38

## HOTEL MARKET

## TOTAL STOCK

By the end of 2012, there were 69 modern hotels operating in St. Petersburg, offering a total of 15,477 rooms in 3, 4 and 5 star categories (excluding mini-hotels and residential hotels).

During 2012 only one hotel was brought to the market – the Domina Prestige St. Petersburg Hotel 5\* on the Moyka Embankment, 99. Moreover hotel Baltia 3\* on Smoliachkova Alley and Red Star Hotel 3\* on Priagka river embankment announced their official opening. However, these hotels have been operating since 2011.

The opening of the five-star hotel Four Seasons on Vosnesenskiy Prospect and the hotel on Pravda Street were rescheduled. Instead a hotel under the brand of Swissotel on Pravdy Street, the Hermitage Hotel will be opened.

The boutique hotels concept is actively developing in St. Petersburg. By the end of 2012 three boutique hotels are operating in St. Petersburg: The Golden Garden Boutique Hotel, Rossi and Alexander House. In 2013, it is planned to open the first network boutique hotel in St. Petersburg - Indigo (operator InterContinental).

## DEMAND

The volume of domestic demand is still exceeds the volume of foreign tourism. Around 52-55% of the inbound flow is Russian visitors and 45-48% is foreigners. The inflow of foreign visitors to Petersburg is held back by the visa regime, by the high cost of tour packages and by an insufficient number of budget air lines.

One of the characteristics of the St. Petersburg hotel market is seasonality. Maximum occupancy of hotels is in June (the period of White Nights, International Economic Forum, the graduation event Scarlet Sails), and minimal occupancy is during the winter period.

The average annual occupancy of 3\* hotels in St. Petersburg was about 63%, of 4\* hotels – 56%, of 5\* hotels – 47%. During the last years the average occupancy of hotels in St. Petersburg has grown by about 15%.

In 2012 the average occupancy of 3\*-4\* hotels increased by 1% in comparison with 2011, due to the popularity growth of middle class hotels.

## RACK RATES

In 2012, there were no significant changes in the average room rate compared to the previous year.

In 2012 the average daily rate (ADR) in all segments didn't change and stayed on the level of 2011: 5\* - 8,500 rubles, 4\* - 4,600 rubles, 3\* - 2,700 rubles. In order to increase occupancy, most hotels did not change their pricing policy.

The average revenue per available room (RevPAR) for 5\* hotels was on the level of – 4,000 rubles, for 4\* hotels – 2,580 rubles, for 3\* hotels – 1,580 rubles.

## Rack rates\*

Star Category	Low season	Shoulder season	High season
5*	\$365	\$500	\$650
4*	\$150	\$200	\$265
3*	\$85	\$115	\$150

\*in USD, not including VAT

Source: Maris | Part of the CBRE Affiliate Network



## WAREHOUSE MARKET

The warehouse market in 2012 was characterized by a high demand and limited supply. In the first half of 2012 the warehouse real estate market of St. Petersburg and Leningrad region, the shortage of quality supply declined thanks to the opening of three warehouse complexes. However, the lack of new supply in the second half of the year led to a gradual elimination of quality supply from the market and to a decline in vacancy rates.

### TOTAL STOCK

At the end of 2012, the total amount of quality warehouse real estate (classes A and B) in St. Petersburg was about 1.6 million square meters (without warehouses built for the owners' own needs).

Warehouse complexes classes A and B take 21% of the whole warehouse market, class C former Soviet premises account for 79% of existing stock.

The increase in supply of speculative warehouse projects in 2012 amounted to 113,000 square meters. The construction of three projects; 1<sup>st</sup> phases of Nord Way (Hanner) in Shushary, Orion Logistics in Pargolovo and the St. Petersburg terminal complex was completed.

In 2013, an increase of class B warehouse market is expected because of the planned openings of three major transport and logistic projects; (Zvezda in Obukhovo, A Plus Park Pulkovo, the second phase of the St. Petersburg terminal complex).

Warehousing space for lease takes half of the whole market volume (57%). Warehouses for logistics services has 43% in the supply structure.

### DEMAND

In 2012, demand was on a high stable level. However the demand is unsatisfied due to the lack of quality supply. The take up volume amounted to 160,000 square meters and exceeded the annual input.

Industrial parks are continuing their development. In 2012 the first phase of the industrial park "Marino" in Petrodvortsoviy district was introduced. About 60% of the total area has been already sold to several anchor residents. The most well-known industrial parks in Saint-Petersburg are Greenestate, Fedorovskoye, Doni-Verevo, Marienburg, etc.

In relation to 2011, the vacancy rate in class A has dropped to 2%. Due to the increased demand in this segment, the vacancy level in class B was reduced to 1% (4 and 2 percentage points compared to 2011, respectively).

In 2012, within the demand structure, the greatest share was held by logistic, trading and manufacturing companies.

### COMMERCIAL TERMS

By the end of 2012 the rental rates for class A and B warehouse premises have begun to increase due to exchange rate fluctuations and the lack of quality supply in the market.

Rental rates growth for class A warehouse premises was up 10%; for class B – 5%, this trend is connected with the stable demand growth and insufficient supply. In 2013 growth of rental rates is not forecasted.

In 2012 no investment deals were announced.

## Warehouse property key figures

	Class A		Class B	
Total stock, sq m	1.07 mln.	↑	567 th.	↑
Delivery in Q3 2012, sq m	58,000	↑	55,000	↑
Vacancy	2%	↓	1%	↓
Lease terms, years	5-7 years	↑	3-5 years	↑
Capitalization rate	13%	←	14%	←
Rental rate in USD/sq. m/year (triple net)	\$100-130	↑	\$90-110	↑

Source: Maris | Part of the CBRE Affiliate Network

## Major lease transactions in 2012

Tenant	Size, sq m	Warehouse
Major	30,000	STK
Marvel distribution	13,000	Megalogix
Megapolis	11,700	Nord Way (Hanner)
SOK Retail International Oy	10,000	Nord Way (Hanner)
KARI	8,300	Nord Way (Hanner)
Armstrong	8,000	Logopark Yanino
Truck Empire	7,000	Manufacturing and warehouse complex in Kolpino

Source: Maris | Part of the CBRE Affiliate Network

## Rental rates dynamics

Year	Class A	Class B
2007	\$115-140	\$80-110
2008	\$120-140	\$100-120
2009	\$90-100	\$80-90
2010	\$90-100	\$80-90
2011	\$95-120	\$85-100
2012	\$100-130	\$90-110

Source: Maris | Part of the CBRE Affiliate Network

## PRIMARY RESIDENTIAL MARKET

### TOTAL STOCK

In 2012 in St. Petersburg about 2,580,000 sq m of residential real estate was brought to the market, this figure is 5% lower than in 2011 (2,700,000 square meters). In the city were constructed 612 residential apartment houses with more than 40,000 flats.

The main amount of new housing in 2012 in St. Petersburg was built in the Pushkinskiy district (643,000 square meters). The second place took Viborgskiy district, where about 350,000 square meters were constructed, the third place – Krasnoselskiy district (300,000 square meters).

The market is characterized by increasing turnover of private land for housing, due to the reduction of supply from the state.

Areas of the city, close to the Leningrad region, are actively developing. In 2012, the leader in terms of overall input became Pushkinskiy district, thanks to construction of the residential zone Slavianka in Shushary (514,000 sq m).

According to forecasts of the Construction Committee of St. Petersburg, the minimum amount of housing construction in 2013 will amount to a total of 2.4 million square meters. The decline in residential construction is explained by political changes in the city, an increase in housing construction in the Leningrad region, as well as by a decrease in the supply of free land plots.

Integrated urban development projects continue to develop. In 2012, construction was completed of residential quarters Jubileiniy Kvartal by LenSpetsSMU company. One of the phases of the residential quarters Severnaya Dolina by GlavstroySPb company was also introduced to the market. In total, about 43% of projects belong to integrated urban development projects or zones.

In 2012 the largest developer was Baltros company (residential area Slavianka). Among large developers are also the Construction Committee of St. Petersburg and GlavstroySPB company. A significant volume of housing was introduced by LSR Group and by LenSpetsSMU company.

### DEMAND

For most purchasers the main source of capital for the purchase of housing is mortgages, this can be explained by low levels of average income. During 2012, the mortgage rates increased on average from 11.6% (2011) to 12.5%. However, this didn't affect the total amount of money loaned. In 2012 roughly 40 Billion rubles (slightly more than \$1.3 Billion USD) of mortgages were issued.

In 2012, the peak demand for housing in St. Petersburg was in the early spring. In general, the demand for primary real estate market (newly constructed apartments) was growing during the year, except for the winter and summer holidays.

Buyers of new housing in the primary segment stopped noting the difference between the border areas of St. Petersburg and the bordering areas of Leningrad region. Residential facilities in Kudrovo or Murino (Vsevolozhskiy district) are being built close to the metro stations and are perceived as being within the city.

Increasing demand on the primary market is forecasted in 2013-2014, due to the activity of real estate developers in the economy segment and the continuing growth of the mortgage market in St. Petersburg.

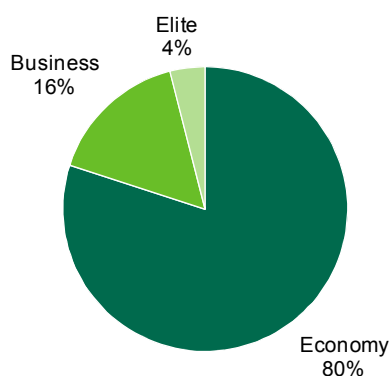
### COMMERCIAL TERMS

Since the start of 2012 the average price per square meter on the primary market increased by 11% up to 85,000 rubles.

During the year the average monthly increase in price was 1% in comparison to 2011, in August, there was a boost (5%) connected with the introduction of several high-class projects. On average in 2012 the cost of square meter in elite class increased by 15% (220,000 rub./square meter), in business class by 13% (120,000 rub./square meter), in economy class by 11% (82,000 rub./square meter)

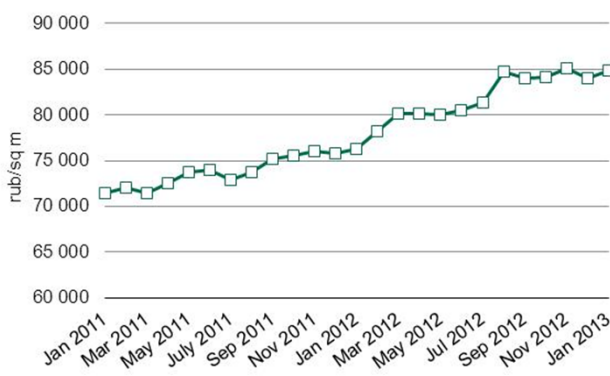
The range of discounts during purchase of apartments in St. Petersburg is from 3 to 5%, for parking spaces - about 5%. Usually, discounts are available in case of full payment. Getting a mortgage can also affect the size of discount when buying an apartment.

#### Structure of primary residential market, by class



Source: Maris | Part of the CBRE Affiliate Network

#### Sale prices dynamics



Source: bn.ru

## MARIS | Part of the CBRE Affiliate Network

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We offer a full range of commercial real estate services for the St. Petersburg market.

The general scope of our work includes:

- Property management;
- Consulting and valuation;
- Brokerage services for office, retail and industrial space;
- Investment Services;
- Corporative Services;
- Residential department.

Our staff have a vast amount of experience in the Commercial real estate market (from 1994) which, combined with our strategic partnerships with world real estate service leaders means we can offer our clients a unique knowledge of the special qualities of the Russian market but combined with the resources of Western Europe and America.

Maris | Part of the CBRE Affiliate Network focuses first and foremost on the interests of its clients. We offer each client affordable and effective solutions to each individual real estate requirement. Our clients entrust us with their business because they know that our success has come as a direct result of our attentive attitude toward their business.

The goal of Maris | Part of the CBRE Affiliate Network is to understand the requirements of the client and to evaluate the prospects for their business development in a changing market. Regardless of the fact that the Russian economy is in a state of dynamic change, to succeed in business it is necessary to have perspective and to overcome the challenges that arise from new opportunities while always ensuring maximum benefit to each client.

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