# Market View

# St.Petersburg Property Market



## Quick Stats 2009

| | |
|---|---|
| Supply | ↑ |
| Vacancy | ↑ |
| Rents | ↓ |
| Capitalization rates | ↑ |

In 2009 the real estate market underwent fundamental changes. The saturation of the market took place, and in some segments and districts of the city one can see an over-saturation. Rental rates and sale prices dropped to the level of 2006. Banks practically stopped lending and many projects were frozen. However, the biggest change that affected all market segments of commercial real estate was a decline in demand and, as a result the market became a tenants market.

## OFFICE MARKET IN ST.PETERSBURG

### SUPPLY

The crisis made it very obvious that the market has no shortage of office space. There are vacant premises in practically every building. At the same time, vacancy rate in some office centers is at the average market level, while in others it is substantially bigger. Therefore, it is too soon to speak about a complete saturation of demand. High quality properties offered at an affordable price continue to attract tenants even today.

Meanwhile, the general volume of office centers continues to grow and during 2009 it has increased by more than 365,000 (+25%) sq m, although, it was planned to increase the general volume of properties more than at 30%.  In comparison to 2008 the total amount stock of A class office centers increased at 43%, in class B -  at 20%.

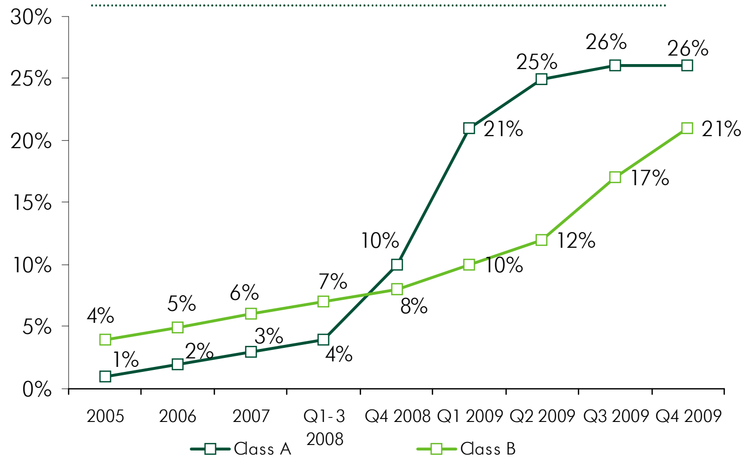
**Office centers key figures**

| | Class A | Class B |
|---|---|---|
| Supply, sq m | 414,000 | 1,440,000 |
| Delivery in 2009, sq m | 125,000 | 240,000 |
| Vacancy | 26% | 21% |
| Lease terms | 3 year | 11 months |
| Capitalization rate | 16% | 16% |
| Rental rate, USD/sq m/year (triple net) | 502 | 338 |

### VACANCY

By the end of 2009, the vacancy rate in Class A office centers reached 26%, while in Class B office centers it grew to 21%. New buildings which opened at the end of 2008 and in 2009 are experiencing the greatest difficulty and have the highest vacancy rate. Many office centers are being opened with zero occupancy and the landlords are forced to reduce rental prices significantly to attract tenants. As a result of companies downsizing in staff and leased meters offers to sublease offices have appeared on the market. However, the sublease market is not developing as actively as in Moscow.

**Vacancy rates**

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## DEMAND

One main result of the past crisis year is that real estate market for office space became a tenants' market.

In the first half of 2009, demand for office premises remained at a rather high level. The reason for that was the satisfaction of deferred demand. At the end of 2008, tenants were not confident about the future and decided to postpone all decisions concerning new office premises until the start of 2009. Thus, the pick-up in demand in the first quarter of 2009 was temporary and by the second quarter there was a decline in activity.

During the summer months, there was minimal demand for office space. In the beginning of autumn business activity came alive, as expected, and we saw the first signs of a firming of the market. The number of enquiries grew slightly. A greater percent of potential tenants visited properties and entered into negotiations.

The biggest demand was for office less than 50 sq m with completed fit out in existing office centers located not far from metro stations. Landlords who previously leased premises only in large blocks have been forced to cut the space into smaller units. Office buildings where it is not possible for technical reasons are experiencing more difficulties with attracting tenants.

The new market trend in 2009 was that most tenants are ready to lease only fitted out office. Office centers under construction are not in demand.

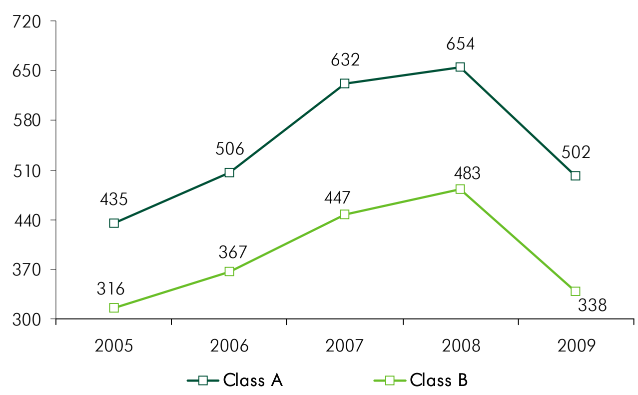
Demand has changed not only quantitatively but also qualitatively. There are almost no new companies opening offices in Petersburg. The volume of transactions on the market is resulting from migration of already existing tenants. Meanwhile tenants are actively taking advantage of falling rental rates and they are raising the quality of their offices without increasing expenses.

Despite the crisis in the economy and the decline in real estate, during 2009 quite a few lager transactions were completed. Primarily banks, state-owned companies and IT companies expanded and moved in to new offices.

### Main transactions in 2009

| Company | Office center (class) | Sq m |
|---|---|---|
| Yota | Atlantic city (A) | 7,800 |
| BFA Group | Linkor (A) | 3,200 |
| Open Way Service | Linkor (A) | 2,600 |
| Kodex | Kantemirovsky (B) | 5,500 |
| Arkadia | Rostra (B) | 2,200 |
| Okey | Sinopskaya 54 (B) | 1,800 |
| Spasskie vorota | Arena Hall (B) | 1,700 |
| Telros | Vyborgaskaya zastava (B) | 1,500 |
| Promt | Arena Hall (B) | 1,487 |

### Class A and B rental rates*




*in USD/sq m/year, excluding VAT

## RENTAL RATES

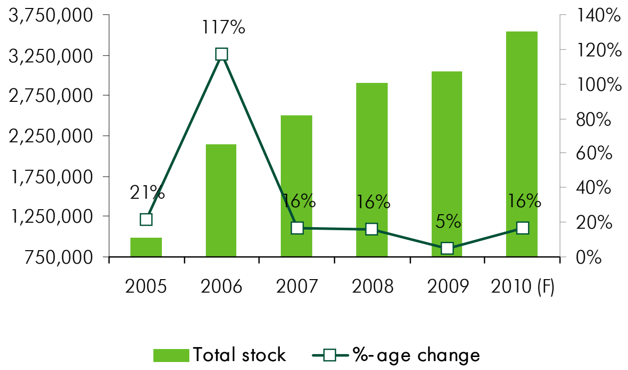
In 2009, there was a reduction in rental rates in nearly all office centers. The cost of one square meter in the same building can vary by 2-3 times depending on the location of the office, the view and the size.

The landlords continue to shift to rental prices in rubles and to move away from the triple net system towards «all inclusive». By the end of 2009, the average rental rate for Class A office centers equals to USD 480-520 per sq m per year. For Class B it is USD 320-360 per sq m per year (not including VAT). Thus, since the onset of the crisis, rates in Class A declined by 27%, and in Class B they dropped by 32% and reached the level of 2006 rental rates.

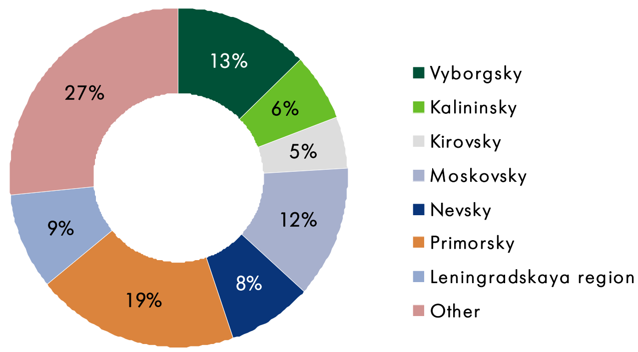
The economic crisis led to a situation wherein the rental rates in St Petersburg largely depend not on the class of the office but on its location. In the non central districts, high class office centers do not enjoy an automatic competitive advantage over Class C; therefore, they can only compete in price. You can now rent an office in a Class A building near Staraya Derevenya metro station or in Pulkovo airport zone for USD 300-360. Meanwhile there are examples of Class C office centers in the city centre lacking ventilation, air conditioning or parking but posting rates of USD 520-600. Tenants choose first the price, then location and, lastly, quality of the building.

Presumably the market has defined the price markers. If strengthening of the market becomes a persistent trend, then we may expect a decrease in the percentage of vacant premises in 2010 and a halt in the decline of rental rates. This will happen first of all in the very centre of St-Petersburg and in districts adjoining the centre, as well as in the well-developed business areas. We see no reason to anticipate in the near future any improvement in the situation with office centers in the outskirts and outside the existing business areas.

## Retail market stock




## Shopping centers geographic distribution




## Street retail rental rates (USD/sq m/month)

| Location | 2008 | 2009 |
|---|---|---|
| Nevsky pr. | 2,000-5,000 | 1,150-3,000 |
| Bolshoy pr. PS | 2,000-4,000 | 1,150-2,300 |
| Sadovaya str. | 1,800-2,150 | 1,300-1,650 |
| Bedroom districs | 400-1,650 | 300-1,000 |

# RETAIL MARKET IN ST.PETERSBURG

## SUPPLY

The total amount of retail space on the St Petersburg market during 2009 was in excess of 3 million sq m. In 2009, only 8 shopping centers with a total surface area of around 148,000 sq m were opened. Thus, the incremental supply was just 5% compared to 2008 (for comparison, in 2006 the incremental supply was 117%, in 2007 it was 16%, and in 2008 - 16%).
The basic reason why so few new shopping centers have come onto the market is the delayed dates for commissioning and suspension of construction. Nonetheless, around 500,000 sq m (+16%) is expected to be delivered to the market in 2010.
The leading districts in terms of density of shopping centers are Primorsky (19%) and Vyborgsky (13%). In 2009, the stock of shopping centers in the Primorsky district grew by 88,000 sq m. Three out of eight shopping complexes brought to the market in 2009 were in the Primorsky district. The city districts with fewest number of shopping centers are Petrogradsky (1.5%), Admiralteisky (2.5%) and Vasileostrovsky (2.7%).
In 2010, we expect rather substantial growth in supply firstly due to three very large projects which are being completed very actively. There is no reason to suppose that they will be suspended or stopped. The current market situation for commercial premises attests to exceedingly strong competition and the market is approaching saturation. Starting from 2011 growth of supply will occur at a considerably slower pace. There will be demand for construction of shopping centers in districts experiencing their shortages (for example, Petrogradsky) and in districts where very large new residential complexes are being built (Kudrovo, Baltic Pearl, etc.).

## DEMAND

In high quality shopping centers the vacancy rate amounts to about 10%, but on average around the city the figure is higher - 30%. Chain stores are in no rush to expand their presence in the market insofar as shopping activity has dropped. There has been a substantial increase in the number of vacant premises in the street retail segment. Large international operators are moving their stores into shopping complexes and closing the less profitable points of sale, trying to cut rental expenses to a minimum. Thus, it has become possible to rent premises on Nevsky Prospekt, Bolshoy Prospekt (Petrogradsky district) and other prestigious retailing corridors where previously there was a waiting list. There is an active rotation of tenants. Among the latest trends we also note the opening of brand name outlets selling off remainders of previous seasons collections at substantial discounts, in the range of 30-70%.

## RENTAL RATES

The greatest drop in rental rates has occurred in the street retail segment. In 2009, rates fell by 50%, whereas in the shopping centers the decline has been on the rage of 10-15%. The drop took place mainly at the start of the year. During the summer and at the beginning of the autumn rates hardly changed and owners were already reluctant to make discounts. However, rental rates in shopping centers are now being set based on the requests of potential tenants, not in relation to efficiency or return on investment.

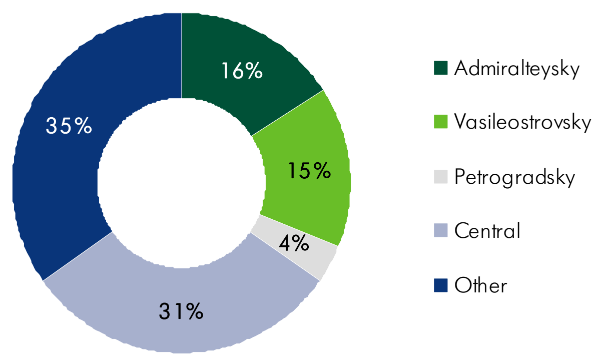
## HOTEL MARKET IN ST. PETERSBURG

### SUPPLY

At the end of 2009 high quality hotel rooms in St Petersburg account for about half of the total stock of hotel rooms in the city - 13,763 rooms. 15% of the rooms are in the category of 5-stars; 37% are in 4-stars; and 48% are in 3-star hotels. In the course of 2009, six new hotels were opened in St Petersburg and 3 hotels expanded their premises. Thus, the stock of hotel rooms increased by 1,444 rooms (compared to 1,240 in 2008), although at least 2,000 rooms were said to be ready for commissioning. According to data provided by the Committee on Investments and Strategic Projects, these are the best figures not only since the start of the program for developing the hotel infrastructure but during the entire history of the city, except for 1979, when the hotels Pulkovskaya and Pribaltiiskaya were opened (more than 2,000 rooms).
In 2009, two new international operators came to the St Petersburg hotel market - InterContinental (Holiday Inn, 3-star, with 557 rooms) and Reval (Sonya Reval Hotel, 4-star, with 173 rooms).
Maris Properties specialists believe it is very likely that the number of new rooms commissioned in 2010 will be on the level of about 1,000 hotel rooms. This will come largely from projects which are now in their final stages of construction.

| Class | Number of hotels | Number of rooms |
|---|---|---|
| 5* | 10 | 2,043 |
| 4* | 16 | 5,056 |
| 3* | 31 | 6,664 |
| Total | 57 | 13,763 |

**Hotel geographic distribution**



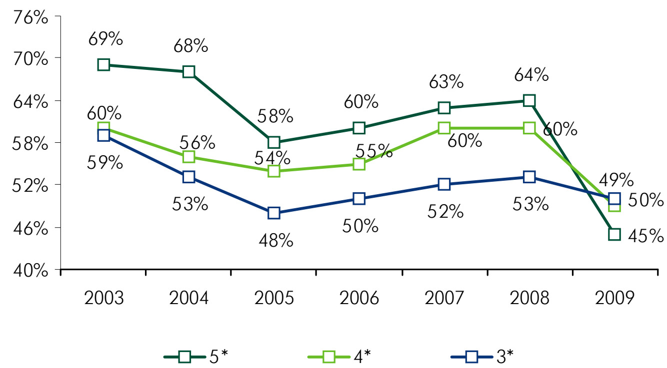

### DEMAND

In 2009, the incoming flows of both foreign and Russian tourists remained at the level of 2008 and there was no substantial decline. However, in 2009 we saw a growing number of individual tourists and decline in numbers of organized tourist groups. Cruise tourism suffered least of all from the crisis. In 2009, the passenger seaport hosted 428,500 visitors - 7% more than during the previous year.

Hotel occupancy in 2009 fell because the hotels were slow in bringing down their prices. Also, in connection with the decline in group tourists, many hotels with large numbers of rooms (500 or more) could not sell them.

It is anticipated that demand from business visitors will decline and that demand will shift from 5-star hotels to 3-4 star hotels. In that case, the highest quality 3-4 star hotels will be able to maintain their current level of prices or will make minimal adjustments.

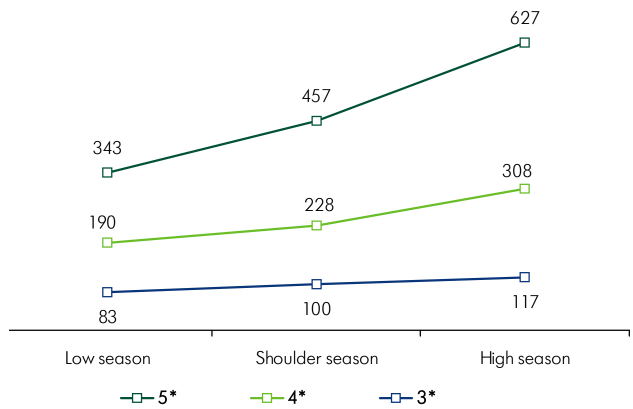
**Occupancy rate**




### RACK RATES

In 2009, daily rates in St Petersburg hotels fell in average by 15-30%. The level of hotel revenue per room (RevPAR) declined by 25-30% depending on the hotel category. The level of prices in St Petersburg hotels is not constant and depends on seasonality. In the summer, we see peak prices which are supported by elevated demand. Compared with the low season, prices are increased by 20-40%.

**Rack rates in USD**



## WAREHOUSE MARKET IN ST.PETERSBURG

In 2009, goods turnover of the main users of warehouse space declined and this led to a fall in demand. As a consequence, there was a fall in occupancy of warehouse complexes. In the first half of 2009, freight turnover in the port fell by 23.5% compared to the same period a year earlier, while the decline in volume of domestic railway freight shipments amounted to 40.8% and foreign trade shipments fell by 11%. Pulkovo handled 12.6% fewer passengers than in 2008. The index of industrial production at the end of the first 10 months of 2009 had declined by 23.2%. However, in the second half of 2009 we saw a slowdown in the rate of contraction of the main indicators

### Warehousing property key figures

| | Class A | Class B |
|---|---|---|
| Supply, sq m | 917,000 | 507,000 |
| Delivery in 2009, sq m | 227,000 | 41,000 |
| Vacancy | 40% | 25% |
| Lease terms, years | 5 | 3 |
| Capitalization rate | 16% | 16% |
| Rental rate, USD/sq m/year (triple net) | 90-100 | 80-90 |

### SUPPLY

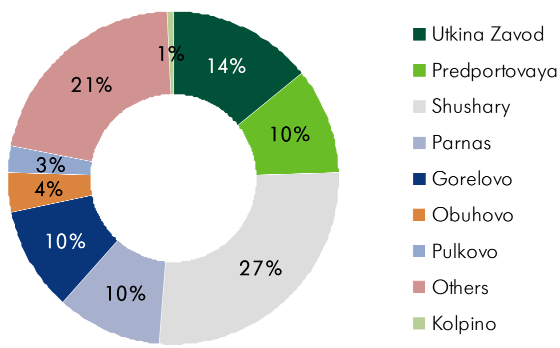
In 2009, the capacity of Class A and B warehouse complexes increased by 268,000 sq m, which is around 90% of what was forecasted. The following sites are among those commissioned: Gorigo, phase 1 (75,000 sq m), logistics park Neva, phase 2 (45,000 sq m), Kulon-Pulkovo (36,000 sq m), Ahlers, phase 2 (17,500 sq m), Teorema, phase 3 (11,300 sq m). The forecast for 2010 is more optimistic - around 600,000 sq m. More than 2 million sq m of warehousing property under construction or in the planning stage in St Petersburg has been suspended for an indeterminate period. But in 2009 rather many new projects for construction of logistics buildings in St Petersburg were announced. Built-to-suite projects will be the most perspective and in great demand in the coming years. A large part of existing warehouses and sites under construction are Class A properties and the share of this category is constantly growing. In terms of location of warehousing complexes, the leading area is the industrial zone Shushary (27%), followed by Utkina Zavod (14%), Predportovaya (10%), Parnas (10%) and Gorelovo (10%).

### Class A and B warehouses


### DEMAND

As a result of the crisis, demand for warehousing properties fell sharply and this led to a fall in occupancy of logistics complexes. On average the share of vacant space in Class A premises grew from 1-5% to 40%, while in Class B it rose from 1-2% to 25%. In new warehouse complexes brought to the market during 2008-2009, the vacancy level is above the average market rates.

### Warehouses geographic distribution




Among major transactions in 2009 are the following:

Krupskaya confectionary plant leased 12,000 sq m in AKM Logistic

Company Katren leased 6,000 sq m in MLP- Utkina Zavod

WeMaTec leased 2,100 sq m in Kulon Pulkovo

Scania leased 10,000 sq m in AKM Logistics

The Avalon Group, that is developing a chain of logistics parks under the Megalogix brand in cooperation with the British fund Raven Russia (RR), pulled out of the project. The Group sold to RR its 50% share in Megalogix and in the joint logistics business Avalon Logistics

### RENTAL RATES

In 2009 asking rental rates for warehouses decreased for 10-20%:

Class A: USD 90-100 /sq m/year (triple net)

Class B: USD 80-90 /sq m/year (triple net)

## INVESTMENT MARKET IN ST.PETERSBURG

In 2009, investment activity on the St Petersburg real estate market remained on a low level. There were almost no deals, and investors preferred to wait and see. Investor interest shifted from projects under construction or in project planning stage to those already in operation:

- Adamant sold shopping center Grate;
- Storm Real Estate Fund bought office center Griffon;
- LLC AKKUMAX.RU bought Teorema's office centers - Evrika, T4, Langenzipen, Obuhov center, Benua;
- Gazprom Development bought office center Arena Hall.

Russian developers are interested in getting the small projects up to USD 10 mln. of initial investments with duly registered ownership rights, located in the perspective locations. Capitalization rate is not that important for such type of investors. The main parameters are price per sq m plus the rough estimation of potential future revenues. Western institutional funds are looking for office and retail centers, occupied by qualitative tenants with long term contracts.

Owners announce that they would be glad to discuss the selling of their properties at the capitalization rate 12-14%. Investment funds are announcing that they are interested in getting yields at the level of 15-20%.

During 2009 the number of projects offered for sale and their marketing time have increased. At the same time, there were significantly fewer investors wanting to purchase real estate. Foreign investors reduced their presence on the Russian market. The main reasons for this were high risks and low profitability.

The British investment company Aberdeen Property Investors abandoned its plans to invest 1.5 billion Euros in the Russian real estate market. The company had created an investment fund to purchase real estate properties (offices, warehouses, hotels and shopping centres) in Moscow and St Petersburg in October 2007, however in the final analysis the fund was unable to attract the necessary financing and did not make a single purchase.

The American company Developers Diversified Realty announced at the end of 2008 that it was suspending its investment programme in Russia. Together with the German company ECE, it had planned to invest 1 billion Euros in commercial real estate in Russia and in Ukraine.

At the start of this year, the British developer Parkridge Holdings postponed for an indeterminate period the construction of a million sq m of commercial real estate in Russia.

Orco Property Group is closing its Moscow office and intends to sell all its Russian assets. In 2007, Orco Property Group announced that in the course of several years it intended to invest 500 million dollars in the Russian real estate market.

### *MARIS PROPERTIES in association with CB RICHARD ELLIS*

Maris Properties is one of the leading and fastest growing real estates companies in St. Petersburg. We offer a full range of commercial real estate services for the St. Petersburg market.

The general scope of our work includes:

- Brokerage services for office, retail and industrial space
- Consulting & Valuation
- Corporate services
- Investment services
- Property management

Our staff has a vast amount of experience in the Commercial real estate market (more than 15 years) 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 & America.
Maris Properties 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 result of our attentive attitude toward their business.

The goal of Maris Properties 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.

Our client list already includes such companies as: Siemens, Sun Microsystems, American Express, Franke, Vimpelkom (BeeLine GSM), Teks, Avaya, Bristol-Myers Squibb, JTI, Finansbank and others.

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