

141.3 thousand sq m
commissioned

6.9%
vacancy rate

-52%
decrease in lease
transactions



Office Market Report

Saint Petersburg
2020

knightfrank.com/research





GK Best has opened its Avenue-PAGE, a flagship project of a coworking chain at 18 Aptekarskaya Embankment.

RAD has sold its famous building with a total area of 9.3 thousand sq m on the Griboedova Canal that housed the Central Railway Ticket Offices in a tender deal.

Maxidom presented a project for redeveloping the grounds of the Kalinin Plant in Uralskaya Street into a multifunctional space to include offices, a shopping area, catering outlets and sports facilities.

IMPORTANT MARKET DEVELOPMENTS

Petersburg Television and Radio Company presented a project for a new building with an area of 92 thousand sq m on Petrogradskaya Side. The project will include a new office centre and a covered public space and will also feature a walking area and a helicopter pad on the roof top.

Okhta Group presented a project for redeveloping the grounds of the former Skorokhod Factory into a pedestrian quarter with shopping and entertainment centres, offices, and apartment facilities.

The Russian Auction House has sold Mont Blanc business centre to Nord Wood LLC. The deal was worth RUB 593.4 million.

Setl Group has moved its head office to the Riverside office building with an area of 17.8 thousand sq m.

Key metrics. Dynamics*

	Class A	Class B
Total leasable area of high-quality office facilities, thousand sq m	3,806 ▲	
including, thousand sq m	1,204	2,602
Commissioned in 2020, thousand sq m	141.3 ▲	
including, thousand sq m	101.2	40.1
Total vacant stock, thousand sq m	263.5 ▲	
including, thousand sq m	46.6	216.9
Vacancy rate, %	3.9 (+0.3 p. p.)	8.3 (+3.0 p. p.)
Net absorption, thousand sq m	60.7 ▼	
including, thousand sq m	86.8	-26.1
Ranges of requested rental rates, RUB/sq m/month, including VAT and OPEX	1,700–2,800	1,000–2,100
Asking rental rate range, RUB/sq m/month, including VAT and OPEX	2,101 ▲	1,310 ▲
Source: Knight Frank St Petersburg Research, 2021		
* As compared to 2019		



Mikhail Tyunin

Deputy Director General
Knight Frank St Petersburg

For many companies 2020 ended without any major decision-making as to moving or reducing the spaces they occupy. The majority understands that the remote work model has become an integral part of the working routines. Many companies are planning to keep 40–60% of their staff working remotely, but this trend is most likely not to result in proportional reduction in the spaces occupied. The positive fact is that companies have realized the need to adapt the existing offices to meet the new conditions so that employees feel comfortable and safe when in the office. To this end, companies engage workplace strategy experts to develop, plan and optimize their working environments, and the evidence from practice shows that such solutions are much less expensive than relocation or abandonment of offices.

Supply

As at the end of 2020, the total supply of high-quality office spaces reached 3.8 million sq m, of which 82% were intended for lease. The total area of

spaces commissioned in 2020 was 141.3 thousand sq m, increased by 11% to 2019. However, without taking into account Phase 2 of the Lakhta Centre

Business Centre (80 thousand sq m), the commissioning figure would have been two times lower in 2020 than in the previous year. The speculative number of high-quality offices commissioned in 2020 was 61.3 thousand sq m, which is 38% less than in 2019 (99.3 thousand sq m). 75% of the new spaces were commissioned in H1 2020. In particular, the construction of the following business centers were completed: Premier Liga, Obvodny 28, Bronka Space, Nevsky 1, and others.

As at the end of 2020, the area of vacant spaces totalled 263.5 thousand sq m, which is a 67% increase as compared to the end of 2019. First of all, the increase in the vacant supply was due to the pandemic and the introduction of remote work models as a forced response. Spaces were vacated by those companies whose contractual commitments allowed them to withdraw from leases with minimal penalties. This was mainly the case with small and

The largest new office properties commissioned in 2020

Name	Address	Class	Leasable area, thousand sq m
Lakhta Center	1a Vysotnaya St	A	80.0
Premier-Liga (Phase 3)	266M Ligovsky Ave	B	15.4
Obvodny 28	28 Obvodny Canal Emb	B	11.9
New Holland	2 Admiralteysky Channel Emb	A	11.3
Bronka Space	10-120 Krasnogo Tekstilshchika St	B	8.9
Nevsky 1	1/4 Nevsky Ave	A	5.8
AVENUE PAGE	18 Aptekarskaya Emb	A	4.0

Source: Knight Frank St Petersburg Research, 2021

medium-sized businesses renting spaces in Class B office centres. Thus, the vacant spaces on the Class B segment increased by 81% as compared to the end of 2019, and the vacancy rates grew 3.0 percentage points and reached 8.3%.

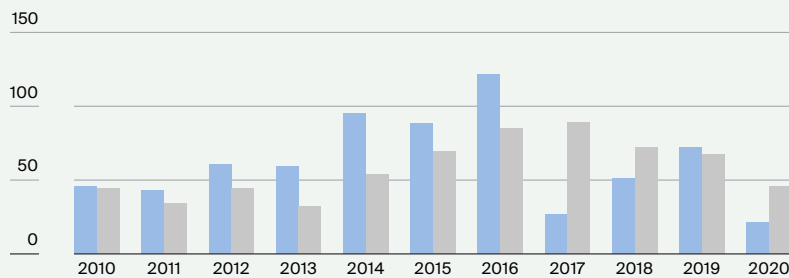
The continuing trend of tenants' relocation from Class A business centres to lower profile properties has resulted in the growing number of vacant spaces and an increase in vacant supply by 22% as compared to the end of 2019. A small increase of 0.3 percentage points in the vacant rates that reached 3.9% was due to a considerable amount of commissioning on the Class A segment (101.2 thousand sq m in 2020 against 21.2 thousand sq m in 2019), with 94% of all the spaces occupied by the time the facilities were put into operation.

Geographically, the largest increase in vacant rates was observed in the Obvodny business district, where the rate increased by 7.0 percentage points due to the vacation of large office units in the existing business centres and the commissioning of a new Class B property.

Dynamic of lease transaction

thousand sq m

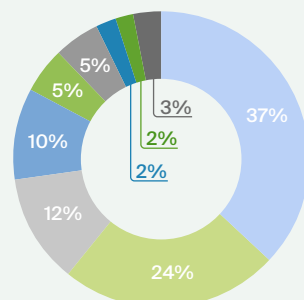
Class A Class B



Source: Knight Frank St Petersburg Research, 2021

Breakdown of spaces involved in lease transactions, by tenant's sector

IT & Telecom
Raw materials & Energy
Manufacturing
Construction, Development & Engineering
Consulting & business services
Financial & insurance activities
Wholesale & Retail
Aviation
Others



Source: Knight Frank St Petersburg Research, 2021

Demand

As at the end of 2020, the aggregate number of deals in the Class A and B office market was 66.9 thousand sq m. This is more than two times less than in 2019 (139.7 thousand sq m). The greatest changes occurred in the business centres Class A, which experienced more than three times decrease. Deals with Class B properties decreased by 32% on an annual basis to reach 45.7 thousand sq m. First of all, this was on account of transactions

made by IT companies and oil and gas businesses — on an aggregate basis, these accounted for 60% of the total amount of transactions on the Class B segment. The average area of rented spaces in Class B facilities decreased by 23% (down to 1,018 sq m). Quite the opposite, on the Class A segment it increased by 1% and reached 1,740 sq m because of several large transactions.

The demand is mainly was driven by IT and oil and gas companies. However, the number of spaces leased and purchased by these players decreased by 43% and 71%, respectively, in 2020 as compared to 2019.

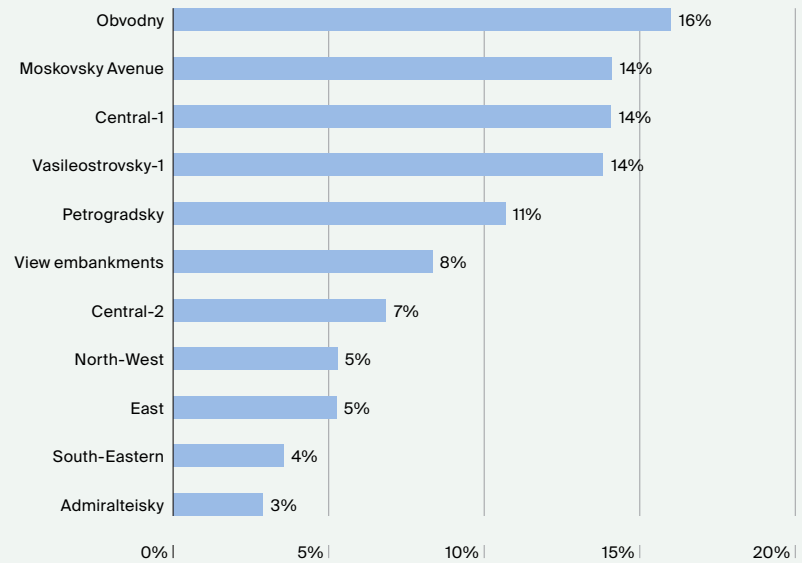
Let us note that industrial companies have risen to prominence by being able to rank third in terms of the number of leased spaces, even despite a 35% decrease from the levels seen in 2019.

In 2020, lease customers mostly gave preference to the Obvodny business district where several deals were made, with the major of them being with a tenant from the oil and gas sector. The Moskovsky Avenue, Central-1 and Vasileostrovsky-1 business districts account for 14% of total transactions each.

As at the end of 2020, the net absorption* of high-end offices totalled 60.7 thousand sq m, which is two times decrease on a year-to-year basis. This was caused by the fact that tenants vacated during 2020 due to economic uncertainties during the pandemic. The most heavily affected properties were Class B office centres, which registered negative net absorption levels throughout the H2 2020, reaching -26.1 sq m by the year end. In the Class A business centres, amounted to 86.8 thousand sq m, this was reached mostly due to the commissioning of Lakhta Centre which will be used for the company's internal needs.

The developments on the office market have considerably influenced the demands of tenants. This is supported by surveys among potential tenants conducted by Knight Frank St Petersburg on a regular basis. According to the survey results, the

Breakdown of lease transactions by business district



Source: Knight Frank St Petersburg Research, 2021

Major transactions in 2020

Company	Area, thousand sq m	Property: Address	Property class
Gazprom (a division)	8.8	Depo: 2/9V Mitrofanievskoye Hwy	B
United Shipbuilding Corporation	7.0	Senator: 22 17-ya Liniya V. O.	A
CRT	4.4	Stockholm: 45E Vyborgskaya Emb	B
Mail.ru Group	4.0	Senator: 30 Bolshaya Morskay St	A
NIPIGAS	3.0	Leader Tower: 3 Constitution Sq	B
St. Petersburg Mining Project and Engineering Company	2.1	Kontinent Zvezdnaya: 97 Lensoveta St	B
ER-Telecom Holding	2.0	Luch: 7 Metallistov St	B
Russian Post	1.5	AVENUE-PAGE: 18 Aptekarskaya Emb	A
Etazhi	1.3	Premier Liga: 266 Ligovsky Ave	B

Source: Knight Frank St Petersburg Research, 2021

most sought-after properties are Class B business centres in Central, Petrogradsky, Vasileostrovsky and Admiralteisky Districts (60% of all requests). At the same time, the prospective tenants mainly looked for

small spaces with an area of between 100 and 400 sq m (33%) or between 701 and 1,200 sq m (29%).

It is important to note that 64% of companies looked for properties with rental rates within the range

*Net absorption shows changes in the number of occupied areas at end of the periods under review (a quarter or a year).

of RUB 1,200 to RUB 1,800 per sq m per month, including VAT and operating expenses. Prospective tenants were not eager to pay more than RUB 2,000 per sq m per month, including VAT and operating expenses.

Further, for the purposes of the annual report, we have conducted a survey among business centre owners and managing companies in St. Petersburg. 63% of the respondents noted that demand for office spaces remained active and the average area of the leased spaces did not change in 2020 (62%). Besides, 37% of managing companies are willing to negotiate contracts on flexible terms. The other landlords offer standard commercial terms corresponding to a particular office building.

Some of the most popular tools to attract or retain tenants include discounts and lease payment holidays, flexible indexation, and free parking spaces. Only 25% of managing companies are ready consider possible reductions in rental rates.

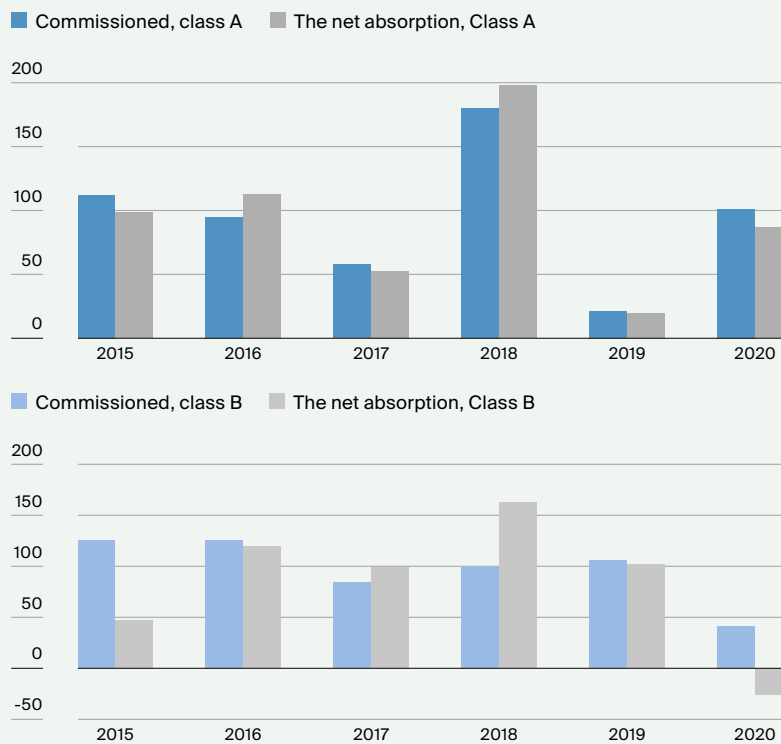
Commercial terms

During 2020, the multidirectional trends in rental rates were observed, with the peak of growth of the average-weighted rates being registered in the end of H1 2020 – 14% and 23% for Classes A and B, respectively. These dynamics were driven by the availability of high-quality and expensive office spaces in premium locations, and, in particular, due to the release of premises. However, against the backdrop of an increase in the average vacant rate in H2 2020, there was a trend toward lower rental rates for properties in both Classes: by 8.1% for Class A and by 17.5% for Class B.

Thus, on the Class A segment, the average-weighted rental rate increased by 4.4% in 2020 compared to 2019 and reached RUB 2,101 per sq m per month (including VAT and operating expenses). In Class B business centres, the average-weighted rental rate was RUB 1,310 per sq m per month (including VAT and operating expenses), which is a 1.8% increase from 2019.

Dynamics of the net absorption and commissioned buildings

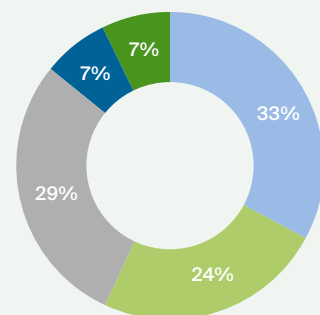
thousand sq m



Source: Knight Frank St Petersburg Research, 2021

Distribution of requests by the area of office premises

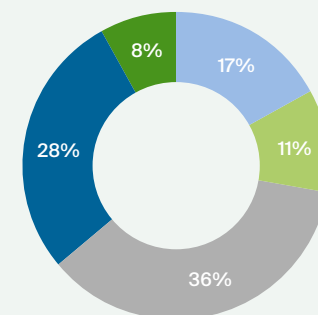
- 100–400 sq m
- 401–700 sq m
- 701–1,200 sq m
- 1,201–1,500 sq m
- more than 1,500 sq m



Source: Knight Frank St Petersburg Research, 2021

Distribution of requests by asking rental rate*

- 800–1,000 RUB
- 1,001–1,200 RUB
- 1,201–1,500 RUB
- 1,501–1,800 RUB
- 1,801–2,000 RUB



* RUB/sq m/month, including VAT and operating expenses

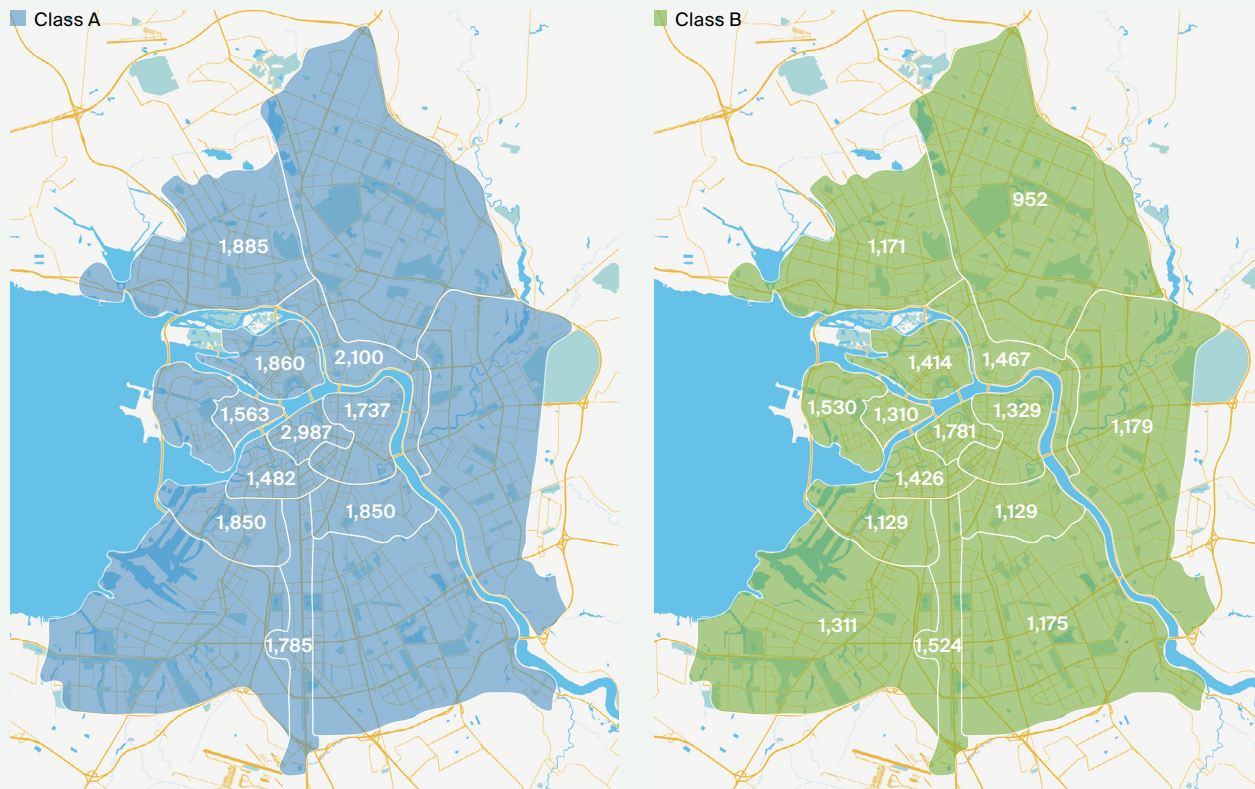
Source: Knight Frank St Petersburg Research, 2021

It should be noted that the epidemiologic situation and, hence, the transition to remote work in H1 2020 and an increase in the vacant supply influenced the average change in asking rental rates on a property-to-property basis. This figure

has dropped by 3% in the Class A office centres and, oppositely, increased by 2% on the Class B, because of some owners of business centres are not willing to reduce rates and change the terms of their lease contracts.

Average-weighted rental rates by business location

RUB/sq m/month*



Source: Knight Frank St Petersburg Research, 2021

* Including VAT and operating expenses

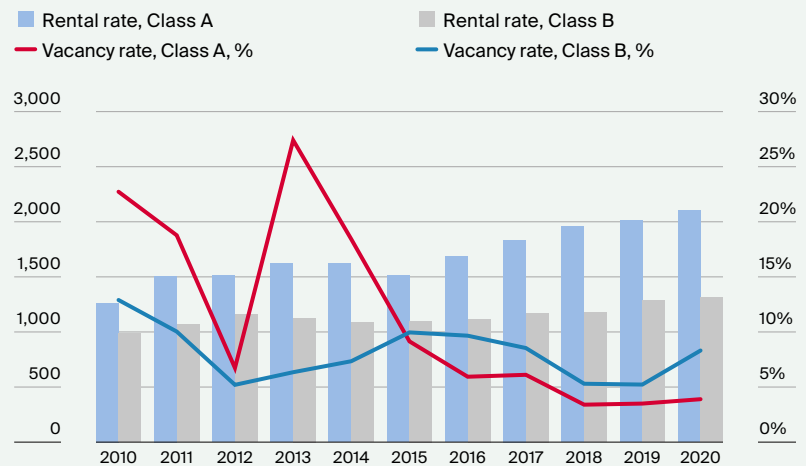
Forecast

The total amount of office spaces that are currently under construction and are expected to be commissioned in 2021 is about 229 thousand sq m. If all the business centres are commissioned, the annual results may exceed the 2020 results more than 1.5 times, thereby allowing the market to hit the 4.0 million sq m mark. However, given that developers were quite reserved in 2020 due to the pandemic, this is reason to believe that owners may adjust commissioning dates for their properties in order to minimize possible losses.

In the breakdown of supply under construction, 80% are accounted for by speculative office spaces, and given the low net absorption rates and moderate demand seen in 2020, the market will continue the trend of increasing vacant rates. This will have a particularly notable effect on the business districts where owners will remain unflinching and unwilling to negotiate better lease conditions with their customers.

Dynamics of rental and vacancy rates

RUB/sq m/month*



Source: Knight Frank St Petersburg Research, 2021

* Including VAT and operating expenses

Further streamlining of office spaces and tenants' search for the best offering may result in drops in asking rental rates on a quarterly basis, while the annual figures are expected to be at least at the level of the end of 2020.

The active development of flexible spaces and coworking has

encouraged both corporate clients and smaller companies to consider renting the alternative working space format, which is new for the market of St. Petersburg, but also relevant in the context of the existing restrictions and remote work models used by companies.

OFFICE REAL ESTATE DEPARTMENT

- ◆ Impeccable business reputation
- ◆ Business ethics and transparency in our activities
- ◆ International experience managing transactions, including the best practices (financial analysis; comparative analysis of properties in terms of quality; test layouts; best use strategies for office spaces)
- ◆ Long experience on the market of St. Petersburg (since 2005)
- ◆ Maximum involvement of our consultants in addressing your needs
- ◆ Involvement of our top management in the project implementation process

Our services

For tenants and buyers:

- market situation analysis
- selection of properties
- negotiating with owners on your behalf
- strategic consulting
- renegotiation of current leases
- support in lease/purchase approval processes

For office owners:

- acquisition of tenants and buyers
- project marketing
- review and consultations on commercial terms of leases/sales
- support in lease/sale approval and execution processes
- office real estate market research
- appraisal of assets

more than
500
offers

more than
30,000 sq m
of spaces sold

more than
100
projects
implemented



Mikhail Tyunin

Deputy Director General

mikhail.tyunin@ru.knightfrank.com

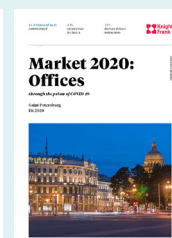
Please contact us to learn more about our services or clarify any questions you may have:

+7 (812) 363 22 22

spb@ru.knightfrank.com



For other reports,
please visit [Analytics](#)
on our website



PROFESSIONAL SERVICES

Research

- Research on the residential and commercial real estate markets
- Research of market conditions and performance
- Market forecasts for 3 to 5 years
- Market demand and supply assessment
- Competitive analysis
- Pricing analysis
- Investment potential assessment

Consulting

- Project development concept
- Market feasibility study
- Best use analysis
- Business plan and investment memorandum
- Selection of architects and project support

Real estate appraisal

- Appraisal of the market value of real properties and businesses
- Standards: RICS, IVS, the Federal Appraisal Standards (Federal Law FZ-135 and FSOs)
- Appraisal purposes:
 - fund raising and borrowings
 - IFRS financial statements
 - managerial decision making
 - sale and purchase transactions
 - investor solicitation
 - market rental rate determination

Construction audit

- Design and engineering reviews for due diligence evaluations
- As-built documentation review
- Financial and engineering supervision of projects
- Audit of planning and building permits and design specifications and estimates
- Project evaluation for financing purposes
- Expert assessment of lands for development purposes
- Evaluation of project costs and implementation timelines
- Measurement of actual work
- Construction completion evaluation
- Expenditure control with respect to investor's funds



Svetlana Moskovchenko

Head of Research

svetlana.moskovchenko@ru.knightfrank.com



Igor Kokorev

Head of Consulting

igor.kokorev@ru.knightfrank.com



Svetlana Shalaeva

Head of Appraisal

svetlana.shalaeva@ru.knightfrank.com



Stanislav Alekseenko

Head of Construction Audit and

Project Manager

stanislav.alekseenko@ru.knightfrank.com

+7 812 363 2222



Knight Frank LLP 2021 – This overview is published for general information only. Although high standards have been used in the preparation of the information, analysis, view and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank.