

92.3 thousand sq m
commissioned

6.4%
vacancy rate

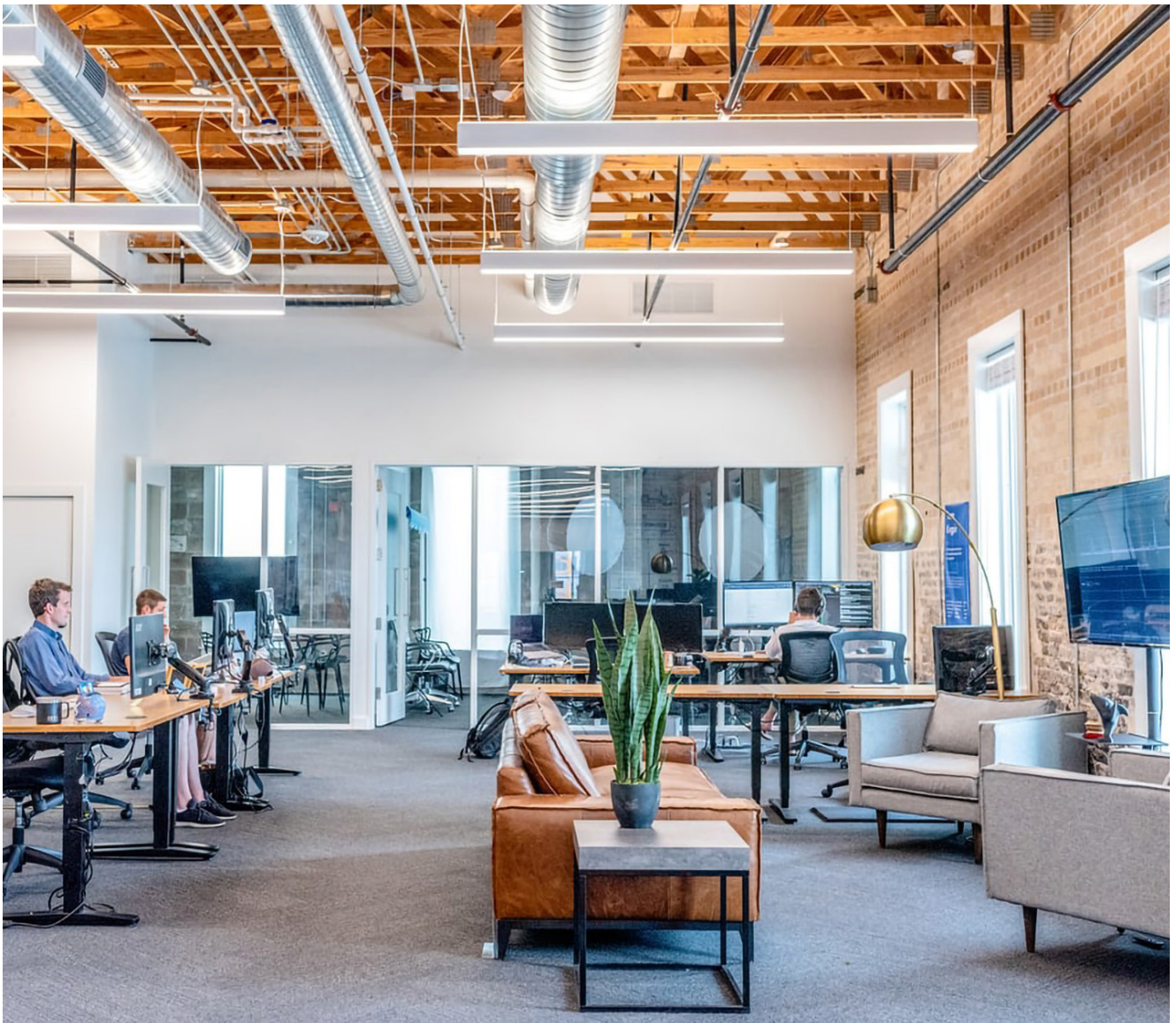
109.9 thousand sq m
net absorption



Office Market Report

Saint Petersburg
H1 2021

knightfrank.com/research



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IMPORTANT MARKET DEVELOPMENTS

Gazprom has presented a project for the construction of the Lakhta Centre 2, a new spiral tower skyscraper which will be 703 metre high, making it the second highest in the world.

Imperia Holding has acquired two buildings in Millionnaya Street (Nos. 5 and 6) and a historical building at 32 Bolshaya Morskaya – all of these will be adapted to house Senator business centres.

Praktik has announced a launch of OFIX, a new coworking network the main feature of which will be decentralization, and new locations will open in bedroom communities.

Sterkh Corporation has acquired the Technopolis Pulkovo Business Centre; 20 thousand sq m more of office spaces can be built on a 4.6 hectare site in Moskovsky District.

EKE Group's Pulkovo Sky Business Centre has been awarded a BREEAM Excellent Certificate.

SOK, a Moscow-based coworking network, is entering St. Petersburg by renting more than 4 thousand sq metres of space in the Premier, a Class A Business Centre in Tsentralny District.

Key metrics. Dynamics*

	Class A	Class B
Total leasable area of high-quality office facilities, thousand sq m	3,883	
including, thousand sq m	1,259	2,624
Commissioned in H1 2021, thousand sq m	92.3	
including, thousand sq m	52.0	40.3
Total area of vacant spaces, thousand sq m	248.5	
including, thousand sq m	45.4	203.1
Vacancy rate, %	3.6 (-0.3 p. p.)	7.7 (-0.6 p. p.)
Net absorption, thousand sq m	109.9	
including, thousand sq m	53.2	56.7
Asking rental rate range*, RUB/sq m/month, including VAT and operating expenses	1,700–2,800	1,000–2,100
Weighted average asking rental rate*, RUB/sq m/month (including VAT and operating expenses)	2,157 ▲	1,361 ▲

Source: Knight Frank St Petersburg Research, 2021

* As compared to 2020



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Regardless of the raging pandemic, the office market was very dynamic in the first half-year of 2021. Both tenants and customers were active acquiring offices for both rent and investment purposes. This is evidenced by a number of large transactions.

Coworking spaces are taking their niche between office and home working arrangements. The popularity of the format is in many respects due to the fact that many companies favour coworking because it is easy to start and such facilities have all necessary equipment, furniture and services. Today, people are less and less eager to be tied down to a single location and are increasingly favouring mobility or having a working place as close to their place of residence as possible.

Supply

In H1 2021, office developers were quite active, with the total amount of commissioned spaces being twice as high as in the same period of the last year and just 3% lower than that in H2 2020. However, it should be noted that 50% of the total amount of commissioned spaces were accounted for by renovated or re-purposed properties. This trend gives us grounds to believe that many office developers are still cautious in launching new construction projects without an anchor tenant.

The total supply of high-quality office spaces available on the market has reached 3.9 million sq m, with 32% (1.3 million sq m) being Class A spaces, and 68% (2.6 million sq m) being Class B buildings. 92.3 thousand sq m were commissioned in the first half-year of 2021, of which 46% (42.9 thousand sq m) are accounted for by speculative properties intended for rent. This is comparable with the commissioning figures in the first half-year of 2020. 72% of new spaces are Class B properties.

The remaining 54% of spaces (49.4 thousand sq m) of the total amount of commissioned spaces are

Business centres commissioned in H1 2021

Name	Address	Class	Leasable area, thousand sq m
Morskaya Rezidentsiya	12 Shkipersky Protok	A	40.0
Maxidom	1 Uralskaya Street, letters A, M, Yu and Ch	B	24.6
Senator	22-26 Bolshaya Morskaya Street	A	10.1
SK Gaide	53 Borovaya Street, build. 4	B	5.5
TD ETM	44 7-ya Sovetskaya Street	B	3.9
n/a	52 Primorsky Avenue	B	3.7
n/a	104 Oktyabrskaya Embankment, build. 5	B	2.6
Senator	32 Bolshaya Morskaya Street	A	1.9

Source: Knight Frank St Petersburg Research, 2021

office buildings intended for the own needs of companies.

As at the end of June 2021, the area of vacant spaces totalled 248.5 thousand sq m, which is a 6% decrease as compared to December 2020. The vacancy rates decreased only insignificantly because newly commissioned office spaces currently remain vacant. Without taking into account the projects

commissioned in H1 2021, the average vacancy rate decreased by 20% relative to the results of 2020.

The activity of tenants contributed to a decrease in the share of vacant spaces both in Class A and Class B, the indicators decreased by 0.3 ppt and 0.6 ppt, to 3.6% and 7.7%, respectively. Thus, since the end of 2020, the decrease was 0.5 ppt or 6.4% on the average for St. Petersburg.

Geographically, the largest increase in the vacancy rate was observed in the Vasileostrovsky-2 business district, where it grew up by 14.8 ppt due to the commissioning of the Maxidom business centre, a new Class B office property (redeveloped from the buildings of the Kalinin Factory).

Demand

As at the end of H1 2021, the amount of rented Class A and B office spaces was 42.6 thousand sq m. This is a 29% increase compared to the same period of 2020. The greatest changes occurred in the business centres Class B, where tenants rented 54% more spaces than in H1 2020 (30.3 thousand sq m vs 19.7 thousand sq m, respectively). First of all, this was on account of transactions made by IT companies, banks and financial companies — on

Major transactions in H1 2021

Company	Area, thousand sq m	Property: Address	Property class
SOK Coworking	4.0	Premier: 17/3 Shcherbakov Lane	A
Sovcombank Insurance	4.0	Senator: 60 Obvodny Canal Embankment	B
IT company	3.9	Primorsky 52: 52 Primorsky Avenue	B
Solanteq	1.8	Gayot: 23 Professora Popova Street	B
Case Coworking	1.2	Renaissance Hall: 21/23 Vladimirsky Avenue	B
Matrix	1.1	Kovensky 5: 5A Kovensky Lane	B
Murano Software	1.1	Red Cadet: 25 Krasnogo Kursanta Street	B
RSTI	0.9	B-59: 59 Bolshoy Avenue P. S.	B

Source: Knight Frank St Petersburg Research, 2021

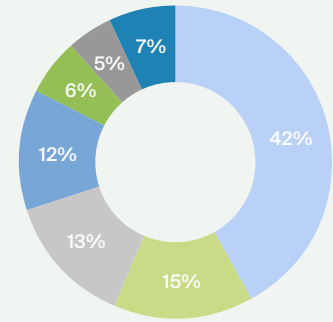
an aggregate basis, these accounted for 54% of the total amount of transactions on the Class B segment. The volume of deals conducted in Class A buildings decreased by 8% to reach 12.3 thousand sq m. The average area of leased spaces has dropped by 46% to reach 890 sq m.

The demand is mainly being driven by IT companies, which accounted for 42% of the total number of lease transactions, and the amount of spaces they rented in the first-half of 2021 increased by 49% as compared to the same period of 2020. Worth noting are coworking companies which were active on the office market by renting offices in order to adapt them into future flexible spaces. These accounted for 15% of the total amount of transactions. At the same time, spaces rented by oil and gas industry players decreased by 55% as compared to the first half-year of 2020.

In 2021, lease customers mostly gave preference to the Petrogradsky business district where several deals were made with IT companies, Central-2 where SOK coworking chain from Moscow rented spaces in the Premier business centre, and Obvodny where Sovcombank Insurance rented offices in the Senator business centre.

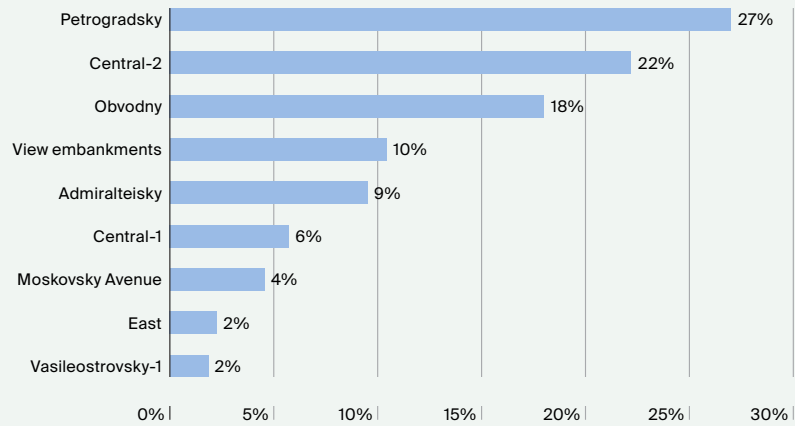
Breakdown of spaces involved in lease transactions, by tenant's sector

- IT & Telecom
- Coworking spaces
- Raw materials & Energy
- Financial & insurance activities
- Construction/Development/Engineering
- Wholesale & Retail
- Others



Source: Knight Frank St Petersburg Research, 2021

Breakdown of lease transactions by business district

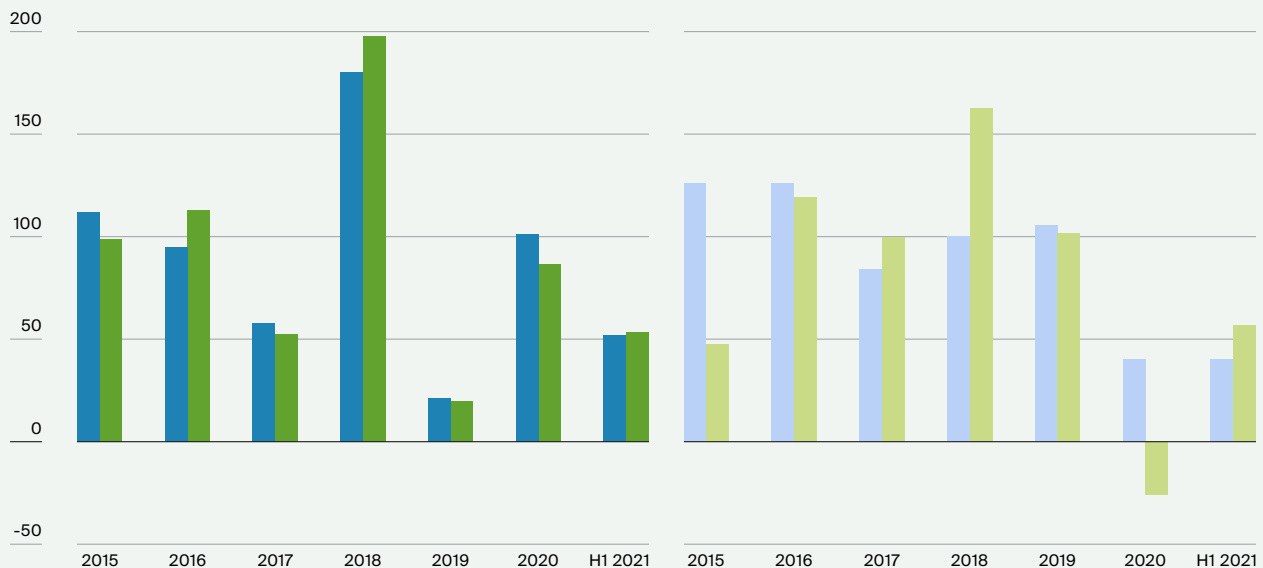


Source: Knight Frank St Petersburg Research, 2021

Dynamics of the net absorption and commissioned buildings

thousand sq m

- Commissioned, Class A
- The net absorption, Class A
- Commissioned, Class B
- The net absorption, Class B



Source: Knight Frank St Petersburg Research, 2021

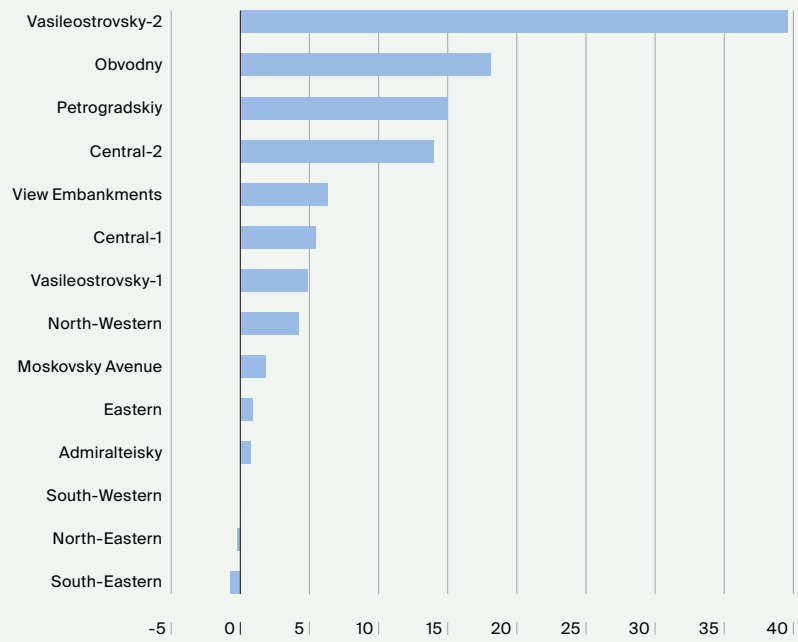
In H1 2021, the net absorption* of high-end offices was 110 thousand sq m, which is a significant increase as compared to the same period of the previous year and a 25% increase from the second half-year of 2020. However, it should be noted that without taking into account the commissioning of objects for own needs in the compared periods, the figures for January – June 2021 significantly exceeded the results of the previous period last year (60.6 thousand sq m vs 5.6 thousand sq m).

This was due to the resumption of activity of clients looking for offices and reduction in the vacancy rates. Demand has particularly intensified on Class B properties which accounted for more than half of the total net absorption in H1 2021 (56.7 thousand sq m). In terms of geographic distribution, the highest net absorption rates were observed in the following business locations: Obvodny (18.0 thousand sq m), Central-2 (13.6 thousand sq m) and Petrogradsky (8.8 thousand sq m) due to a number of transactions on the office real estate market. On the Class A properties, the net absorption of 53.2 thousand sq m was reached mostly due to the commissioning of the Morskaya Residentsiya business centre (40.0 thousand sq m) which will be used for its own purposes.

The developments on the office market have considerably influenced the demands of tenants. This is supported by surveys among prospective tenants conducted by Knight Frank St Petersburg on a regular basis. According to the survey results, the most sought-after high-quality properties are Class B business centres in Central, Petrogradsky, Vasileostrovsky and Admiralteysky Districts (59% of all requests). Worth noting is that clients showed increased interest in Moskovsky and Primorsky Districts, with 16% and 11% of total requests, respectively. The prospective tenants mainly looked for office units with an area of 700 sq m (44%), and the number of requests for office spaces

Breakdown of net absorption by business district, H1 2021

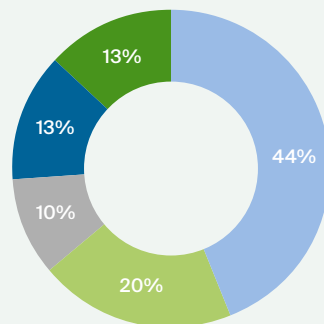
thousand sq m



Source: Knight Frank St Petersburg Research, 2021

Distribution of requests by the area of office premises

- 100–700 sq m
- 701–1,200 sq m
- 1,201–1,500 sq m
- 1,501–2,500 sq m
- more than 2,500 sq m



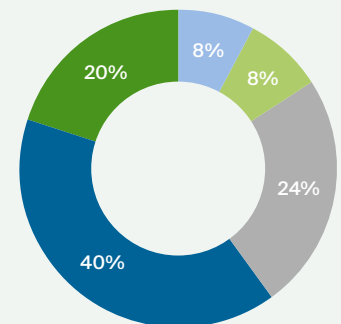
Source: Knight Frank St Petersburg Research, 2021

larger than 1,500 sq m also increased (26%).

It is important to note that 64% of companies looked for properties with rental rates within the range of RUB 1,200 to RUB 1,800 sq m/month,

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 per square metre per month, including VAT and operating expenses

Source: Knight Frank St Petersburg Research, 2021

including VAT and operating expenses. The number of requests from prospective tenants who were eager to pay RUB 1,800 to RUB 2,000 sq m/month, including VAT and operating expenses, grew by 15-20%.

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

Commercial terms

Against the backdrop of recovery of the office market, the activity of tenants as well as the tendency towards a decrease in vacant supply in high-quality properties, the asking rental rates in most office buildings increased (the average change in asking rental rates was 2.7% in class A and 0.9% in class B on a property-to-property basis).

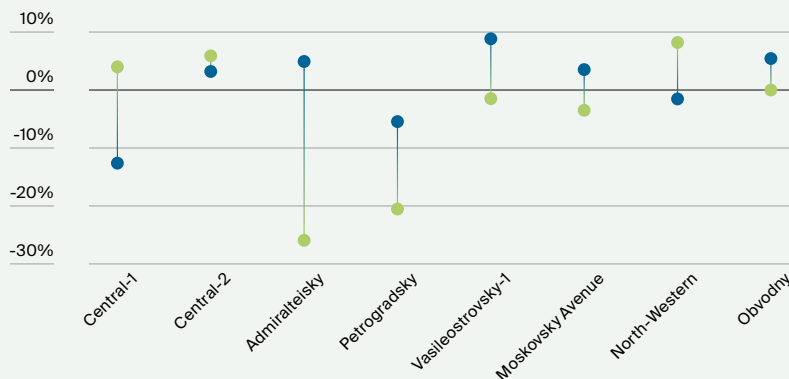
In some districts there is a negative dynamics of weighted average rental rates on the Class A due to the exhaustion of the most expensive and high quality office blocks from the market supply in Central-1 and Central-2 business locations on the one hand and in North-West the appearance of space at a lower asking rate on the other.

On the Class B business centres, the greatest changes were observed in the Central-1, Petrogradsky and North-West locations due to the average increase in asking rental rates on a property-to-property basis by 4.7%, 6.3% and 7.6%, respectively. The Moskovsky Avenue business district showed dynamics due to decreasing rates for some properties, with the average decrease on a property-to-property basis being 1.8%.

Thus, on the Class A, the average-weighted rental rate increased by 2.7% in H1 2021 compared to 2020 and reached RUB 2,157 sq m/month (including VAT and operating expenses). In Class B business centres, the average-weighted rental rate was RUB 1,361 sq m/month (including VAT and operating expenses), which is a 3.9% increase from 2020. The highest increase in asking rental rates for Class B class was recorded in the Vasileostrovsky-2 business district: where it grew by 22% to reach RUB 1,850 sq m/month on account of a new property that offers average rates higher than the city's average market rates.

Dynamics of changes in rental rates by business district in class A business centers

● H1 2021 ● H2 2020



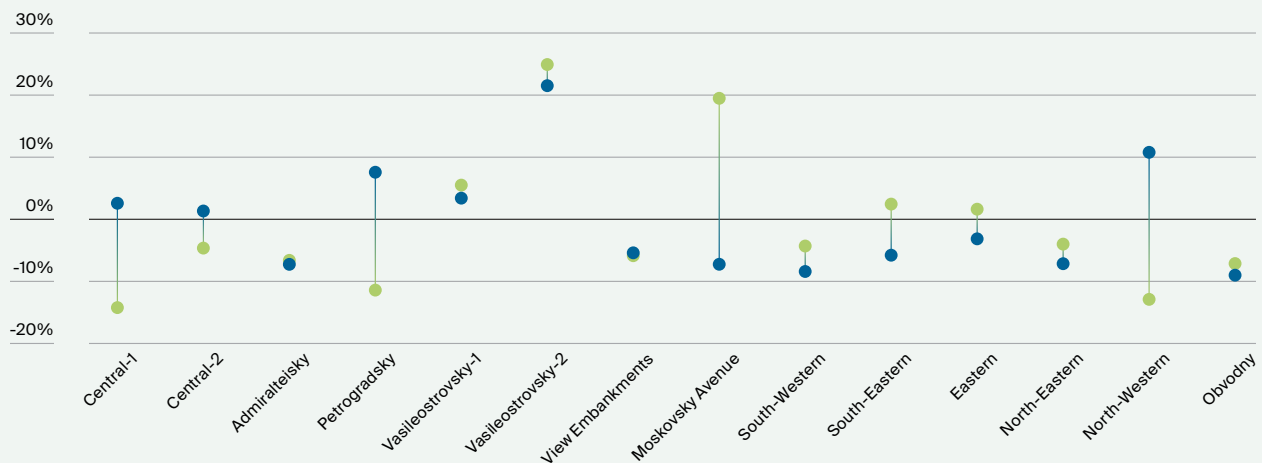
H1 2021: shows a percentage change in the weighted average rental rate for Class A business centres as at the end of H1 2021 relative to the end of H2 2020, by business district

H2 2020: shows a percentage change in the weighted average rental rate for Class A business centres as at the end of H2 2020 relative to the end of H1 2020, by business district

Source: Knight Frank St Petersburg Research, 2021

Dynamics of changes in rental rates by business district in class B business centers

● H1 2021 ● H2 2020



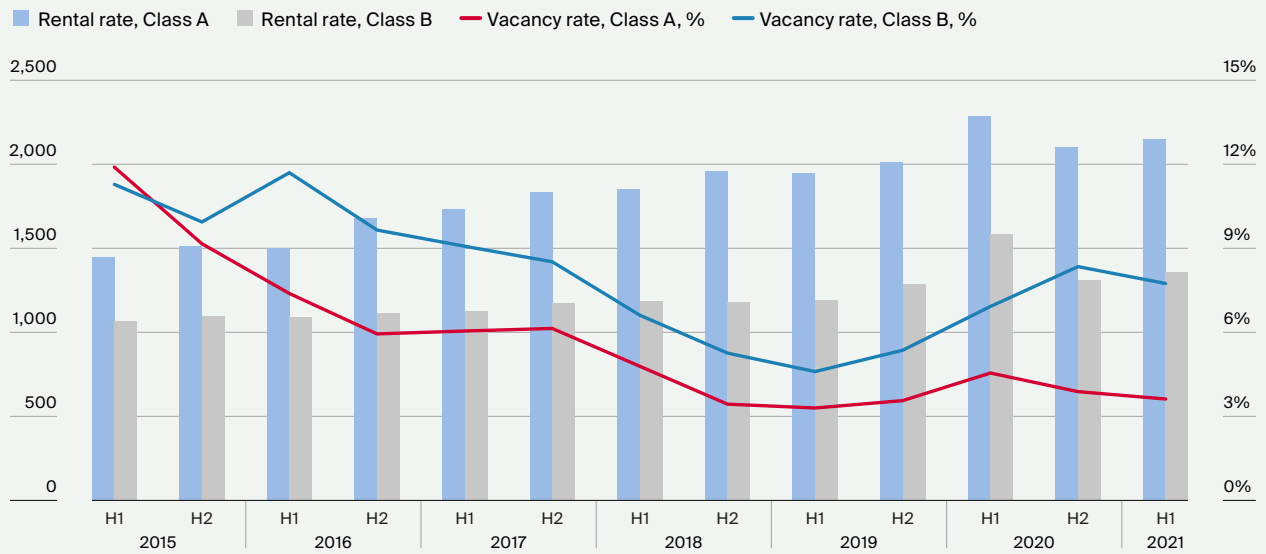
H1 2021: shows a percentage change in the weighted average rental rate for Class B business centres as at the end of H1 2021 relative to the end of H2 2020, by business district

H2 2020: shows a percentage change in the weighted average rental rate for Class B business centres as at the end of H2 2020 relative to the end of H1 2020, by business district

Source: Knight Frank St Petersburg Research, 2021

Dynamics of rental and vacancy rates

RUB/sq m/month*



Source: Knight Frank St Petersburg Research, 2021

* Including VAT and operating expenses

Forecast

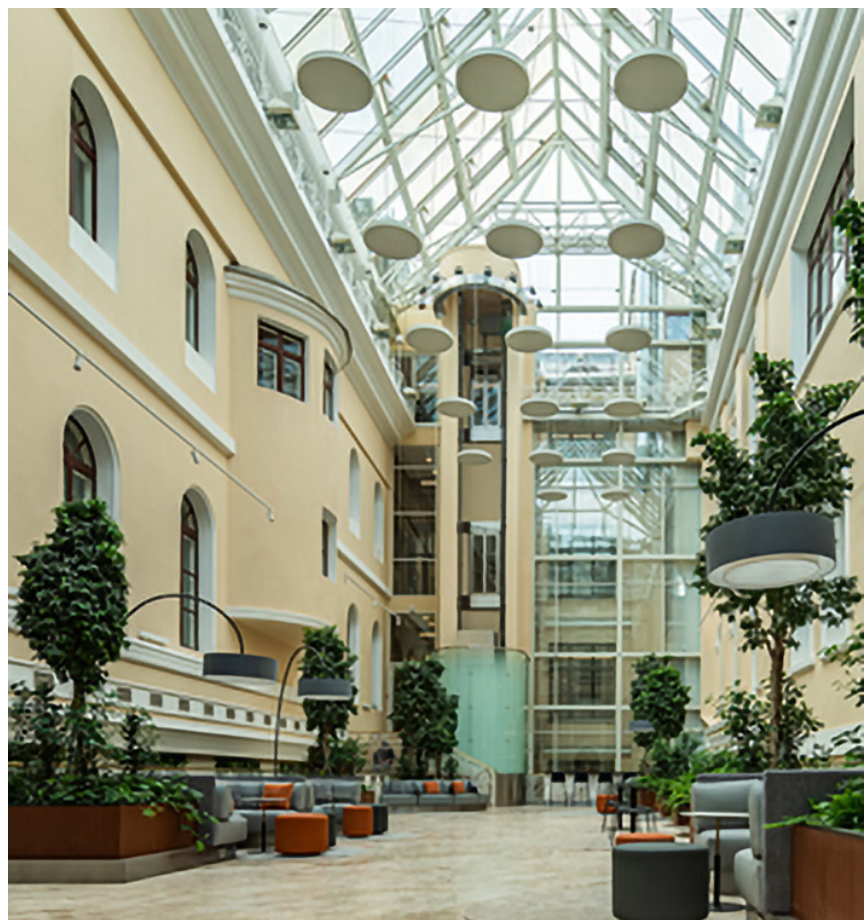
The total amount of office spaces that are currently under construction and are expected to be commissioned in H2 2021 is about 132 thousand sq m. If all of the business centres are commissioned, the annual results may exceed the 2020 results more than 1.5 times, thereby allowing the market to hit the 4.0 million sq m mark. However, given that developers were quite reserved about commissioning new projects in H1 2021, we have grounds to believe that owners may adjust commissioning dates for their properties.

About 90% of the total supply under construction is accounted for by speculative office spaces. If tenants continue to remain active on the real estate market and the net absorption rates for office spaces continue to grow, it's reasonable to expect that the downward trend in the amount of vacant spaces will persist.

Active development of flexible spaces and coworking encourage 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. About

18.0 thousand sq m of such spaces were announced to open in 2021, and 38% of them opened in the spring of 2021. Some of these are distributed

and intended for clients in bedroom communities. Thus, the total amount of flexible spaces may grow 1.5 times from 2020 to reach 57 thousand sq m.



Senator, 22 Bolshaya Morskaya Street

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

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- 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



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- Market feasibility study
- Best use analysis
- Business plan and investment memorandum
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 - IFRS financial statements
 - managerial decision making
 - sale and purchase transactions
 - investor solicitation
 - market rental rate determination

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- 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



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