The share of vacant space in class A and B projects reached ***1.1%*** *which in absolute terms is* ***45,300 sq m***

The volume of completions in H1 2022 reached ***64,000 sq m****, which is* ***11%*** *higher than the same indicator in 2021*

Knight Frank

knightfrank.com/research

WAREHOUSE MARKET REPORT ST PETERSBURG

H1 2022

Konstantin Fomichenko
Regional Director, Director of the Department of Industrial and Warehouse Real Estate, Land, Knight Frank Russia & CIS

"The main change in the market in the second quarter is a sharp drop in demand. The requests that we see now mainly cover situational needs, so these are small areas and short contracts for up to 3 years. The majority of clients have now taken a wait-and-see attitude and will approve development plans in the second half of 2022."

Ilya Knyazev
Head of the Department of Industrial, Warehouse Real Estate, Land, Knight Frank St Petersburg

"Now we do not see a sharp increase in vacant warehouse space, which means that as the economic situation stabilizes and the fate of Western companies that are not working now becomes clearer, development plans will be approved, we will see activity, including in the primary market. At the end of 2021, the volume of unsatisfied demand was at the level of 1.1 million sq m, most likely we will see part of the requests from these needs on the market in the second half of 2022."

Supply

According to the results of H1 2022, we see how, against the backdrop of a changing economic situation, the quality warehouse property market in St. Petersburg is gradually reducing the high growth rates set in 2021. Thus, three new facilities with a total area of 64.3 thousand sq m were put into operation, which is comparable to the values for the same period in 2021. Similar figures are achieved through the commissioning of two speculative production and storage buildings of the Nart agricultural park with a total area of 40.8 thousand sq m. The remaining input is represented by the Transmed Karagandinskaya facility with an area of 4.9 thousand sq m, built for the own needs of Transmed, as well as the speculative Trodex Logistic facility with an area of 18.6 thousand sq m, leased by STA Cargo.

The total quality warehouse stock by the end of H1 2022 amounted to more than 4.2 million sq m. The share of speculative projects delivered in H1 2022 remained at the level of the end of 2021 and amounted to about 61% of completions. By the end of the year, another 267,000 sq m have been announced to be commissioned, of which only 23% are speculative objects. It is noteworthy that in the speculative complexes under construction at the moment all warehouse space is available for lease and there is no information on the contracts.

Key market indicators

	Class A	Class B
Total quality warehouse stock, thousand sq m	4,272	
including, thousand sq m	2,857	1,415
Total speculative quality warehouse stock, thousand sq m	2,601	
Completions in H1 2022, thousand sq m	64.4	
Total vacant warehouse space, thousand sq m	45.3	
including, thousand sq m	37.2	8.1
Vacancy rate, %	1.3%	0.6%
Net absorption of quality warehouse space, thousand sq m	52.5	
Total volume of lease transactions in completed buildings, thousand sq m	193.9	
including, thousand sq m	185.9	8
Range of requested rental rate, RUB/sq m/year*	5,500–6,000	4,900–5,500
Average weighted requested rental rate for existing premises, RUB/sq m/year	5,800	5,200
Operating expenses, RUB/sq m/year, excluding VAT**	1,200–1,300	

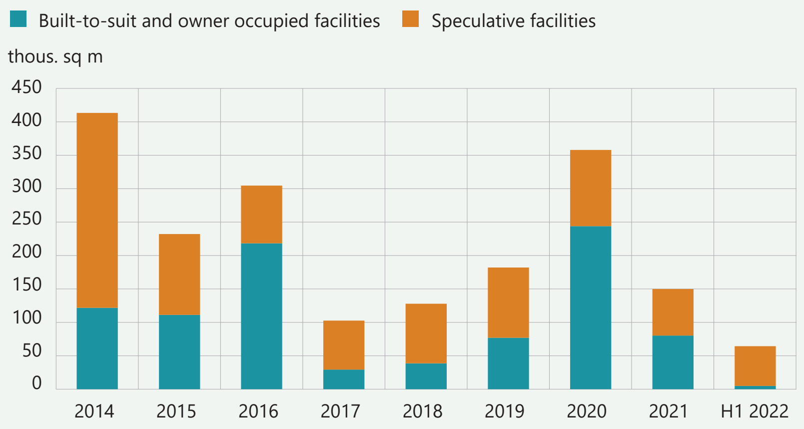
* Hereinafter, the requested rental rate for a standard dry warehouse, excluding VAT, operating expenses and utility bills.
** Hereinafter, operating expenses range for a standard class A dry warehouse.

Source: Knight Frank Research, 2022

Net absorption of quality warehouse space in H1 2022 amounted to 52.5 thousand sq m. To a large extent, this is a consequence of a gradual decrease in activity in the market due to the revision of strategies in terms of the volume of products sold by Russian and foreign companies, as well as the occupied spaces. We see how in the Q1 2022 there was a sharp increase in the volume of sublease up to 80 thousand sq m on the market. Now we are seeing the opposite - a reduction in the supply of sublease space. According to the results of the Q2 2022, the supply of sublease was reduced to 26 thousand sq m.

At the end of H1 2022, we observe a gradual increase in the share of vacant space which is mostly supplued by class A warehouses vacancy.

Dynamics of warehouse property completions by type



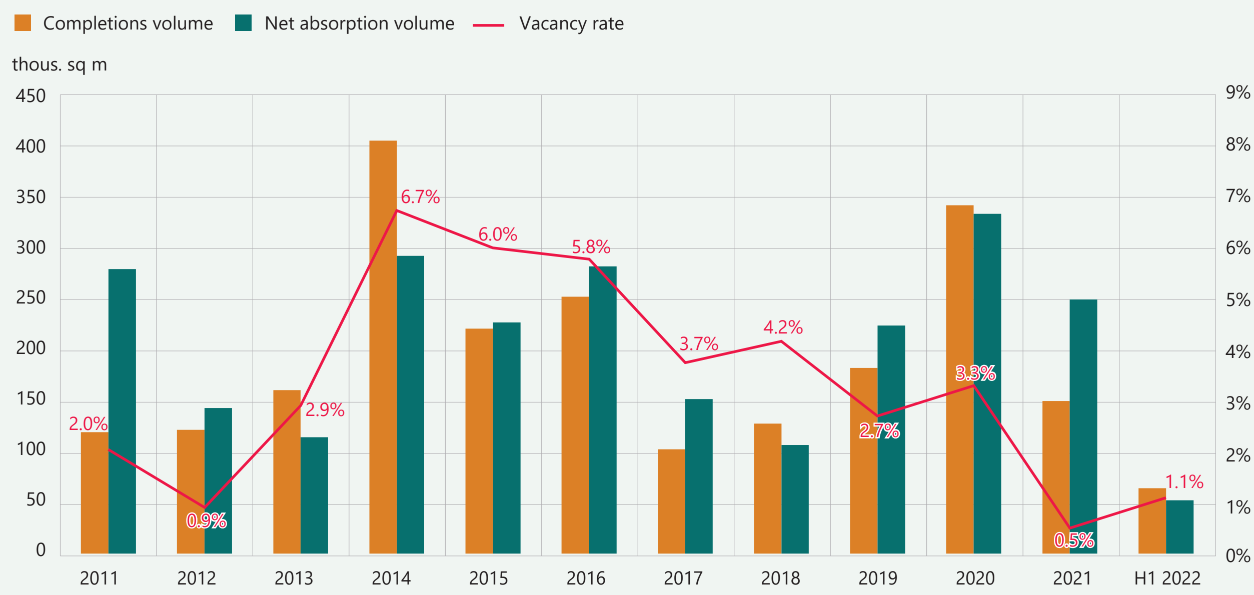
Source: Knight Frank Research, 2022

Facilities put into operation in H1 of 2022

Facility type by its purpose	Object	Location	Class	Total area, thousand sq m
Speculative	Nart	Sofiyskaya street, 151	A	40,8
Speculative	Trodeks Logistik	Moscow highway, 153	A	18,6
Owner occupied	Transmed Karagandinskaya	Karagandinskaya street, 2/1	A	4,9

Source: Knight Frank Research, 2022

Dynamics of key market indicators of the quality warehouse space



Source: Knight Frank Research, 2022

The volume of vacant supply in warehouse facilities of classes A, B is about 1.1%, reaching 45.3 thousand sq m, which is 13.2 thousand sq m more than at the end of 2021. At the same time, about 82% (37.2 thousand sq m) of vacant space comes from class A premises, which indicates a change in the structure of the above-mentioned supply. At the end of 2021, the share of class A properties in the vacant stock was only about 23%. This dynamics is explained by a simultaneous reduction in vacant space supply in class B properties, that were previously leased in small blocks up to 5 thousand sq m, and an increase in supply in several class A objects in blocks starting from 5 thousand sq m. Taking into account the future availability and sublease on the market, we estimate vacancy rate at the level of 2–3%. While maintaining the current dynamics of the future availability of warehouse space, the share of overall vacant space may increase to 5-6%.

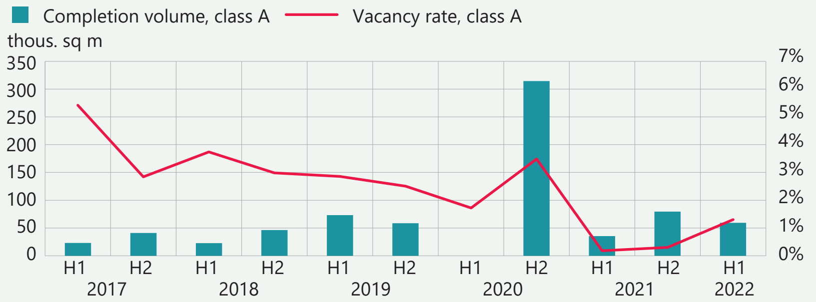
Demand

In the face of economic uncertainty, we see that most of transactions are those with small areas up to 10 thousand sq m, covering the current needs of companies. The total take-up amounted to 193.9 thousand sq m, which is 68 thousand sq m more than the volume of this indicator for the same period in 2021. At the same time, 53% of take-up volume fell on the only one built-to-suit lease transaction with a total area of 102.5 thousand sq m, which was planned in the end of the previous year.

Separately, it is worth noting that 60% of transactions were concluded in Q1 2022, while in the 2nd quarter take-up volume decreased by almost 50% compared to Q1. The vast majority of lease transactions were concluded with class A objects (about 96% of the volume). The volume of leased space in existing facilities account for 73.3%. There were no sales transactions for the specified period.

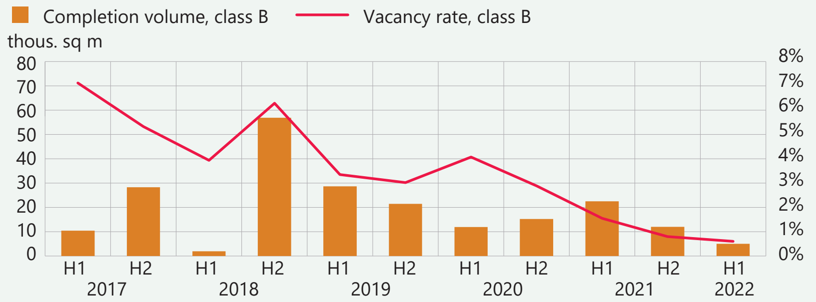
The main demand drivers in H1 2022 were logistics and transport companies – 77% of the total take-up. Of this volume, 2/3 fell on logistics for online retail. Distributors and manufacturing companies accounted for 7% and 6%, respectively. The smallest share in the

Dynamics of completions volume and vacancy rate, class A



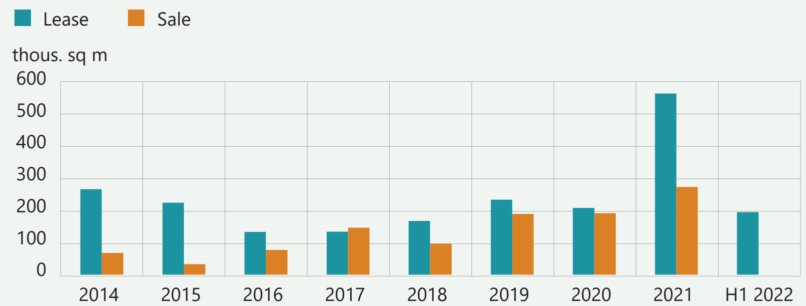
Source: Knight Frank Research, 2022

Dynamics of completions volume and vacancy rate, class B



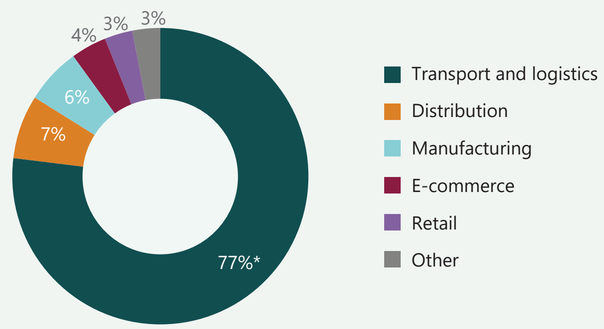
Source: Knight Frank Research, 2022

Dynamics of demand distribution by type of transaction (lease and sale)*



*Including built-to-suit transactions
Source: Knight Frank Research, 2022

Distribution of transactions by tenant/buyer profile, H1 2022



*2/3 of this amount is logistics for online-retail
Source: Knight Frank Research, 2022

The largest lease transactions concluded in H1 of 2022

Tenant	Scope of the company	Total area, sq m	Facility	Class
Confidential	Transport and logistics	102,545	Confidential	A
STA Cargo	Transport and logistics	23,000	Trodeks Logistik	A
Confidential	Distribution	12,000	Armada Park Sever	A
Inter Logistics	Transport and logistics	10,200	Oktavian	A
Ozon	Online-retail	8,000	Shushary	A

Source: Knight Frank Research, 2022

volume of demand fell on e-commerce and retail – 4% and 3% respectively.

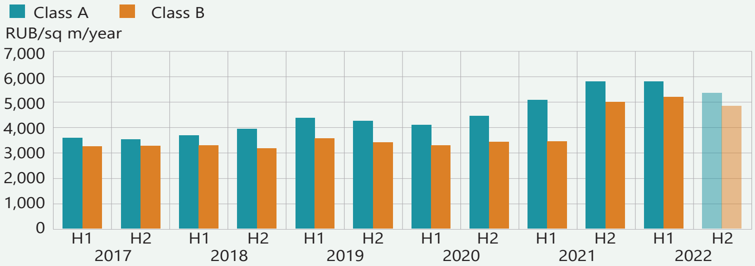
Commercial terms

Over the past few years, we have seen a trend towards a steady increase in asking rental rates in quality warehouse complexes. The continued shortage of quality supply and the rapid development of online retail resulted in a significant excess of demand over supply and, as a result, an increase in the requested rental rates.

The weighted average asking rental rate in Class B warehouse complexes was set at 5,200 RUB/sq m/year triple net, which is slightly higher than the rate of 5,000 RUB/sq m/year triple net set in 2021. The range of requested rental rates was 4,900–5,500 RUB/sq m/year triple net. This increase relative to the end of 2021 is due to the almost complete lack of supply on the market in class B warehouse complexes.

For class A warehouse space, the weighted average rental rate in H1 2022 remained at the level of the end of 2021 and amounted to 5,800 RUB/sq m/year triple net. The range of requested rental rates for Class A warehouse space was RUB 5,500–6,000/sq m/year triple net. The continuing increase in

Dynamics of weighted average asking rental rates, RUB/sq m/year, triple net.



Source: Knight Frank Research, 2022

vacancy rate and the decrease in demand from customers encourage landlords to gradually reduce rental rates.

Forecast

While H1 2022 is characterized by a decrease in the number of lease and sale requests, in the 2nd half of the year we expect an increase in activity due to the adoption of new development strategies in the Russian market by tenant companies and owners of quality warehouse space.

The total volume of warehouse space under construction, as well as those announced for commissioning in the 2nd half of the year, or the commissioning of which was postponed from the 1st half of the year, is about 267 thousand sq m, which is almost 1.5 times more than the actual completions in 2021. At the same time, only 22% of the areas under construction are intended for leasing. The expected take-up volume with quality warehouse property by the end of 2022 is about 400 thousand sq m. Thus, by the end of 2022, the reduction in the volume of concluded transactions may be up to 35% compared to the volume of demand in 2021.

Simultaneously with the expected increase in quality supply on the market and a decrease in demand, we predict a slight decrease in the requested rental rates to the level of 5,100–5,600 RUB/sq m/year triple net for class A properties and 4,600–5,100 RUB/sq m/year triple net for class B properties. We also expect Russian companies to be the main tenants. With an increase in state support for Russian producers, they can occupy the released areas, supporting the demand for small areas from 2–5 thousand sq m.

Knight Frank

Konstantin Fomichenko.
Regional Director of the Department of Industrial and Warehouse Real Estate
Konstantin.Fomichenko@ru.knightfrank.com

Ilya Knyazev.
Head of the Department of Industrial, Warehouse Real Estate, Land, Knight Frank St Petersburg
Ilya.Knyazev@ru.knightfrank.com

Olga Shirokova.
Regional Director of the Department of Consulting & Research.
Olga.Shirokova@ru.knightfrank.com