

2022 Results

Office market

Russia | St. Petersburg

Table 1
Key market indicators

Source: Nikoliers

	2021	2022	2023F
Total stock, million sq m	3.82	3.97	4.17
Class A	1.32	1.4	1.5
Class B	2.50	2.6	2.7
Completions, thousand sq m	141.4	157.2	198.3
Net absorption, thousand sq m	180	46	85.0
Vacancy rate, %	5.6	10.5	11.7
Class A	4.7	10.3	12.5
Class B	6.1	10.6	11.2
Weighted average rental rate, RUB/sq m/month*			
Class A	1,775	1,780	1,833
Class B	1,156	1,162	1,208

*Hereinafter, rental rates include operating expenses, exclude VAT.

Supply

As of 2022, the total volume of office supply in St. Petersburg amounted to 3.97 million sq m. For the last year, the market replenished by 157,150 sq m in 12 business centres, which is almost 16,000 sq m less than in 2021.

All new office buildings were speculatively constructed and designed for the lease or sale spaces. The most notable supply growth was in Centralniy, Kalininskiy and Nevskiy districts. Such new office buildings as Nevskaya Ratusha (GLA 45,000 sq m), Ferrum II (GLA 28,230 sq m), Morskaya Stolitsa (GLA 26,500 sq m), Avior Tower-1 (GLA 16,000 sq m), Akvilon Links (GLA 8,300 sq m) are among the largest projects completed in 2022. In 2023, we expect new supply to be at 200,000 sq m of offices, although assume that the timing for the construction of several projects might be changed, as in the previous year.

Economic and general turbulence throughout the past year affected the business activity of the office real estate market participants. As a result of tensions in cross-country relations and the imposition of sanctions, many companies that were part of international networks or aimed for foreign markets had to rebuild all operating procedures. Some corporations localized Russian business and continue to operate as independent companies, while others decided to reduce their business or leave the market, which directly affected the dynamics of supply and demand for offices in St. Petersburg.

Chart 1
Office completions, 2014-2023

Source: Nikoliers



Demand

In 2022, the total volume of net absorption was at 46,000 sq m, which is only quarter of the previous year's figure. Such significant decrease was due to some large foreign companies vacated their offices. In particular, IT&T companies have totally vacated almost 121,400 sq m during the year. Around 38% of these offices were never exposed on the market and were leased by other tenants.

Despite a significant decrease in the net absorption, the volume of lease transactions in the office market hit a record, exceeding the mark of 250,000 sq m for the year. This result became possible thanks to the closing of a few major transactions, such as the acquisition of the Kantemirovskiy business center (GBA 49,500 sq m) by Huawei at the beginning of 2022, as well as the lease by Gazprom Neft of the third stage of construction of the Nevskaya Ratusha business district (GBA 79,700 sq m). Considering these transactions, the IT&T segment, and the structures of PJSC Gazprom formed a total of 72% of the total volume of deals (30% and 42%, respectively). Other transactions with IT&T companies include the lease of 1,750 sq m in the BC Sankt-Petersburg Plaza by company Mobilnaya karta, as well as the lease of an office by PLINOR in the BC Polis Center (560 sq m).

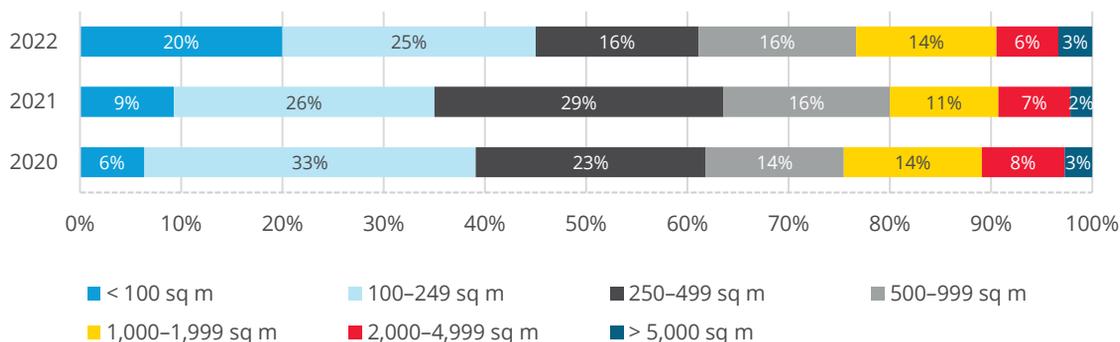
Examples of other transactions involving Gazprom subsidiaries are lease of an office of more than 5,200 sq m in the BC Graffiti, also lease of 1,900 sq m in the BC Moscow. It is worth noting that, in general, Gazprom, which is an important driver for the St. Petersburg office market, resumed activity on the office market in 2022 after a comparative lull in the previous two years. In addition, Gazprom Neft announced the construction of a headquarter on Okhta by 2026.

Retail and manufacturing companies could be mentioned among the other profiles which were active on the lease market. In absolute terms, the volume of rented offices by manufacturing companies grew by 2.5 times, by retail companies – by 1.4 times.

Offices in the range of 100-250 sq m were in the most demand, formed a quarter from the total quantity of deals. For comparison, in 2021, offices at a range of 250-500 sq m were most popular. In terms of geography demand the prevailed volume of deals located in Centralniy and Petrogradskiy districts (37% and 27% respectively).

Chart 2:
Distribution of deals by size of office space

Source: Nikoliers



Vacancy rate and rental rates

According to the past year's results, the average market vacancy rate increased by 4.9 p.p., reaching the maximum value from 2015 – 10.5%. In absolute terms, 417,400 sq m were unoccupied, which is 204,000 sq m more than at the end of 2021. The share of vacant premises by class of office buildings are at a relate levels: 10.3% in Class A, 10.6% in class B. Compared to the end of 2021, the vacancy rate in class A increased by 5.6 p.p., and in class B, the increase was 4.5 p.p. The most significant vacancy rise was observed in the Kalininskiy and Nevskiy districts, which was caused by the commissioning of business centres that have not yet been filled with tenants.

Rental rates did not show significant changes on a year-on-year basis. If during Q1–Q3 2022 rates in both classes of business centres have been slightly decreasing quarter-on-quarter, then, by the end of the 2022, we recorded rates at the level of December 2021. Thus, in class A, the weighted average rate was 1,780 RUB/sq m/month (excl. VAT), which is only 0.3% more than a year earlier. In class B, the rate changed by 0.6% y-o-y, to 1,162 RUB/sq m/month. It is important to note that in both classes of business centres, the discount on the rental rate can reach 10–15% during the negotiation process.

Chart 3
Distribution of deals by tenant type

Source: Nikoliers

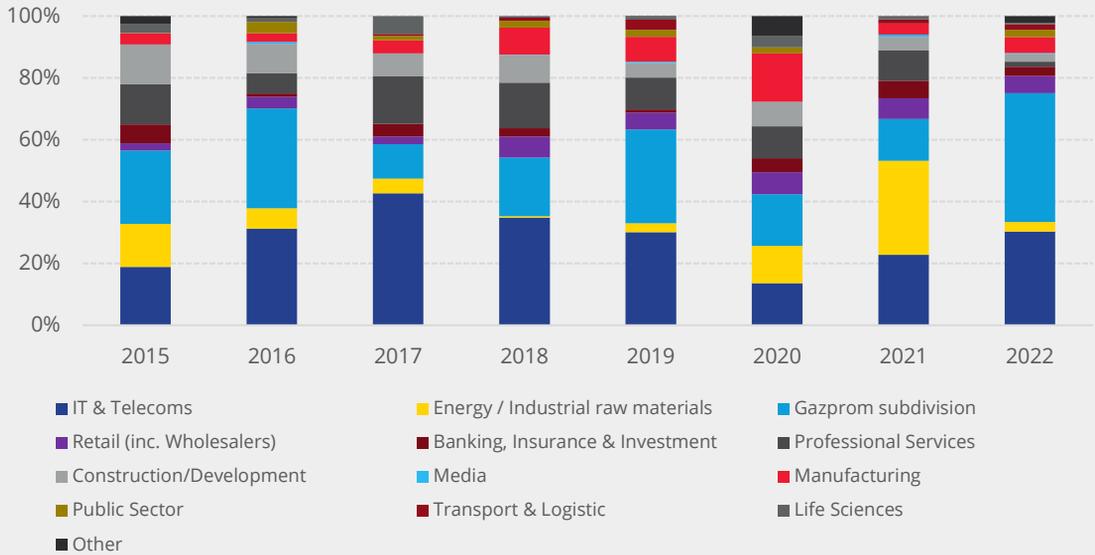


Chart 4
Vacancy rate by class

Source: Nikoliers

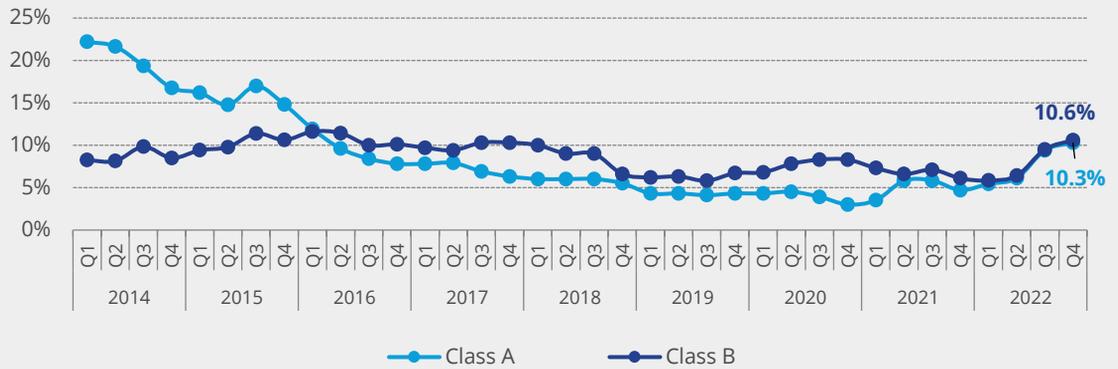


Chart 5
Change in rental rates by class*

Source: Nikoliers



* Rental rates include operating expenses, excluding VAT.



Trends and forecasts

- The dynamics of macroeconomic indicators in 2022 creates difficult conditions for the new office construction. High inflation rates, higher construction costs, coupled with the change of usual suppliers of construction and engineering services, against the backdrop of sanctions, require time to adjust the usual operational processes. In this regard, we do not expect numerous announcements of new office projects in the next two to three years. Thus, projects, which were started to construct before 2022, will be completed in the near terms. Nevertheless, professional market players are ready to consider new projects with great potential for acquisition.
- All projects scheduled for commissioning in 2023 (about 200,000 sq m) are speculative construction, and such an impressive increase in supply could move the vacancy rate up, especially in class A, where 137,700 sq m are planned to be completed. However, it is possible that at the end of the year the increase will be somewhat less - some developers prefer to postpone the commissioning of projects until a large tenant appears in order to form a stable rental flow.
- By the end of the year, various companies showed an active interest for leasing new spaces. The main interest groups are representatives of the oil and gas sector, Russian IT&T companies, banking structures and companies with a state participation. Their areas of interest include quality offices for unit consolidation and/or business expansion. If such activity of tenants continues and in the absence of external shocks during 2023, we expect stabilization and a slight increase in rental rates.
- After a number of international companies' withdrawal from the market, there is a sufficient amount of supply on the rental market. Thus, potential interested parties prefer ready-to-move-in offices with good interior finishing and do not require additional investments. Nevertheless, such options are limited - at the end of December, the volume of remaining free offices of IT&T companies that left the market is about 74,000 sq m. After these options leave the exposition, tenants will return to the consideration of offices with basic and standard fitting out.

Table 2
Examples of business centres planned to be completed in 2023

Source: Nikoliers

Name	Address	Class	GLA, sq m
Tesla	24 th Liniya V.O., 15/20	A	12,800
Senator on Millionnaya, 6	Millionnaya St, 6	A	11,300
Senator on Medikov Ave	Medikov Ave, 7	A	10,850
Senator on Millionnaya, 5	Millionnaya St, 5	A	8,800
Atlas City, building 2	Moskovskiy Ave, 120	B	8,400

For more information

Office Group

Karina Anaevskaya
Director
+7 495 258 5151
Karina.Anaevskaya@nikoliers.ru

Services for tenants & office agency department, St Petersburg

Victoriya Goryacheva
Associate Director
+7 812 718 3618
Victoriya.Goryacheva@nikoliers.ru

Research department

Veronika Lezhneva
Director
+7 812 718 3618
Veronika.Lezhneva@nikoliers.ru

Olga Ubushieva
Associate Director
+7 812 718 3618
Olga.Ubushieva@nikoliers.ru

Marketing & PR department

Olga Bakulina, MCIM
Regional Director
+7 495 258 5151
Olga.Bakulina@nikoliers.ru

Anna Sabinina
Director, St. Petersburg
+7 812 718 36 18
Anna.Sabinina@nikoliers.ru

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191186 St. Petersburg
3 Volynsky Lane | BC Senator
Tel. +78127183618
www.nikoliers.ru