

ST. PETERSBURG INVESTMENT MARKET

Year-end review 2015



Accelerating success.

Investment market overview

Key results in 2015

The total volume of investment in the St. Petersburg real estate market, including purchases of land for residential development, in 2015 reached \$470 million. This volume is almost three and half times lower than the figure for 2014, when the transaction volume reached \$1,590 million, but comparable to the results for 2009–2010. During that period, the annual investment volume reached \$428 million and \$471 million respectively. The decline of investments is explained, on one hand, by the exchange rate changes observed throughout 2015, and the decrease in land transactions for residential purposes on the other.

In 2014, the level of investments in land plots for residential construction amounted to \$1.1 billion, while in 2015 this was only \$260 million. This decline is mainly caused by a reorientation of demand. Local St. Petersburg residential companies present on the market over the long term have accumulated a substantial land bank over recent years, and now are less active on the market. At the same time, Moscow-based and regional residential developers are actively entering the St. Petersburg market and have closed a number of land purchase deals throughout 2015. These include companies as Akvilon-Invest, Patriot and Glorax Development – these companies have already started new residential complexes on purchased land plots.

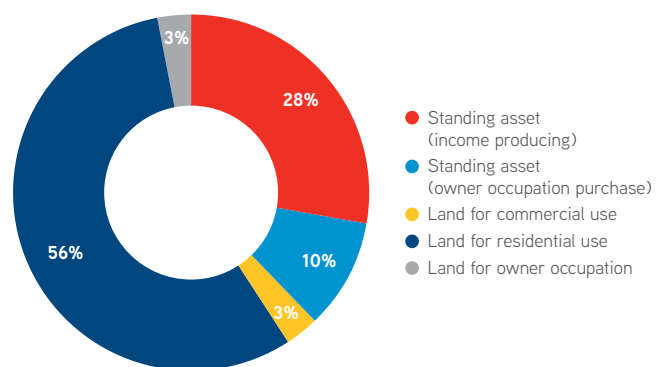
A decrease in investment volumes in the standing asset segment was observed as well. The figures for 2015 show that the volume of transactions involving standing assets purchased for investment purposes and for owner occupation decreased by 43% YoY, and reached \$178.6 million vs. \$316 million in 2014. In general, we observed steady investor activity throughout the year, and quarterly transaction volumes in 2015 were almost equal, although some of the closed deals were started in 2014, or even in 2013.

Key investment market indicators

INDEX	VALUE
Total investment transactions, \$ million	470
– Standing assets (income producing), \$ million	132
– Land deals, \$ million	291
– Owner-occupation deals, \$ million	47
Capitalisation rates for prime buildings	
– Offices	10–11%
– Shopping centres	9.5–10.5%
– Warehouses	12.5–13.5%

*High-level commercial real estate properties, located in St. Petersburg and leased at a market price to the largest Russian and international tenants.
Source: Colliers International

Investment distribution by transaction type



Source: Colliers International



Investments by sector

The volume of classic investment deals (i.e. deals with standing assets acquired for investment purposes) in 2015 amounted to \$132 million, or 28% of the total volume of completed deals. According to figures for 2015, the office sector increased its share from 48% to 80% YoY. Last year in this sector, the following office purchase deals were closed: purchase of Jupiter 1 and Jupiter 2 office buildings, which are being the part of a mixed-use complex Airportcity – St. Petersburg, the sale of the Orlov office centre by FortGroup company, and the sale of a building of Russian industrial and commercial bank for further office redevelopment.

As for the retail segment, the activity in this sector was quite low. However, interesting deals that took place during the year include a rare type of deal for the St. Petersburg market, sale&leaseback, when Russian investment fund RPHF purchased the OBI Pulkovskoye hypermarket building with a further lease of the property by OBI itself.

A certain level of activity was also observed in the industrial market – here the major volume of investments came from built-to-suit deals and the purchase of land plots with existing industrial facilities. However, the total investment volume in this segment did not reach the results of 2014 and decreased to 12% in 2015 versus 30% YoY.

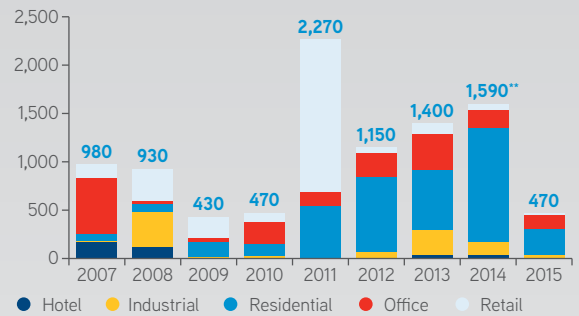
In 2015, almost all investment flows in St. Petersburg came from Russian investors. By the year-end the share of foreign capital in the total investment volume was only 1%.

Trends and prognosis

The activity on the St. Petersburg market remains low with the city only taking 5% of the total volume of investment transactions in Russia. Despite several large properties currently being offered for sale in the city, the volume of deals remains limited. On one hand, the volatility of the ruble exchange rate makes asset valuation in dollars or euros rather difficult, and on the other hand, in the case of asset estimates in rubles, landlords often refer to pre-crisis levels of rents when forming final ruble prices, which results in a lengthening of the negotiation process.

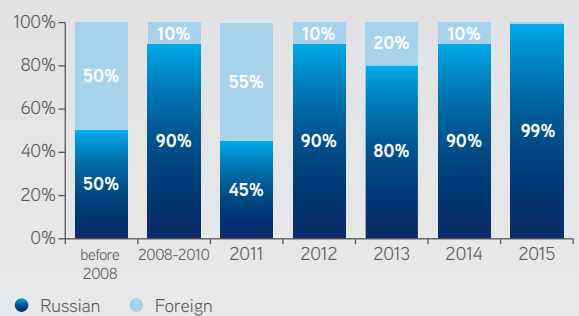
A certain level of interest in the land market is maintained by companies involved in hypermarket construction. In addition to this, built-to-suit schemes are still in demand; however, the number of such deals decreased in 2015. Further market activity will be dependent on the economic situation, investors coming back and the readiness of developers to purchase land for new projects.

Investment transactions by sector*



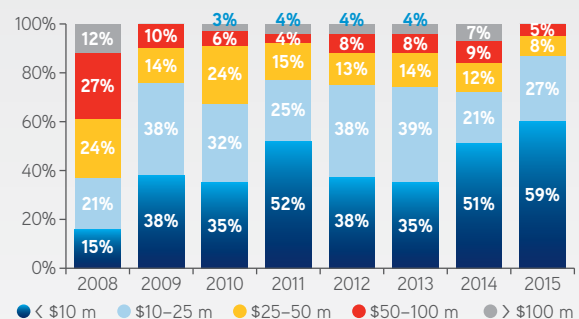
*Including sale/purchase deals with land and projects for redevelopment.
 **Investment volumes for 2014 were recalculated
 Source: Colliers International

Investors by country of origin



Source: Colliers International

Deals distribution by size



Source: Colliers International

Capitalisation rate dynamics for prime buildings*



*For high-level properties, leased at market price
 Source: Colliers International

502 offices in 67 countries on 6 continents

United States: **140**

Canada: **31**

Latin America: **24**

Asia Pacific: **199**

EMEA: **108**

\$2.3

billion in
annual revenue

158

billion square feet
under management

16,300

professionals
and staff

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Colliers International opened its office in Russia in 1994, today the offices in Moscow and St. Petersburg has more than 250 employees. Colliers International in Russia is a member of the Russian Guild of Property Managers and Developers (RGUD), Russian Council of Green Building and Russian Council of Shopping Centers (RCSC).

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