Brief market review of Krasnodar office real estate

2012
Office real estate market in Krasnodar

Following the results of the year 32,600 sq m of quality office premises were commissioned in Krasnodar. Five facilities are at the availability phase and planned to be commissioned in Q1 2013.

Activity began to bud in the market at the year end. There was a big transaction on sale of an office building at the cost of $9.6 million. Besides, two new BCs intended for class B+ were commissioned. The tendency towards a gradual reduction in vacant space of quality business centres remained. More than 87% of the most of class A, B+ office facilities were occupied. As usual, the most of tenants have their lease agreements to come to an end at the year end, therefore many owners increase rental rates by 5-10% according to a facility class.

Table 1. Main indicators of Krasnodar office real estate market in 2012

<table>
<thead>
<tr>
<th>Main indicators</th>
<th>Class A</th>
<th>Class B+, B</th>
<th>Class C¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume of quality office premises following the</td>
<td>26.6</td>
<td>169.5</td>
<td>302.7</td>
</tr>
<tr>
<td>results of 2012, thous. sq m</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office market structure, 2012</td>
<td>5.3%</td>
<td>33.9%</td>
<td>60.8%</td>
</tr>
<tr>
<td>Commissioned in 2012, thous. sq m</td>
<td>0</td>
<td>32.6</td>
<td>0</td>
</tr>
<tr>
<td>To be commissioned in Q1 2013, thous. sq m</td>
<td>0</td>
<td>65</td>
<td>0</td>
</tr>
<tr>
<td>Share of vacant premises, 2012</td>
<td>14%</td>
<td>5-8%</td>
<td>7%</td>
</tr>
<tr>
<td>Announced average rental rates, rub./sq m/year (</td>
<td>13 200</td>
<td>10 015</td>
<td>7 704</td>
</tr>
<tr>
<td>excluding VAT and operational costs)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Announced average selling prices, rub./sq m (</td>
<td>100 000</td>
<td>65 500</td>
<td>41 500</td>
</tr>
<tr>
<td>excluding VAT)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operational costs, rub./sq m/year</td>
<td>2 500</td>
<td>1 750</td>
<td>1 100</td>
</tr>
</tbody>
</table>

1 Structure of supply has been changed due to revision of facilities according to the standard classification of office and business centres in Russia, developed by the Guild of Managers and Developers. Class B facilities were not involved in this classification.
Supply

Following the results of 2012 a total supply for class A, B+, B, C office premises amounted to 498.8 thous. sq m (GLA) in Krasnodar. In 2012 32,600 sq m of quality office premises were commissioned in facilities including announced class B+ office space.

Availability of quality office space (class A, B+, B) for 1,000 residents of Krasnodar² amounted to 231 sq m (GLA).

Business centers with an office area of 16,600 sq m, located in Krasnoarmeyskaya/Kuznechnaya St., were commissioned at the end of the year, as well as BC SAS with an office area of 9,800 sq m. Both facilities are intended for class B+.

In the structure of all office premises a prevail class is class C, and it amounts to 60.8%. However, a tendency to the growth in quality supply remains.

Chart 1. Volume of quality supply, class A, B+, B, thous. sq m

In the city more than 20 quality office facilities are at different construction phases, with a total leasable area of about 200 thous. sq m, which should be commissioned during the nearest three years. Significant projects, planned to be commissioned in 2013, are presented in Table 2. As for the geographical distribution of a new supply, projected facilities will be commissioned in Western, Central, Karasunsky Districts of Krasnodar.

Table 2. Important projects of BCs in Krasnodar, planned to be commissioned in 2013

<table>
<thead>
<tr>
<th>Name of BC</th>
<th>Gross/ office area, sq m</th>
<th>Commissioning/ status</th>
</tr>
</thead>
<tbody>
<tr>
<td>BC in Severnaya Street, 490</td>
<td>15 525/11 400</td>
<td>1Q2013</td>
</tr>
<tr>
<td>BC in Budennogo Street, 119/1</td>
<td>11 000/8 500</td>
<td>1Q2013</td>
</tr>
<tr>
<td>BC «Izumrud» in Yankovskogo Street, 69</td>
<td>10 461/8 300</td>
<td>1Q2013</td>
</tr>
<tr>
<td>BC in Zipovskaya Street</td>
<td>13 550/8 000</td>
<td>1Q2013</td>
</tr>
<tr>
<td>BC in Kubano-Naberezhnaya/Pushkina Streets</td>
<td>4 700/3 500</td>
<td>1Q2013</td>
</tr>
<tr>
<td>MFC in Severnaya Street, 450/Kostyleva Street</td>
<td>7 928/2400</td>
<td>2Q2013</td>
</tr>
<tr>
<td>BC in Tramavnaya Street, 2/6</td>
<td>12 400/9 400</td>
<td>2Q2013</td>
</tr>
<tr>
<td>BC in Kommunarov/Gimnazicheskaya Streets</td>
<td>13 850/11 000</td>
<td>4Q2013</td>
</tr>
<tr>
<td>BC «Viktoriya Club» Kommunarov Street, 106 / Karasunskaya Street, 89</td>
<td>~/3 300</td>
<td>2013</td>
</tr>
<tr>
<td>BC in Kommunarov Street (between Gavrilova and Odesskaya Streets)</td>
<td>Н/Д</td>
<td>2013</td>
</tr>
</tbody>
</table>

More than 65 thous. sq m of quality office space are planned to be commissioned in 2013. Announced supply refers to class B+, B.

Among the new facilities, developers announced about the construction of which in 2012, are:

- Business centre in Krasnoarmeyskaya Street 113. The developer is Lafer-Yug Company. The cost of the project – 184 million rubles.

- Multifunctional business center, including a hotel and a congress hall in 40-let Pobedy Street. It belongs to Svet Zvezd Company, and it is worth 3.6 milliard rubles (office centre with an area of over 11 000 sq m).

Following the results of 2012 the vacancy rate amounted to 14% in class A quality business centers at average in the city, 8% - in class B+. The vacancy rate remains to be equal to 5% in
class B. The vacancy rate in class A business centres decreased by 3% as compared to the end of 2011. Vacancy rates in business centers of other classes remained the same.

Chart 2. Vacancy rate in class A, B+, B
Source: GVA Sawyer

The current average vacancy rate amounts to 88.3% in class B+, B facilities which are under construction and expected to be commissioned during the nearest two years.

Among the main tendencies of 2012, we can single out:

- developers` activity. Developers` plans concerning commissioning of new facilities on the market were announced;
- time extension of some facilities commissioning;
- making the office market of Krasnodar be more civilized, thanks to changing (lowering) or confirming a class of some facilities.

So, as a result of the classification conducted by GMD (Guild of Managers and Developers), two business centers of Krasnodar were lowered in class in 2012. BC “Askona” was assigned to class B (earlier – B+), and the administrative and office building in Moskovskaya Street 59 was assigned to class B+ (earlier – A).

The main reasons to lower BC “Askona” in class were the discrepancy of utility systems to a level required, tenants` complaints regarding a quality of the services provided by the management company, constant change of tenants and reduction in the number of parking spaces. Class of the business centre in Moskovskaya Street 59 was lowered because of lack of the number of parking spaces required and deficiency of the pass control; because of bad traffic and construction works activated near the functioning BC.

However, a total of six facilities were reclassified. All the BCs, except for the above mentioned ones, preserved their class.
Demand

In 2012 several big transactions on selling office premises in business centers of the city were made.

In particular, an office building in Dzerzhinskogo/Ofitserskaya Streets has been sold. Its total area amounts to 4,300 sq m and it costs $9.6 million. Details of this transaction are not disclosed. Besides, there was a transaction on selling 6,330 sq m of office premises in BC “Newton”. More over, 3,100 sq m of office space were sold in a new business centre, located in Gimnazicheskaya and Rashpilevskaya Streets.

Among the important transactions it is also possible to single out the following: Oil Company “Rosneft – Nauchno-Tekhnichesky Tsentr” LLC has vacated more than 1,000 sq m in class B+ business centres, and has occupied premises in BCs of lower class (due to reducing expenses); Tatar Air Traffic Agency “Kuban” has rented 464 sq m of office space in BC “Golden House”.

100 and 300 sq m of office space have been occupied by two companies in BC “Olimpic Plaza” (names of the companies are not clarified).

Chart 3. Structure of demand for office space in Krasnodar

Source: GVA Sawyer, LLC "Company Concordia"

At present, two large business centers are for sale in the city: one of them is MFC “Kristall” of class A, and another one is BC “Development-Yug” of class B+.

Financial terms

In 2012 an average rental rate in quality BCs changed slightly, but generally remained at the level determined at the beginning of the year. After the termination of a lease agreement by the year end, owners increased rental rates by around 10%. It referred to class B, C office premises where rental rates were at the same level during two-three years. In some class A facilities owners offered one-time-only deal providing up to 40% discount for office lease.

Utility’s costs of tenants increased, as public utilities rates grew as well in 2012.

An average rental rate for class A office premise amounts to 1,100 rub. per sq m (excluding VAT and operational costs), for class B+ - 1000 rub. per sq m, for class B – 850 rub. per sq m.

The question, which concerns imbalance between tenants’ expectations and owners’ offer, remains open. As a consequence, an insignificant increase in rental rates in one business centre and extension of range of services in the other business centre urge tenants to negotiate with owners.
Discount for large tenants (over 300 sq m) averages around 10-15%. Earlier, owners announced about a “canicular” month to attract tenants. At present, this policy might be used only in new BCs or in office centers with less quality infrastructure.

According to the estimates of GVA Sawyer the revision of lease agreements will be carried on in 2013. In class B, C facilities where rental rates were the same during two last years, they might increase by up to 10%. In class A, B+ facilities rental rates will remain at the same level, but at the year end average rental rates will decrease, because of an increase in supply on the market.

Owners and management companies of BCs will maintain and improve quality and service in built office space not to lose a class of facilities.
Аналитический документ по исследованию рынка недвижимости

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