

Report: St. Petersburg Development Plan and Construction Market

Dear Ladies and Gentlemen,

I am glad to meet the participants of the seminar on construction in St. Petersburg of the Northern construction Forum of the Northern Countries. I would like to express my gratitude to our Scandinavian colleagues who took an active part in organization of this seminar and found an opportunity to visit this city.

We find it very important that the seminar is held in St. Petersburg, a city of ample opportunities and established construction and architectural traditions. This is the fourth largest megapolis in Europe, one of the largest political, scientific, economic, information, cultural, historic and tourist centers boasting its three hundred years of history and a special role in the country's life. The city houses representative offices of many international organizations, consulates of many countries, and local branches of federal ministries and departments.

Foreign investors find most attractive such city's external advantages as an advantageous bordering on the European Union, the crossing of naval, river, railway highway and pipeline routes, and the high-capacity traffic center a sea access. The above factors promote the development of trade, distribution, agency, transit and transportation activities.

It would not be an overstatement to say that due to such resources the city successfully competes with other large cities of the Russian Federation for attracting investment funds.

Historically, St. Petersburg has always been a scientific and industrial center of the North-Western region of Russia. It is primarily distinguished by a high educational level of its population, diversified economy structure, a high volume of the consumer market, and the overweight of private and mixed property over state property. A share of companies with foreign participation is rather large in St. Petersburg. The city traditionally leads market reforms and institutional reorganization in Russia.

St. Petersburg owes its stable and high rating to the stable development of the city's economy, the growth of regional gross product and the rapid increase of budget revenues with a low debt load. During the last three years, the city's budget increased two times and reached 5 billion dollars in 2006. Compared to 2003, the city's budget increased two times and is 5 billion dollars in 2006.

The major factors ensuring inflow of money in the budget are the enhanced efficiency of the city's property, and reinvigoration of such major sectors as industry, trade, and construction in particular. For seven years, the city has been experiencing a stable dynamics of industrial growth of 8-10% a year.

Construction is currently one of the most important industries of the city and one of the major priorities of St. Petersburg Government. The following large-scale and well-known projects are implemented in the city's area of 1,439 square kilometers: the second building of the Mariinsky Theater, the Baltic Pearl quarter, a new stadium in Krestovsky Island, Gazprom-City business center, the flood protection complex, the ringway, the Western Thoroughfare, the Orlov Tunnel, and the expressroad Moscow – St. Petersburg. Carrying out of such large-scale projects in the city with 4.5 million population will drive the development of city's infrastructure, involve new investors, and broaden our international relations.

Today, the city's residential property includes 46,000 building of the total space of 100 million square meters, which is over 1.7 million apartments. In 2005, St. Petersburg constructed 2,273 thousand square meters of living premises, which is 507 apartment houses or 33,190 apartments. We are planning to keep this rate at the same volume of 2.2 million square meters next year.

The total increase of construction volume compared to 2004 is 12%. The volume of newly build accommodation space has increased by 14%. It should be noted, that first class residential premises amount to 40% of the total volume, and economy class share is 60%.

The commissioned housing has the following structure: high-rise housing accounts for 95%; low-rise buildings – 5%; housing development – 96% and renovation of old houses – 4%. I would like to draw

your attention to the last indicator. For instance, in 2005, we renovated 14 buildings for accommodation purposes, which is 494 apartments of the total space of 52,138.7 square meters, and in the first half year of 2006, we renovated 7 buildings of the total space of 28,770.7 square meters.

Today, the major share of housing in St. Petersburg is commissioned at the investors' expense, i.e. 91% of housing development and 94% of renovation. However, we tend to increase the share of budget funding annually. In 2005, the city funded construction of 10 apartment buildings of the total space of 103,926 square meters or 1,713 apartments. In 2006, St. Petersburg Government and the Construction Committee aim to commission 2,659 of 164,849.45 square meters which is a 1.5 time increase compared to the previous year. It should be also noted that the economic efficiency of housing construction in St. Petersburg including land costs is 10-15%.

The city also facilitates industrial and civil construction. In 2005, the total commissioning volume of industrial and civil projects was 1,260 thousand square meters, which exceeds the 2004 volume by 19%. We plan to increase this figure in the nearest perspective. During the first half year we put into operation 202 civil projects of the total space exceeding 790 thousand square meters. The largest of them include British American Tobacco – SPb in the district of Konnaya Lakhta, the Adamant finishing materials store in the Kirovsky District, the trade and entertainment center Okkervil in the Krasnogvardeysky District, and the complex of 19 apartment hotels Europe Hotel in Repino.

The commissioning of trade and social services projects grew 30%. These figures show a dynamic development of the consumer market. The commissioning of office premises reduced by 24% due to gradual saturation of this market sector. We also pursuing the construction of schools, hospitals, sport projects and churches.

In 2005, the total investment volume in the city's construction sector was 1.3 billion rubles.

The most important event in the city construction sector of 2005 was the adoption of a new General Plan of the city. This large-scale effort aimed at a balanced and stable development of the city will define the city's development for the next 20 years. The General Plan is unique in its combination of new construction, the development of areas and preserving historic buildings. The Plan is the implementation of heritage preservation strategy established by St. Petersburg Government aiming at "Preservation through Development and Development through Preservation." St. Petersburg is the first city in Russia to bring heritage preservation under urban construction planning.

It should be mentioned, that the General Plan is a current basis for the development of city planning documents, in particular the Development Rules which include regulations for each territory area. This fact will guarantee legal stability of investment and construction activities.

The General Plan stipulates about 70 million square meters for housing construction. By 2015, an average rate of accommodation shall be 28 square meters per person, and in 2025, it shall be 35 square meters per person. The total volume of residential properties, which is 100 million square meters today, including 4 million square meters of single dwelling, shall reach 129 million square meters with 10 million square meters share of single dwelling in 2015. In 2025, the total volume of residential properties shall be 165 million square meters, including 20 million square meters of single dwelling.

The major areas of apartment houses construction of St. Petersburg include the Northern-Primorsk area, the South-Western Primorsk area, Konnaya Lakhta, Novoye Kolpino, Ruchyi, Kamenka District and the Southern Planning Area of Pushkin.

The General Plan also stipulates development of territories for low-rise construction which is planned in the following areas: Gorskaya – Alexandrovskaya, The Eastern Pushkinskaya, Pulkovskaya – Alexandrovskaya, the Eastern Pavlovskaya. Local sites for low-rise construction are reserved in the Kurort District, Petrodvorets, Lomonosov, and the Kolpino administrative district.

The General Plan contemplates not only new developments, but also neat reconstruction. The document is based on a balance ratio which relatively provides 50% for new developments and 50% for renovation of old buildings.

It is important to note, that the General Plan also stipulates high reconstruction volumes of the first mass construction residential areas, including improvement of environment and gradual replacement of existing residential premises. We view such reconstruction effort as an efficient method to improve the quality of environment. Residential space shall grow by 30%.

The General Plan focuses on the goal-oriented development of social and business functions, because we believe that they comply with our philosophy of converting the city to postindustrial society. The General Plan stipulates large territories 1.8-2.0 times exceeding modern capacities for social and business sector related to the development of science, higher education, public services, banking, entertainment, et al.

The major areas of social and business development include Novoorlovsky Academic Town, Pulkovo District, and the territory of Bonch-Bruyevich Institute in the Nevsky District. We plan to create modern innovation industrial parks in Rzhevka, Predportovaya, Metallostroy, and the base of St. Petersburg University in Petrodvorets.

The conversion to postindustrial development is not an easy task. It is a gradual process, and we have to take into account, that industry is currently one of the major factors of the city's development. Today, industrial development is performed by allocating territories for new industrial facilities in the external industrial zone: 500 hectares in 2015 and 1,500 hectares in 2025.

Pursuing the policy of industrial enterprises relocation to the sites reserved for this purpose in the city's external industrial zone, the city welcomes new industrial developments. We contemplate putting into operation enterprises of such renowned world companies as Toyota, Nissan, Elcotek, Bosch, and Siemens. The territories reserved for similar production units include Metallostroy, Konnaya Lakhta and Shushary.

Today, one of the most important goals of the General Plan is the development of transport infrastructure.

In August 2005, we opened a new road section of the Eastern half-ring of the ring-road from the Moscow Highway to the right bank of the Neva. The city succeeded in the approval of the order on the final stage of the ring-road construction, i.e. the Western half-ring construction. In 2006, the federal budget allocated 4.4 billion rubles of this project.

The city enhances the construction and renovation of bridges. Besides a new cable bridge, the General Plan stipulates the construction of two new bridges – one shall be build across the Neva River located at the cross-section of Bolshoy Smolensky prospect and Kollontay street and another shall span the Malaya Neva river to improve transport communication between the Petrogradsky District and Vasilievsky Island.

The City Headquarters to supervise development of St. Petersburg metro is organized and chaired by Vice Governor Alexander Vakhmistrov. The main financial resources are planned to be allocated to the Frunzensky radial. The General Plan contemplates the construction of 41.5 kilometers of new underground ways and 21 metro stations until 2015. In 2006, including the future amendments, the city budget shall allocate over 4 billion rubles for the metro construction for metro construction and 1 billion shall be received from the federal budget.

The first city overground express train is going to be launched in the city's south. It will transport up to than 30 thousand passengers per hour with an average speed of 45-50 kilometers which is comparable to the average traffic flow in metro. However, the cost of this project which we plan to fulfill in joint partnership of private business and state funding will be less than that of the metro construction.

Special attention shall be put to Pulkovo airport renovation. The airport will have a capacity to receive heavy passenger airbuses A-380. According to forecasts, the total passenger flow of Pulkovo airport will be 8 million passengers per year in 2015 and 11.8 million passengers per year in 2025.

One of the most important problems is the construction of the ferry passenger service in Vasilievsky Island. The General Plan Concept pays special attention to utilizing the benefits of the unique

geographic location of St. Petersburg. The city is located in the area of intense communication between Russia and the European Union. The construction of the Sea Port is an effort aimed at recovering Russia's status as a great sea power. The southern part of the Western Thoroughfare will directly connect the Sea Port with the main federal highways. This construction project has an all-Russian national importance and, therefore, contemplates federal funding. It should be mentioned, that Finland and the Baltic republics are currently building their container terminals, so Russia has to accelerate its efforts to keep its leading positions in the Baltic region.

Speaking of large-scale reforms in St. Petersburg, we should also mention objects and features of the city environment which we should preserve by all means. Today, the city has 7,000 historic and cultural objects put under the state protection; 72 thousand hectares of the historic city center are included in the UNESCO's list of the world's cultural and historic heritage. Any intrusion into the city's historic landscapes, open spaces and fantastic cityscapes could irrevocably change St. Petersburg unique silhouette. The General Plan stipulates legislative consolidation of conservation zones and specifies options aimed at finding a reasonable balance between business interests and protection of the unique historic heritage.

Gradual urban development requires sophisticated efforts in civil engineering infrastructure. The General Plan contemplates the development and renovation of the existing systems of production engineering to the level of European standards, including resource saving and nature protection efforts.

So, this is a brief outlook at the challenges and main strategic approaches of the General Plan.

One of the most important areas of the Construction Committee's work is its complex efforts aimed at developing territories for construction engineering. The relevant program is approved by the Government of St. Petersburg in 2004 and shall be implemented until 2010. Its main focus is to develop free land using a comprehensive approach and ensuring simultaneous growth of engineering, transport and social infrastructure. Until 2010, we plan to develop 857 hectares of land including any possible improvement for 12,262 thousand square meters.

The above program took its first effects in the Northern-Primorsk part of the Primorsk District and the South-Western Primorsk part of the city. According to site designs approved in 2005, the total housing building volume in the above mentioned districts shall be 1,724,130 square meters, including 198.28 thousand square meter allocated for state purposes. The projects contemplate the construction of social facilities, including kindergartens, schools, health care institutions of different purposes, trading facilities and parking lots at the expense of the city funds.

We have also completed the project Northern Valley in the northern part of the city. This territory of 540 hectares can accommodate about 3 million square meters of housing construction. Housing construction in new areas included in the program of land development for construction engineering shall be performed together with the construction of social, engineering and transport facilities. For this purpose, the Construction Committee has produced lists of educational, medical and transportation facilities which were approved by the city's Government in October, 2005. The projects shall be implemented in 2005-2015.

As long as the above territories are not developed, the Committee performs the engineering preparation of new sites. Thus, last year only, we laid 5,142 meters of new utilities and roads. The development of the nonresidential area of Pulkovo-3 is almost completed.

In 2005, we made another very important step to convert from targeted allocation of land to bidding procedure. On February 21, 2005, the city government meeting approved a new system of allocating land for residential construction. A new system contemplates tenders for the right to conclude land lease agreements for the purpose of its comprehensive development aimed at further residential construction. Now tenders are held in the form of auctions open for entry and quotation bids. The auction item is the right to conclude lease agreements for land. The starting price is equal to the amount of market evaluation of the right to conclude lease agreements.

The winner takes the land for comprehensive development and agrees to develop construction documents to present the area's capacity, build the required infrastructure facilities and transfer them into the city's ownership. After fulfilling his obligations such investor acquires the exclusive right to purchase property or long term lease rights for all areas allocated for residential and commercial construction. The areas allocated for social infrastructure shall be developed at the expense of the city budget funds.

How does investor benefit from such comprehensive development? First, in the process of developing design and engineering plans of the territory, investor prepares it for his own purposes. Second, investor may use the land at his own discretion: Construct buildings or sell the ground area.

The first tenders of the right to conclude land lease agreements for the purpose of its comprehensive development aimed at further residential construction were held in 2005 and sold 96 land plots, including 23 for residential construction of 605,648 square meters. In the first half year of 2006, we sold 27 land plots out of 41 allocated for that purpose. These territories will house over 790 thousand square meters of residential premises.

One of the key challenges of Russia's state policy is to improve living standards of Russian citizens. The main goal set by the city's Government – to turn St. Petersburg into the city living under European standards – assumes the construction of comfortable accommodation for citizens, including the growth of construction volumes relevant to the existing demand, increasing availability of accommodation to all citizens, security and comfort of constructed houses and providing the whole infrastructure – social, engineering and transport.

During the years of implementation of St. Petersburg target program "Dwelling", the city's market of residential construction experienced material changes. Private developers took the leading role.

In 2001-2005, we doubled the residential construction.

The first significant jump in the budget funded construction was reached in 2004 – the construction volume was 33.9 square meters. 103.9 thousand square meters of residential premises were constructed in 2005. This year we plan to increase state-financed construction to 165 thousand square meters. The Government of St. Petersburg aims at minimum 10% increase of the state-financed construction share in the total commissioning volume of 2007.

In 2005, the Government of the Russian Federation reviewed the results of the federal target program "Dwelling" as of 2002-2010, and other programs focused on the development and operation of the residential sector. The Government defined problems which require complex approach and investment of financial and administrative resources of the federal center and regional authorities.

The national project "Available and Comfortable Dwelling to Russian Citizens" focuses on handling the defined problems. Its primary objective is to establish the market of available dwelling and provide comfortable living conditions to Russian citizens.

To implement the national project "Available and Comfortable Dwelling to Russian Citizens" in St. Petersburg, we need to establish conditions for providing the following accommodation to citizens:

- first, it should be comfortable and meet environmental, sanitary, technical and other requirements, on the one hand, and meet the need of both a single family and the city's population on the other hand;
- second, it should be available, i.e. obtainable on optimal market prices defined by the balanced supply and demand in the residential market.

The following priorities are defined to implement the national projects in St. Petersburg:

- 1) growth of residential construction volumes;
- 2) increasing of the living premises availability to citizens;
- 3) reduction of administrative barriers to residential construction;

4) reduction of construction costs.

We shall consider efforts to increase the residential construction volumes.

The basic method is holding land tenders for new construction and renovation of old buildings to ensure residential construction; and selling repair houses and land where they are located. St. Petersburg has an established practice of such tenders.

The shortage of prepared sites still remains a material obstacle to the development of residential construction. To tackle this challenge, we have approved the integrated program to prepare territories for residential construction until 2010. It was adopted in 2004. Its main objective is to establish engineering, transport and social infrastructure in due time and involve them in operation.

For that purpose, we plan to involve about 1,400 hectares of land which allow us to construct minimum 13 million square meters of living premises.

The prospective areas include the Northern-Primorsk part, the Northern part, and Primorsk southwestern part of the city. The St. Petersburg Government has completed and approved design documents covering three areas in the Northern-Primorsk part of the Primorsk region and two areas in the South-Western Primorsk part of the Krasnoselsky District, the Slavyanka living quarters in the Pushkin District and many other districts. According to design projects approved in 2005, the planned residential construction volume is 3.1 million square meters, including 200 thousand square meters allocate for state purposes.

St. Petersburg budget 2006 stipulates funding of works to prepare territories in amount of 302 million rubles; 52 million rubles is allocated to finance the development of planning documents.

To provide social services in the areas included in the development program, we have drawn up the List of education, health care and transport infrastructure, taking into account the development of territories allocated for residential construction. The program of locating these social facilities is also approved by the Government of St. Petersburg. Therefore, new areas will house about 60 kindergartens, 40 schools, health care centers and first-aid stations.

As a part of the planned residential construction, we contemplate the development of main sources and highway networks designed for both preparation of new areas and establishing the reserves for further residential construction. In 2006, the budget allocates 1.5 billion rubles to develop and renovate main utilities sources for heating supply of residential and social premises, and it is planned to spend 1.8 billion rubles to renovate water supply and water disposal systems. A new sewage treatment facilities in the Southern waterworks is constructed to supply water to new residential premises in the South-Western part of the city.

The city contemplates the following efforts to increase the residential construction volumes:

- 1) further preparation of design documents;
- 2) accelerating preparation and holding tenders for the right to conclude lease agreements for land for the purposes of residential construction;
- 3) establishing the auction procedure to allocate land for comprehensive development, including drawing up design documents, territory preparation and implementing residential construction projects;
- 4) selling land for residential construction;
- 5) inventory of federal property lands for the purpose of their development for residential construction; and
- 6) preparation of new territories funded from the budget.

Implementing the above efforts will result in the commissioning 12.5 million square meters of residential premises, including 1.8 million square meters financed from the city budget, during the

period of 2006-2010. The annual commissioning volume is planned to increase from 2.27 million square meters in 2005 to 2.5-2.6 million square meters in 2010.

The second area contemplates state-financed demand promotion in the housing market and increase of dwelling availability to citizens and involves the following efforts:

- 1) providing subsidies to purchase dwelling to citizens to whom the state has obligations to provide dwelling (dismissed military personnel, citizens relocated from Baikonur, and northern territories, IDPs, victims of radiation accident and disasters);
- 2) fulfilling state obligations to provide dwelling to veterans and invalids to whom Russian Federation owes dwelling improvement due to the process of delimitation of authority;
- 3) implementing of St. Petersburg target programs stipulating budget support of young families, budget workers and other categories of citizens; and
- 4) developing mortgage credit lending.

Measures implemented in St. Petersburg and focused on increasing demand for dwelling provide the following:

- 1) increasing the amounts of mortgage lending from 7 thousand credits issued in 2006 to 20 thousand in 2010, provided money volumes increase from 4.2 billion rubles to 12 billion rubles, respectively. The target program “Development of long-term housing lending in St. Petersburg” contemplates subsidies issued to citizens including young families to compensate the initial installment in amount of up to 35% of the dwelling value;
- 2) providing support for dwelling purchase to 1,700 young families during the period of 2006-2010;
- 3) providing support for dwelling purchase to about 2,200 families of budget workers;
- 4) increasing state-financed residential construction from 165 thousand square meters in 2006 to 500 thousand square meters in 2009; and
- 5) optimizing prices in the residential construction market.

To increase the availability of dwelling to citizens, St. Petersburg has drawn up and implemented regional target programs aimed at improving dwelling of citizens. Besides the target program to develop long-term housing credits, such programs include:

- St. Petersburg target program “Dwelling Availability to the Young”. The amount of budget funds allocated for the program in 2006 is 96.1 million rubles;
- St. Petersburg target program “Dwelling to the Workers of Education, Health Care and Social Systems”; and
- The plan to relocate St. Petersburg citizens from slum and repair dwelling for 2004-2010.

The Government of St. Petersburg has drawn up and approved address lists of housing construction to provide dwelling to privileged citizens, disadvantaged families, participants of radiation accidents and disasters recovery, and many others.

The federal and St. Petersburg budgets prepare for the joint development of territories for residential and social infrastructure construction in Pushkin District to provide dwelling to military personnel.

Another priority of the national project implementation is reducing construction costs.

The following efforts are contemplated to address this challenge:

- 1) establishing a uniform policy of construction pricing and approving services prices and rates (except design and construction);
- 2) enforcing the applicable legislation related to regulation of legal relations in payment of construction projects connection to utilities; and

3) repeated use of design documents for social infrastructure facilities and property and economic documents.

It is also important to maintain cooperation between other subjects of the Russian Federation located in the North-Western Federal District, including the Leningrad region, to locate enterprises of the construction industry for the purposes of providing construction materials (cement, inert materials, timber, metal, etc.) to St. Petersburg and deciding other matters.

All the above said will allow us to increase effective demand for dwelling, and residential construction volumes and, thus, grow the availability and comfort of dwelling for our citizens.

Finally, I would like to note, that Finnish companies very well represented both in St. Petersburg market and the market of the North-Western region have always been our most dependable partners. First of all I would like to mention UIT-Lentek, Lemminkjainen, Saint-Gobain, Isover, URSA-Eurasia, the Finnish branch of Skanska, Nordic Construction Company (NCC) and many others.

The Finnish company UIT Lentek is a good example of our joint large-scale project of private and state partnership. Putting into operation of the South-Western water treatment facilities by St. Petersburg Vodokanal was our joint victory. We invested over 130 million euro in this project. As a result, in 2007, after putting into operation of the residual disposal works, St. Petersburg will be the only city in Europe burning 100 percent of wastewater sludge, which will definitely improve the environment of the Gulf of Finland and the Baltic Sea.

Today, regions and cities compete with each other. But the experience shows that we can increase our competitive ability, efficiency and investment attractiveness of our cities only in close, mutually profitable and efficient cooperation with each other. I believe that the cooperation between St. Petersburg and Helsinki has very good prospects and future. I wish all participants productive communication and new contracts!

Thank you for your attention!