

RESEARCH



2014 WAREHOUSE MARKET REPORT

Moscow

HIGHLIGHTS

The volume of warehouse space delivered in 2014 in the Moscow region has doubled previous year indicator, amounting to almost 1.6 million sq m.

By the end of 2014, vacancy rate has reached 9.2%, which in absolute terms is about 800 thousand sq m.

At the end of 2014, the total high-quality warehouse space take-up on the Russian market amounted to about 1.4 million sq m – 20% less than in 2013.

The average asking rental rate, denominated in Russian rubles, is at 6,500 rub./sq m/year (including operating expenses and VAT, utilities are paid separately).



Viacheslav Kholopov
Partner, Director,
Industrial, Warehouses and Land,
Knight Frank, Russia and CIS

"Considering the current adverse economic and geopolitical conditions, warehouse real estate market has adapted to new realities faster than other segments. Over the past 10 years, we were getting used to the conditions understandable for international investors: net rental rates, long-term lease contracts (generally from 5 to 10 years). However, in the past 4 months of 2014, the warehouse market has almost completely switched to ruble rates on the "all inclusive" basis for 2-3 years terms. In 2015, we will see a number of interesting deals, as market current conditions create the opportunity to optimize logistics expenses for major operators: an adequate selection of facilities, lease contracts negotiable after 2-3 years and ruble rates can help tenants to achieve significant savings and reduce risks. Buyers as well should consider investing money in warehouses: today is, perhaps, the most favorable time to do the buying".

WAREHOUSE MARKET REPORT MOSCOW

Key indicators. Dynamics*

	Class A	Class B
Total quality supply volume, thousand sq m		9,570 ▲
including, thousand sq m	7,619 ▲	1,951 ▲
New delivery in 2014, thousand sq m		1,637 ▲
Lease and sale transactions volume in 2014, thousand sq m		910.9 ▼
Vacancy rate, %		9.2% ▲
Asking rental rates**, rub./sq m/year		3,500-6,500 ▲
Operational expenses, rub./sq m/year		900-1,200 ▶
Capitalization rate, %	11.5-12.5 ▲	12.0-14.0 ▲

* Compared to the same period of 2013

** Triple net – excluding VAT, operating expenses and utility bills

Source: Knight Frank Research, 2015

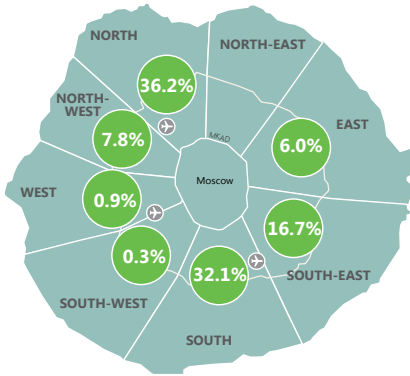
Supply

In 2014, the market of high-quality warehouse real estate in the Moscow region has experienced high construction rates: the new warehouse space supply amounted to about 1.6 million sq m, which is 2 times higher than in 2013. It should be noted that most of the supply (40% or 680 thousand sq m) has been delivered in Q4 2014. Presently, the total supply stock of Class A and B warehouse facilities is over 9.5 million sq m, 79% of which belong to Class A.

The majority of new construction volume is concentrated in the North, the South-East and the South of the Moscow Region. By the end of the year, these areas accounted for about 85% of the total delivered high-quality warehouse space.

There are several reasons for active construction of warehouse facilities in the North of Moscow (between Leningrad and Dmitrov Highways). Firstly, the Northern areas allow delivery of goods from a number of European and Asian

Delivery of the new warehouse premises in Moscow in terms of direction



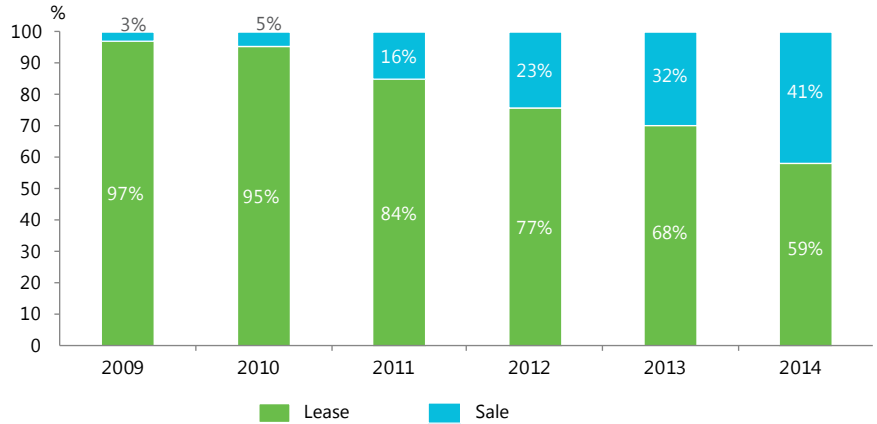
Source: Knight Frank Research, 2015

countries to Moscow through the seaport of St. Petersburg. The construction of a double of the Leningrad Highway, a part of which was opened at the end of 2014, significantly improves accessibility of the area. Another advantage of this area is its proximity to the largest airport in the country – Sheremetyevo.

Construction of a significant amount of warehouse real estate in the South and South-East of Moscow results from the relatively lower cost of land plots compared to other areas. These areas are of strategic importance providing the movement of goods to the Southern and South-Eastern regions of Russia. Due to that fact companies that are actively working on regional markets develop their facilities. Furthermore, a large-scale reconstruction of Novoryazanskoe Highway is presently taking place: its completion will notably increase the capacity of the road. Consequently, attractiveness of the area for warehouse development will also grow.

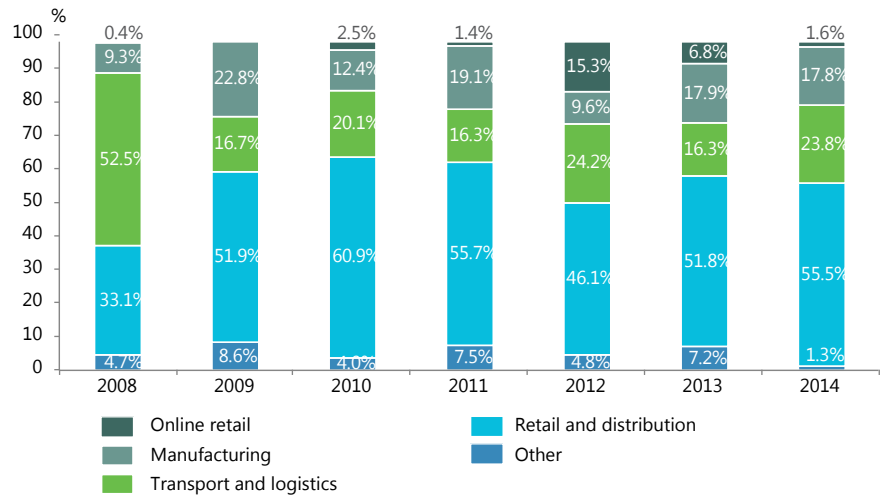
Vacancy rate was growing throughout 2014: having increased by 7 p. p. to 9.2%, the indicator has reached a record level since 2009. Besides the significant increase to the number of delivered warehouse space, the vacancy rate growth is also caused by the drop in the volume of demand. In absolute terms, the amount of vacant space in the warehouses of the Moscow region is about 800 thousand sq m. Thus, the supply of free space for 2014 has increased more than 4 times compared to 2013. It is worth noting that almost 80% of vacant space stock are constituted by the new supply.

Take-up of warehouse premises in terms of transaction type



Source: Knight Frank Research, 2015

Tenant mix dynamics



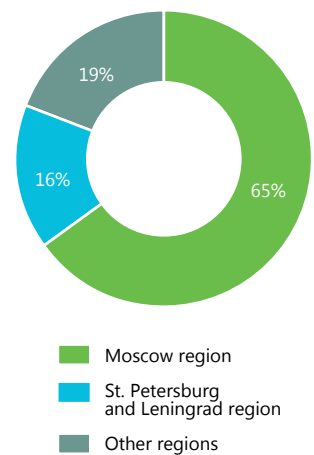
Source: Knight Frank Research, 2015

Demand

By the end of 2014, the total high-quality warehouse space take-up on the Russian market amounted to about 1.4 million sq m, which is 22% less than the record high of 2013. About 910 thousand sq m (around 65% of the total transactions) was purchased and leased in the Moscow region: 30% decrease compared 2013. It is worth noting that the share of transactions on the Moscow market has been declining over the past three years, while on the regional markets and the St. Petersburg market the volume of transactions is growing (35% against 27% in 2013).

The average deal size in the Moscow region has shrunk by 15% and amounted to 13 thousand sq m. Only 17% of transactions

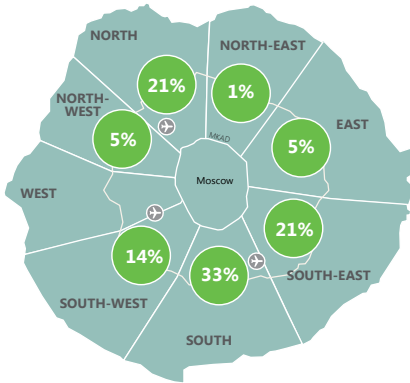
Lease and purchase transactions volume in the regional cities of Russia



Source: Knight Frank Research, 2015

WAREHOUSE MARKET REPORT. MOSCOW

Take-up of warehouse premises in Moscow in terms of direction



Source: Knight Frank Research, 2015

are the deals with blocks of about 20 thousand sq m or bigger. It is worth noting that in 2013 the share of such transactions was approximately 60%. By the end of 2014, the number of sale transactions has increased: 41% in the overall structure of transactions, compared to 32% in 2013.

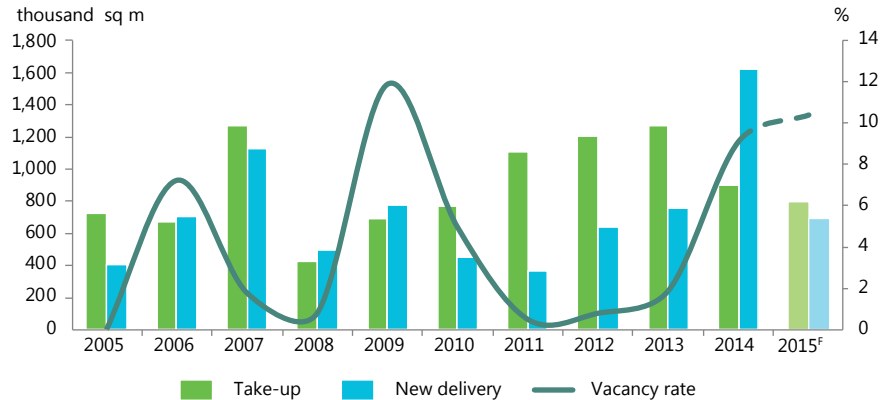
In 2014, retail and distribution companies were the most active in leasing and purchasing of warehouse space. It is exactly the retailers that have been the main consumers of warehouse space for the past 6 years.

In terms of the geographical distribution of demand in the Moscow region, it is worth noting that about 70% of the total take-up was leased or purchased in the Southern areas (South, South-East and South-West). About 21% of the total take-up was leased and purchased by end-users in the Northern areas, where active construction is underway.

Commercial terms

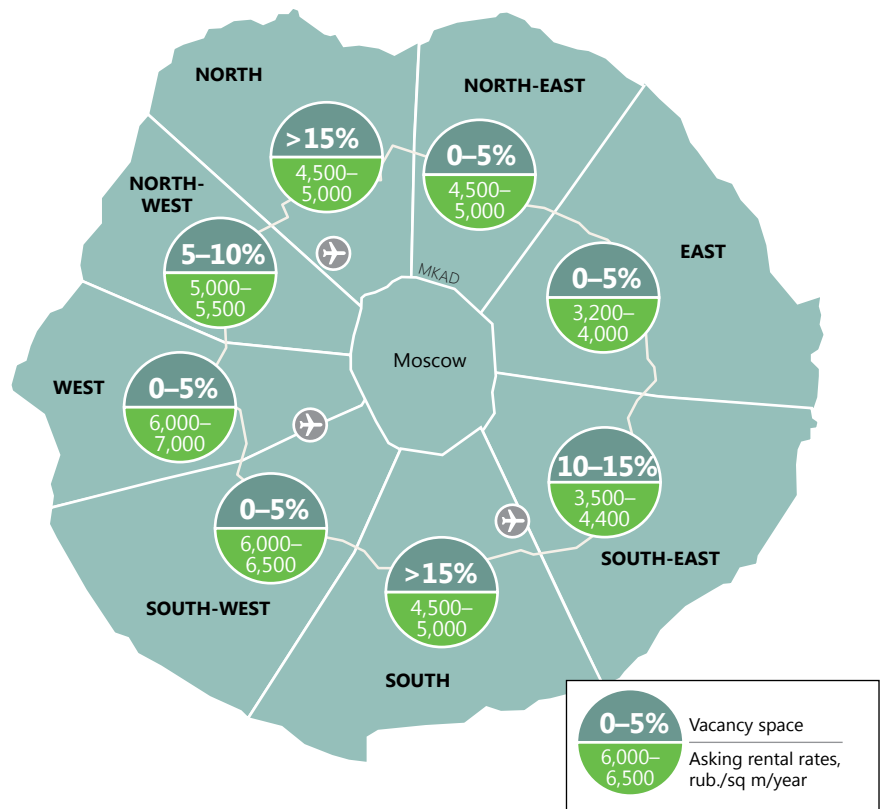
During the first three quarters of 2014, asking rental rates were stable in the range of 100–135 \$/sq m/year (triple net) depending on the quality of the object, its level of occupancy, as well as location. In Q4 2014, against the backdrop of significant currency fluctuations and a drop in demand, landlords revised their commercial terms downward and switched to ruble rate. At the end of 2014, the average asking lease rate denominated in US dollars was 90–100 \$/sq m/year. Meanwhile, the number of offers, with rates denominated in the US dollars has notably declined. The

Take-up, new delivery and vacancy rate dynamics



Source: Knight Frank Research, 2015

Vacancy space and asking rental rates in terms of location



Source: Knight Frank Research, 2015

differentiation of rental rates in 2014 was significantly influenced by the amount of warehouse premises under construction. As such, the greatest decline compared to the previous year was observed in facilities located in the North, South and South-East of Moscow.

The key event on the warehouse market in 2014 was an increase in the number of lease offers with rental rates denominated in Russian rubles. Trying to reduce vacant space, most developers have already revised the currency of their contracts or are ready to discuss the transition to ruble rental rates

when negotiating with potential tenants. The average asking lease rate denominated in Russian ruble is 6,500 rub./sq m/year (including operating expenses and VAT, though utilities are traditionally paid separately). However, it is worth noting that the ruble rates are available for short-term lease contracts. Nevertheless, in the case of a long-term lease, or when the ruble contract is offered for a period of 1–2 years, it includes an annual CPI indexation of the Russian Federation and an option of terminating the lease. At the end of this period, the commercial terms are to be reviewed, and in some cases – the contracts converted back to the US dollar rates. As for the purchase of warehouse space, the sale price at the end of 2014 was 40,000–45,000 rub./sq m (excluding VAT). It is important to note that the cost of building high-quality warehouse is by about a quarter depend on imported parts, which, considering the current situation of weakening of the Russian ruble, may affect the sale prices.

Forecast

In 2015 the situation on the warehouse market will be largely determined by the dynamics of macroeconomic indicators, as well as geopolitical background, which today has an impact on all market participants.

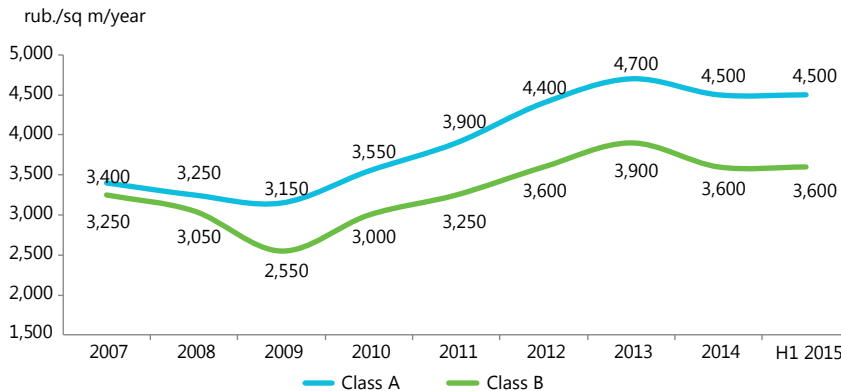
In 2015, more than 1 million sq m of warehouse space were announced for delivery. Against the background of declining demand and growing vacancy rates, not all the declared facilities will be put into operation: some of them are being built for specific clients, the proprietors of some facilities will review the delivery schedule in order to reduce operating costs in underfilled warehouses. Most likely, at the end of 2015 the volume of delivered high-quality warehouse space will not exceed 600–700 thousand sq m in the Moscow region.

Besides, in the near future, a limited number of players will start new projects development. In the current situation, in order to minimize the risks for developers the most appropriate strategy appears to be built-to-suit format.

As to the demand of warehouse space in 2015, we expect a drop in take-up to the level of 700–800 thousand sq m, as well as changes of the take-up structure. Firstly, the retailers and distributors who experience a drop in turnover are presently reviewing plans for development on the Russian market, which would reduce their share in the total transactions volume. However, in the current situation, due to the devaluation of the Russian ruble and food embargo, we expect active development of retail chains focused on the economical segment. Having taken over vacated market sector, they will be among the drivers of the market development.

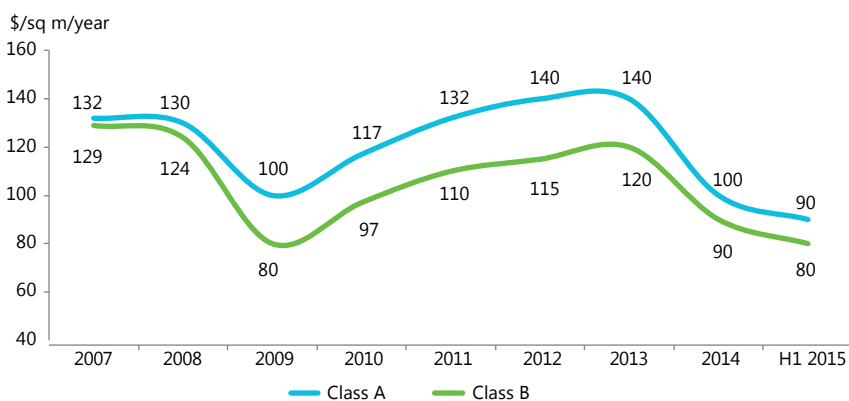
According to our estimates, demand for warehouse space will be formed primarily by the facilities for which lease rates are denominated in Russian ruble. However, when negotiating long-term lease agreements, landlords having foreign currency projects financing are likely to include the condition of commercial terms renegotiation in 1 or 2 years. We anticipate that asking rental rate in the first half of 2015 will remain the same – in the range of 6,300–6,800 rub./sq m/year (including operating expenses and VAT).

Average asking rental rates dynamics for warehouse premises denominated in RUB



Source: Knight Frank Research, 2015

Average asking lease rates dynamics for warehouse premises denominated in USD



Source: Knight Frank Research, 2015

RESEARCH

Olga Yasko

Director, Russia & CIS

olga.yasko@ru.knightfrank.com

INDUSTRIAL

Viacheslav Kholopov

Partner, Director, Russia and CIS

viacheslav.kholopov@ru.knightfrank.com

+7 (495) 981 0000



© Knight Frank LLP 2015 – This overview is published for general information only. Although high standards have been used in the preparation of the information, analysis, view and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects.

Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank.