

RESEARCH



Q1 2015

# WAREHOUSE MARKET REPORT

Moscow



## HIGHLIGHTS

In Q1 2015, the total area of high-quality warehouse premises delivered was around 270,000 sq m, which is 35% higher than the same period last year.

The vacancy rate changed by less than 1 p. p. and amounted to 9.8% in Q1 2015.

The take-up of quality warehouse space in the Moscow region was 162,000 sq m, which is three times higher than the total volume of deals concluded in other regions of Russia, including St. Petersburg.

The asking rents for Class A facilities were around 6,000–6,500 rub/sq m/year, including VAT and operating expenses.



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

*"In spite of the downturn both in the national economy and the commercial real estate market, the current circumstances create favourable opportunities for potential tenants and buyers. Considering specific features of the warehouse property market, namely the ability of developers to quickly respond to internal and external changes, it is quite likely that 2015 will see a downward trend in the volume of vacant space, whereas lease rates will stay mostly within the current range. Moreover, taking into account the rising construction costs in the context of the shrinking available supply, the prices are expected to grow."*

# WAREHOUSE MARKET REPORT MOSCOW

## Key indicators. Dynamics\*

	Class A	Class B
Total quality supply volume, thousand sq m	9,700 ▲	
including, thousand sq m	7,749 ▲	1,951 ▲
New delivery in Q1 2015, thousand sq m	270.7	
Lease and sale transactions volume in Q1 2015, thousand sq m	162 ▼	
Vacancy rate, %	9.8 ▲	
Asking rental rates**, rub/sq m/year	3,500–5,500 ▶	
Operational expenses, rub/sq m/year	1,000–1,300 ▶	
Capitalization rate, %	13.0–14.0 ▲	–

\* Compared to the same Q4 2014

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

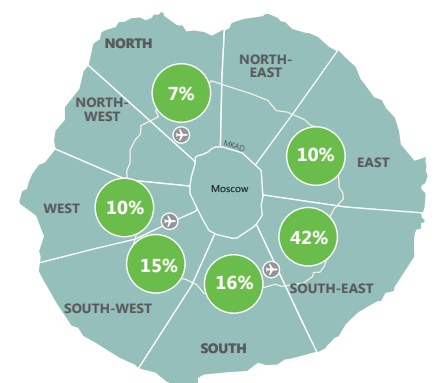
Источник: Knight Frank Research, 2015

## Supply

In Q1 2015, some 270,000 sq m of high-quality warehouse space was delivered, which is 35% higher than the same period last year. Such a great volume can be attributed to the delays in commissioning dates of some projects that were initially scheduled for 2014. Therefore, the total stock of quality warehouse premises in the Moscow region is currently about 9.7 million sq m.

As for the geographical distribution of the new facilities, it should be remarked that about two thirds of all high-quality warehouse premises delivered in Q1 2015 are located in the southern part (south, south-east and south-west) of the Moscow region. For instance, approximately 40% of the space delivered is situated in the south-east, while the south and south-

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



Source: Knight Frank Research, 2015

New delivery, take-up and vacancy rate dynamics



Source: Knight Frank Research, 2015

west jointly account for slightly over 30%. The northern part of the region has the smallest share of the delivered high-quality warehouse space.

In the first three months of 2015, the vacancy rate reached 9.8%. It should be emphasized that during the period in focus, most of the vacant space was represented by premises whose previous tenants had moved out. At the same time, some of the warehouse facilities commissioned in Q1 2015 were already partly or fully leased.

It is worth noting that the current economic context as well as the situation in the warehouse property market will have a great impact on the supply mix and volume: the restricted access to project funding against the backdrop of the decreasing demand forces developers to review their plans with respect to both construction of new facilities and continuation of their current projects. Besides, in the context of the changing market environment, some developers will reposition their speculative property that is not yet under construction towards the built-to-suit model. According to our projections, the actual delivery volume of high-quality warehouse space in 2015 may fall around 40% short of the plans announced earlier.

Demand

The total volume of deals concluded in the Russian market in Q1 2015 was around 210,000 sq m, which is 35% less than the same period of 2014. The majority of deals (around 77%) are still concluded in the Moscow region, and their absolute volume is 162,000 sq m. It should be stressed that in the period in focus, the share of the Moscow

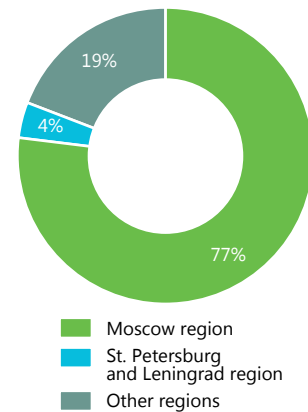
region in the geographical mix of deals across Russia grew significantly.

Q1 2015 saw a tangible decline in the take-up levels. At the same time, current tenants of warehouse premises were very active. This can be explained primarily by their wish to obtain more favourable rental terms than before. They consider both the possible revision of commercial terms under current lease contracts and opportunities for moving to another property. The current stock of vacant facilities in the Moscow region offers tenants a chance to choose between premises in different parts of the region. At the same time, it is worth noting that in the medium run, the vacancy rate will be decreasing due to the delays in delivery of facilities currently under construction.

An analysis of deals concluded in Q1 2015 reveals that the pool of high-quality warehouse tenants was dominated by transport and logistics companies, which accounted for nearly half of the take-up. The rising demand for the services of logistics operators in the current unstable market situation can be attributed to businesses' intention to minimize their own risks and costs (staff, warehouse equipment, and WMS) by entering into service agreements with logistics companies. In addition, the share of distributors in the total volume of deals increased compared to Q1 2014 (22% versus 15% in Q1 2014), and the share of retailers decreased (21% versus 44% in Q1 2014).

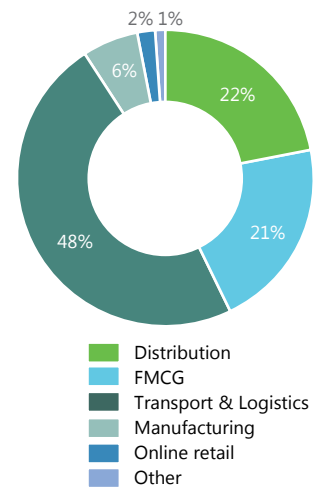
As for the geographical demand distribution, around 70% of the total warehouse space rented was located in the southern part of the region (south, south-east and south-west). It should be emphasized that during the period in focus, these areas accounted for the majority of newly delivered facilities.

Lease and purchase transactions volume in the regional cities of Russia



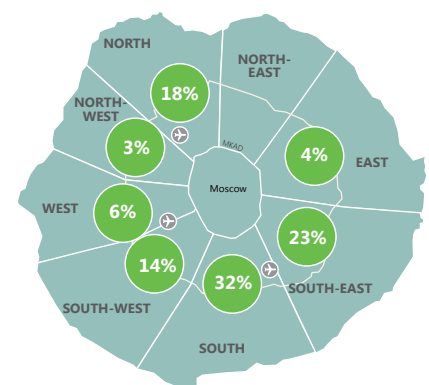
Source: Knight Frank Research, 2015

Take-up of warehouse premises in Moscow in terms of company profile



Source: Knight Frank Research, 2015

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



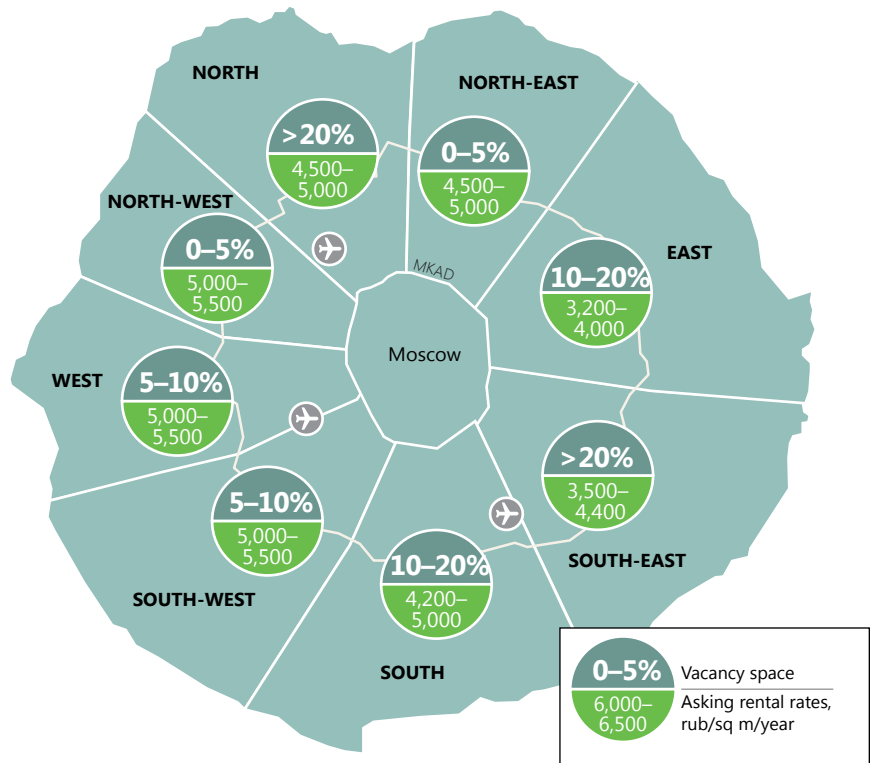
Source: Knight Frank Research, 2015

## Commercial terms

In Q1 2015, asking rents in the warehouse property market remained unchanged. For Class A premises, the rates averaged 6,000–6,500 rub/sq m/year, including VAT and operating expenses. The warehouse market responded to the major exchange rate fluctuations and quickly adjusted to the new situation. For instance, today almost all the landlords are willing to offer lease prices denominated in rubles. At the same time, while some developers are ready to sign long-term lease agreements with fixed ruble prices, others only dare to fix rates in the national currency for a period of up to two years. For potential tenants, landlords envisage a possibility of withdrawal from a contract and renegotiation of lease terms one or two years after the contract was concluded. The key barriers to establishing a market with all the rates denominated in rubles are the high cost of borrowed capital in rubles and the deteriorated performance of business models based on foreign currencies.

A review of the current commercial terms shows that in the context of the strengthening ruble, asking rents converted to US dollars declined by 35–45% versus the US dollar rates in 2013–2014.

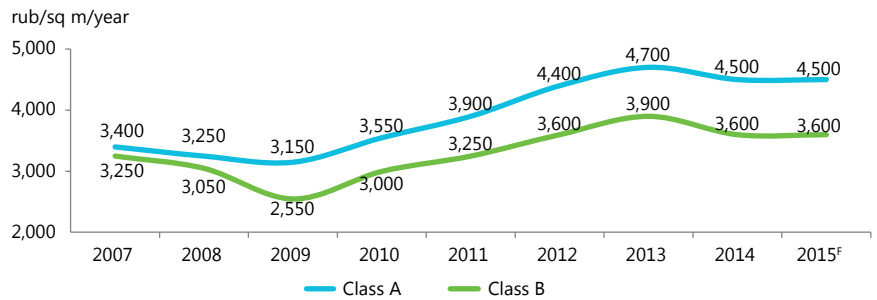
### Vacant space and asking rental rates in terms of location



Source: Knight Frank Research, 2015



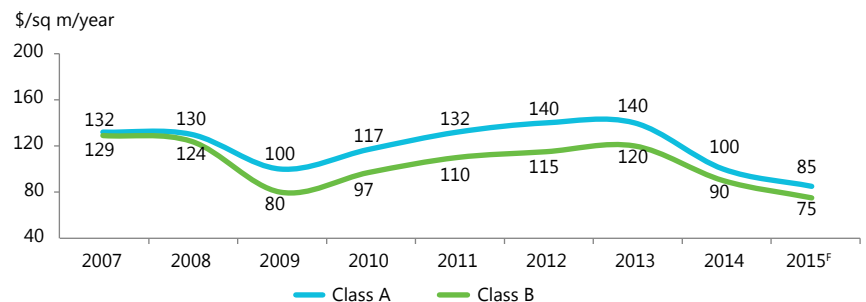
### Average asking rental rates\* dynamics for warehouse premises denominated in RUB



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

Source: Knight Frank Research, 2015

### Average asking rental rates\* dynamics for warehouse premises denominated in USD



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

Source: Knight Frank Research, 2015



South Gate Class A logistics park. 30<sup>th</sup> km of Novorizhskoe Hwy. Total area – 650 thousand sq m

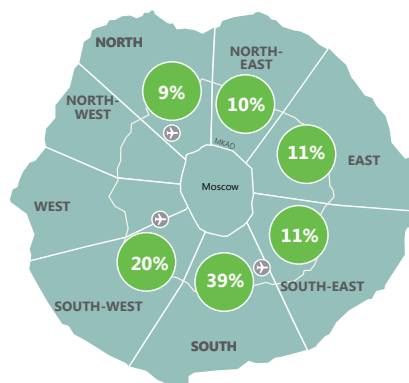
## Forecast

According to our forecast, around 500,000 sq m of high-quality warehouse space should be delivered by the end of the current year. The total supply volume in 2015 is expected to reach around 700,000–800,000 sq m, which is 35% below the record level set in 2014 and roughly equal to the floor area delivered in 2013. It should be emphasized that about 70% of the announced projects are located in the southern part of the region (south, south-east and south-west).

In 2015, we expect the demand for warehouse space to decline even further: the total take-up might be around 550,000–600,000 sq m by the end of the year, which is 20% less than in 2014. The largest share of deals will still be closed with retailers and logistics operators.

Unless any major macroeconomic disruptions occur, rental rates will most likely stay at the same level in 2015, and owners of warehouse premises will keep offering rates denominated in rubles.

### Warehouse space under construction in terms of location



Source: Knight Frank Research, 2015

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