



Q3 2015  
**WAREHOUSE  
MARKET REPORT**  
Moscow

## HIGHLIGHTS

The total area of quality warehouse space delivered in Q1–Q3 2015 amounted to 590 thousand sq m which is down on last year by 30%.

The transaction volume of 767.6 thousand sq m was registered at the Moscow market in Q3 2015, which is a record-breaking quarter indicator for all the period of existence of quality warehouse real estate market.

The volume of transactions in Q1–Q3 2015 totaled 1,028 thousand sq m, which is twice the level from last year result.

The asking rental rates are 3,500–5,000 rub./sq m/year for Class A warehouses.



**Viacheslav Kholopov**  
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*"The third quarter of this year has experienced an outstanding boost: rents denominated in rubles are low when compared to last year's contributed to the conclusion of a large number of transactions. The most active players continue their development activity and are willing to lease new premises. However, medium-sized companies are much more cautious and are in no hurry with the take-up of new warehouse facilities. End user purchase transactions are rare, the cost of debt financing is still a barrier for many companies from investing in warehouse real estate."*

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### Key indicators. Dynamics\*

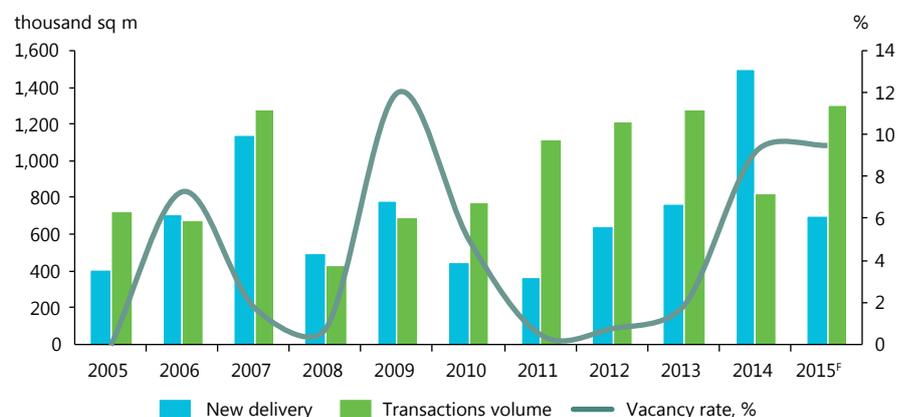
	Class A	Class B
Total quality supply volume, thousand sq m	10,019.4	
including, thousand sq m	8,068.4	1,951
New delivery in Q1–Q3 2015, thousand sq m	590.1	
Lease and sale transactions volume in Q1–Q3 2015, thousand sq m	1,028	
Vacancy rate, %	9.7 ▲	
Asking rental rates**, rub./sq m/year	3,000–5,000 ▼	–
Operational expenses, rub./sq m/year	1,000–1,300 ▶	–

\* Compared to the end of Q4 2014

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

Source: Knight Frank Research, 2015

### New delivery, transactions volume and vacancy rate dynamics



Source: Knight Frank Research, 2015

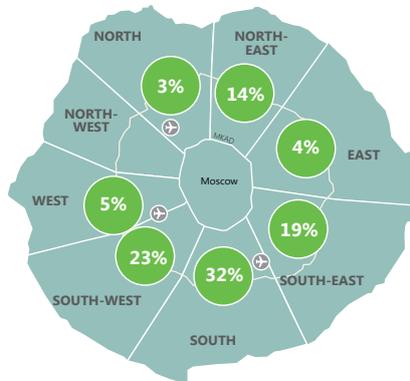
## Supply

The total supply of Class A and B warehouse space in the Moscow region exceeded 10 million sq m at the end of Q3 2015. 590 thousand sq m of warehouse space were delivered since the beginning of the year, while Q3 is responsible for just 20 thousand sq m of this volume. At the moment, market is experiencing in development activity: the majority of developers are ready to complete their complexes only in case of built-to-suit scheme. We expect 2016 to be less productive in commissioning of new facilities by 40% if compared with 2015.

Geographic distribution of new construction performed in Q1–Q3 2015 is as follows: the southern direction (south-west, south, south-east) provided 74% of the total volume of delivered space, the north-east – 14% of new space. The remaining part of 12% was in the northern, eastern and western directions. It is worth noting that the new supply is represented mainly by large-scale facilities, developed by the key developers. We expect further “shrinkage” of the market, warehouse facility will be constructed by major players.

The slowdown of the delivery volume growth and a large volume of transactions adjusted the vacancy rate downward to the level of 9.7% (-0.7 p. p. to be equal to for the period of July-September 2015). It shall be emphasized that the total volume of vacant space slumped to a record high throughout 2015: circa 1 million sq m of quality warehouse space are vacant at the market of the Moscow region.

Delivery of the new warehouse premises in Moscow in terms of direction, Q1–Q3 2015



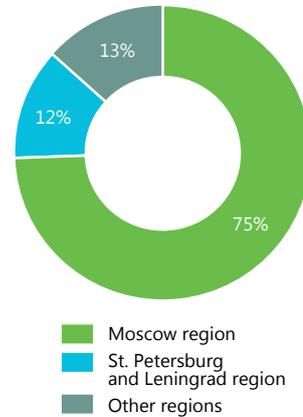
Source: Knight Frank Research, 2015

## Demand

Q3 2015 demonstrated a high activity from tenants and buyers of warehouse space: the total volume of lease and purchase transactions of quality warehouses in the Moscow region amounted to about 767.6 thousand sq m, which is twice as much as the level of the whole H1 2015. The total transactions volume amounted to about 1,028 thousand sq m from the beginning of this year. It should be noted that this amount is formed mainly by large transactions when the implemented space is over 30 thousand sq m.

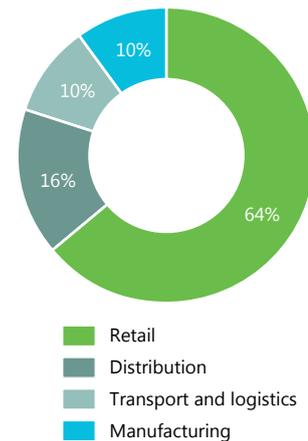
The total transactions volume at the warehouse real estate market of Russia

Lease and purchase transactions in the regional cities of Russia, Q1–Q3 2015



Source: Knight Frank Research, 2015

Lease and purchase transactions in Moscow in terms of company profile, Q1–Q3 2015



Source: Knight Frank Research, 2015

### Key deals, Q1–Q3 2015

Company	Address	Total area, sq m
<b>Lease transactions</b>		
X5 Retail Group*	Logistics park Sofyino	65,700
Dixy*	Warehouse complex A-terminal	54,300
Dochki-synochki	Logistics park Bykovo	42,200
<b>Purchase transactions</b>		
Adidas	Industrial park PNK-Chekhov 2	120,000
Dixy	Industrial park PNK-Severnoe Sheremetyevo 2	55,100

\* Knight Frank acted as a consultant to the deal

Source: Knight Frank Research, 2015

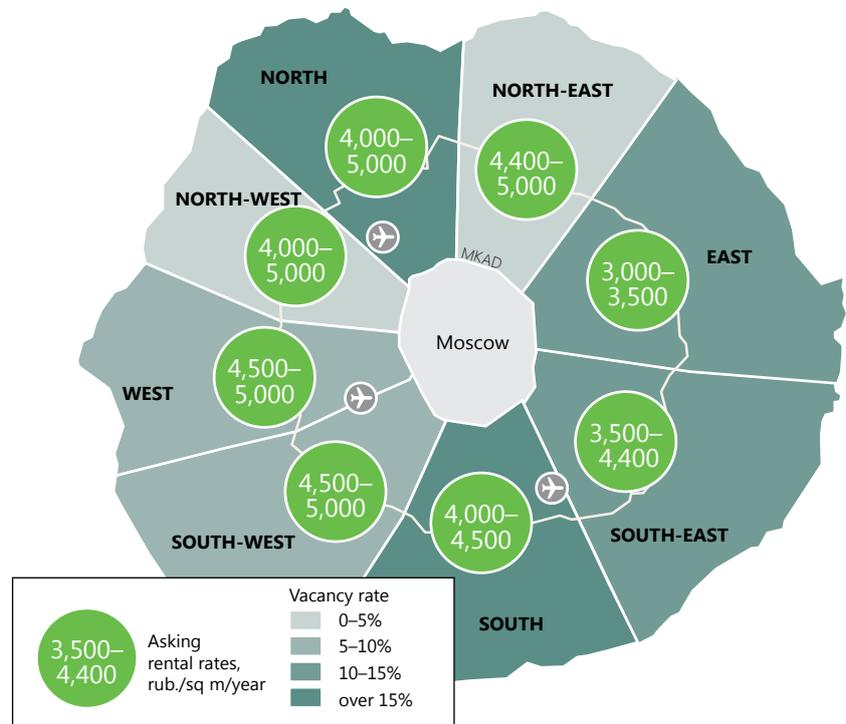
# WAREHOUSE MARKET REPORT. MOSCOW

totalled 1,360 thousand sq m in Q1–Q3 2015, which is 1.6 times higher if compared to the previous year indicator. In terms of the regional distribution of transactions, the main share accounts for the Moscow region (75%). 12% of all transactions were concluded in St. Petersburg, 13% was the share of the rest transactions in other cities of Russia.

Retailers were the most active players during nine months of the year (2/3 of all transactions). Grocery chains are responsible for 30% of the total volume of transactions. Moreover, the first purchase transactions of warehouse space was closed in Q3 2015, where retail operators represented one of the parties. Unfortunately, such transactions are still rare due to the difficulties in obtaining financing and the availability of relatively cheap supply of premises for lease at the market.

The average size of transaction increased by 1.7 times: from 10.8 thousand sq m in Q1–Q3 2014 to 18.1 thousand sq m of the same period this year. In contrast to the 2008–2009 crisis today there is a sufficient number of large units, therefore many companies grab an opportunity and lease quality warehouse facilities on attractive terms.

Vacant space and asking rental rates for Class A warehouse premises in terms of location



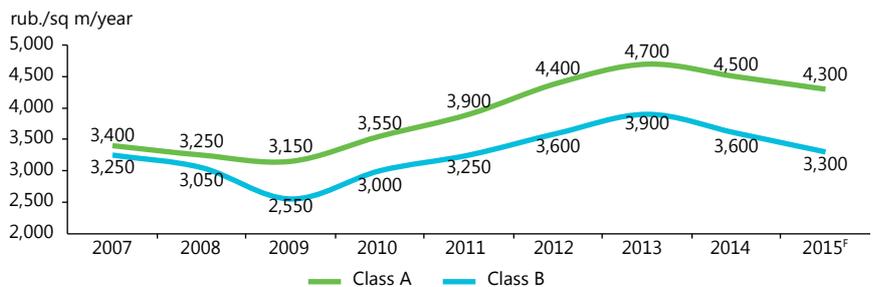
\* Triple net – excluding VAT, operating expenses and utility bills  
Source: Knight Frank Research, 2015

## Commercial terms

From the beginning of the year the most significant decrease of asking rental rates was registered in Q1 2015, when in the environment of high uncertainty and increasing vacancy rate landlords actively revised commercial terms. Q2–Q3 did not experience substantial changes of commercial terms. So, current asking rental rates in the Moscow region are in the range of 3,500–5,000 rub./sq m/year for Class A warehouse premises (triple net – excluding VAT, Operating Expenses and utilities). Currently a short-term (3–5 years) lease agreements are signed with a rental rates, denominated in Russian rubles.

It is worth noting that the range of asking ruble rental rates is now very volatile, which has not been recorded at the market for several years: the gap between the minimum and maximum asking rental rates at the warehouse market of the Moscow region is over 2,000 rub./sq m/year.

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



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



Logistics park Sofyino, Moscow region, Novoryazanskoye hwy, 32 km from MKAD

## Forecast

The completion of the construction of most warehouse facilities which is scheduled for the end of 2015 is highly unlikely to be delivered in a declared period. In this regard, we expect the volume of new supply for the year will not exceed 700 thousand sq m, and it totally coincides with forecasts made a year earlier in relation to 2015.

The high level of activity observed in Q3 2015 will most likely continue until the end of the year. Thus, the volume of lease and purchase transactions of warehouse space in the Moscow region will be about 1.3 million sq m by the end of 2015, which is 1.5 times higher than the same period last year, and it will be comparable to a record volume of transactions closed in 2013.

Rental rates will remain at current levels in case of the absence of significant fluctuations of macroeconomic indicators. In addition, we expect the reduction of the rental rates range due to the withdrawal of the cheapest supply from the market. Our forecast assumes rental rates will predominantly be denominated in the local currency in the next 1–2 years.

Due to low delivery volume of new warehouse facilities in Q4 2015 and the current level of demand, we expect the vacancy rate to be reduced to the level of 9–9.5%.

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