

Q1 2016 WAREHOUSE MARKET REPORT

Moscow



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"Despite the significant transactions volume of the Q1 2016, the situation in the industrial real estate market is far from ideal as a whole: remaining vacant space in the quality facilities, the surrender of premises by tenants, leveling take-up, reduction in the number of tenants ready to move, etc. In this case, the shortage of large units for lease is similar to what we saw in 2009, forcing tenants and buyers return to built-to-suit construction scheme."

Supply

129.1 thousand sq m of quality warehouse space were delivered in Q1 2016 in the Moscow region, which is twice less than last year. The total volume of quality supply in the industrial real estate market of the Moscow region amounted to 12.1 million sq m in Q1. It is worth noting that during the first three months not a single major speculative warehouse facility was commissioned. In the current environment the construction of a built-to-suit warehouse is the most appropriate solution for the developer.

The decrease in the commissioning of speculative warehouse space in contrast to maintenance of stable demand volume has adjusted the vacancy rate from 9.4% to 8.7%. Most part of the vacant space is concentrated in the southern and northern directions. Starting from 2013 these directions are responsible for the bulk of the new commissioned warehouse space.

It is worth pointing out, however, that a number of Q1 transactions were aimed to move to new warehouses with more favorable terms and, thus, to optimize costs, as well as to improve the efficiency of logistics processes. Moreover, the companies expanded the occupied space within the same complex, so the

Key indicators. Dynamics*

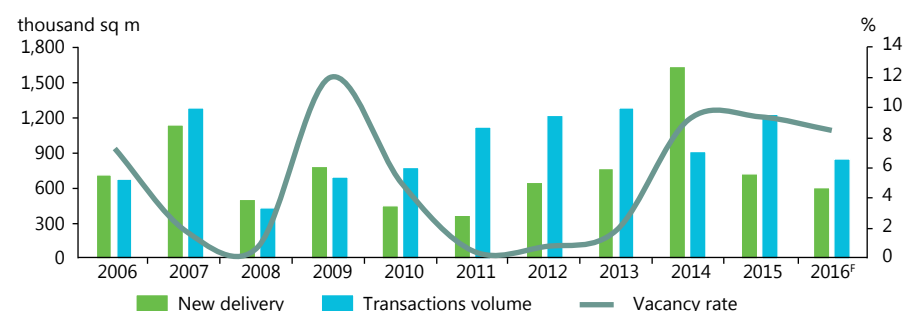
	Class A	Class B
Total quality supply volume, thousand sq m	12,086	
including, thousand sq m	10,135	1,951
New delivery in Q1 2016, thousand sq m	129.1	
Lease and purchase transactions volume in Q1 2016, thousand sq m	259.5	
Vacancy rate, %	8.7 ▼	
Asking rental rates**, rub./sq m/year	3,500–4,500 ▼	–
Operational expenses, rub./sq m/year	1,000–1,300 ►	–

* Compared to Q4 2015

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

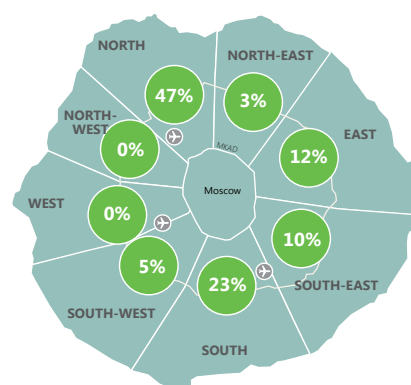
Source: Knight Frank Research, 2016

New delivery, transactions volume and vacancy rate dynamics



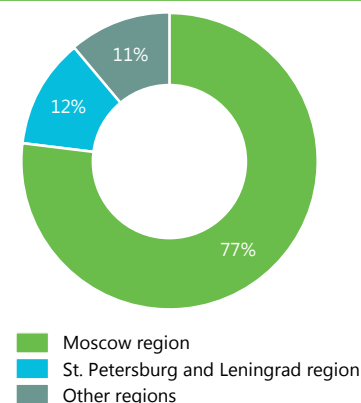
Source: Knight Frank Research, 2016

Lease and purchase transactions in Moscow region in terms of directions, Q1 2016



Source: Knight Frank Research, 2016

Lease and purchase transactions in the regional cities of Russia, Q1 2016



Source: Knight Frank Research, 2016

reduction of the percentage index matches a slight decrease in the absolute values of vacant premises. At the same time, there is a shortage of low-temperature warehouse space in the market, as well as large warehouse units (from 20 thousand sq m) are unavailable in some directions.

Demand

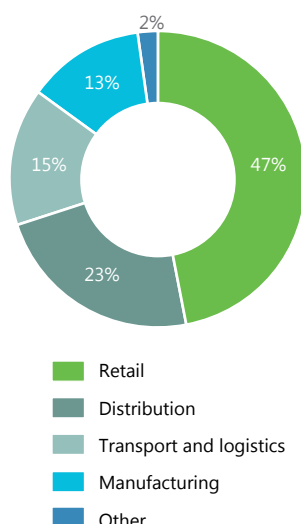
Circa 260 thousand sq m of quality warehouse space were purchased and leased in the Moscow region in Q1 2016, which is 1.6 times higher than in 2015 and a record for the entire history of the quality industrial market.

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Lease and purchase transactions in Moscow region in terms of company profile, Q1 2016



Source: Knight Frank Research, 2016

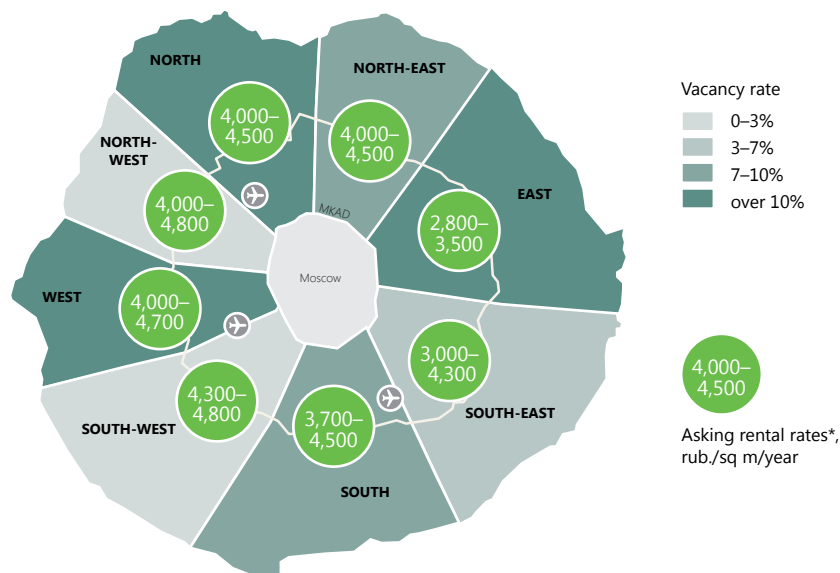
The total volume of transactions in Russia amounted to about 340 thousand sq m. The main share of transactions occurred in the Moscow region – 77%, 12% were completed in St. Petersburg and Leningrad region, other regions are responsible for 11%, which confirms the continuing centralization trend of logistics business around the market of the capital.

The analysis of the geographical distribution of demand in the Moscow region demonstrates that the largest number of warehouse space was leased and purchased in the northern and southern directions – 47% and 23%, respectively. The remaining directions are responsible for 30% of the total transaction volume.

The average size of the transaction amounted to 16.2 thousand sq m in the Moscow region in Q1 2016, which is comparable with the average index of 2015. However, it stands to mention that in comparison with Q1 2015 the figure increased by 2 times and is also a record in the history of the market for Q1 of the year: as a rule, the transactions with large units (from 20 thousand sq m) are missing at the start of the year. Such a significant indicator of the average size of the transaction is due to the conclusion of a number of major transactions, with a negotiation process started in 2015.

The share of purchase transactions of warehouse space amounted to 4% of the

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, 2016

total transactions in the Moscow region for January–March this year. Difficulties in obtaining debt financing as well as its high cost combined with a large volume warehouse space available for lease led to a decrease in the number of purchase transactions. So, only one transaction was registered over the past period. It is worth noting that there were no purchase transactions in Q1 2015.

Retail operators and distributors showed the highest activity in the Moscow region in terms of lease and purchase of warehouse space. Their share collectively account for 70% of the volume of Q1 2016 transactions. The high proportion of transactions performed by retail operators is due to the activity of grocery chains and DIY-operators. It should also be noted that retailers remain the main consumers of warehouse space over the past 7 years.

Commercial terms

Asking rental rates in the industrial real estate market have not change during Q1 2016. With an average Class A rental rate of 4,300 rub./sq m/year (triple net – excluding VAT, operating expenses and utility bills). The leases are primarily signed for a period of 3–5 years at the rates denominated in the Russian currency. It is interesting to note that the industrial market is the only

segment of the commercial real estate market, where all vacant space available for lease is nominated in ruble rates.

Forecast

We expect the total volume of commissioned warehouse space not to exceed 600 thousand sq m by the year end with about 60% built-to-suit projects. The main volume of warehouse facilities under construction is located in the south and the north of the Moscow region. At the end of 2016 2/3 of commissioned warehouse facilities will be located in these directions. In addition, we expect the reduction of the number of active market players: mainly large chain developers will be launching new projects.

The volume of transactions will reach 800–900 thousand sq m at year-end, which is 25% lower than in 2015. Their main volume will be still signed by retail operators.

Rents for quality warehouse facilities will most likely remain the same and will be denominated in the Russian currency.

We can observe a decrease in the vacancy rate to 8–8.5% by the end of the year against a backdrop of the reducing commissioning volume of the of new warehouse space and the conservation of the activity of tenants at the current level.



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