



2012

INDUSTRIAL MARKET REPORT

Moscow

Knight Frank

HIGHLIGHTS

- In 2012, the vacant space in delivered objects remained in deficit on the warehouse market. The volume of new construction remained at a low level, while demand was comparable to the highest in history of the market (1.28 million sq m in 2007). In this situation, tenants and buyers of warehouses often made deals on assets under construction.
- The total volume of new construction amounted to about 640 thousand sq m, which is 70% higher than in 2011, when the rate was the lowest in history of the market (366 thousand sq m). In 2012, the developers were fairly active, as a result, we expect an increase in the volume of new supply to 955 thousand sq m (according to the statements made by developers) in 2013.
- The results of 2012 indicate a record-high take-up volume of high-quality warehouse space, both on the Moscow region market and in Russia as a whole, where the index reached a value of 1.5 million sq m. It should be noted that about 1.2 million sq m of these belong to the Moscow region.
- Rental rates for the past year have increased by 5–6% and amounted to 135–140 \$/sq m/year for Class A objects and 115–117 \$/sq m/year for Class B objects (triple net).
- The highest volume of acquisition transactions by the end-users (including the build-to-suite format) in the history of warehouse market has been achieved: about 300 thousand sq m in the Moscow region, which accounted for a record 20% of total transactions of high-quality storage space.

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Viacheslav Kholopov,
Department Director
Industrial, Warehouse and
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«The past 2012 turned out to be a record year for the market according to multiple characteristics: such a high take-up volume has not been recorded in the past five years. It was also a very successful year for the team of Industrial and Warehouse Department of Knight Frank. We managed to realize almost 420 thousand sq m – every fourth square meter of all high-quality warehouses leased and purchased in 2012 on the Russian market.

In my opinion, one of the components of our success and we are in the leading position for eight years in a row is the fact that our key specialists are working as a team for over 6 years, and that experience of collaboration contributes to the continuous growth of their professionalism».

Key events

- Since June 1, 2012, the territory between Varshavskoye and Minskoye Hwy, South-West of the Moscow region, was formally annexed by Moscow. For now, however, the site development plans for the territory remain uncertain. Existing storage facilities here amount to roughly 700 thousand sq m and the planned ones to about 300 thousand sq m. Besides the measures to expand the city boundaries, Moscow authorities have put forward a number of other initiatives to change urban environment and improve the transport situation. For instance, the plans include prohibiting the transit trucks with a maximum permissible weight of over 12 tons from entering and using the MKAD between 6:00 and 22:00 o'clock as of March 1, 2013. A program to create parking lots for 20–30 trucks at patrol stations on MKAD has also been developed. This measure is expected to be more effective than building giant intercept parking lots.*

Main indicators. Dynamics*

Total supply (Classes A, B, C), thousand sq m	11,573.8		
Indicator	Class A	Class B	Trend*
Total quality supply in classes A and B, thousand sq m	5,245.2	1,923	▲
Delivery in 2012, thousand sq m	635.2	10	
Expected delivery in 2013, thousand sq m	955		▲
Lease and sale transactions in 2012, thousand sq m	1,215.4		▲
Average vacancy rate, %	0.8	2.0	▲
Asking rental rates, \$ per sq m per annum**	135–140	115–117	▲
Operating expenses, \$ per sq m per annum	35–50	25–50	▲
* as compared to the previous year			
** without VAT, operational costs and utility bills			
Source: Knight Frank Research, 2013			

- Several investment transactions took place on the warehouse market in 2012. In particular, a British company Raven Russia has acquired a logistics park Pushkino (total area 212 thousand sq m) for \$215 million**, and a warehouse complex in Sholokhov (total area 45 thousand sq m) for \$49.8 million**. The B&N BANK group ventures are considering buying a warehouse at Tomilino (total area 89 thousand sq m) for investment purposes.
- In September 2012, the construction plans of transport and logistics complex Yuzhnoy-uralsky in the Chelyabinsk region have been announced. The project envisages construction of Class A warehouse space (total area 400 thousand sq m), customs clearance stations for goods and TSW (21 thousand sq m), railway container terminal, and production sites. In fact, this is the first such project on the Russian market, aiming to improve logistical situation by reducing the path of goods transported by the Trans-Siberian Railway.
- In 2012, Russian warehouse market developers paid attention to the use of technologies that improve energy efficiency and the buildings' safety. The first "green" warehouses were introduced:

warehouse complex South Gate (total area 550 thousand sq m) received certificates of compliance with the international environmental standard BREEAM, the logistics park Radumlya intends to pass the certification requirements as well. Some companies, such as PNK Group, are characterized by the construction of buildings with the use of materials and technologies in line with FM Global standards. The most important fact remains the application of systems improving efficiency and safety of buildings. In order to attract tenants and buyers, developers are willing to bear additional costs, using the modern technologies and techniques when building the warehouses (non-combustible materials, sprinkler systems with high capacity, ESFR-25, enhanced perimeter and roof insulation, LED lights with motion sensors, etc.).

Supply

Total high-quality warehouse space volume at the end of 2012 amounted to more than 7 million sq m, with Class A facilities comprising about three-quarters of this volume. In 2012, about 640 thousand sq m of quality warehouse space was put into operation, increasing the total stock by almost 10%. It is worth mentioning that in 2011, the new construction volume has hit the historical low, but in the past year,

* source – "Vedomosti" newspaper, dated 03.12.2012

** RCA Analytics data



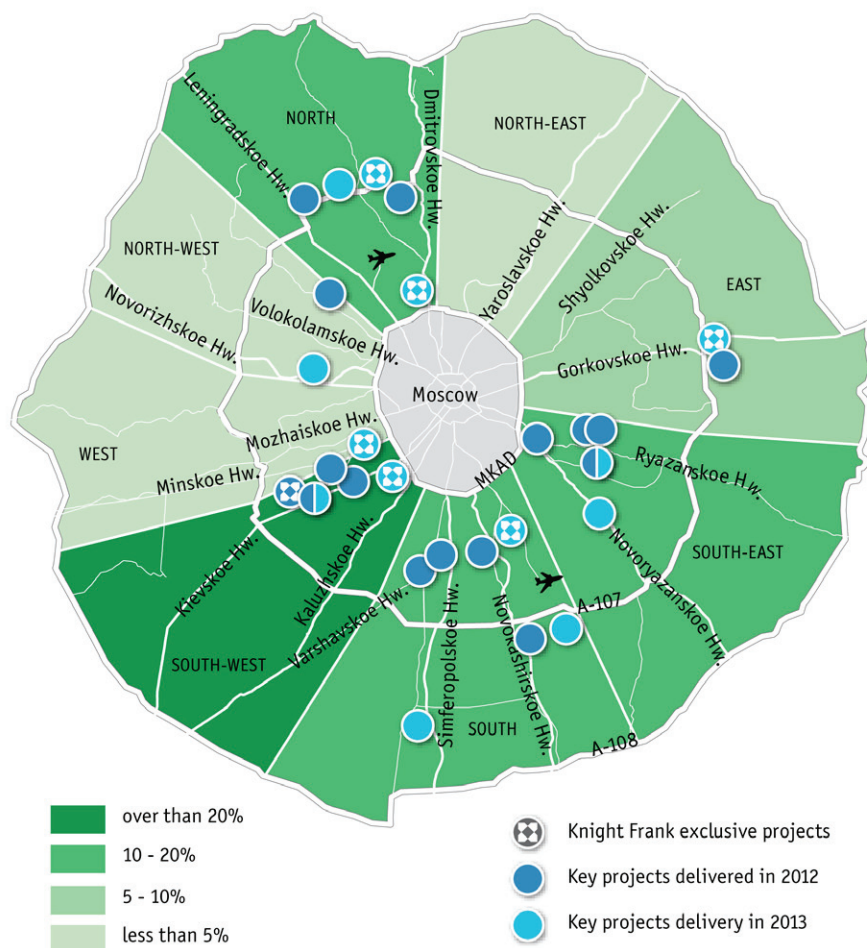
it has grown considerably, exceeding the 2011 figure by 70%. Interestingly enough, that the market has experienced the lack of Class B delivered projects as well as projects being under construction, except for those that are built for own use, or production facilities, where Class A compliance is not required. This is primarily due to the fact that in case of speculative development (that is, when the end-user may be yet undetermined at the time of the facility construction) the owners are trying to maximize liquidity of the object for both end-users and investors. The expenses required for the construction of Class B warehouse are not significantly lower in that case: on average only by 5–10%, while it is Class A objects that are primarily in demand.

It should be noted that the tenants still use Class C objects and reconstructed industrial areas, abundantly present in all regions of the country, to maximize savings.

The increase in new construction volume is in part due to a particularly high activity of tenants and buyers in the past 2 years. Presently, a significant number of companies, which are building their first objects, joined the developers who had been working with warehouse facilities for a long time. For example, if in 2011, these new companies built a little more than a third of the total new construction volume, in 2012 they accounted for more than 70% of it.

Geographical distribution of new storage facilities has changed little in 2012: the highest delivery volume is still observed in the Southern and Southwestern directions almost 70% of the space newly realized in the past year is located here. Compared to 2011, the share of new construction in the Northern part of the Moscow region has increased to 12% from 5%, furthermore, it is in this area that the largest amount of construction is announced for the years 2013–2014 (near Moscow Small Ring A-107 "pervaya betonka").

Geographic distribution of warehouse projects delivered in the Moscow region in 2012



Source: Knight Frank Research, 2013

Key projects delivered in 2012

Property Name	Property Address	Total area, sq m	Developer
PNK-Vnukovo	Borovskoye Hwy, 20 km from MKAD	140,800	PNK Group
MLP Podolsk, Bld 5, 6	Simferopolskoye Hwy, 17 km from MKAD	76,500	MLP
Vnukovo Logistic	Borovskoye Hwy, 17 km from MKAD	62,000	TP Logistic
Dmitrov LP	Dmitrovskoye Hwy, 33 km from MKAD	61,182	Ghelamco
Salaryevo	Kievskoye Hwy, 2 km from MKAD	55,000	DDT Logistic
Infrastoy Bykovo, Bld M, P	Novorizanskoye Hwy, 19 km from MKAD	54,000	Infrastoy Bykovo
South Gate, Bld 2	M4 "Don", 30 km from MKAD	51,000	Radius Group
Rumyantsevo	Kievskoye Hwy, 3 km from MKAD	27,000	–
Rodniki, phase II	Novorizanskoye Hwy, 25 km from MKAD	17,000	–
Springs Park*	Yegoryevskoye Hwy, 15 km from MKAD	16,240	Springs Group
Gruenestadt*	Leningradskoye Hwy, 16 km from MKAD	15,183	Gruenestadt

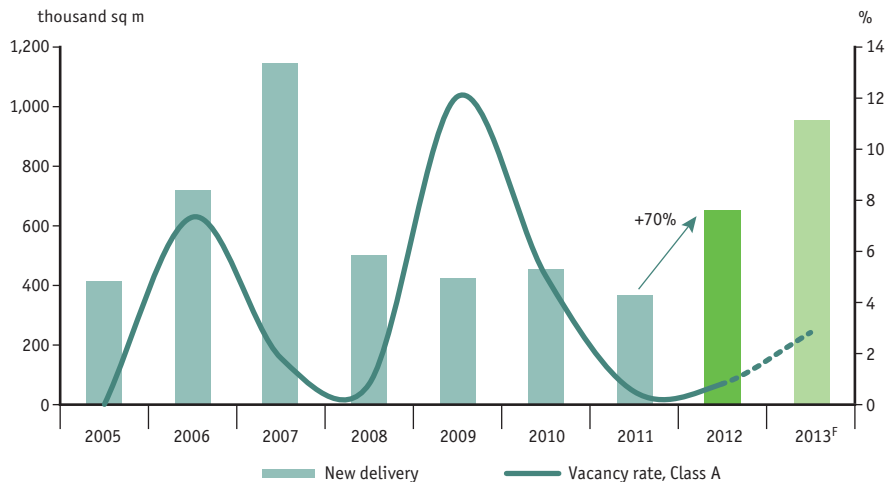
* project has been delivered partly in 2012

Source: Knight Frank Research, 2013

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In 2012 warehouse facilities realization volume has increased by 70% comparing to 2011, which is characterized by the lowest figure in the whole history of the market



Source: Knight Frank Research, 2013

Demand

Year 2012 is characterized by a record amount of high-quality warehouse space take-up that has reached the pre-recession level of 2007. It amounted to about 1.22 million sq m in the Moscow region and 1.509 sq m on the Russian market as a whole. We continue to observe centralization, rather than optimization of logistics market: about 80% of the total take-up is concentrated in the Moscow region.

Traditionally, the warehouses located at a distance of 50 km away from the MKAD with convenient access to the main routes to the North

and the South are in the highest demand. However, due to the shortage of high-quality warehouses and low vacancy rate (which has slightly increased in 2012 from 0.5% to 0.8%), the demand is dictated by the available supply. The largest warehouse space uptake (86% of take-up volume) is in the Southern direction.

In the past year 2012, retail companies (distributors, on-line and off-line retail operators) prevailed among the tenants and buyers of high-quality warehouses: they accounted

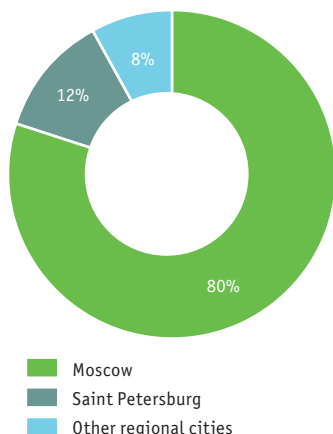
for about a half of all acquisitions of high-quality warehouses in Russia. The share of on-line operators has significantly increased from 1–3% in previous years to 13%. Demand from logistics operators is rather stable: for 4 years already, it remained at 15–17% of the total take-up. Furthermore, logistics operators are still not in a hurry with speculative development, instead renting space on the "by the client" basis.

We note a gradual increase in the size of storages requested acquired by the tenants: average transaction size in 2012 has increased by 16% compared to the previous year and amounted to 12.5 thousand sq m. Moreover, since the area acquired for ownership by the end-users is traditionally somewhat larger than the leased one, the average size of transactions for the building purchases amounted to almost 24 thousand sq m. The share of major (starting from 20 thousand sq m) transactions in the take-up structure also grew from 11% in 2011 to 18% in 2012.

Furthermore, in 2012, the share of acquisitions in the total transactions volume on the warehouse market has considerably increased. About 300 thousand sq m of modern high-quality warehouse space was purchased almost a third of the total take-up. This is a record figure in the market history (considering the sales of buildings to end-users, and not the investment sales).

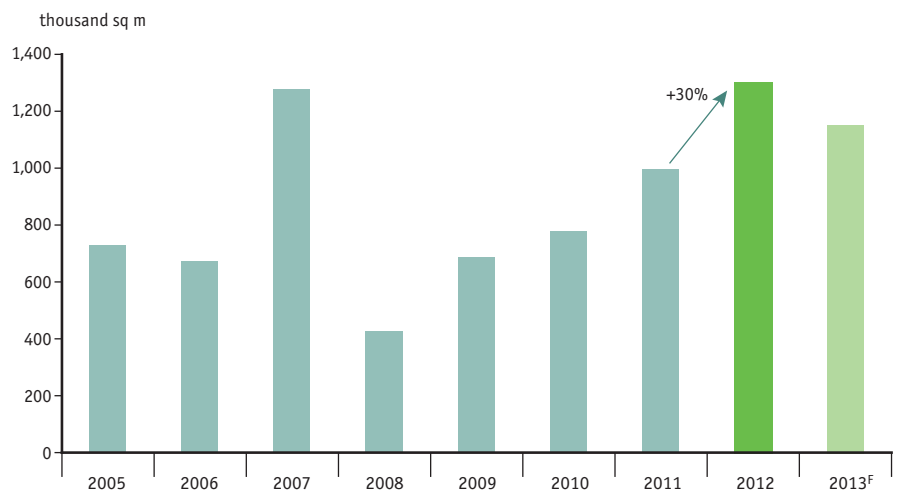
Although an acute shortage of high-quality space has slightly diminished, comparing to the previous year, interest in the "turnkey" format (built-to-suit) remains. For example, National Computer Corporation (58 thousand sq m in PNK-Vnukovo), Labyrinth (22 thousand sq m in the warehouse complex Springs Park), Lenta (42 thousand sq m in PNK-Chekhov), which have

Almost 90% of high-quality warehouse space take-up in 2012 occurred in the Moscow region and Saint Petersburg



Source: Knight Frank Research, 2013

The volume of take-up in 2012 exceeded the same numbers of last year by 30%



Source: Knight Frank Research, 2013



Key warehouse space lease and sale transactions of 2012

Tenant / Buyer	Property Name	Total area, sq m	Transaction type
Adidas	PNK-Chekhov	65,000	Lease
Enter*	PNK-Chekhov	61,250	Lease
National Computer Corporation*	PNK-Vnukovo	58,300	Sale
Lenta	PNK-Chekhov	42,000	Sale
Decathlon	South Gate	33,000	Sale
PRV Company Group*	PNK-Vnukovo	32,800	Sale
NetLab	Businovo	27,300	Lease
Santens-Service	Warehouse in Leshkovo	27,000	Lease
Fortex	PNK-Vnukovo	25,200	Sale
FM Logistic	South Gate	22,800	Lease
Korablik	PNK-Vnukovo	22,600	Sale
Labyrinth*	Springs Park	22,000	Sale

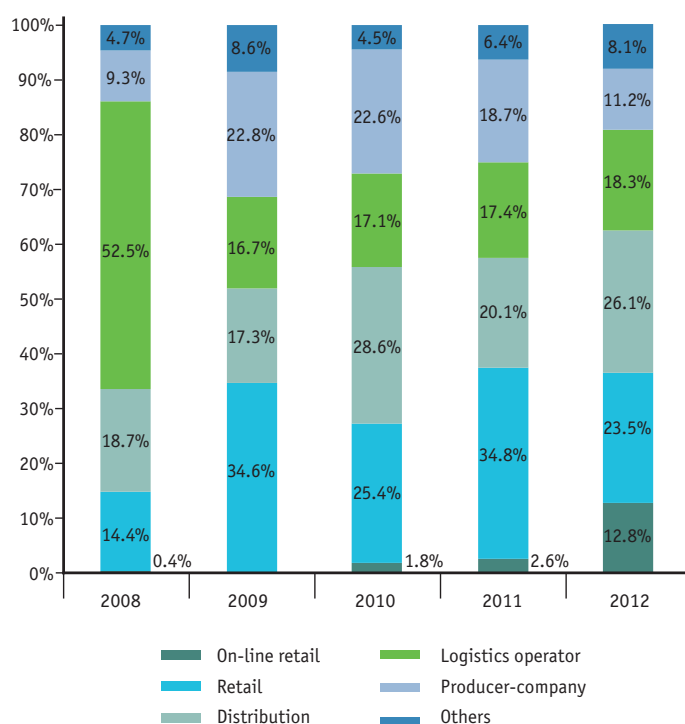
*Knight Frank – transaction consultant
Source: Knight Frank Research, 2013

concluded such transactions in 2012. Meanwhile, a number of companies are negotiating construction of build-to-suite facilities for

the years 2013–2014 as well. It is also worth noting that in some cases developers are not rushing to build the objects speculatively,

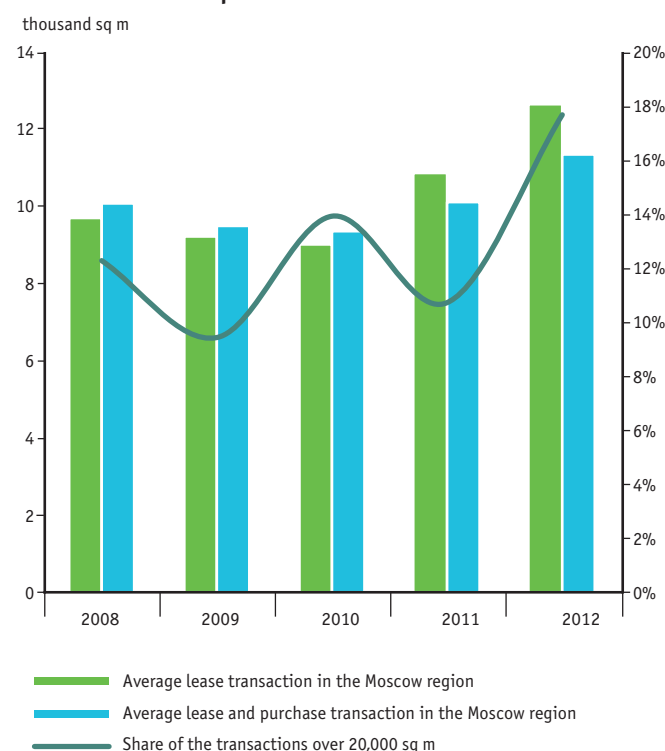
preferring to sign a contract with a future tenant or buyer first.

Volume of lease and sales transactions by tenants and buyers profiles in 2012



Source: Knight Frank Research, 2013

In 2012, users of warehouse space on average leased/purchased 11–12.5 thousand sq m



Source: Knight Frank Research, 2013

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Commercial terms

The average lease rates have not changed significantly: for the year, they rose by 5–6% to 135–140 \$/sq m/year for Class A* and 115–117 \$/sq m/year for Class B*. Operating costs are 35–45 \$/sq m/year, utilities 8–12 \$/sq m/year.

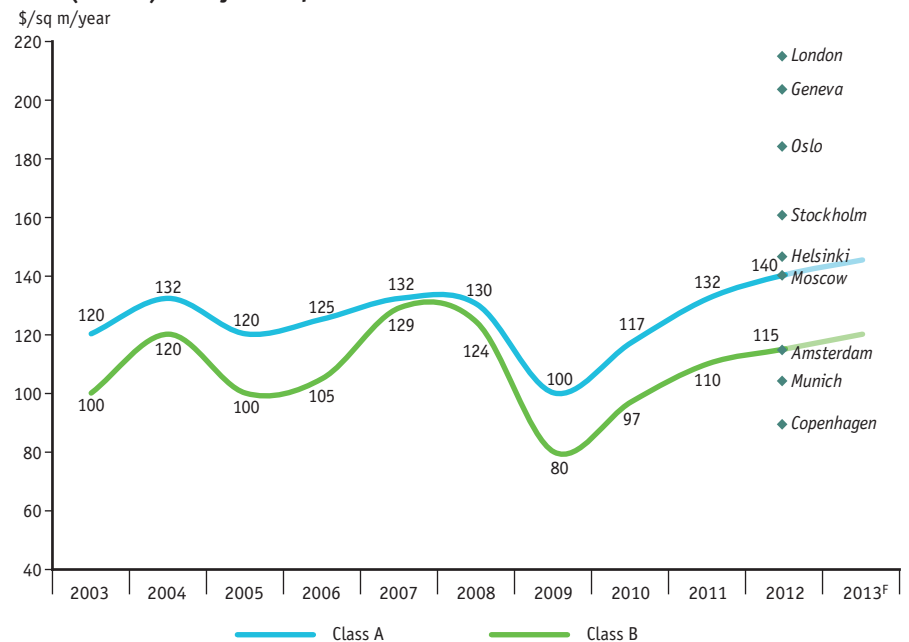
It is worth a notice, that if at the end of the 2011, transactions commonly concluded with some discount comparing to the average indicated rental rate, in 2012, however, due to high demand, the developers became reluctant to lower their rates during the negotiations.

Due to the deficit of available space on the market, the contracts were often primarily determined by the object's location and date of realization/occupancy. Consequently, transactions for some Class A warehouse space in 2012 concluded with even higher lease rates: up to 150 \$/sq m/year.

The sale prices of warehouse space compared to 2011 have not changed, on average, a sq m of Class A warehouse space costs from \$1,200 to \$1,400, Class B from \$900 to \$1,300. Capitalization rates also remained at the level of mid-2012: the average figure is 11%. As a rule, this is the maximum capitalization rate value for Class A facilities and the minimum – for Class B ones.

* triple net – excluding operating expenses and VAT

Rental rates dynamics for warehouse space in Moscow and the values of premium lease rates (Class A) in major European cities at the end of 2012



Source: Knight Frank Research, 2013



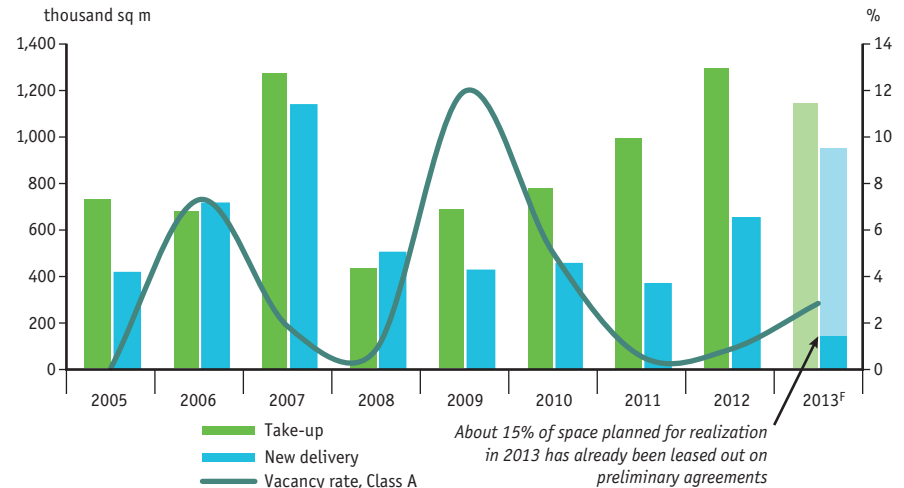
Forecast

In 2013, we do not expect significant changes on the market of high-quality warehouse space: the major trends such as high demand, new construction volume growth, and the use of new technologies in warehouse construction will remain. Developers' activity during 2012 was quite high, and the major part of the projects announced in 2012 will be built in 2013–2014. About 2.5 million sq m of high-quality warehouse space projects are about to enter the realization phase or are under construction. In 2013, we expect a slight increase in lease rates up to 137–143 \$/sq m/year for Class A warehouse space in the Moscow region.

Regarding the consistency of tenants and buyers activity, it is quite difficult to predict a take-up volume as high. Despite the fact that the provision of high-quality warehouse space even in the Moscow region is still far from the level of major European cities, and a certain growth potential of the market can be considered, a slight decline in the take-up volume from the record year 2012 is to be expected. The take-up volume in 2013 will depend on macroeconomic situation and the development of upward trend in the dynamics of demand established in the past year.

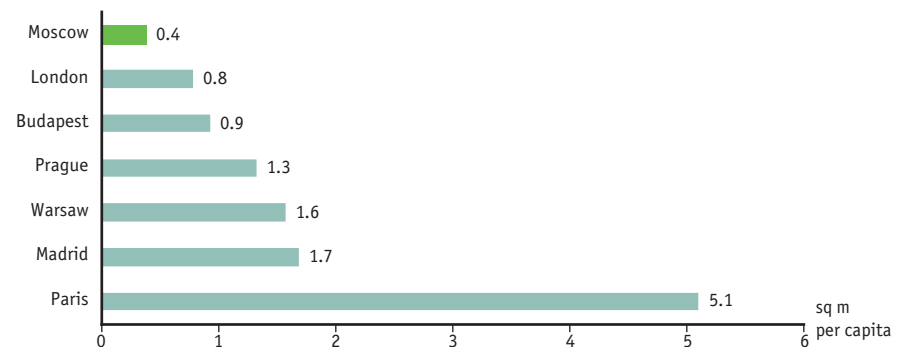
Moscow occupies the seventh position in the ranking of premium rates for warehouse space among the major European cities, and retains some lease rate growth potential. Most likely, towards the end of 2013, the rental rates will slightly increase. The adjustment can go up to 10%, and will depend on external factors such as inflation, growth in consumption volume and the state of Russian and world economy as a whole.

In 2013, the new construction volume will be almost 1.5 times higher than 2012 figure, and although we do not expect as major an increase in demand accordingly, the vacancy rate will remain at the level of up to 3%



Source: Knight Frank Research, 2013

The storage market scale in Moscow remains one of the lowest among European cities



Source: Knight Frank Research, 2013





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