



H1 2012 INDUSTRIAL MARKET REPORT

Moscow

Knight Frank

HIGHLIGHTS

- Around 480,000 sq m of new warehouse premises are expected to come to the market in H2 2012, following the delivery of 280,000 sq m in H1. This would give 2012 the largest volume of new supply for 3 years.
- The pre-crisis practice whereby landlords sign exclusive agreements with property consulting companies has returned to the market.

INDUSTRIAL
MARKET REPORT

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The amount of vacant space in the Moscow region warehouse market increased in H1 2012, taking the Class A vacancy rate to 1.2% by the end of Q2. A number of new speculative projects completed by first-time developers entered the market, bringing back a trend that was more common in the pre-crisis period. Over the next 2-3 years, provided the macroeconomic situation remains stable, approximately 600,000-800,000 sq m of quality warehouse premises are expected to be delivered annually. The completion of new projects will put upward pressure on the overall vacancy rate, which we expect to reach 3% by the end of 2012. It is noted that a number of large unit transactions (over 30,000 sq m) are currently under offer and, as a result, 2012 is expected to record a better performance than 2011 in terms of both the volume of new projects delivered, as well as the take-up of warehouse space.

Key events

- Raven Russia, a British investment fund, closed a deal with PLP Holding for the purchase of Pushkino Logistics Park, which has a total area of 212,000 sq m. The transaction value was \$215 million, according to parties involved.
- PRV Group purchased 33,000 sq m of Class A warehouse premises in PNK-Vnukovo Industrial Park. PRV Group is a federal distributor of alcohol and foodstuffs. Knight Frank acted as a consultant on the deal.
- The developer MLP has announced the launch of new warehouse projects under the brand PGP.

| Key indicators | Class A | Class B | Dynamic |
|---|---------|---------|---------|
| Total stock, thousand sq m | 6,803 | | ↑ |
| including, thousand sq m | 4,891 | 1,912 | ↑ |
| New deliveries in H1 2012, thousand sq m | 280.6 | — | ↑ |
| Expected deliveries by the end of 2012, thousand sq m | 530 | | ↑ |
| Take-up volume, thousand sq m | 562 | | |
| Vacancy rate, % | 1.2 | 2.0 | → |
| Asking rental rates, \$/sq m/p.a. | 130–140 | 110–120 | → |
| Operational expenses, \$/sq m/p.a. | 35–45 | 25–45 | → |
| Yield, % | 10–10.5 | 11–12.5 | → |

* Excluding VAT, OpEx and utility bills

Source: Knight Frank Research, 2012

Supply

The total stock reached the level of 6.8 million sq m in Q2 2012. About 280,000 sq m of warehouse premises were delivered in H1 2012, representing 4.3% of the total stock. All of the warehouse space delivered in H1 was in Class A buildings.

A significant increase in development activity was noted in H1 2012, with the volume of new deliveries being 4.3 and 3.5 times higher than in the same periods of 2011 and 2010, respectively, when the pace of construction slowed considerably.

As in the past two years, the majority of new projects delivered in H1 2012 were to the South and South-West of Moscow. However, a significant amount of space was also built in the North of Moscow, where there is currently a shortage of quality warehouse premises. Phase I of Dmitrovskiy Logistics Park was built in this area by Ghelamco.

Plans for the development of 15 new warehouse projects were announced in H1 2012. The majority of these schemes are located to the South and North of Moscow.



While major developers such as PNK-Group, Raven Russia and PGP are active in the market, plans for future schemes have also been announced by first-time developers. The practice by which owners sign exclusive contracts* with property consulting companies is another trend that has returned to the market from the pre-crisis period of 2006-2007, and we expect that this will continue.

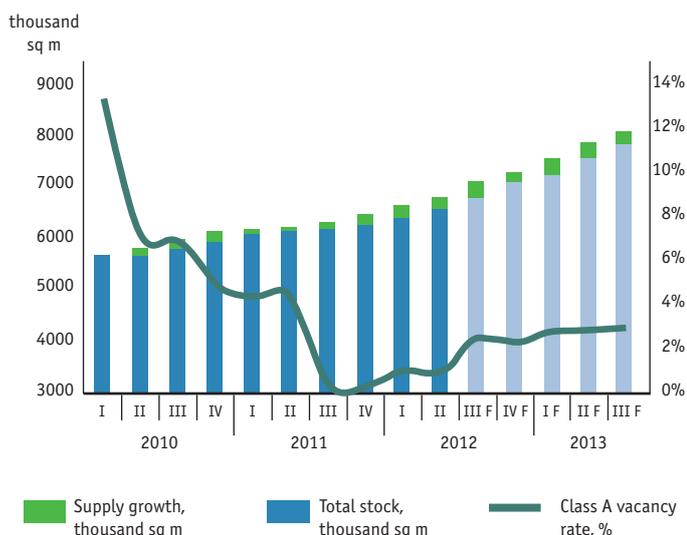
The warehouse market experienced only one major investment transaction in H1 2012, with Raven Russia purchasing Pushkino Logistics Park, for a price of \$215 million according to the parties involved. Currently, international investors are very cautious in light of the global financial instability. However, a number of investment funds are considering the possibility of investing in warehouse projects located not only in the capital, but also in regional cities. However, Moscow and St. Petersburg are still of the main focus of investor attention.

Key warehouse projects delivered in H1 2012

| Project | Class | Developer | Area, sq m | Address |
|---|-------|------------------|------------|-------------------------------------|
| Vnukovo Logistics, sections 2, 3, 4, 5, 6 | A | Tushino Pivo | 49,950 | Borovskoe Hwy, 17 km from MKAD |
| PNK Vnukovo, bld. 5 | A | PNK-Group | 32,800 | Borovskoe Hwy, 20 km from MKAD |
| MLP Podolsk, bld. 5, 6 | A | MLP | 81,400 | Simferopolskoe Hwy, 17 km from MKAD |
| Grunshdadt, phase II | A | Grunshdadt | 15,200 | Leningradskoe Hwy, 16 km from MKAD |
| Dmitrovskiy Logistics Park, bld. 1 | A | Ghelamco | 61,000 | Dmitrovskoe Hwy, 30 km from MKAD |
| Sever Avto | A | Sever Avto | 14,000 | Nosovihinskoe Hwy, 25 km from MKAD |
| Bykovo Infrastry section M | A | Infrastry Bykovo | 20,500 | Novoryazanskoe Hwy, 19 km from MKAD |

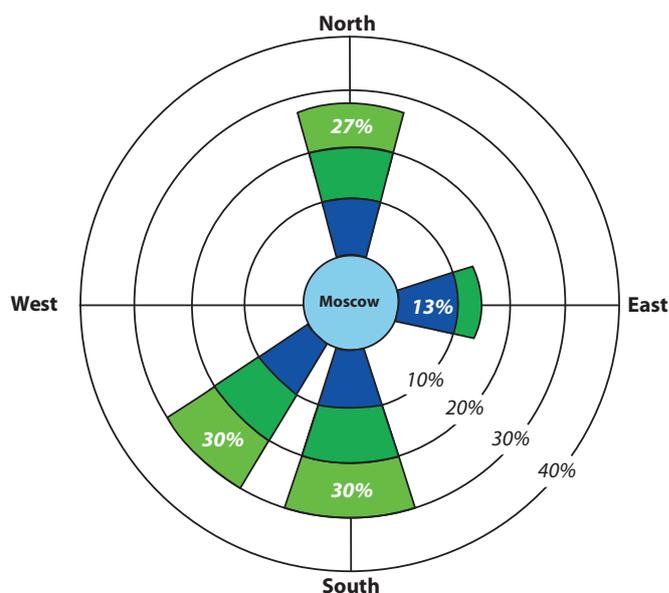
Source: Knight Frank Research, 2012

Total stock, supply growth and vacancy rates for the Moscow region warehouse market



Source: Knight Frank Research, 2012

New projects' geographic distribution



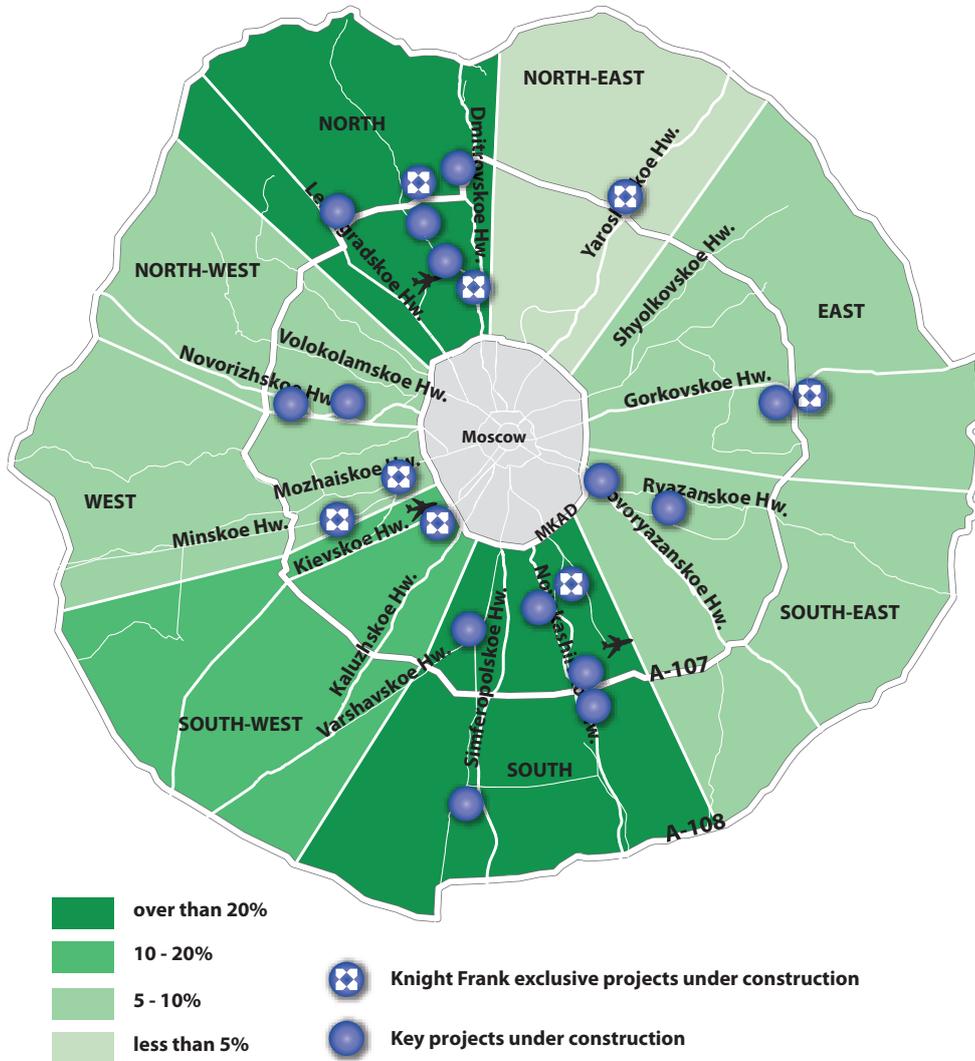
Source: Knight Frank Research, 2012

* Knight Frank is the exclusive broker for 8 warehouse complexes with the total area of more than 390,000 sq m.

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Geographic distribution of warehouse projects under construction in the Moscow region



Source: Knight Frank Research, 2012

Demand

Warehouse take-up in the Moscow region amounted to 562,000 sq m during H1, 8% higher than in the same period of the previous year. We expect the take-up volume for 2012 as a whole to exceed 2008-2011 levels, and reach more than 1.1 million sq m.

A steady increase in take-up volumes has been observed since 2008. The main driver of this has been demand from logistics operators, recording 26.8% of the total take-up volume (17.3% in 2011 and 12% in 2012). Online retailers are currently highly active, with a 12% share of take-up, and future developments in this sector are expected to lead to increased demand for warehouses in major cities.

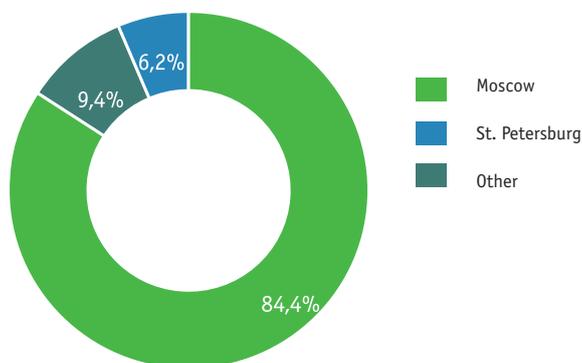
* Knight Frank acted as a consultant on the deal

Warehouse properties purchased for occupation have accounted for an increased share of activity, representing 24.4% of the total take-up in H1 2012 (compared with 15.5% in 2011 and 4.9% in 2010). The average transaction size for purchased warehouse space is 25,400 sq m and this type of deal is mainly found in Moscow and St. Petersburg. A warehouse block of 32,800 sq m was bought by PRV Logistics in PNK-Vnukovo Logistics Park, which was one of largest transactions recorded in H1*.

The take-up volume for the whole of the Russian Federation totaled 665,800 sq m in H1, with the Moscow region accounting for a large majority of activity. The Moscow region's share of take-up increased from 71% in 2011 to more than 84% in H1 2012.

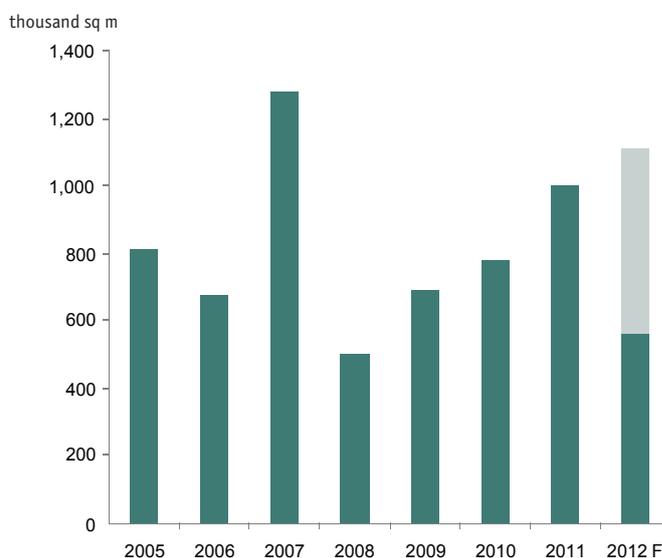


Take-up volumes by region



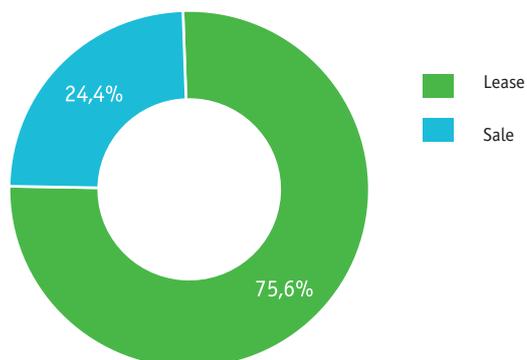
Source: Knight Frank Research, 2012

Moscow region take-up volumes



Source: Knight Frank Research, 2012

Warehouse take-up by transaction type



Source: Knight Frank Research, 2012

Commercial terms

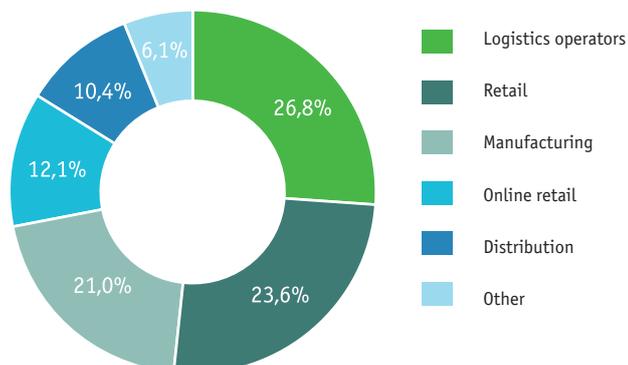
Rental rates in the Moscow region have not experienced any significant fluctuations, remaining stable in H1 2011. Asking rents for Class A warehouses vary between \$130-140 per sq m p.a. (excluding VAT, OpEx and utility bills). However, asking rents for individual projects located in areas close to the MKAD where there are significant shortages of quality warehouse space can reach \$150 per sq m p.a. An example of this is the Salarievo* warehouse complex, with the total area of 55,000 sq m, located 2 km from the MKAD on Kievskoe Hwy.

Class B rents vary from \$110-120 per sq m p.a. (triple net). In many cases, rental rates for Class B warehouse premises are calculated in rubles and include OpEx and VAT, reaching levels between 5,000-5,500 rubles per sq m p. a.

Operational expenses vary from \$25-45 per sq m p.a., while utility bills are typically \$7-12 per sq m p.a. in quality warehouse complexes and are mainly paid on an actual basis.

Yields for warehouses remained stable at 10.5-11% for Class A and 11-12.5% for Class B properties in H1 2012. Sale prices vary between \$1,200-1,400 per sq m for Class A and \$900-1,300 for Class B assets.

Moscow warehouse space take-up by sector



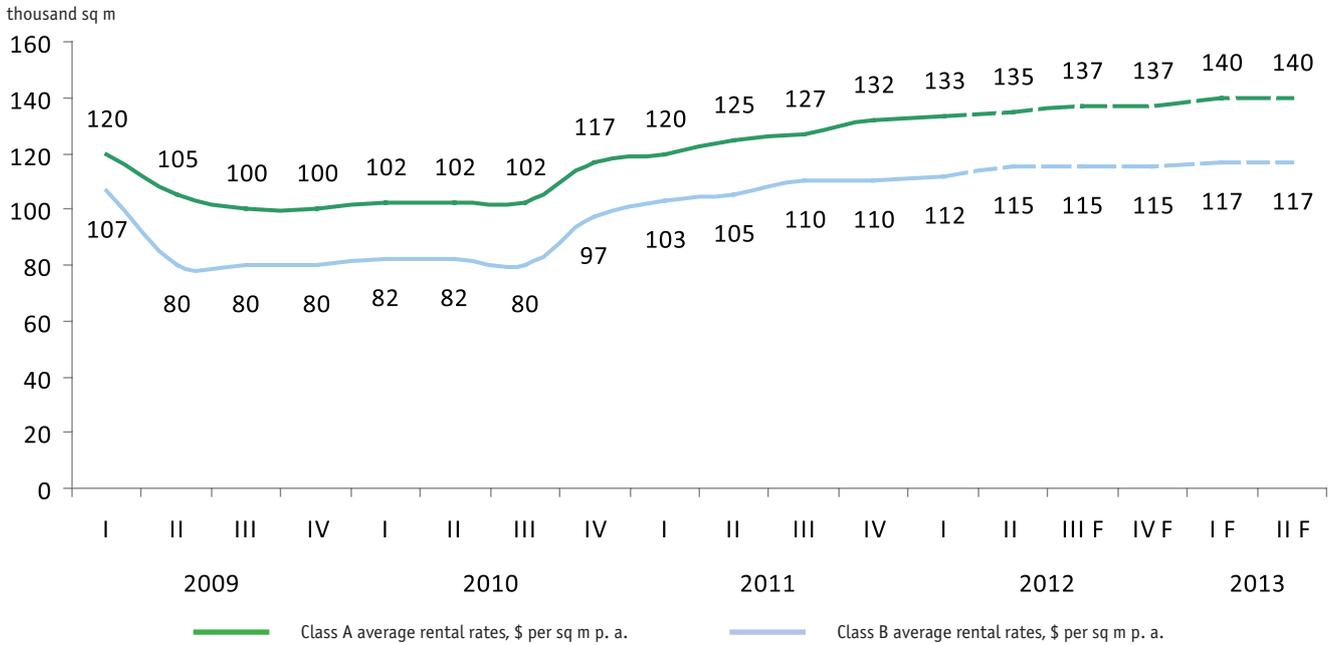
Source: Knight Frank Research, 2012

* Knight Frank is the exclusive broker of Salarievo warehouse complex.

H1 2012 INDUSTRIAL MARKET REPORT

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Average asking rents in Moscow region warehouses



Source: Knight Frank Research, 2012

Forecast

We expect vacancy rates to increase slightly, reaching 2-3% by the end of 2012, due to the number of new projects that have been announced for completion in the second half of the year. According to our estimates, approximately 480,000 sq m of quality warehouse space are expected to be delivered by the year-end. Therefore, the volumes of new supply and take-up in 2012 are expected to be the highest recorded over the last 3 years.

The current macroeconomic climate may encourage higher construction volumes in 2013-2014. Currently, more than 2 million sq m of quality warehouse premises are under construction.

The take-up volume for 2012 is expected to be high at 1.1 million sq m, while the share of total take-up accounted for by warehouse purchases for owner-occupation will increase to around 30% for 2012 as a whole.

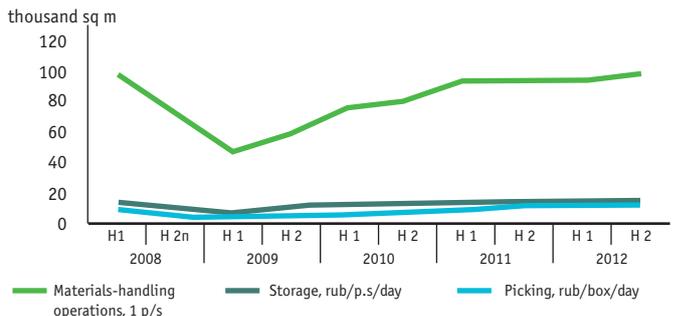
We do not expect commercial lease terms to change significantly in H2, with Class A rents likely to remain at \$135-140 per sq m p.a., although a small increase due to inflation is possible. Purchase prices for warehouse investments are also expected to remain stable.

3PL services market

A significant increase in the share of take-up accounted for by 3PL companies, to 24.4%, is an indicator of the increased demand for logistics services. Despite this, the price of safe keeping services remained unchanged in H1 2012 after growth in 2010-2011, largely due to the stabilization of rents for quality warehouse premises.

We expect a slight increase in the price of logistics operators' services, by 2-5% annually during H2 2012 and 2013, due to rent indexation and inflation.

SPL service rates



Source: Knight Frank Research, 2012



Europe

- Austria
- Belgium
- Czech Republic
- France
- Germany
- Ireland
- Italy
- Monaco
- Poland
- Portugal
- Romania
- Russia
- Spain
- Switzerland
- The Netherlands
- UK
- Ukraine

Africa

- Botswana
- Kenya
- Malawi
- Nigeria
- Tanzania
- Uganda
- Zimbabwe
- Zambia
- South Africa

Middle East

- Bahrain
- UAE

Asia Pacific

- Australia
- Cambodia
- China
- India
- Indonesia
- Malaysia
- New Zealand
- Singapore
- South Korea
- Thailand
- Vietnam

Americas & Canada

- Bermuda
- Caribbean
- Canada
- USA

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