

A blurred photograph of a warehouse interior, showing rows of high industrial shelving units. The lighting is warm, with a bright light source on the left creating a lens flare effect. The shelves are filled with various items, possibly boxes or materials, though they are out of focus.

H1 2013 WAREHOUSE MARKET REPORT

Moscow

HIGHLIGHTS

- 260 thousand sq m of warehouse space in Class A was delivered in the first half of 2013, which is 4% less than for the same period in 2012 (270 thousand sq m). However, the annual rate, according to statements by the developers, will exceed the figure of 2012 by 70% (1.1 million sq m against 650 thousand sq m).
- Take-up remains high: about 550 thousand sq m of high-quality warehouse space was leased and purchased in the Moscow region during the first 6 months of 2013, which is 20% more than for the same period last year, when about 460 thousand sq m were sold. Current inquiries for lease and purchase of high-quality warehouses allow for prediction of annual take-up at 1 million sq m margin.
- The vacancy rate remains at 1% for 2 years in a row, overall one can speak of an excess of demand over supply in the segment of operational storage facilities. However, the practice of preliminary lease agreements is common on the warehouse market in the Moscow region, and the bulk of lease and purchase transactions falls with facilities that are presently under construction.

H1 2013 WAREHOUSE MARKET REPORT

Moscow

WAREHOUSE MARKET REPORT



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

"The warehouse market shows a record-high activity for the third consecutive year. Contrary to expectations of some recession this year, compared with a record high past one, the results of the first year-half show rate of growth retention of the market in the Moscow region. Almost fifty percent of the properties planned for delivery in the second half of 2013, have already found their tenants and buyers, and the volume of transactions in the first six months was comparable to the index of 2012."

Developers announce plans to build up to 3 million sq m of high-quality warehouse space in the next 2 years. The life itself and competition, of course, will make their own adjustments to these estimates, as many objects are only constructed on the "build-to-suit" basis for a specific tenant. However, even the construction of 1 million sq m per year indicates a high rate of development of the segment. I would like to remind you: a record annual delivery occurred in the pre-recession year 2007, when the developers delivered about 1.2 million sq m.

Asking rental rates meanwhile show no significant growth, yet a diversification took place based on the distance. The scarcity of finished facilities remains, as does the struggle for high-quality tenant. However, providing the demand remains at current level, considering realistic inflation rate, the resulting growth since 2009 will be quite moderate: about 3% per year".

Main indicators. Dynamics*

Main indicators	Class A	Class B	Dynamics
Total supply (Classes A, B), thousand sq m	7,441		▲
Total quality supply in Classes A and B, thousand sq m	5,506	1,923	▲
Delivery in Q1 2013, thousand sq m	260	-	▼
Expected delivery in 2013, thousand sq m	830		▲
Lease and sale transactions in H1 2013, thousand sq m	550		▲
Average vacancy rate, %	1,0	2,0	=
Asking rental rates, \$/sq m/year**	135 - 145	115 - 120	=
Operating expenses, \$/sq m/year	35 - 45	25 - 40	=
Estimated capitalization rates, %	11 - 11,5	12 - 13	=

* Comparing to Q4 2012
 ** Excluding Operating Expenses, Utility Bills and VAT (18%)
 Source: Knight Frank Research, 2013

Supply

In the first half-year of 2013, the total volume of high-quality warehouse space on the market of Moscow region reached 7,441 thousand sq m. The volume of facilities placed in service during the period amounted to 260 thousand sq m, which is 4% less than for the same period last year. According to statements made by developers, the delivery volume of new warehouse space for 2013 might exceed last year's figure for the same period 1.7 times: 1,100,000 sq m against 650 thousand sq m.

A comparison of the total supply of high-quality warehouse space in major European capitals shows that they surpass the market index of the Moscow region. When compared with the same figures for London, the figures stand at about 7.4 million sq m against roughly 6.5 million sq m. At the same time, the existing supply stock in Moscow is significantly inferior when compared to Paris metropolitan area (about 12 million sq m), where storage space provision is the highest in Europe. In contrast to the major European cities, the market of the Moscow region is characterized by small supply stock of high-quality ware-

Total stock, delivery volumes and vacancy rate level on the Moscow region warehouse market



Source: Knight Frank Research, 2013

house space with about 0.6 sq m per capita. In most major cities in Europe, this figure stands at 1.0 - 1.5 sq m per resident.

Demand

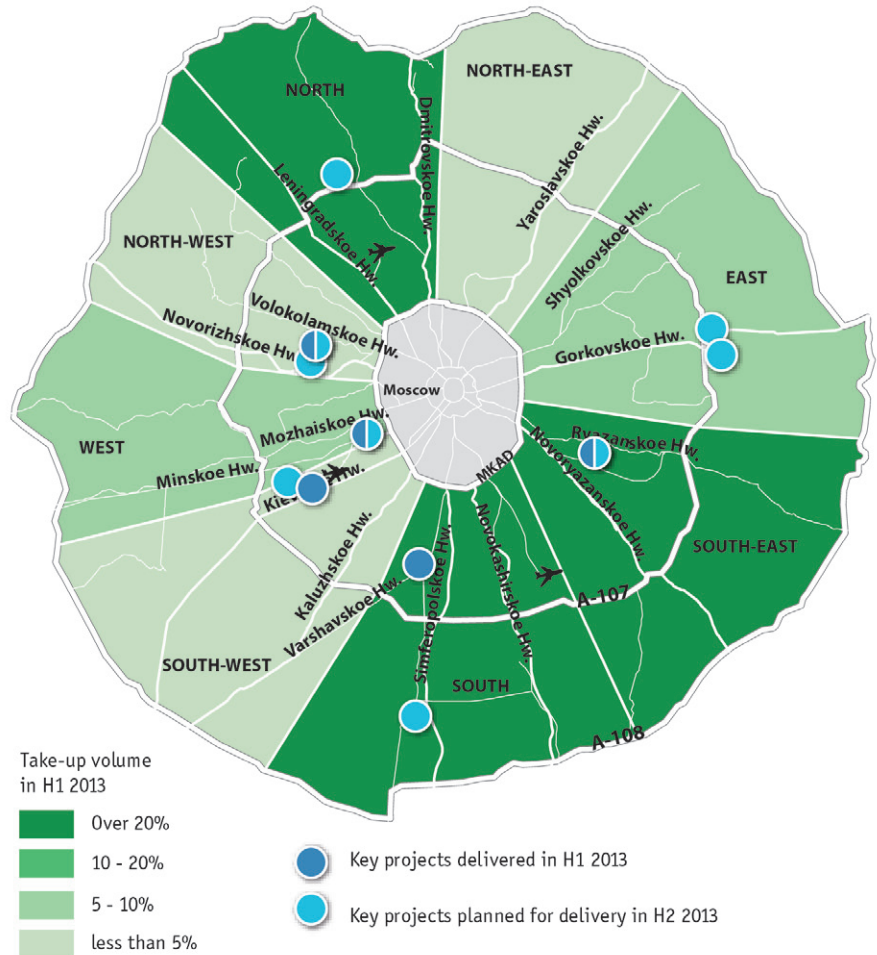
In the first half of 2013, the total take-up volume on the warehouse market of Russia amounted to about 765 thousand sq m, of which about 72% (550 thousand sq m) belong to the Moscow region. Here, the take-up volume for the first six months of 2013 is 20% greater than for the same period of 2012, when it reached a value of about 460 thousand sq m.

In many ways, the take-up volume growth is a result of appearance of such a product as high-quality warehouses intended for sale as property, back in 2011. Transactions involving such objects made up almost a third (27%) of the total take-up in the first half of 2013. In the past year, approximately 20% of all leased and purchased warehouse space has been acquired as property.

With such a low vacancy rate (1% for Class A), the largest amount of take-up is observed in the same directions, as where the largest amount of new warehouses is being built. In the first half of 2013, the highest amount of take-up (approximately 60%) occurred in the southern direction (Kievskoye Hwy, Simferopolskoye Hwy, Kashirskoye Hwy, Ryazanskoye Hwy). It should be noted, that due to the increase in construction activity in the northern part of the Moscow region for the first 6 months of 2013, about 140 thousand sq m of warehouse space was leased and purchased there: a quarter of the total volume of transactions for the period.

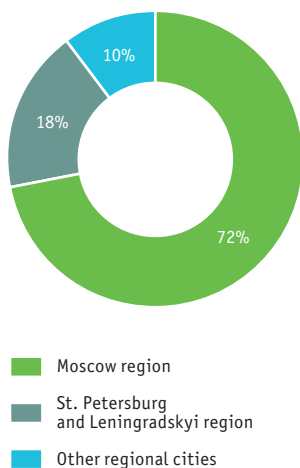
The distribution of take-up by business profile of tenants and buyers of warehouse space in the

Geographical distribution of the new delivery in Moscow region



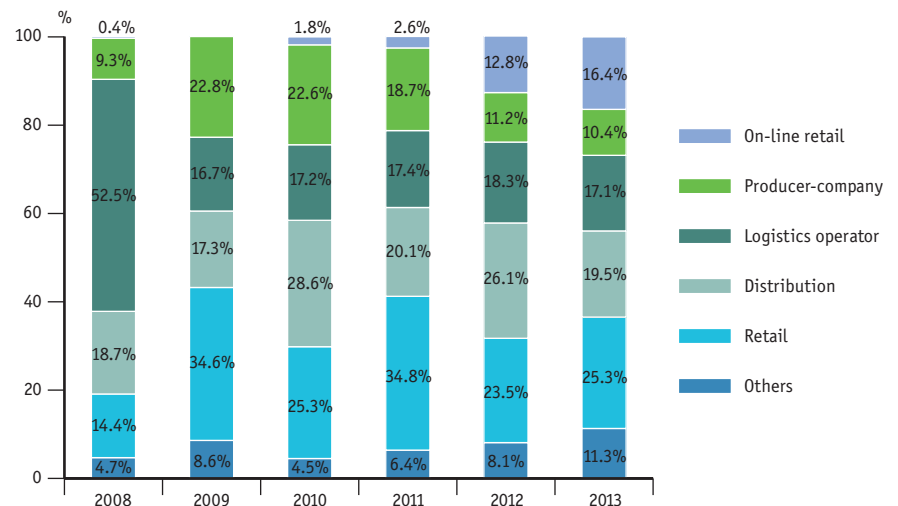
Source: Knight Frank Research, 2013

Take-up distribution



Source: Knight Frank Research, 2013

The total transactions volume distribution by the profiles of warehouse tenants and buyers



Source: Knight Frank Research, 2013

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first half of 2013 remained the same: about 60% are trading companies (retail, distribution, and on-line retail), about 17% — logistics operators, 10% — production companies. Another 11% comes from other areas of business: the document archival companies, transport and freight forwarding companies and others.

The share of on-line retail in the total take-up volume of warehouse market continues to grow: in the first half of 2013, almost 20% of storage space in the Moscow region has been leased to companies working in this field. The first time when on-line retail operators have shown significant take-up of warehouse space occurred during the previous year, when their share reached 13% in the total volume of leased and purchased warehouses. Prior to 2012, this segment of the business accounted for less than 3%. However, we do not expect that the share of online trade operators in the total take-up will exceed 10% of the total volume by the end of the year.

Commercial terms

Average asking lease rates for high-quality warehouse space in the first half of 2013 have increased by 3.2%, amounting to 135 - 145 \$/sq m/year for Class A and 115 - 120 \$/sq m/year for Class B (triple net — excluding operating expenses, utility bills and VAT).

Differentiation of rental rates depending on the location of the warehouse is noteworthy: the space in warehouses located at a distance of 10 km from Moscow is offered at rates that are 7 - 10% higher than the market average of 140 - 150 \$/sq m/year.

Moscow moved up one position (from the 7th to 6th place) in relation to other European capitals in the ranking of premium lease. Over the past year, lease rates have increased in eight major European cities: Amsterdam, Frankfurt, Geneva, Moscow, Munich, Oslo, Paris, Stockholm. On average, the rates have grown by 2 - 4% per year. The only exceptions were Amsterdam and Geneva, where the rates for premium storage facilities have grown by more than 20% for the year. The rates reduction was rather uneven: the biggest drop could be observed in Barcelona, Lisbon and Madrid — more than 10%, in Bucharest, Edinburgh and London, the drop was small — up to 5%.

The average sale prices of Class A warehouse space given the deficit of finished buildings, available for sale, remain practically unchanged, being in the range of 1250 - 1400 \$/sq m. The storage facilities on offer either are under construction or are available to the buyer only in the build-to-suit format. The upper limit of the price range is typical for the offers with space located in warehouses in the high degree of readiness, with a good location and within 20 km radius from the Moscow Ring Road.

Forecast

According to the statements made by developers, a growth of high-quality warehouse space by about 1.1 million sq m is to be expected by the end of 2013. This may exceed the 2012 figure 1.7 times. Thus, at the beginning of 2014 the total supply stock could reach more than 8 million sq m. However, in the event of a change in demand, and in absence of available funding, this figure may be adjusted by 30 - 50%.

According to preliminary data, the volume of new storage facilities will continue to grow in the coming year: delivery of 2.5 times more warehouses than in 2012 and 50% more than in the current year is planned for in 2014. Such dynamics of construction activity occurs on the warehouse market in the Moscow region for the first time. In total, a delivery to the market of about 2.6 million sq m of high quality warehouse space, which will increase

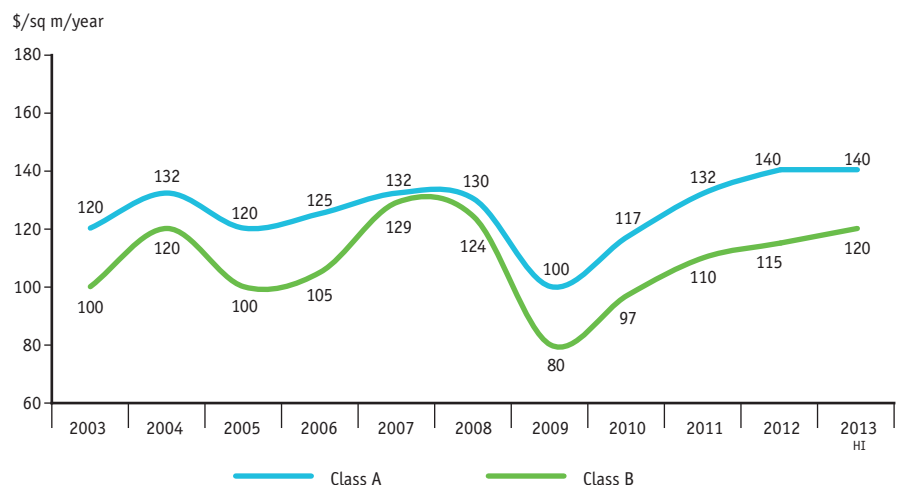
the total supply to 10 million sq m is expected for the period of 2013 - 2014.

It should once again be noted that some space in the sites under construction has already been leased through preliminary agreements, so their delivery will not lead to a significant growth in vacancy rate. We expect that it will remain at the level of 1 - 2% in the second half of 2013.

The demand for high quality warehouse space has been very high in the first half of 2013. Moreover, the analysis of current activity of tenants and buyers permits to predict annual take-up at the level of 1 million sq m.

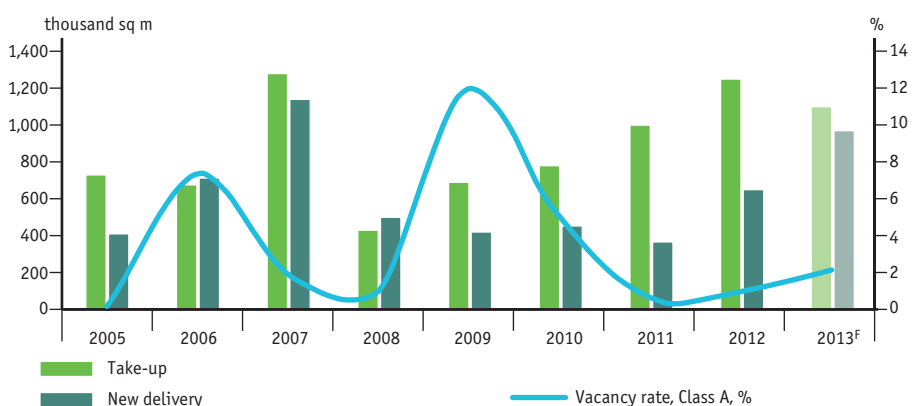
Providing the current level of demand remains in place, and taking into account the inflation processes on the warehouse market of the Moscow region, a small growth in average asking rental rates of about 3.5% — up to 140 - 145 \$/sq m/year for Class A is possible by the end of 2013.

Average asking rental rates dynamics in the Moscow region warehouse market



Source: Knight Frank Research, 2013

Demand volume exceeds supply of delivered warehouse premises in Moscow region



Source: Knight Frank Research, 2013

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
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