



Q3 2013

WAREHOUSE MARKET REPORT

Moscow

HIGHLIGHTS

- The supply stock growth for Q1–Q3 2013 amounted to 535 thousand sq m, which is 5% more than for the same period of 2012. We expect that in 2013 new high-quality warehouse space will reach about 925 thousand sq m.
- For the period between January and September 2013, the total volume of lease and purchase transactions of high-quality warehouse space on the market of the Moscow Region amounted to about 960 thousand sq m. We expect that the annual rate will be the same as last year – about 1.2 million sq m.
- The average asking lease rates remain unchanged: by the end of Q3 2013, they amounted to 135–140 \$/sq m/year triple net (excluding VAT, operating expenses and utility bills).

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"The warehouse real estate market of the Moscow Region was highly active throughout the first three quarters. For some time already, there occurred no significant changes: vacancy rate for Class A facilities remains low despite the large construction volumes of new warehouse complexes. We expect strong demand to persist to the end of the year and for the situation to start changing in the next 2–3 years. Moreover, we observe that increased demand for regional storage facilities is encouraging the construction of warehouses in the regions.

Warehouse tenants lease and buy ever-increasing volumes of storage space: an average size of transactions in the Moscow Region continues to grow reaching roughly 15 thousand sq m. This figure is largely different from the transactions that we used to close 4–5 years ago, when it amounted to no more than 10 thousand sq m.

The share of sales in the total take-up volume is growing. For the first three quarters, approximately 12% more warehouse space was purchased than in all of the previous year. This suggests that the quality of modern warehousing facilities satisfies their users, foreign companies included".



Key indicators. Dynamics*

Indicator	Class A	Class B	Dynamics*
Total quality supply, thousand sq m	7,702		▲
including, thousand sq m	5,769	1,933	▲
Delivery in Q1–Q3 2013, thousand sq m	525 +9.1%*	10 +0.5%*	▲
Expected delivery in Q4 2013, thousand sq m	390		▲
Lease and sale transactions in Q1–Q3 2013, thousand sq m	960		▼
Average vacancy rate, %	1.9	2.5	▲
Asking rental rates**, \$/sq m/year	135–145	115–120	▶
Operating expenses, \$/sq m/year	35–45	25–40	▶
Estimated capitalization rates, %	11.0–11.5	11.0–12.0	▶

* As compared to Q4 2012

** Without VAT, operating expenses and utility bills

Source: Knight Frank Research, 2013

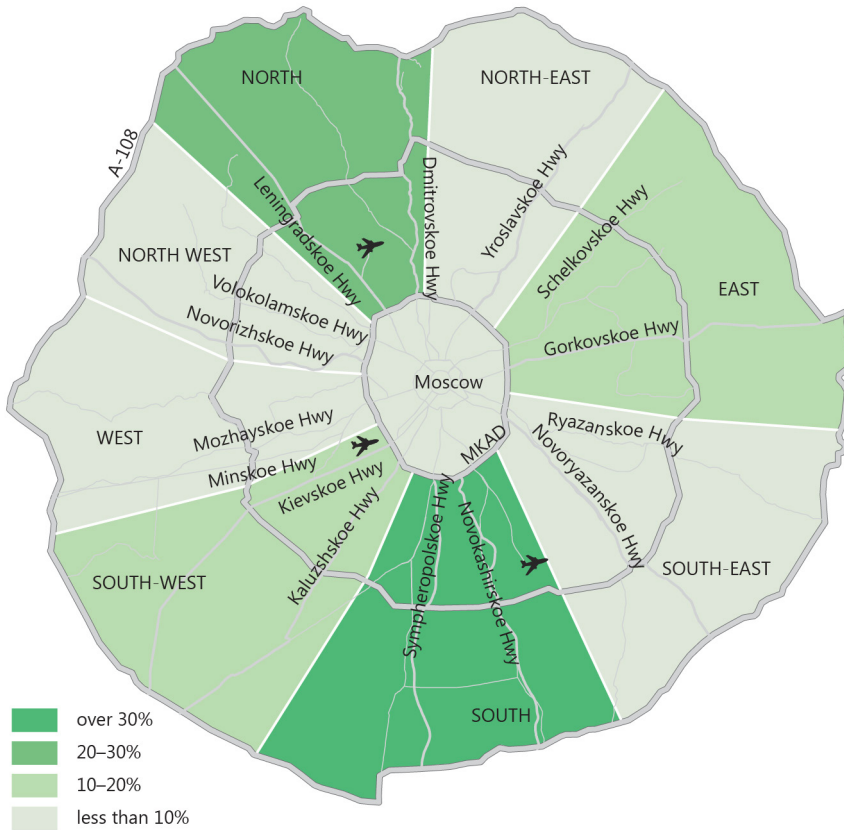
Supply

By the end of Q3 2013, the total supply on the market of high-quality warehouses in the Moscow Region reached 7,702 thousand sq m, gaining almost 9% since the beginning of the year, which is about 535 thousand sq m. 17% more warehouse space was delivered in Q1–Q3 2013 than in the corresponding period of the previous year.

The geographical distribution of Class A and B warehouse space on the market of the Moscow Region persists for several years. The largest volume is concentrated in the southern (south, southwest and southeast) directions. There the space concentration is twice as great as in the northern (north, northwest and northeast) directions. Nonetheless, at present, it is in the northern areas that active construction is underway: about 40% of the new warehouses

scheduled for delivery in 2014 are located along the Leningradskoe and the Dmitrovskoe Hwy. Such objects as PNK-North (total area – 300 thousand sq m), Logopark Nikolskoye (total area – 100 thousand sq m), Logopark Dmitrov (the area of the stage planned for construction is 70 thousand sq m). However, even after delivery of the indicated projects, existing overall geographical distribution of warehouse space will not change.

Geographical distribution of the total warehouse space supply stock, Q3 2013



The share of warehouse space, delivered by companies that implement their first of warehouse complexes construction projects, slightly grew – up to 38% (by 4 p. p. compared with 2012).

Demand

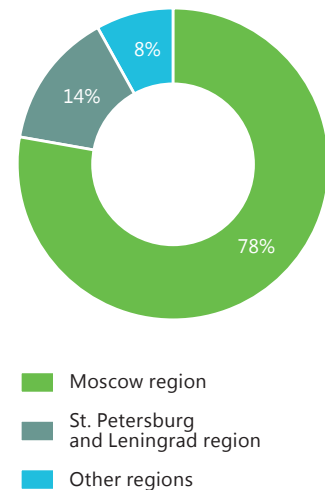
The high-quality warehouse space lease and purchase transactions volume for Q1–Q3 2013 amounted to 960 thousand sq m, almost as much as for the same period last year.

The total take-up volume of high-quality storage space on the warehouse market of Russia in Q1–Q3 2013 amounted to approximately 1.25 million sq m. The warehouses in the Moscow Region are traditionally in highest demand: they accounted for about 80% of all warehouse space lease and purchase transactions. The share of warehouse lease and purchase transactions in St. Petersburg (including the Leningrad Region) in the total amount of take-up was 14%, as the remainder (8%) fell with the largest cities of Russia. One can also notice growth of warehouse space demand in the regional cities fueled by expansion of retail operators to the regions and the development of high-quality warehouse real estate market.

The demand on the warehouse real estate market of the Moscow Region in Q1–Q3 2013 remains high – at the same level as last year. We expect the annual figure to reach about 1.2 million sq m.

Source: Knight Frank Research, 2013

Total warehouse lease and purchase volume distribution in the regions



Source: Knight Frank Research, 2013

Key projects delivered in Q1–Q3 2013 and planned for delivery in Q4 2013

Property Name	Highway	Total Area, sq m	Delivery date (quarter)
PNK-Chekhov 2*	Simferopolskoye	180,000	Q3, Q4
Infrastoy Bykovo*	Novorizanskoye	122,000	Q1, Q4
Klimovsk Logistic Park	Simferopolskoye	47,000	Q2
Logopark North	Leningradskoe	96,000	Q4
PNK-Vnukovo*	Borovskoe	83,000	Q1, Q2
Noginsk Logistic Park	Gorkovskoe	36,000	Q3
Matveevskoe*	Minskoe	30,000	Q1, Q3
Lesnoy Gorodok	Minskoe	28,000	Q4
Warehouse in Leshkovo	Novorizhskoe	27,000	Q3
Noginsk	Gorkovskoe	26,194	Q4

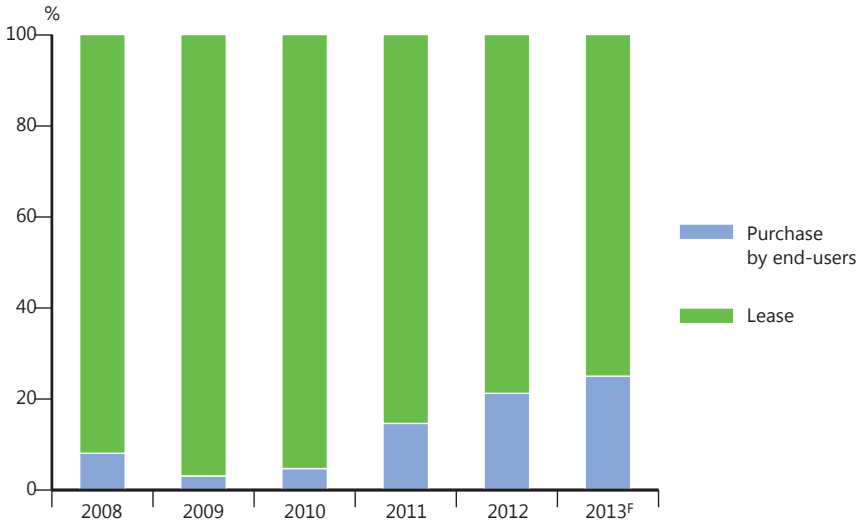
* Total area of several buildings of the warehouse complex
Source: Knight Frank Research, 2013

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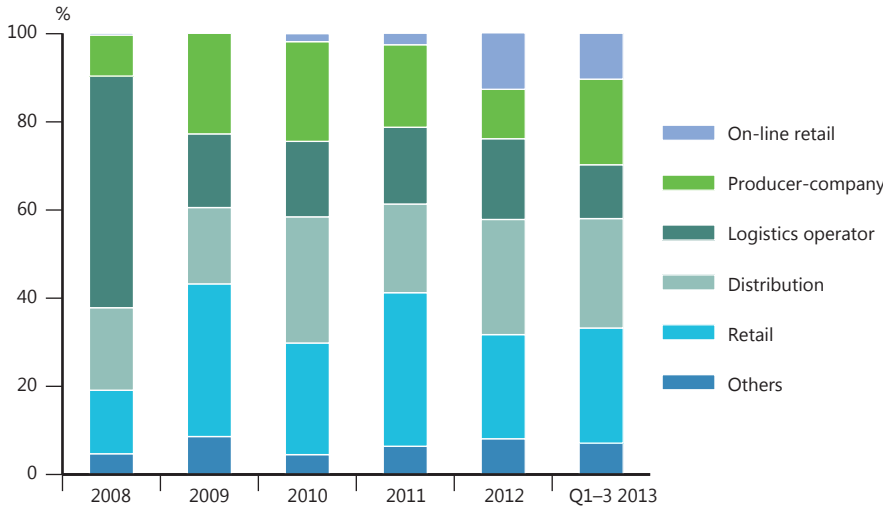


The share of high-quality warehouse space purchase transactions in the total transactions volume continues to grow



Source: Knight Frank Research, 2013

Transactions volume distribution based on the business profile of warehouse tenants and buyers



Source: Knight Frank Research, 2013

Still, more than a half of warehouse lease and purchase transactions are concluded at a time when the object is not yet delivered. The available supply stock of operational facilities remains low with the vacancy rate remaining at 1–2% for over 2-years already.

About 46% of all concluded lease and purchase transactions with high-quality warehouse space belong to large (more than 20 thousand sq m) facilities, which is 18 p. p. more than last year.

The average deal size in the Moscow Region in Q1–Q3 2013 amounted to about 15 thousand sq m, which is 12% above the Russian market average. The structure of demand is still based around the business profiles of tenants and buyers. Trading companies (retail operators (online and offline), distributors) still dominate the market segment: they accounted for almost 60% of the total space take-up in the Moscow Region. The share of logistics operators in the take-up structure in Q1–Q3 2013 is about 12%.

Commercial terms

Since the beginning of 2013, the average asking lease rates for high-quality warehouse space have not changed significantly and at the end of Q3 2013 they amount 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).

It should be noted that the distance of the facility location from MKAD has an impact on its lease rate. Thus, the rate is 7–10% above the market average for objects located within 10 kilometers distance from the city: 140–150 \$/sq m/year. The direction in which the warehouse is located also affects the lease rate.

The sale prices remain the same: for Class A average price on offer ranges from \$1,200 to \$1,400 per sq m, for Class B – from \$900 to \$1,300 per sq m (excluding VAT).

* Here and below all transaction volumes are counted in sq m

Capitalization rates have also remained at the level of the beginning of 2013: for the best facilities on the market the figure is about 11.5%. However, despite the growth of investors' interest in the warehouse and industrial real estate segment, there are only few investment deals on this market and the figure is more of an expert estimate.

Forecast

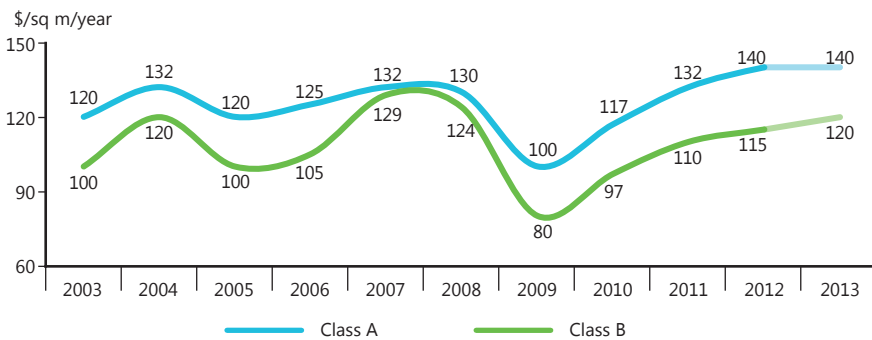
The total amount of new high-quality warehouse space supply on the market of the Moscow Region this year might exceed the 2012 figure 1.4 times, amounting to about 925 thousand sq m. According to preliminary data, 2014 might become the record-holder (since 2007) in terms of new high-quality warehouse facilities delivery: 1.25 million sq m, which is 1.4 times more than in 2013, have been announced for delivery. However, some of these properties are already leased out on preliminary agreements or are being built for specific clients, while plans for delivery of some projects may be adjusted to meet future demand. According to our estimates, about 70% of the announced volume will be delivered on the market.



According to our forecast, the total lease and purchase transactions volume for high-quality warehouses in the Moscow region will amount to about 1.2 million sq m, which corresponds to the level of 2012. In absolute terms, the transactions volume

remains high, but the rate of demand growth is slowing down. Presently, there are no open applications for 2014 to lease and purchase warehouses with a total area of 400–500 thousand sq m to speak of.

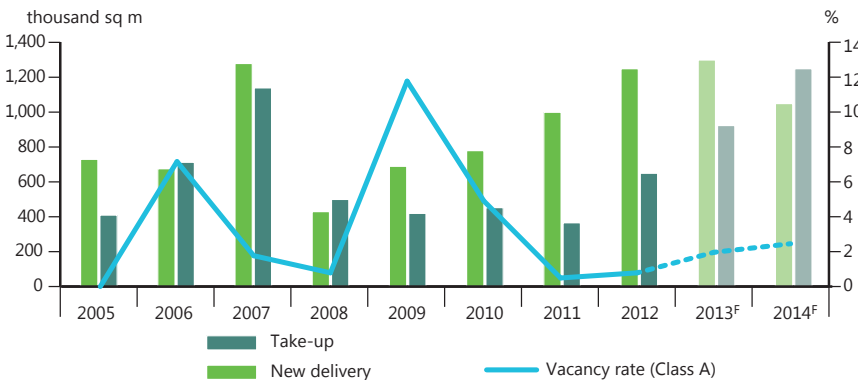
Average asking warehouse space lease rates dynamics in the Moscow Region



Source: Knight Frank Research, 2013

In our opinion, there are no preconditions to the reduction in demand yet. However, it is possible that with the development of regional markets, demand for warehouses in the regions will also grow and in the next 3–5 years, the volume of goods entering the Moscow Region for further distribution throughout the Russian territory will slightly shrink. Lease rates remain stable and will not change significantly in the coming year. In the absence of macroeconomic shocks, the situation on the market as a whole will remain stable and the correction in lease rates will amount to about 3% per year upwards. This change will largely be linked to the indexation in existing treaties than to a real growth in effective lease rates.

Demand on the warehouse market of the Moscow Region exceeds available supply in delivered facilities



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
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