

A large, modern warehouse building with a white facade and orange accents. The building has a long, low profile with a series of windows and a flat roof. In the foreground, several cars are parked in a lot. The sky is clear and blue.

Q3 2014 WAREHOUSE MARKET REPORT

Moscow

HIGHLIGHTS

- During Q1–Q3 2014, the new supply stock on the market of high-quality warehouse real estate in the Moscow region amounted to about 857 thousand sq m – 60% more than for the same period in 2013.
- Continued economic uncertainty has led to the adjustment of plans for many potential tenants and buyers: by the end of Q3 2014, the take-up volume in the Moscow region has reached 496 thousand sq m, which is 1.7 times less than in Q1–Q3 2013.
- By the end of Q3, the vacancy rate has grown to 4.9% compared to 1.9% at the beginning of the year.
- Depending on the amount of future supply and the location of the object on the map of the Moscow region, lease rates vary in the range of 100 \$/sq m/year to 135 \$/sq m/year.

Q3 2014 WAREHOUSE MARKET REPORT

Moscow

WAREHOUSE MARKET REPORT



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Russia and CIS

"For the first time in the ten-year history of warehouse property market, we note a significant growth in supply of contemporary warehouses, where lease contracts are denominated in rubles. Furthermore, if earlier one could speak of only a few examples of high-quality objects, presently almost 50% of all available space in Class A (built and to be delivered by the end of the year) are available for lease in the national currency. The Russian currency is also considered in the preparation of business offers for a number of major projects. A peculiar geographical currency market segmentation in the Moscow region is worth a notice: the space in projects under construction in the West and Southwest is still being offered mainly in United States dollars".

Supply

During Q1–Q3 2014, the supply stock of high-quality warehouse space market in the Moscow region has grown by nearly 857 thousand sq m. This figure is 60% bigger than that of the same period the previous year. At present, the total supply stock of Class A and B warehouses exceeds 8.7 million sq m, of which about 78% belong to Class A. By the end of Q3, the new supply volume consists of new facilities by 69%, while 31% falls with delivered stages of existing complexes.

Current year is characterized by active delivery of warehouse space in the North (between Leningradskoye and Dmitrovskoye Highways in close proximity to the A-107 "Betonka" highway), the Southeast (Novoryazanskoye Highway) and the South of the Moscow region. Moreover, if during the first 6 months

Key indicators. Dynamics*

Indicator	Class A	Class B	Dynamics
Total quality supply, thousand sq m	8,789		▲
including, thousand sq m	6,838	1,951	▲
Delivery in Q1–Q3 2014, thousand sq m	857 (+14%)	–	▲
Expected delivery in Q4 2014, thousand sq m	455		▲
Lease and sale transactions in Q1–Q3 2014, thousand sq m	496		▼
Vacancy rate, %	4.9	4	▲
Asking rental rates**, \$/sq m/year	100–135	70–80	▼
Operating expenses, \$/sq m/year	35–37	25–40	▶
Capitalization rate, %	11.25–11.5	11.0–12.0	▶

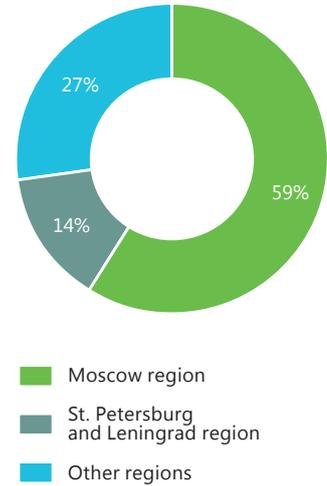
* Compared to the same period of 2013
 ** Triple net – excluding VAT, operating expenses and utility bills
 Source: Knight Frank Research, 2014



PNK-Severnoye Sheremetyevo
Moscow Region, Rogachevskoye Highway, 25 km from MKAD



Lease and purchase transactions volume in the regional cities of Russia



Source: Knight Frank Research, 2014

of 2014 a significant amount of warehouse space (about 387 thousand sq m) was delivered to the market in the directions of North and Southeast, in Q3 the new supply stock consisted of facilities located to the South (along the Simferopolskoye and Kashirskoye Highways) by 67%.

Overall, by the end of Q1-Q3 2014, the geographical distribution of new-builds was as follows: the Southeast accounted for 26% of the total volume of delivered space, about 31% fell with the South, leaving the North behind with 29%. The Northwest, East and West accounted for the rest of the new stock.

The vacancy rate on the market of high-quality warehouse space in the Moscow region continued to grow in Q3 2014. By the end of the reported period, the figure was 4.9% for Class A complexes. Thus, since the end of 2013 the vacancy rate grew by 3 p. p., which is almost 335 thousand sq m of vacant premises in absolute values – 3 times more than at the beginning of this year.

The vacant space stock consists of new supply by 57% in the North, South and Southeast of the Moscow region and by 3% – in the Northwest. The rest of the vacant warehouse space is freed up facilities.

Demand

By the end of Q3 2014, the take-up volume of high-quality warehouse space on the Russian market amounted to about

845 thousand sq m, a figure smaller by almost a quarter compared to the same period in 2013. About 59% of all lease transactions and purchases fall with the Moscow region. In St. Petersburg and the Leningrad region, about 14% were rented and purchased by end-users. The remaining 27% of warehouse transactions belong to the regional markets of Russia.

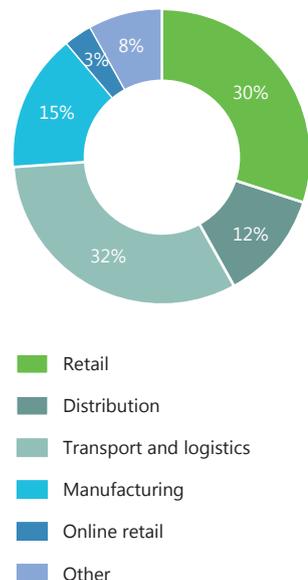
The interest in warehouse real estate of regional cities continues to grow: in comparison with Q1-Q3 2013, the share of regional transactions for the same period in 2014 grew by 19 p. p. Meanwhile, in absolute terms, the take-up volume in regional cities is two times larger than the figure for the same period last year. More than a half of all transactions in the regions of the country fell with Novosibirsk, Rostov-on-Don and Yekaterinburg.

The greatest amount of take-up in Q1-Q3 2014 fell on those areas where active construction of warehouse complexes was underway. Approximately 34% were leased and purchased in the Southeast (along Novoryazanskoe Highway), the Northern direction (between Leningradskoye and Dmitrovskoye Highways) accounted for about 29%, while the South (along the Simferopolskoye and Kashirskoye Highways) – for about 17%.

Considering the unstable market situation, the main consumers of warehouse facilities are large retail chains and distributors,

some of which are expanding by displacement of small and medium-sized businesses. In comparison with small players, major consumers of warehouse facilities have access to a more affordable and sustainable financing. However, when it comes to

Considering the unstable market situation, the main consumers of warehouse facilities are large retail chains and distributors



Source: Knight Frank Research, 2014

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the lease and purchase of warehouses, their decision making process now lasts longer. Small and medium-sized businesses are often forced to suspend their development plans and engage in optimization of existing logistic processes.

In Q1–Q3 2014, trading companies (retail and distributors) leased and purchased less than a half (roughly 42%) of the total transactions volume on the market of the Moscow region, which is 5 p. p. lower than in the same period in 2013. Transport and logistics companies accounted for about 32% of the total take-up – 13 p. p. more than in Q1–Q3 2013. The take-up volume of high-quality space by manufacturing companies was 15% versus 20% for the same period the year before. In 2014, online retail operators are less active than in 2013: their share for Q3 was 3%, which is 7 p. p. below that of the same period the year before and is comparable to the figure of 2010.

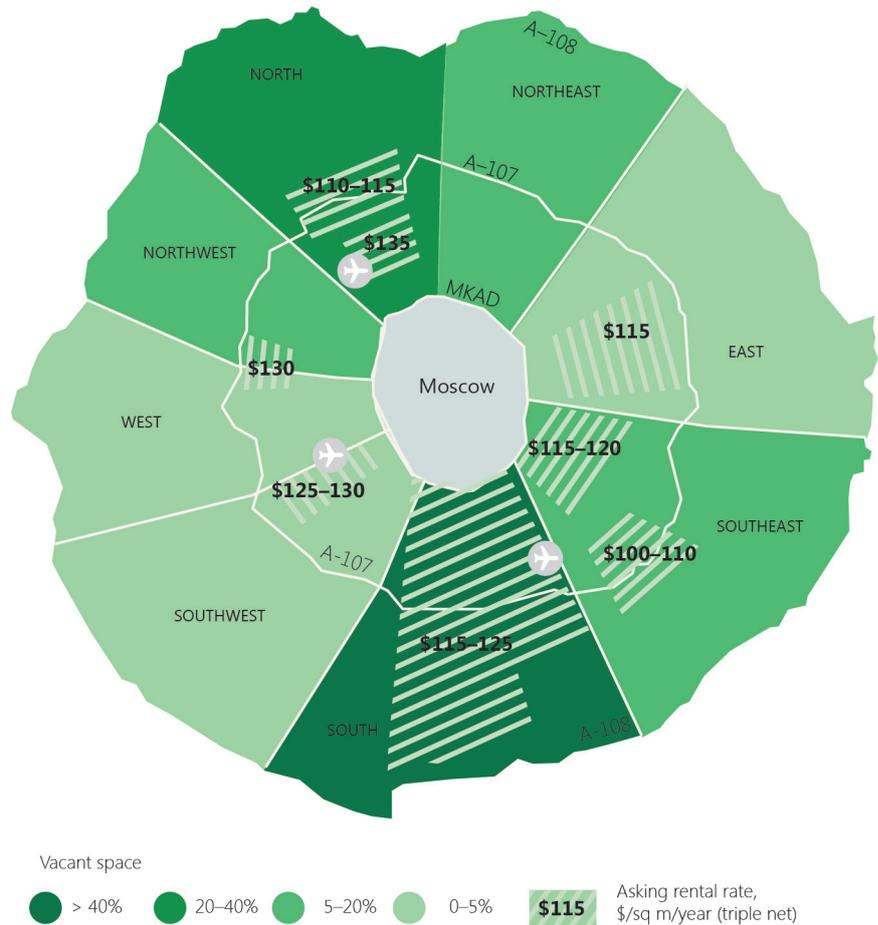
Due to the situation of lengthy economic instability, the companies that are willing to lease for the first time, or expand existing storage capacity, are more selective in the choice of premises, requesting special commercial terms (such as for example installment payments). Besides the increase in the duration of negotiation, potential tenants began to consider the offers, where rents are denominated in rubles more often. In general, these offers are found among objects by developers, who sell their projects on the warehouse market for the first time.

It is worth noting that almost 40% of the total volume of transactions concluded on the market of high-quality warehouse space in the Moscow region belong to six lease and purchase transactions with large blocks of size starting from 20 thousand sq m. Fifteen such transactions took place over the same period last year and their share within total take-up was 54%.

By the end of Q1–Q3 2014, the share of purchase transactions in the total take-up was about 28% against 20% for the same period in 2013. However, in absolute terms the amount of space purchased by end-users is 1.3 times smaller.

While in 2011–2013 we observed growth of investor interest in warehouse real estate, in 2014 the volume of investments in high-quality storage facilities may become the lowest since 2009, when their share accounted for less than 1% of the total investment in the commercial real estate market. The volume of investment

Asking rental rates and vacant space in terms of direction



Источник: Knight Frank Research, 2014

transactions remains low: developers are not willing to make considerable concessions and drop the selling price of high-quality facilities, preferring to sit on the fence.

Commercial terms

During the first three quarters of 2014, the supply price of 1 sq m in Class A warehouses remained at the level of the end of 2013. The declared price is still in the range of \$1,200–1,400 (excluding VAT), with the only concession from a number of developers being the willingness to fix currency exchange rate at the time of the transaction. Continuing devaluation of ruble increases construction costs due to the growth of imported materials costs, thus a drop in prices for Class A is not

to be expected. One should be reminded that a complete import substitution in the construction of high-quality systems is not possible, as it will reduce the quality of the future building.

During the first three quarters of 2014, the average asking lease rate remained at 120 \$/sq m/year in Class A (triple net – excluding operating expenses, utility bills and VAT). It should be noted that differentiation in rates may vary from 100 \$/sq m/year to 135 \$/sq m/year depending on the direction and distance from the city. These rates are determined by both different amounts of future supply in the considered geographical area and its position on the map of the region, and the object readiness degree.



Manufacturing & logistics complex Severnoe Domodedovo
Moscow Region, Kashirskoe Highway, 11 km from MKAD

Forecast

About 650 thousand sq m of high-quality warehouse space have been announced for market delivery by the end of 2014 in the Moscow region, however, we expect about 70% of the planned volume to be delivered. Thus by the end of 2014, the total volume of new supply could reach around 1.3 million sq m of high-quality space exceeding the record figure of year 2007.

Analysis of the current activity suggests that in Q4 2014, about 300 to 400 thousand sq m of high-quality warehouse space will be leased and purchased by the end-users on the Russian market. Moreover, at least a half of the expected take-up will belong to the market of the Moscow region. Meanwhile the total take-up of high-quality warehouse space may exceed the figure of 2010, but will be somewhat smaller (by up to 25%) than in 2011 and 2012.

Growing imbalance between supply and demand in conjunction with the growth in lease and purchase agreements negotiations duration can lead to an increase in the vacancy rate to 8–9%.

However, until the end of 2014 we do not expect further decline in asking lease rates. A downward adjustment is possible only within the framework of negotiation process. Thus, the asking lease rates will

remain at 100–135 \$/sq m/year (triple net). Meanwhile, one can expect growth in the number of premises lease offers in Russian rubles and reduction of the lease terms.

Take-up, delivery and vacancy rates dynamics for high-quality warehouse real estate market of the Moscow region



Source: Knight Frank Research, 2014

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
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