

RESEARCH



# 2017 WAREHOUSE MARKET REPORT

Moscow

## HIGHLIGHTS

The 5-year low volume of industrial space was delivered to the warehouse market of the Moscow region in 2017.

The vacancy rate fell to 7.8% by the end of 2017, which was 1.5 p. p. lower against 2016 figure.

The online trading segment formed the bulk of the demand structure at year-end 2017.

The asking rental rate for quality Class A warehouse properties was equal to 3,700 rub./sq m/year (triple net) by the end of 2017.



Vladislav Ryabov

Regional director, Industrial, Warehouses and Land, Knight Frank, Russia and CIS

*"The past year happened to be eventful in terms of transactions, a bit ahead of the year 2016, but all the other indicators of the market turned out to be less positive, demonstrating a continued decline in rental rates and a record low delivery volume. We expect that vacant premises will be occupied further and the rental rates will stabilize and possibly grow in H2 2018. We do not expect new developers to approach the market, retailers and distributors will continue to prevail in the demand structure".*

## WAREHOUSE MARKET REPORT MOSCOW

### Key indicators

	2017	2016
Total quality supply volume, thousand sq m	13,359	12,789
New delivery in 2017, thousand sq m	570	709 ▼
Transaction volume in 2017, thousand sq m	1,196	1,099 ▲
Vacancy rate, %	7.8	9.3 ▼
Asking Class A rental rates, rub./sq m/year*	3,700	4,000 ▼
Asking selling price, rub./sq m**	30,000–35,000	32,000–37,000 ▼

\* Triple net – hereinafter, asking rental rates exclude VAT, Operational Expenses and utility bills.

\*\* Hereinafter, the selling price for the standard Class A dry warehouse of more than 10,000 sq m, excl. VAT.

Source: Knight Frank Research, 2018



Borisovskiy terminal, Moscow, Simferopolskoe hw., 10 km from MKAD

## Supply

570,000 sq m were delivered to the warehouse real estate market of Moscow region in 2017 - 20% lower than the same indicator in 2016 and the lowest delivery volume for the last 5 years. The total supply volume reached 13.4 million sq m. The largest volume of warehouse space was completed in the northern part of the Moscow region – 212,400 sq m or 37.3% of the total delivery volume, followed by the southern direction with 178,400 sq m or 31.3% of the total delivery volume.

Over 328,000 sq m or 57.6% of the total volume of warehouses completed in 2017 were built speculatively; 26.6% or 151,800 sq m were built for end users; and the remaining 90,000 sq m or 15.8% were constructed in a built-to-suit for lease and for sale format. Some of the largest speculative projects put into operation in 2017 were units 2.4 and 4.4 with a total area of about 69,000 sq m in Orientir Sever-2 logopark; units 1, 2, 3, 4 in Vnukovo 2 logopark with a total area of about 50,000 sq m; units C1, C2, C3 in Dmitrov Logistics Park with a total area of about 45,000 sq m; phase 1 of Borisovskiy terminal with an area of about 33,000 sq m.



**Elena Bushmina,**  
managing director of Ghelamco Russia

**KF: Is there a demand for completed speculatively warehouses in current market conditions?**

**E. B.:** Development is a cyclic process. It takes an average of up to 1.5 years from the project creation of a warehouse building to the receipt of commissioning permit. In this regard, if the demand in the market increases, a large volume of new space appears immediately, as a rule.

Thus, the warehouse market of Moscow region started 2017 with rather large volume of vacant space in terms of the balance of supply and demand.

There were lots of large warehouse units move-in ready in the north of Moscow region during the construction of building C in the Dmitrov Logistics Park.

Now, by the time of obtaining a certificate of ownership for the completed building,

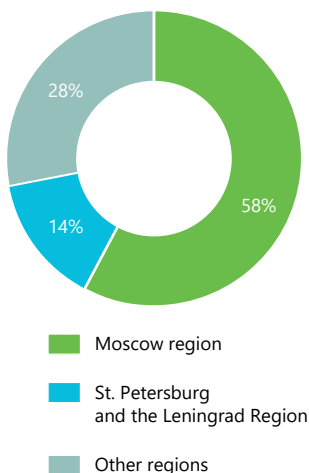
the vacancy in the north of Moscow region has decreased significantly, so our premises are in demand, and today we have an opportunity to focus not only on the volume of leased space, but also on the quality of potential tenants.

**KF: Which companies are applying for lease in building C of Dmitrov Logistics Park?**

**E. B.:** Many companies with expiry of their leases in 2018 are seriously considering the option of moving to a better and more modern warehouse.

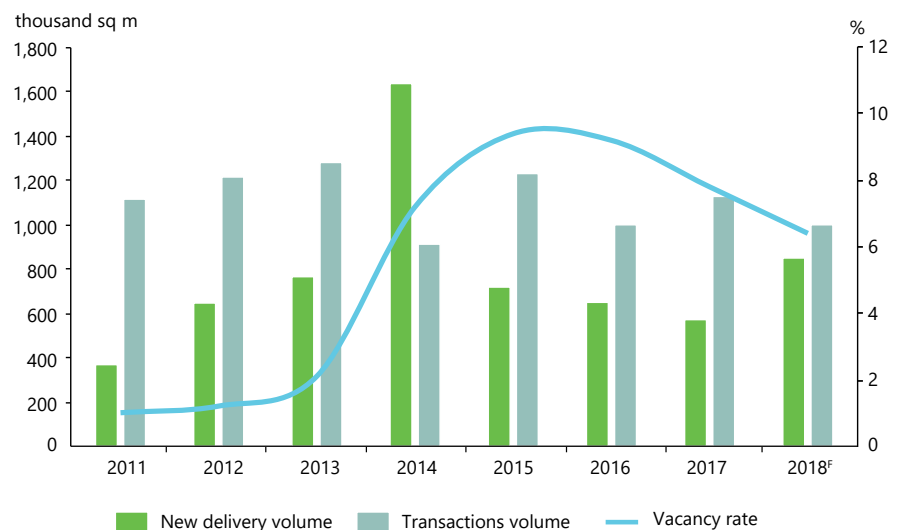
As to the current profile of potential tenants of the Dmitrov Logistics Park, the main demand is registered from manufacturing companies (both Russian and foreign), which plan to locate their distribution centres in our project.

Distribution of total quality supply volume in Russia, 2017



Source: Knight Frank Research, 2018

Dynamics of growth of quality warehouse space, the volume of lease and purchase transactions and the vacancy rate in the Moscow region



Source: Knight Frank Research, 2018

## WAREHOUSE MARKET REPORT. MOSCOW

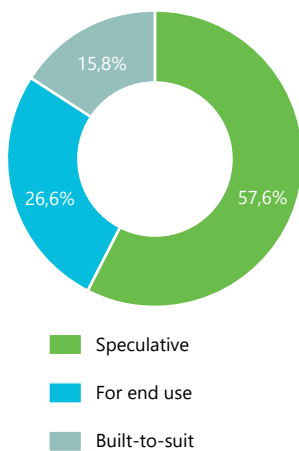
About 17% of the total delivery volume of warehouse space of 2017 was located at a distance of up to 15 km from the Moscow Ring Road, about 71% or 405,000 sq m of warehouse space – at a distance of 15 to 45 km from the Moscow Ring Road, the remaining 12% were located at a distance of more than 45 km from the Moscow Ring Road.

We pointed out that some facilities sold speculatively in 2017 were partially occupied by tenants already at the construction stage. This indicated that the volume of large vacant units meets all potential tenants technical requirements was shrinking.

The largest BTS facility put into operation in 2017 was BMW distribution centre with a total area of about 35,000 sq m, built on the territory of PNK Park Bekasovo.

The vacancy rate of 2017 dropped by 1.5 p. p. reaching 7.8%, which was equivalent to 1 million sq m in absolute terms. Such a decrease was caused by the large number of transactions concluded in completed vacant facilities, thus inspiring the largest developers to announce the launch of new projects in Moscow region. For example, Orientir company planned to begin construction of a warehouse complex on Novorizhskoe highway with a total area of about 400,000 sq m in 2018, and in 2017 PNK Group introduced to the market of the Moscow region 5 new projects of universal buildings that can be used both for storage and for production.

Distribution of new delivery by type in the Moscow region, 2017



Source: Knight Frank Research, 2018



Kalin Anton,  
director of industrial property department of PNK Group

**KF: What is the key difference of modern Class A warehouses from analogs of a decade ago?**

**K. A.:** The Russian market of industrial real estate is becoming more like the European one. This is evidenced not only by improved quality of industrial facilities, but also by the increasingly strict observance of international fire safety standards and property insurance standards, for example, such as FM Global. And if even 7-8 years ago in Russia there was a demand from international brands for compliance with such standards, but developers did not have any supply. Today, the leading players of the Russian market take into account the most stringent requirements of international insurance systems.

**KF: What type of transactions do you think will be more in demand in 2018: lease in completed speculatively buildings or construction of own warehouse in BTS format?**

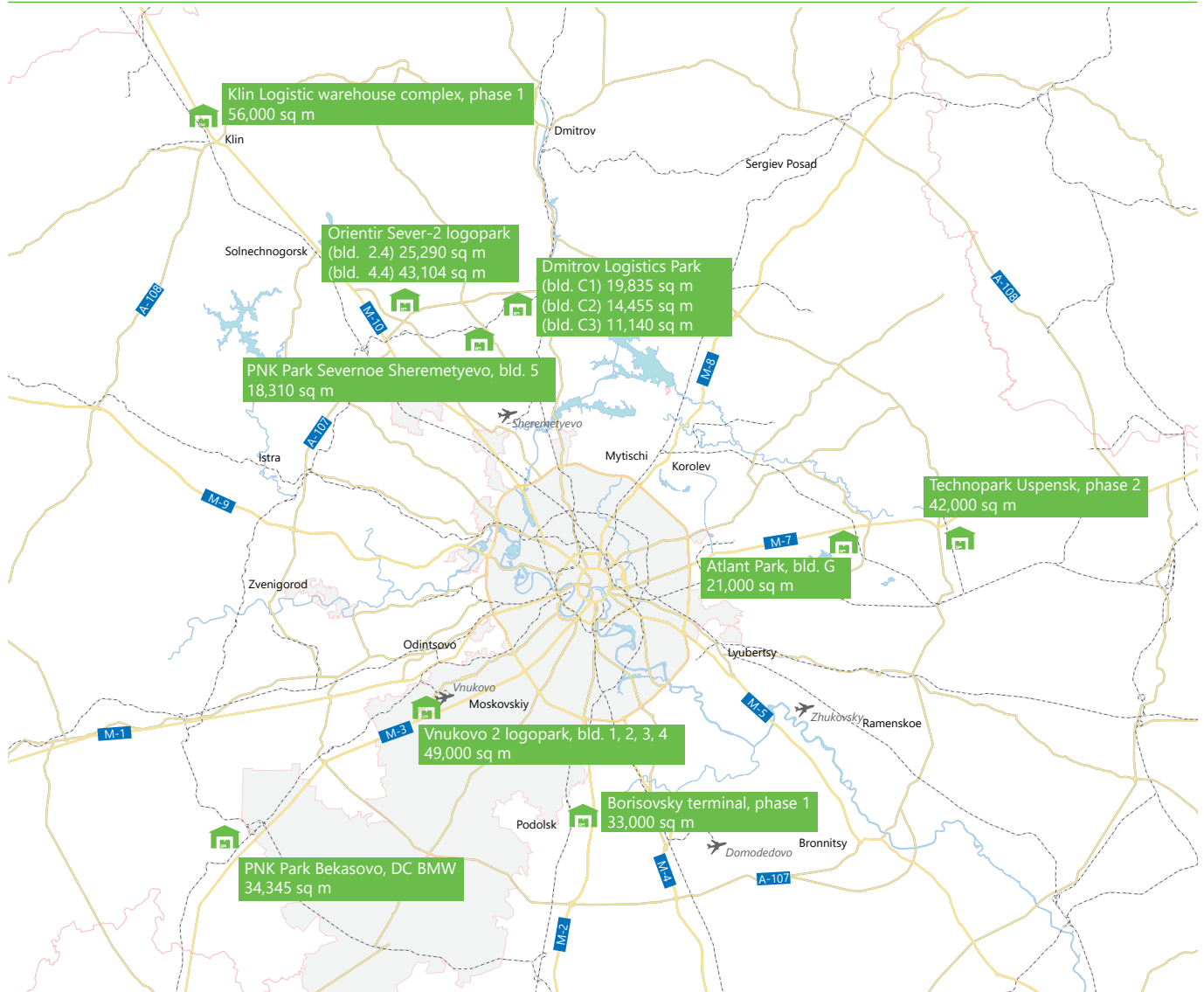
**K. A.:** We see that built-to-suit format is actively developing: large industrial and logistics companies, as well as retailers, increasingly prefer it. But now the customer is not ready to wait for his built-to-suit project more than one construction season, which is logical, because the construction time is reduced, while the quality is constantly growing due to the introduction of new technologies.

But we also understand that there will always be many companies demanding the project to be built already and to be universal – with the possibility of using both for storage and for production. And knowing these market needs, PNK Group is building exactly such industrial buildings. Due to the high rate of construction of industrial facilities on a turn-key basis, PNK Group always has vacant space and high readiness condition of facilities.



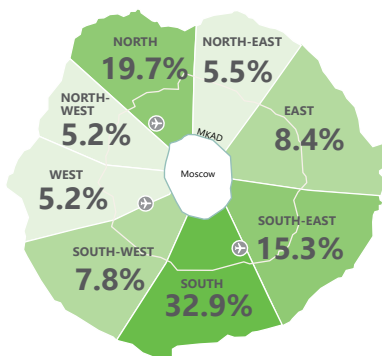
PNK Park Valishevo,  
Moscow region, Simferopolskoe hw., 32 km from MKAD

The largest warehouse complexes delivered in 2017



Source: Knight Frank Research, 2018

Distribution of total quality supply by the directions in the Moscow region, 2017



Source: Knight Frank Research, 2018



Vnukovo 2 logopark  
New Moscow, between Kievskoe and Borovskoe hw., 20 km from MKAD

## Demand

As a result of 2017, the total volume of lease and purchase transactions on quality warehouse space in the Moscow region got to 1,196,000 sq m, which was slightly higher (by 8%) over the same period in 2016.

Despite the increase in the share of BTS transactions in 2017, the main volume of transactions (about 77.6% of the total volume) was concluded in completed buildings.

The largest volume of lease and purchase transactions in warehouses of the Moscow region (36.4% of the total) in 2017 was concluded in the southern direction.



**Gleb Belavin,**  
deputy general director  
on tenant relations  
in MLP Property  
Management

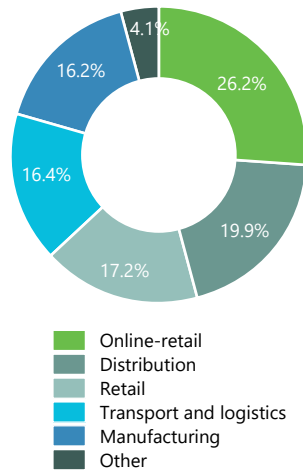
**KF: What are the current requirements of potential tenants for completed warehouses? Have the tenant preferences changed?**

**G. B.:** We did not see any fundamental changes in the requirements of tenants to warehouses in 2017. As before, most companies were searching for a quality warehouse in a small distance from the Moscow Ring Road and with a professional management company. But a more thorough approach to choosing a partner was what we actually observed throughout the year.

**KF: Has something changed in the behavior and preferences of developers in connection with the crisis?**

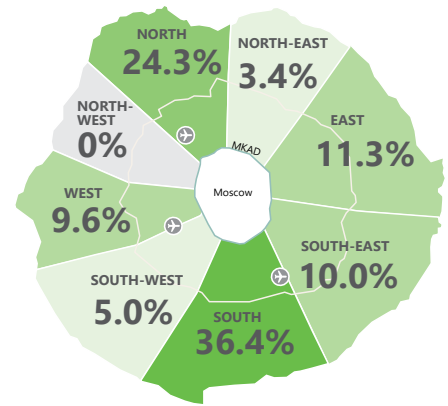
**G. B.:** If the quality of Class A warehouses remains quiet equal, the issue of professionalism and promptness of decision making by the management company becomes important. We think this is due to the different behavior of developers during previous crises. They witnessed personally that cooperation with a large management company was an indisputable significant advantage, as it was ready and able to find adequate solutions quickly on any issue to maintain a long-term partnership. Not every company can afford it, and not every company keeps the promises given earlier.

Distribution of transactions by tenant/buyer in the Moscow region, 2017



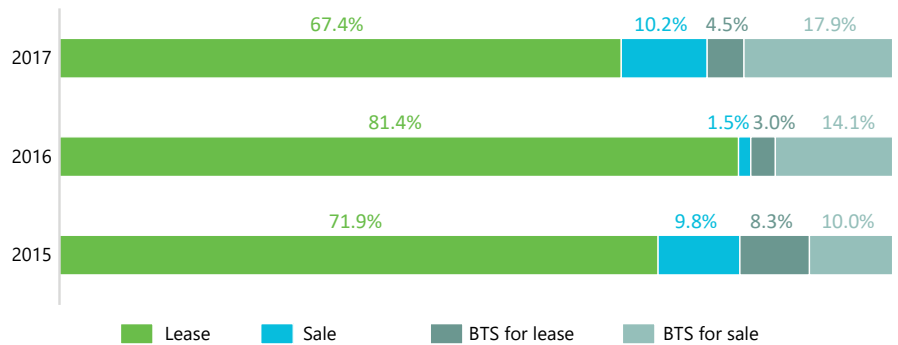
Source: Knight Frank Research, 2018

Distribution of transactions in the Moscow region by directions, 2017



Source: Knight Frank Research, 2018

Distribution of transactions in the Moscow region by types



Source: Knight Frank Research, 2018



**Zakhar Valkov,**  
executive director of Radius Group

**KF: Which companies formed the demand for quality warehouse space in 2017?**

**Z. V.:** 2017, unlike in 2016, was more dynamic in terms of the number of transactions – indicators of activity in the market. That year, we saw an increase in demand from companies from different segments and industries across the market of quality Class A warehouses. They were both major players and medium-sized companies that took advantage of market conditions to upgrade their warehouse infrastructure. In addition,

the activation of e-commerce companies was pointed out, expressed in large lease and purchase transactions.

**KF: How the year 2017 was for South Gate industrial park?**

**Z. V.:** 2017 was successful for South Gate industrial park, the team of Radius Group entered into long-term lease agreements for more than 70,000 sq m with such companies as Polaris, Leroy Merlin, Geyser, FM Logistic, L'Argo, and others.

## The largest transactions in 2017



**Andrey Postnikov,**  
managing director  
of Orientir group  
of companies

**KF:** What requirements did X5 Retail Group specify for the future distribution centre?

**A. P.:** The main feature of Severny distribution centre for Pyaterochka company was a period of 4.5 months from the date of signing the contract to the start of operations. The technical task of the customer included all the latest best practice of X5 Retail Group on warehouse buildings: from special requirements to formwork of high-precision heated floors to the system of dispatching and monitoring of all systems of the building directing them to a single centre and with access to information for managing organizations and services of the building.

**KF:** What is your estimate of the demand for quality warehouse real estate in the north of Moscow region in 2017?

**A. P.:** 2017 was the year of setting records for Orientir group of companies by the volume of concluded lease and purchase transactions in the Moscow region.

The total transaction volume completed by Orientir Group of companies in 2017 amounted to 150,000 sq m, which, according to our estimates, was more than 60% of the total volume of transactions in 2017 in the historically most demanded northern direction of the Moscow region. Such a high volume of transactions concluded in 2017 allowed Orientir to take a leading position among the largest warehouse developers of the Moscow region.

Orientir group of companies also concluded the largest investment transaction on the warehouse real estate market in 2017 by signing a sales and purchase agreement for 195,000 sq m of space already leased on a long-term basis to such companies as OBI, O'KEY, Miratorg, R-Pharm and others.



Source: Knight Frank Research, 2018

About 282,000 sq m or 24.3% of the total volume of transactions was completed in the north of the Moscow region. Interestingly, these directions historically formed the highest demand.

The leading position (about 26% of the total volume of transactions) in the structure of demand in 2017 was occupied by the segment of online-retail. The largest transactions of this segment were: the signing of an agreement between the online-retailer Wildberries and A Plus Development company for the construction of a distribution centre with a total area of about 146,000 sq m; the signing of the sales agree-

ment for the construction of distribution centre in a built-to-suit format for Utkonos company with an area of about 69,000 sq m in Orientir Sever-3 logopark.

The second place in the demand structure of 2017 was the segment of distributors with a share of about 20%. One of the largest transactions in this segment was the lease of about 18,600 sq m in Bykovo warehouse complex by Pharmcomplect pharmaceutical distributor.

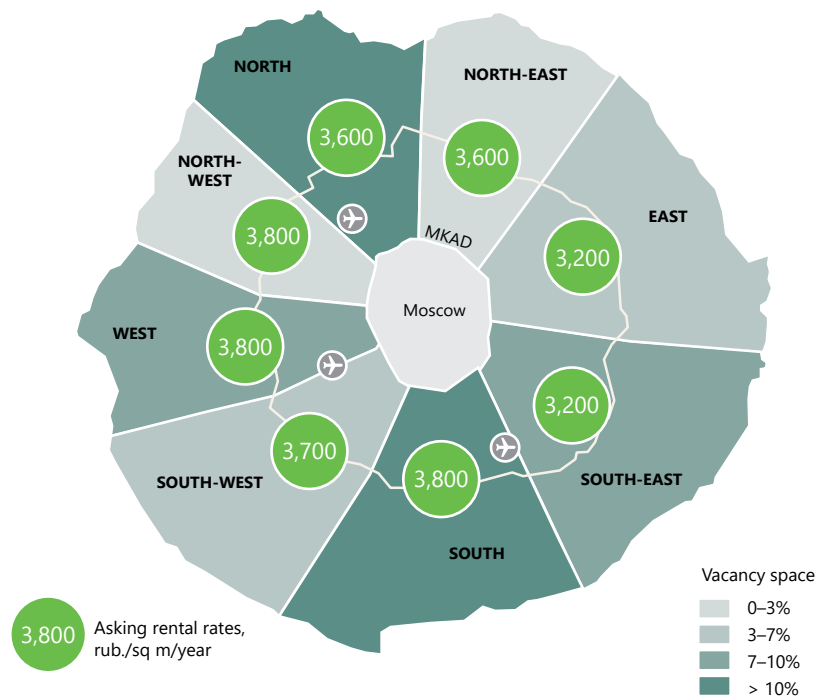
The largest transaction of the retail segment in 2017 was the signing by the grocery retailer X5 Retail Group of a lease agreement for 45,000 sq m in Orientir Sever-2 logopark.

## Commercial terms

As a result of 2017, the average rental rate for quality Class A warehouse space shrank 7.5% over 2016 and equalled to 3,700 rub./sq m/year. The asking rents varied depending on the location of the facility, the volume of leased space and other terms of the lease. The highest rates were recorded in the western, north-western and southern directions, the lowest – in the eastern and south-eastern directions of the Moscow region.

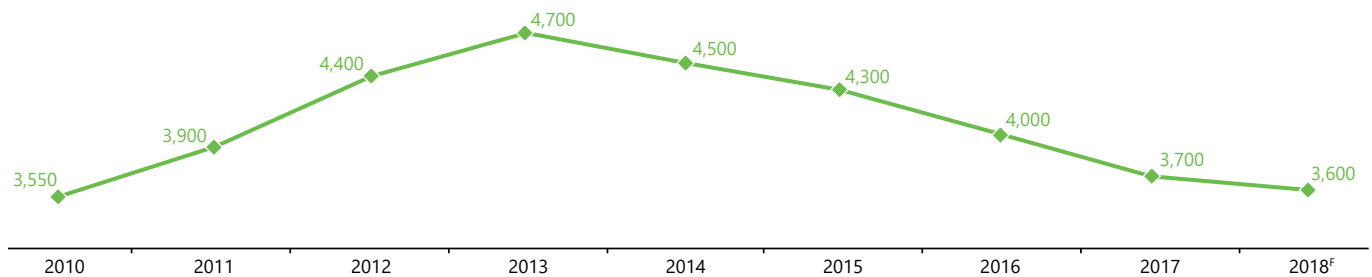
In 2017, the selling price of a built-to-suit project from 10,000 sq m was in the range of 30,000–35,000 rub./sq m, excluding VAT. It should be noted that the construction cost of a built-to-suit warehouse complex for sale with an area of less than 10,000 sq m was 35,000–40,000 rub./sq m, excluding VAT.

Asking rental rates and demand volume by directions of Moscow region



Source: Knight Frank Research, 2018

Dynamics of average asking Class A rental rates for warehouses in the Moscow region, rub./sq m/year



Source: Knight Frank Research, 2018

Key indicators of the warehouse market of the Moscow region

Index	2013	2014	2015	2016	2017
Quality supply volume at the end of the period, thousand sq m	9,603	11,240	11,957	12,789	13,359
Delivery, thousand sq m	763	1,637	717	709	570
Transaction volume, thousand sq m	1,280	911	1,231	1,099	1,196
Vacancy rate, %	1.9%	9.2%	9.4%	9.3%	7.8%
Average asking rental rate for Class A warehouse complexes, rub./sq m/year	4,700*	4,500	4,300	4,000	3,700

Source: Knight Frank Research, 2018



## Forecast

According to forecasts of Knight Frank analysts, the new construction volume of 2018 will exceed the indicator of 2017 rising to 800,000–900,000 sq m. Most of the facilities declared for commissioning in 2018 will be completed in built-to-suit format or with the involvement of the general contractor on their own land plots. Therefore, the share of speculative warehouses will not exceed 50% of the total volume of new space in 2018.

In 2017, the light industrial format began to actively spread at the warehouse real estate market of the Moscow region. This format implied the division into small units and was mostly in demand within the limits of the city or in the immediate vicinity of the Moscow Ring Road. However, some developers started to implement small-size warehouses far from the Moscow Ring Road. Delivery of some of these projects scheduled for 2018.

Despite the fact that the bulk of the demand structure was formed by the online-retail segment by the end of 2017, we believe that the retail segment will be in charge of the bulk of transactions in 2018, leasing space in completed warehouses, and completing transaction on construction of their own facilities.

Provided that the demand for completed units remains stable, the vacancy rate will continue to decline gradually and will be fixed at 6–6.5% by the end of 2018.

In connection with the entry into the market of a large number of facilities with asking rental rates below the market average in the first half of 2018, we assume that the asking rental rate will go down to 3,600 rub./sq m/year.



Alexander Nikishov,  
commercial director of Stroitelny Al'yans holding

**KF:** *In your opinion, will the format of light industrial warehouses be much-in-demand at a distance of 20–40 km from the Moscow Ring Road?*

**A. N.:** *First of all, the format of light industrial is not just the division into small units. These are professional production and storage facilities, radically different from Class A warehouses.*

*The demand for this format in the immediate vicinity of the Moscow Ring Road can be argued. The European experience is, indeed, the concentration of such facilities close to large megacities, but the Russian experience is different. In the Moscow region there are cities (for example, Podolsk, Domodedovo, Chekhov, Elektrostal, etc.), which are located 30–50 km from Moscow, but they will be*

*very interesting to light industrial customers, because they have historically formed infrastructure favourable for creation and development of business.*

**KF:** *Do you plan to put into operation warehouses of small format in 2018?*

**A. N.:** *There have been multi-parks in Europe for a long time, where all formats of industrial real estate perfectly coexist with each other, but there is not a single real multi-park in Russia. Stroitelny Al'yans holding is developing it already, it will be ready in 2018 in the south of the Moscow region, where there will be together light industrial, industrial, logistics, and a pharmaceutical cluster. This will be the first and only multi-park in the Russian Federation at the moment.*

### The largest properties planned for delivery in 2018 in the Moscow region

Property	Developer	Area, sq m
Wildberries distribution centre	A Plus Development	145,000
Auchan distribution centre	Radius Group	138,000
Warehouse complex	A Plus Development	90,000
Utkonos distribution centre	Orientir	71,000
Major warehouse terminal, phase 2	Standart Proekt LLC	57,300
Operator kommercheskoy nedvizhimosti distribution centre	PNK Group	52,000
Dmitrov Logistics Park, block D	Ghelamco	50,000
Borisovsky terminal, phase 2	Promtechalians	35,000
Svitino warehouse complex	VS Nedvizhimost	27,000

Source: Knight Frank Research, 2018



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