

RESEARCH



HI 2019
**WAREHOUSE
MARKET
REPORT**
Moscow



HIGHLIGHTS

As of H1 2019, the total new delivery amounted to 413,000 sq m.

More than 52% of all newly delivered properties in H1 2019 were built speculatively.

The vacancy rate had been declining and amounted to 3% or 456,000 sq m in H1 2019.

The average weighted rent rate for Class A warehouses amounted to 3,750 rub./sq m/year in H1 2019.

WAREHOUSE MARKET REPORT MOSCOW



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«The growth of the average transaction size along with the increasing total take-up and the number of deals are currently in trend. This indicates the clients' being prepared to follow up with their plans. Considering the declining vacancy rate as well as the gradual growth in rent rates and sale prices, they are preserving the current market conditions. This trend is set to be continued in H2 2019».

Key indicators. Dynamics

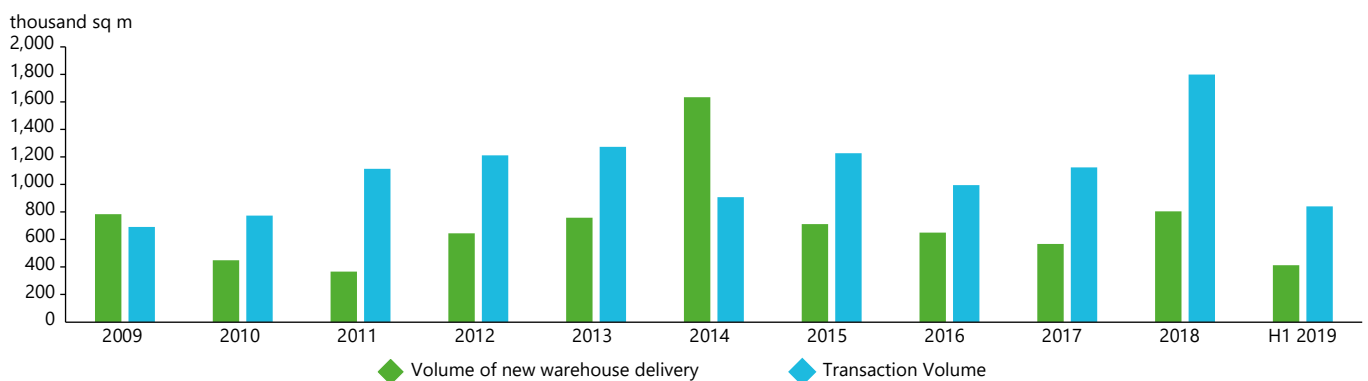
	H1 2018	H1 2019	H2 2019 (F)
Total supply volume of quality warehouse space, thousand sq m	13 618	14 880	▲
New delivery, thousand sq. m	259	413	▲
Lease and purchase transaction volume, thousand sq m including:	875	841	▲
Lease and purchase in delivered facilities	830	633	
construction of new facilities	45	208	
Vacancy rate, %	6,1	3	▶
Class A average weighted asking rent rate, RUB/sq m/year*	3 600	3 750	▲
Operating expenses range, RUB/sq m/year, no VAT**	900–1 200	900–1 250	▶
Average asking price range for purchasing completed Class A warehouse, rub/sq m/year, no VAT**	30 000–35 000	32 000–36 000	▲

* Hereinafter, asking rent rate for a standard Class A dry warehouse with no VAT, operating expenses, and utility charges.

** Hereinafter, operating expenses range for a standard Class A dry warehouse.

Source: Knight Frank Research, 2019

New delivery and transactions volume



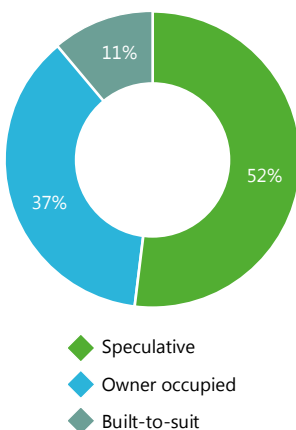
Source: Knight Frank Research, 2019

Supply

As of H1 2019, 413,000 sq m of warehouse properties were delivered to the market of the Moscow region. The total stock therefore amounted to 14,880,000 sq m.

In the structure of new delivery, the largest share accounts for speculative* properties (52%, which is by 16 percentage points more than a year ago). The cumulative area of these properties amounts to 216,000 sq m. The growth in the share of speculative warehouses was set against a high quarterly take-up, which had been recorded for the market of the Moscow region since Q3 2017 at the pace of at least 400,000 sq m of warehouse properties per quarter. The strong demand along with the low vacancy rate were the key factors that inspired developers to go ahead with their speculative projects. Over the past six months, there was a drop in the share of the warehouses intended for end-use in the structure of new development. As of H1 2019, the share of such properties decreased by 11 percentage points to 37% or 150,000 sq m in figures. The share of end-user properties in the structure of new development mostly featured the properties built for manufacturers. The share of built-to-suit properties accounted for only 11% of all new development volume. Due to the low vacancy rate along with the strong demand, which has been recorded for the market of the Moscow region since the beginning of 2018, the market players have been increasingly interested in speculative development. The trend is forecast to continue throughout the end of H1 2020.

Distribution of new supply by type



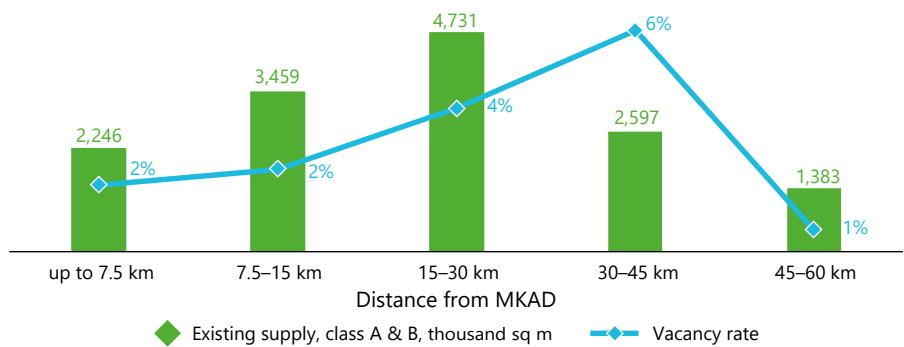
Source: Knight Frank Research, 2019

Largest properties delivered to the warehouse market of the Moscow region in H1 2019.

Property name	Total area, sq m
IKEA Distribution Centre	90,000
LC «Vnukovo-II»	52,000
LC «Vnukovo-II», block 11, 12,13,14	50,000
Wildberries Distribution Centre, phase 1	48,900
«PNK Park Novaya Riga»	29,925
LC «Svitino»	26,745
LC «Mikhailovskaya Sloboda», Bldg 3	23,200
«PNK Park Valischevo», block 10	16,596
«PNK Park Sofyino», block 1	16,000

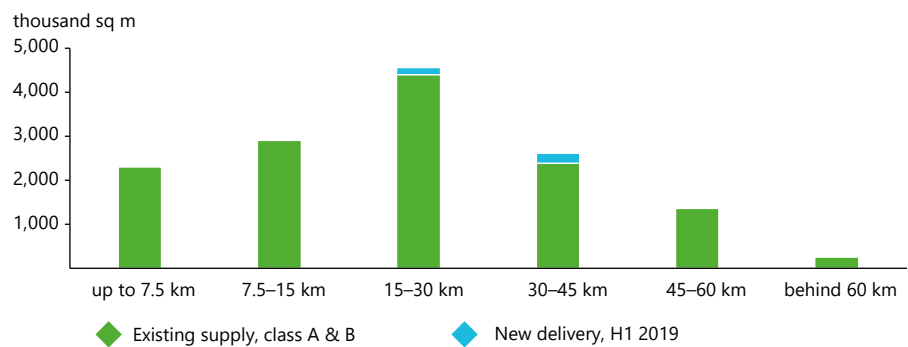
Source: Knight Frank Research, 2019

Distribution of the quality warehouse stock and vacancy rate



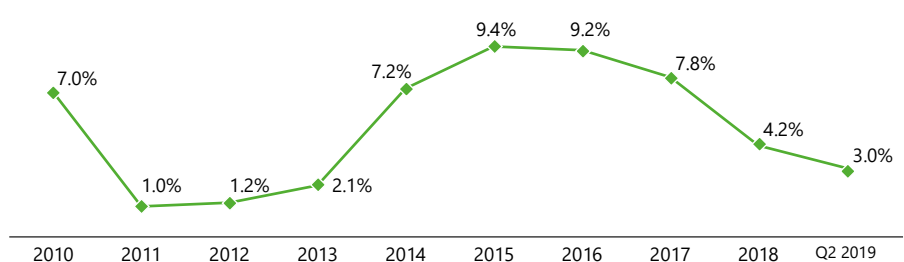
Source: Knight Frank Research, 2019

Quality warehouse stock distribution by distance from MKAD



Source: Knight Frank Research, 2019

Vacancy rate fluctuations in Moscow Region



Source: Knight Frank Research, 2019

* Speculative property is that with a developer acting as a manager of the construction, who also invests own funds into the property and carries all the risks throughout all the stages of elaboration of the project.

Ninety percent of the total stock of quality warehouse property in the Moscow region are located within the 45-kilometer zone outside of the Moscow Ring Road, which is the equivalent of 12 million sq m in figures. Most of the stock is located within the area from 15 to 30 km from the Moscow Ring Road. That entails 4.7 million sq m or 33% of the total stock. The vacancy rate amounts to 4% or 175,000 sq m in this location. The minimal volume of supply as well as the lowest vacancy rate are recorded for the area within 7.5 km from the Moscow Ring Road or farther than 45 km from the Moscow Ring Road. The total volume of supply located within 7.5 km from the Moscow Ring Road amounted to 2.2 million sq m, with the vacancy rate amounting to about 2% or 38,000 sq m. The properties located farther than 45 km from the Moscow Ring Road feature the lowest vacancy rate of 1% or less than 10,000 sq m.

The smallest share of warehouse development (about 3% or 12,000 sq m) was recorded for the area within 7.5 km from the Moscow Ring Road in H1 2019. An insignificant amount (only 3%) of all newly delivered properties were situated within 7.5 to 15 km from the Moscow Ring Road, which is less than 12,000 sq m in figures. Thirty-nine percent of all new properties were delivered within 15 to 30 km from the Moscow Ring Road, which is about 162,000 sq m. The area from 30 to 45 km from the Moscow Ring Road featured the largest growth in supply over H1 2019, which amounted to 55% or 228,000 sq m.

The developers of major projects keep going farther from the Moscow Ring Road, as far as 45 km. The developer activity near Moscow (up to 15 km from the Moscow Ring Road) is still minimal due to the high cost of land in the location as well as the fact that they prefer to consider such land plots for residential properties such as apartment buildings. The developer activity at farther than 60 km from the Moscow Ring Road is also scarce. Thus, not a single property was delivered in this area in H1 2019. This is due to the feeble demand for such distant properties.

The vacancy rate has significantly dropped over H1 2019. It decreased almost twice yoy (from 6.1% to 3%), which is the lowest since 2013. The vacancy rate amounted to about 456,000 sq m in figures.

Demand

As of H1 2019, the total volume of transactions with warehouse properties amounted to about 842,000 sq m in the Moscow region.

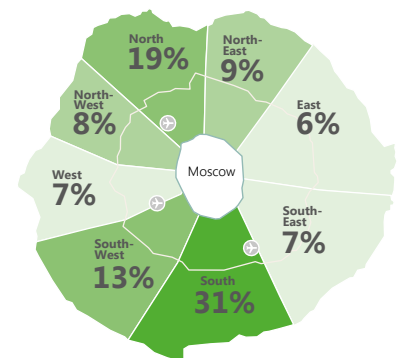
As of H1 2019, over 30% of the total volume of transactions or about 254,000 sq m accounted for the south of the Moscow region, about 19% or 161,000 sq m – for the north, 13% or 111,000 sq m – for the southwest, and 7% or 54,000 sq m – for the southeast of the region. The east and the southeast of the region saw the lowest market activity. The demand amounted to 6% to 8% of all trading volume, for these locations.

As of H1 2019, the largest amount of deals (75% or about 633,000 sq m) were signed with completed buildings, 17% of all deals or 140,000 sq m accounted for the sale of completed buildings, while 8% accounted for built-to-suit transactions. The average rental area in a completed property amounted to about 16,000 sq m, which is a 1.3-time growth as compared to the figure of H1 2018. This is due, among the rest, to the delivery of a large number of new quality speculative warehouse premises in 2018, which were popular with the tenants in H1 2019.

As of the first six months of 2019, the retailers took the leading position in the structure of demand, having rented and purchased about 253,000 sq m of warehouses. The largest deal of the sector was the rent of 87,000 sq m by VkusVill chain of stores in PNK Park Veshki Multitemperature Distribution Center. Another top transaction was the rent of about 35,000 sq m by Sportmaster in Kholmogory Industrial Park. The second place in the structure of demand was reported for the sector of transport and logistics. The volume of transactions of the sector amounted to about 221,000 sq m in H1 2019. The third place was preserved by the sector of manufacturing companies. The total volume of transactions of the sector amounted to about 215,000 sq m.

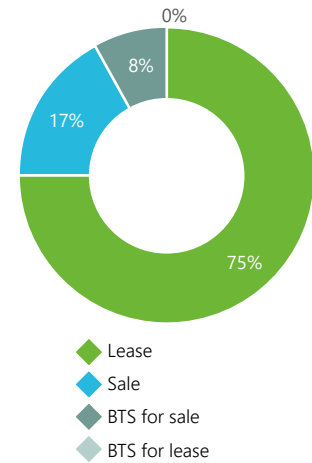
The average area of rent and sale transactions grew over H1 2019, which is a sign of the clients' being prepared to go ahead with their plans for developing their businesses. This trend is set to continue throughout H2 2019 along with the desire to purchase a warehouse at the current prices while expecting the further growth of the rent rates caused by the currently low vacancy rate.

Distribution of lease/sale transactions by direction, H1 2019



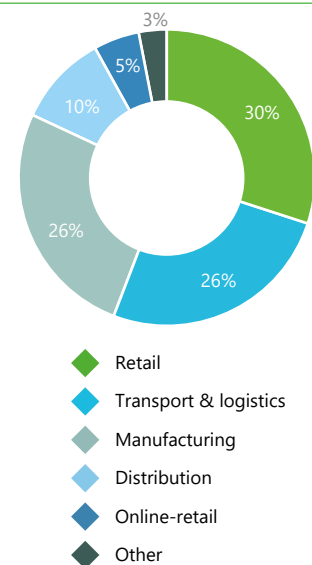
Source: Knight Frank Research, 2019

Distribution of transactions by types, H1 2019



Source: Knight Frank Research, 2019

Distribution of transactions by tenant/buyer, H1 2019



Source: Knight Frank Research, 2019

The largest transactions in H1 2019

Quarter	Tenant/ buyer	Sector	Property	Total area, sq m	Transaction type
Q2	VkusVill	Retail	PNK Park Veshki	108,064	Lease
Q1	Mistral	Manufacturing	PNK Park Koledino	53,500	Sale
Q1	Pochta Rossii	Transport & logistics	Vnukovo II warehouse complex	50,000	Sale
Q2	Yandex. Market	Online-retail	Sofyino warehouse complex	39,131	Lease
Q1	Sportmaster	Retail	Kholmogory industrial park	35,044	Lease

Transaction assisted by Knight Frank
 Source: Knight Frank Research, 2019

Commercial terms

It is for the first time over a long period that the rent rates are growing in the warehouse property market of the Moscow region, as the vacancy rate is set for a considerable decline. The vacancy rate has grown by 2.7% to 3,750 rub./sq m/year with no VAT, operating expenses, and utility charges included, since the beginning of 2019.

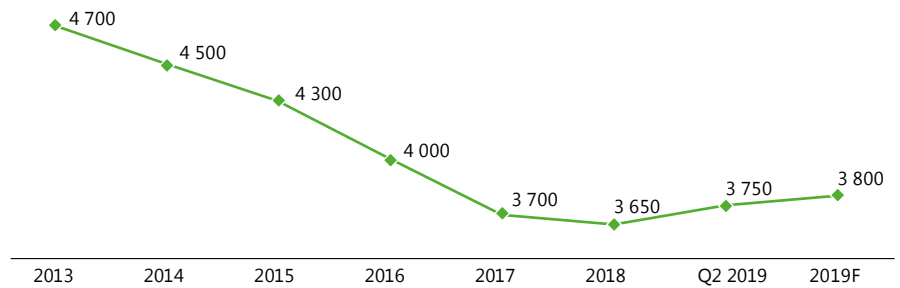
Forecast

According to Knight Frank Research, about 600,000 sq m of warehouse property are forecast to be delivered to the Moscow region in H2 2019, over a half of which are being constructed as built-to-suit properties.

The volume of rent and sale transaction with quality warehouse property is likely to amount to about 1,400,000 sq m in the Moscow region by the end of 2019. The structure of demand is not expected to undergo any significant changes. Thus, the retailers will maintain the leading position.

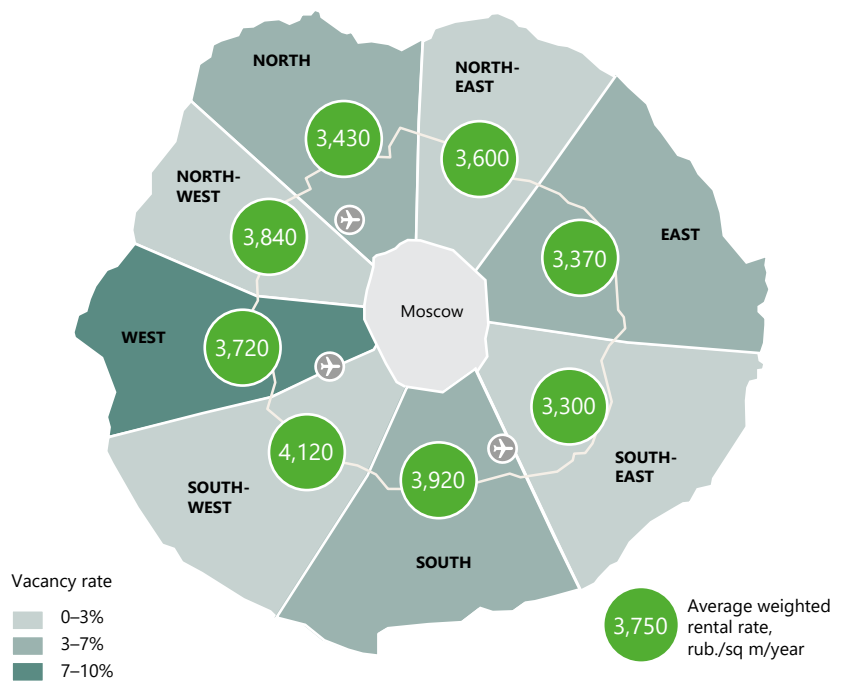
The vacancy rate will remain on the current level of 3% throughout the end of 2019, despite the forecast growth in the trading volume and the share of built-to-suit properties in H2 2019. This is due to the fact that an array of companies are currently building their own distribution centers. Upon the completion of the construction, the companies will be moving out of the premises they are currently occupying making them available for other tenants. There will also be some speculative properties in the market, which will be available for rent in H2 2019.

Asking rent rate for Class A warehouses, rub./sq m/year triple net, Moscow Region



Source: Knight Frank Research, 2019

Average weighted asking rental rates and vacancy in the directions of the Moscow region



Source: Knight Frank Research, 2019

WAREHOUSE MARKET REPORT MOSCOW

Against the backdrop of the low vacancy rate, a number of developers and quality warehouse property owners will continue reconsidering their commercial terms for completed properties. Due to this we expect a gradual growth in the average asking rent rate for quality warehouse property in the Moscow region by the end of the year.

This trend was set back in 2018, when the total volume of transactions signed in the Moscow region over the calendar year amounted to 1.8 million sq m, while the figure stood at over 2.38 million sq m throughout Russia. The trend is going on in 2019, as is evidenced by the decrease in the vacancy rate by 3.1 percentage points as compared to H1 2018. Taking into consideration the mentioned factors,

we forecast an increase in the average weighted rent rate to 3,800 rub./sq m/year by the end of 2019. The market of the Moscow region is currently at the beginning of the rental growth cycle. The growth is expected to continue in 2020, due to both the increase in the cost of construction and the growth in the share of built-to-suit properties in the structure of new development in H2 2019.

Largest warehouse projects in pipeline for H2 2019

Property name	Developer	Total area, sq m
PNK Park Belyi Rast, Leroy Merlin distribution centre	PNK Group	145,000
PNK Park Valischevo, bldg. 12 (Lenta)	PNK Group	70,000
Sofyino logistic park, block 3.1	Logopark Management	53,000
Sofyino logistic park, block 3.2	Logopark Management	41,069
Wildberries distribution centre, 2 phase	A Plus Development	39,158
Mikhailovskaya Sloboda warehouse complex, block 4	Meridian	23,200

Source: Knight Frank Research, 2019



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