

Q3 2017

WAREHOUSE MARKET REPORT

Moscow



HIGHLIGHTS

Above **240,000** sq m of warehouse space were completed on the Moscow region market in Q1–Q3 2017.

The vacancy rate decreased to 9.2% or **1,187,000** sq m in Q3 2017.

The transaction volume was 12% higher against last year's figure getting to **818,400** sq m in Q1–Q3 2017.

In Q3 2017 the average rental rate for quality Class A warehouse properties was equal to **3,700** rub./sq m/year.



Vladislav Ryabov

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

"Positive trends in the warehouse real estate segment of Moscow region became even more apparent in Q3 2017. First, online retailers Wildberries and Utkonos completed the largest transactions of this year for the construction of their own distribution centres. Second, PNK Group and Orientir developers announced the launch of three new projects affected by the declining vacancy rate. Two of these projects are located on Novorizhskoe highway. Thus, the western direction of Moscow region will be extended with the new quality warehouses in the nearest future.

Interestingly, we expect a traditional level of stable demand of 1 million sq m by the end of 2017 and within the next 2018.

All these factors will lead to the vacancy rate reduction and the revival of speculative development trend."

WAREHOUSE MARKET REPORT MOSCOW

Key indicators

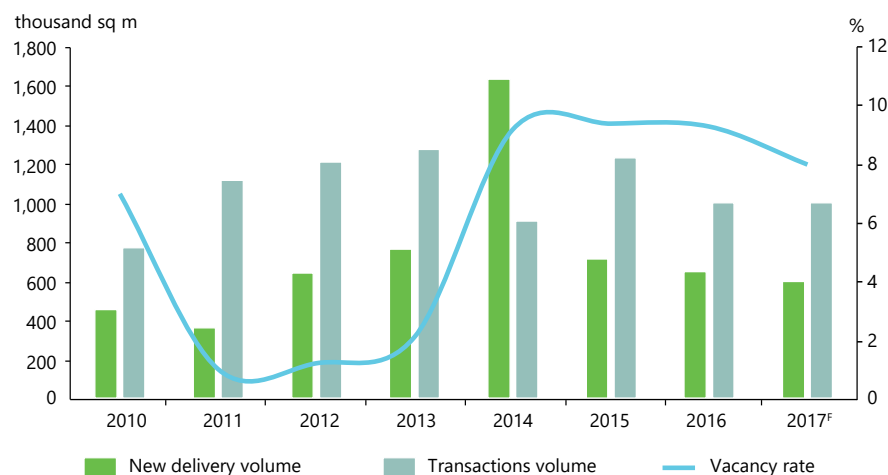
	Class A	Class B
Total quality supply volume, thousand sq m	12,904	
including, thousand sq m	10,950	1,954
New delivery in Q1–Q3 2017, thousand sq m	238.9	
including speculative delivery, thousand sq m	137.4	
Transaction volume in Q1–Q3 2017, thousand sq m	818.4 ▲	
Vacancy rate, %	9.2 ▼	
Asking rental rates*, rub./sq m/year	3,700 ▼	2,900 ▼
Operational expenses, rub./sq m/year	1,000 ▶	800 ▶
Asking selling price**, rub./sq m	30,000–35,000	

* 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, 2017

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



Source: Knight Frank Research, 2017

Supply

According to the results of 9 months of 2017 above 240,000 sq m of warehouse premises were delivered to the market of Moscow region, which was half the size of the delivery volume of the same period in 2016. 45% of the total volume of commissioned facilities were situated in the northern direction of Moscow region, 40% – in the southern.

The largest speculative facility put into operation in Q3 2017 was the first phase of Borisovsky warehouse terminal¹ with a total area of about 33,000 sq m. Some more large speculative properties commissioned in Q3 2017 were buildings C2 and C3 with an area of 14,455 sq m and 11,140 sq m, respectively, implemented by Ghelamco as part of Dmitrov warehouse complex.

62% of the total volume of facilities delivered in Q1–Q3 2017 were located at a distance of up to 35 km from the Moscow Ring Road.

In Q3 2017 vacancy rate decreased by 2.5 p.p. amounting to 9.2%, which was equivalent to 1,187,000 sq m in absolute terms. The vacancy rate drop was caused by a limited number of speculative projects brought to the market, as well as by the fact that the main share of transactions from Q1 to Q3 2017 (about 74%) was completed in the existing facilities.

Demand

The overall volume of transactions in Q1–Q3 2017 ran up to about 818,400 sq m – increasing the same indicator of 2016 by 12%. The average transaction size set equal to 15,000 sq m for the 9 months of 2017.

The largest volume of transactions was concluded in the southern and northern directions of Moscow region.

The largest Q3 2017 transaction in the southern direction of Moscow region was concluded between the online-retailer Wildberries and the development company A Plus Development for the construction of a distribution centre with a total area of about 146,000 sq m. The online-retailer Utkonos signed a purchase agreement for the built-to-suit of its own distribution centre with an area of about 69,000 sq m in the northern direction of the Moscow

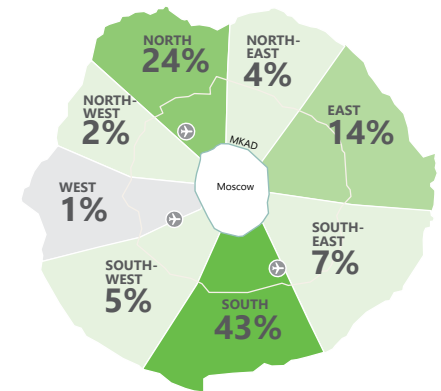
region. Thus, the top share in the structure of demand of Q1–Q3 2017 was generated by online-retailers.

However, the largest share of the demand structure is formed by retail and distribution segments from the point of view of the dynamics of transactions distribution over the past 10 years.

The largest transaction in the retail segment in 2017 was the lease of about 45,000 sq m by X5 Retail Group within the Orientir Sever 2.

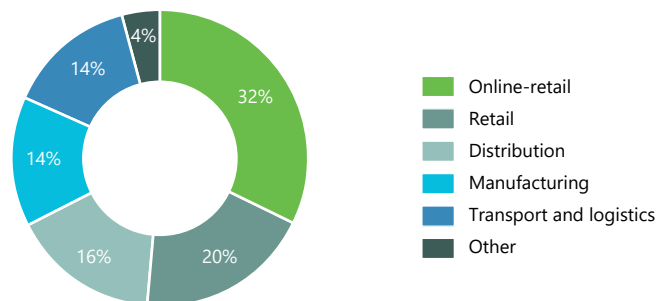
The share of distributors in the demand structure in Q1–Q3 2017 was 16% or 132,000 sq m in absolute terms, while the share of manufacturing segment was 14.3% or 117,000 sq m. One of the major transactions in the segment of manufacturing companies was the lease of about 8,200 sq m by the agro-holding Ecocultura² within Borisovsky warehouse terminal.

Distributions of transactions in Moscow region by directions, Q1–Q3 2017



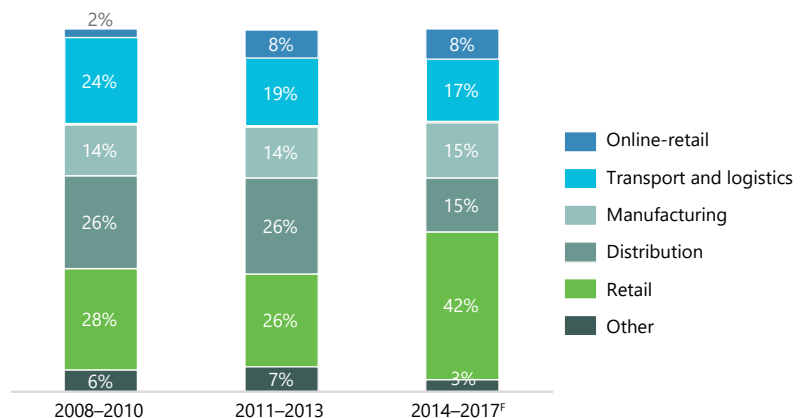
Source: Knight Frank Research, 2017

Distribution of transactions by tenant/buyer in Moscow region, Q1–Q3 2017



Source: Knight Frank Research, 2017

Dynamics of distribution of transactions by tenant/buyer in Moscow region



Source: Knight Frank Research, 2017

¹ Exclusive project of Knight Frank

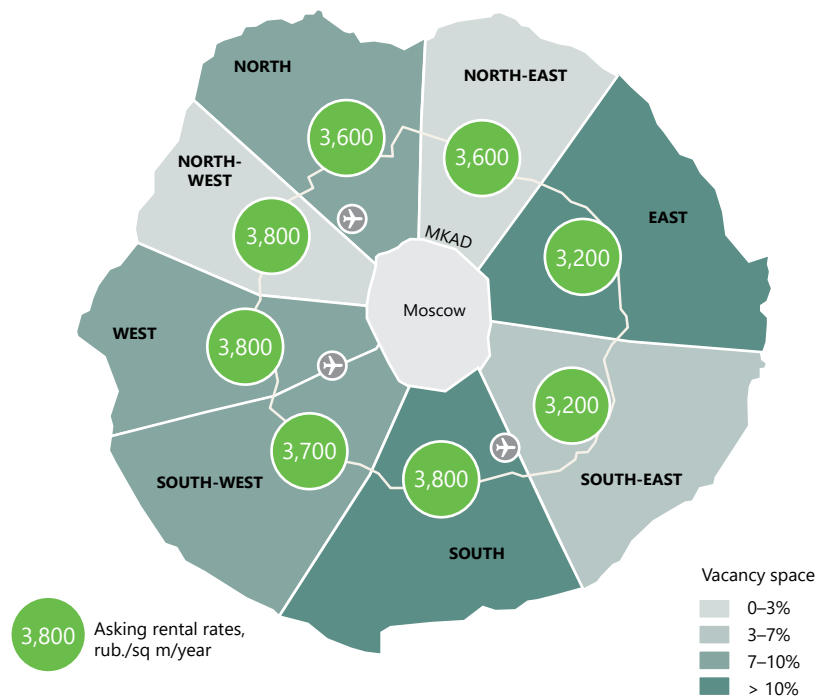
² Transaction assisted by Knight Frank

Commercial terms

The average rental rate for quality Class A warehouse properties amounted to 3,700 rub./sq m/year within Q1–Q3 2017 and it varied depending on the location of the facility, the volume of leasable area and other terms of the lease. The lowest rates were observed in the eastern part of Moscow region owing to the least developed transport infrastructure.

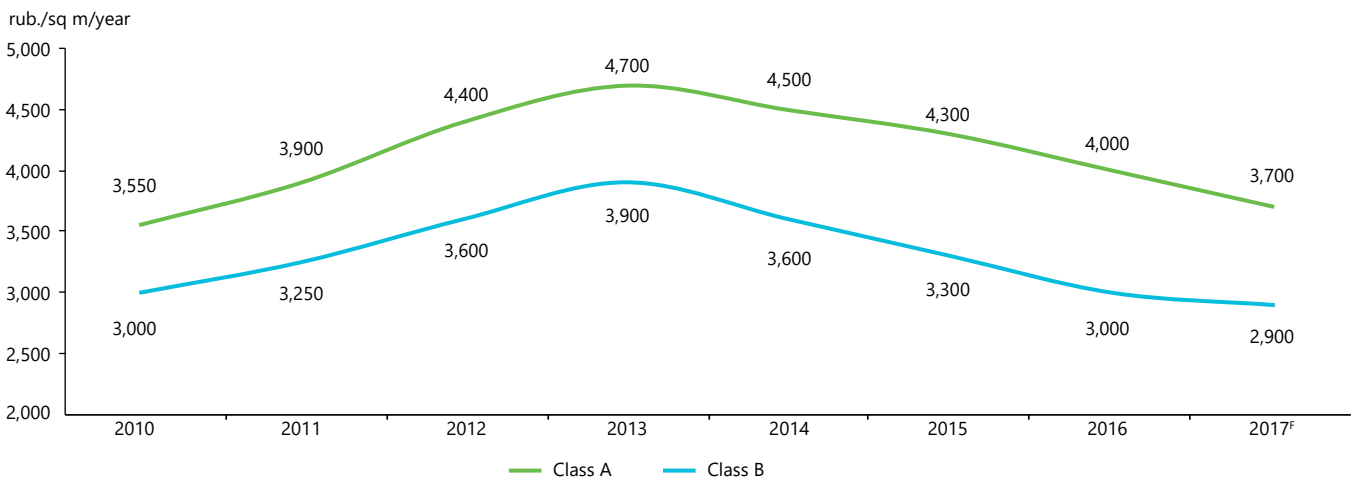
The average asking selling price for a BTS project from 10,000 sq m in Q1–Q3 2017 was at the level of 30,000–35,000 rub./sq m and varied depending on the construction volume, the availability of chambers with different temperature zones and other technical characteristics of the building. The construction cost of a building up to 10,000 sq m was in the range of 35,000–40,000 rub./sq m.

Asking rental rates and vacancy by the directions of Moscow region



Source: Knight Frank Research, 2017

Dynamics of average asking rental rates for warehouses of Moscow region



Source: Knight Frank Research, 2017

New in construction

Modern technologies allow developers to reduce construction costs and optimize the duration of the project. If we compare a Class A warehouse constructed in 2007 and in 2017, the changes will be detected both in the design and structural features of the building. Latest technologies enable developers to apply 3D modelling rather

than to design on paper, which cuts down the deadline for making changes to the project. Sandwich panels are used for the construction of new warehouse complexes, they keep heat in the cold season and do not run hot in the heat allowing to reduce the cost of utility bills. Some developers streamlined the construction technology

of a warehouse, developing a standard product that can be sold for a fixed price and in the shortest possible terms (5–6 months).

Forecast

According to our projections by the end of 2017 the total delivery volume of quality warehouse space in Moscow region will be about 500,000 sq m. Remarkably, lots of properties are being occupied at the construction stage, thus characterizing the warehouse real estate market as steadily developing and profitable for investment.

Due to the low delivery volume and stably high demand, the vacancy rate will slide to 8% by the end of 2017, new large projects will start to approach the market. A number of large developers have already announced plans for the construction of both speculative and built-to-suit warehouse complexes in Moscow region in 2018. For example, PNK Group announced the launch of PNK Park Zhukovsky and PNK Park Novaya Riga with an area of about 500,000 sq m and 300,000 sq m, respectively. Orientir company began the construction of a logistics park Orientir Zapad on Novorizhskoe highway of about 400,000 sq m, while A Plus Development plans to develop its land plot at Simferopolskoye highway in 2018. Thus, the total delivery volume of 2018 will exceed the figure of 2017.

The total transaction volume will reach about 1 million sq m by the end of 2017 or will be slightly higher than this figure. The main demand volume of 2017 will be generated by retail and online-retail segments due to two major transactions completed by online retailers in Q3 2017.

The average asking rental rate for quality Class A properties of Moscow region will not rise, maintaining the level of 3,700 rub./sq m/year. This steadiness is due to the fact that major amount of vacant space is preserved in the highly competitive market of Moscow region.

Major properties planned for delivery by the end of 2017

Property	Developer	Area, sq m
PNK Valischevo warehouse complex, bld. 2, 6, 7	PNK Group	50,100
Vnukovo 2 warehouse complex, Phase 2	Logistic Partners	49,000
Orientir Sever 2, bld. 4	Orientir	43,104
PNK Sofiino warehouse complex, bld. 1, 2	PNK Group	35,100

Source: Knight Frank Research, 2017

Key indicators of the warehouse market of Moscow region

Index	2013	2014	2015	2016	2017f
Quality supply volume at the end of the period, thousand sq m	9,603	11,240	11,957	12,666	13,166
Delivered, thousand sq m	763	1,637	717	709	500
Transaction volume, thousand sq m	1,280	911	1,231	1,099	1,000
Vacancy rate, %	1.9%	9.2%	9.4%	9.3%	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, 2017



Warehouse complex Borisovskiy, Moscow, Simferopol'skoe, 10 km from MKAD



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