

RESEARCH



Q3 2019

WAREHOUSE MARKET REPORT

Moscow



HIGHLIGHTS

Over the first nine months of 2019, 552,000 sq m of high-quality warehouse property were delivered to the market, which is by 21% more than a year ago.

The average weighted rent rate for high-quality warehouse property amounted to 3,800 rub./sq m/year in Q3 2019.

The vacancy rate stood at 2.8% or 430,000 sq m in Q3 2019.

The trading volume amounted to 1,139,000 sq m over Q1–Q3 2019, which is 16% less than last year.

WAREHOUSE MARKET REPORT MOSCOW



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“There is a trend of the growing share of the re-sales deals in the total trading volume that is set to go on in Q4 2019. Thus, while the share of the transactions with new-builds used to amount to 56% of all deals in 2017, it dropped to 46% of all deals over the first nine months of 2019. The share of BTS transactions keeps growing as well. It rose by 4 p.p. to 18% of all deals in Q3 2019 as compared to 2018.”

Key indicators. Dynamics

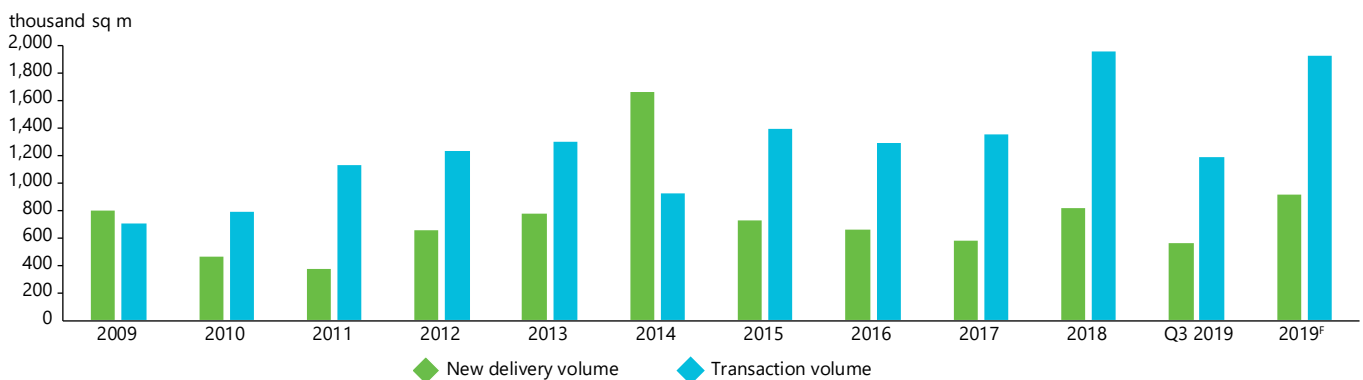
	Q1–Q3 2019	Q1–Q3 2018
Total supply volume of quality warehouse space, thousand sq m	15,428	13,817
New delivery, thousand sq. m	552 ▲	458
Lease and purchase transaction volume, thousand sq m including:	1,139 ▼	1,321
Lease and purchase in delivered facilities	936	1,064
construction of new facilities	203	257
Vacancy rate, %	2.8 ▼	5.4
Class A average weighted asking rent rate, RUB/sq m/year*	3,800 ▲	3,600
Operating expenses range, RUB/sq m/year, no VAT**	900–1,300 ▶	900–1,300
Average asking price range for purchasing completed Class A warehouse, rub/sq m/year, no VAT**	33,000–40,000 ▲	30,000–35,000

* 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

Dynamics of new delivery and transaction volume



Source: Knight Frank Research, 2019

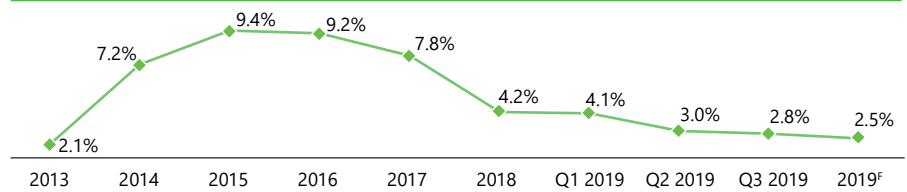
Supply

As many as 166,800 sq m were delivered to the warehouse property market of the Moscow region in Q3 2019, which took the cumulative delivery of high-quality warehouse premises to 552,000 sq m over the first nine months of 2019. All of them were located within 19 properties. The total area of all delivered properties so far was 21% more than that of the first nine months of 2018. The largest newly delivered property in Q3 2019 was PNK Park Valishchevo, Lenta (building 12), area amounting to 70,000 sq m. The total supply of high-quality warehouse property amounted to 15,428,000 sq m in the Moscow region in Q3 2019.

As of the first nine months of 2019, 56% or 309,000 sq m of high-quality warehouse property were delivered to be leased speculatively in the public market. Among them, 31% or 172,900 sq m were the properties built on owned land plots according to the turnkey contract scheme, while another 13% or 70,000 sq m accounted for built-to-suit properties. About 200,000 sq m more built-to-suit warehouse premises are expected to be delivered by the end of the year, which generally matches the figures of 2018.

Despite the growth of new construction in 2019 as well as the solid demand for warehouse property located in the Moscow region translated into the record high trading volume over the past 10 years in 2018–2019, the vacancy rate keeps declining. It has dropped by 1.4 p.p. since the beginning of the year and amounted to 2.8% or 430,000 sq m in figures in Q3 2019.

Vacancy rate



Source: Knight Frank Research, 2019

Vacancy rate by the directions, Q1–Q3 2019

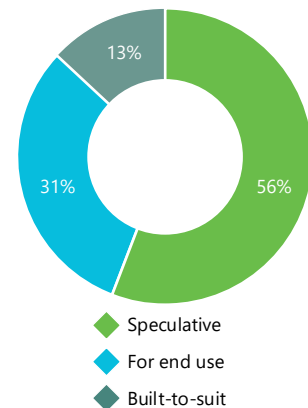


Source: Knight Frank Research, 2019

The vacancy rate is set to keep decreasing throughout the end of 2019 and, according to Knight Frank, will eventually amount to 2.5%.

The highest vacancy rate of about 114,000 sq m was reported for the

Distribution of completed in 2019 warehouse buildings by type of constructions



Source: Knight Frank Research, 2019

south-west of the Moscow region in Q3 2019, about 65,000 sq m accounted for the west, and about 58,000 sq m were recorded for the north. There was no vacant supply of high-quality warehouse spaces in the northeast.

The largest properties delivered to the market of the Moscow region in Q1–Q3 2019

Title	Quarter	Total area, sq m
Logistics Partners Vnukovo Bldg2	Q2	100,000
IKEA Distribution Center	Q2	90,000
PNK Park Valishchevo, bldg. 12 (Lenta)	Q3	70,000
Wildberries Distribution Center, phase 1	Q1	48,900
Sofyino logistic park, block 3.1	Q3	41,069
PNK Park Novaya Riga	Q1	29,925
Mikhailovskaya sloboda warehouse complex, blok 3	Q1	23,200
Asahi Glass (AGC), warehouse	Q3	22,000

Source: Knight Frank Research, 2019

Demand

As of Q1-Q3 2019, the cumulative trading volume with the warehouse property amounted to 1,139,000 sq m, which is 16% less than last year. About 288,000 sq m of warehouse premises were leased or purchased namely in Q3 2019. Q4 of a year is historically the busiest period in terms of the number of deals in the commercial property market, including the warehouse property market. That considered, in 2019, the volume of transactions in the high-quality warehouse property market is forecast to match that of 2018, when it amounted to more than 1.8 million sq m.

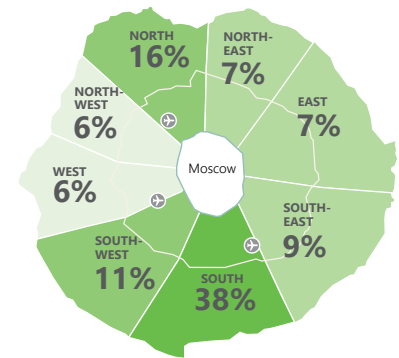
The largest amount of transactions accounted for the lease deals (around 65% or 745,000 sq m) over the first nine months of 2019. An average lease deal area amounted to 10,100 sq m. The share of the deals involving sales of completed buildings amounted to 17% or 191,000 sq m in figures over Q1-Q3 2019. The share of built-to-suit transactions stood at 18% of all trading volume or 203,000 sq m over the first nine months of 2019. The largest built-to-suit transaction was the rent of 108,000 sq m by VkusVill in PNK Park Veshki. In general, a decrease in the share of the deals with new-built properties was recorded, with a shift toward the re-sales market.

That was due to, among others, a decline in the new deliveries. Thus, the share of lease transactions with newly built properties had dropped by more than 20 p.p. since 2015 and amounted 46% in Q3 2019. At the same time, the share of speculative lease in the new-builds market decreased by 20 p.p. to 44% of all deals involving new properties. The demand for new-builds is shifting towards the warehouses that are being built to custom specifications (built-to-suit) as well as the warehouses located on owned land plots that are being constructed according to the turnkey contract scheme.

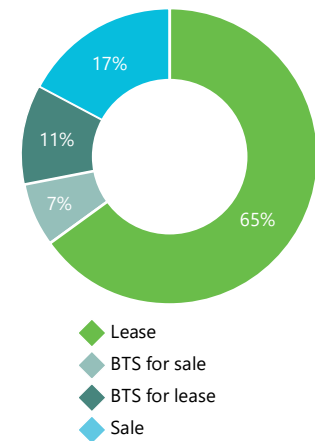
As of the first nine months of 2019, the most sought-after directions of the Moscow region were the south and the north, with their share of almost 55% of all deals (38% and 16% accordingly). As much as 11% of all trading volume accounted for lease and sales deals in the southwest.

The largest share in the structure of demand accounted for the retail sector in Q1-Q3 2019, with its one third of all deals signed over the period under consideration. Along with the VkusVill transaction, one should point out another deal, namely the lease of 35,000 sq m in Kholmogory Industrial Park by Sportmaster.

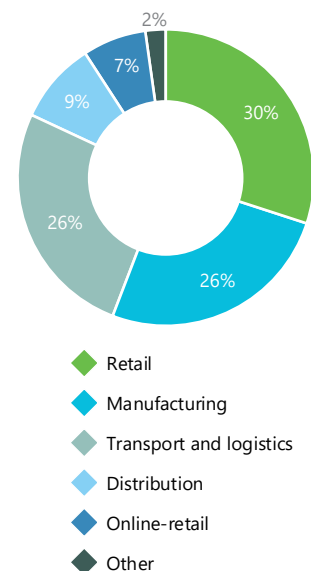
Distribution of lease/sale transactions by directions, Q1-Q3 2019



Distribution of the transactions by type, Q1-Q3 2019



Distribution of transactions by tenant/buyer, Q1-Q3 2019



Klimovsk logistic park, Simferopolskoe highway, 21 km from MKAD

Source: Knight Frank Research, 2019

The largest transactions signed in the warehouse property market of the Moscow region in Q1–Q3 2019

Quarter	Tenant / buyer	Type of company	Property / location	Total area, sq m	Type of transaction
Q2	VkusVill	Retail	PNK Park Veshki	108,064	BTS lease
Q1	Mistral	Manufacturing	PNK Park Koledino	53,500	Sale
Q1	Pochta Rossii	Transport & logistics	Vnukovo II warehouse complex	50,000	Sale
Q3	PTI	Manufacturing	Mareven Food	45,767	Sale
Q2	Yandex. Market	Online-retail	Sofyino warehouse complex	39,131	Lease
Q1	Sportmaster	Retail	Kholmogory industrial park	35,044	Lease
Q3	CSE	Transport & logistics	Tomilino Development	32,611	Lease

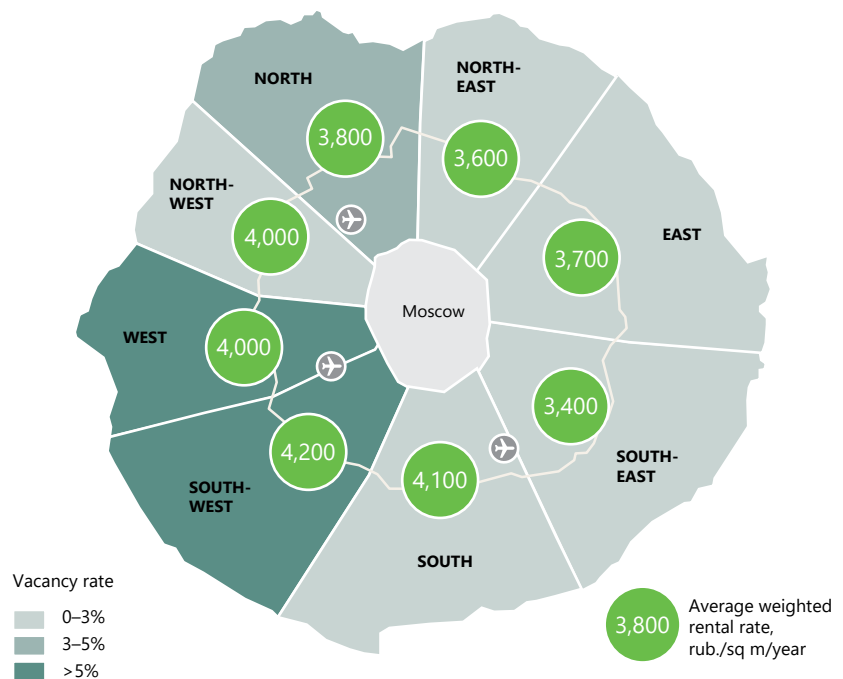
Source: Knight Frank Research, 2019

The second and the third place were taken by manufacturers as well as logistics operators and transport companies, whose share in the total trading volume amounted to 26%. Among the sector of logistics, a transaction worth attention would be the lease of 32,000 sq m by Courier Service Express in Tomilino Warehouse Complex. Online-retailers are also quite active in the market, hence a lease deal of almost 40,000 sq m rent by Yandex.Market in Sofyino Warehouse Complex, leasing agent – Knight Frank.

Commercial terms

The average weighted asking rent rate has been growing since the beginning of 2019, which it continued in Q3 2019. The figure reached 3,800 rubles per sq m per year with no VAT, operating expenses and utility charges included over the first nine months of the year. The highest rent rate was recorded for the southwest of the Moscow region and amounted to 4,200 rubles per sq m per year triple net in Q3 2019. It was followed by the west and the northwest, with the asking rent rate there amounting to 4,000 rubles per sq m per year triple net. The lowest asking rent rate was recorded for the southeast, namely 3,400 rubles per sq m per year triple net.

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



Source: Knight Frank Research, 2019

Forecast

As based on the list of the properties scheduled for delivery by the end of the year, about 350,000 sq m are to be delivered to the warehouse market in Q4 2019, which will take the total annual figure to about 900,000 sq m. The largest announced property is Severnaya Zvezda, area amounting to 140,000 sq m, which will be delivered for Leroy Merlin in PNK Park Belyi Rast. At the same time, a decrease in new warehouse property delivery to 500,000–600,000 sq m is expected in 2020.

The vacancy rate will continue declining and will amount to 2.5% by the end of 2019. Due to the low volume of new delivery, the vacancy will decrease to its minimum in 2020.

The average weighted asking rent rate is set to continue its growth and will reach 3,850 rub./sq m/year by the end of 2019. The rent rate's increase is mainly driven by the solid demand for high-quality warehouse properties as well as the growing cost of construction, which has been going on since

the beginning of 2019. The rent rate will keep on rising insignificantly in 2020 and is forecast to amount to 3,900–4,000 rub./sq m/year.

According to Knight Frank, the total trading volume is expected to amount to about 1.9 million sq m by the end of 2019, while retail operators will preserve their largest share in the structure of demand.

Major properties scheduled to be delivered by the end of 2019

Title	Developer	Area, sq m
Severnaya Zvezda, Leroy Merlin distribution center	PNK Group	140,000
Wildberries distribution center, 2 phase	A Plus Development	53,000
Mikhailovskaya sloboda warehouse complex, blok 4	Meridian	23,489

Source: Knight Frank Research, 2019



Kholmogory industrial park, Yaroslavskoe highway, 30 km from MKAD



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