



2010 WAREHOUSE REAL ESTATE

MOSCOW

Knight Frank

MAIN POINTS

- 405,000 sq m of quality warehouse space was commissioned in 2010, which is nearly 50% less than in 2009.
- A total of 800,000 sq m of warehouse premises were bought or leased in 2010, which is nearly double the amount in 2009.
- At present rates of construction and take-up, the vacancy rate for warehouse space will sink to 3% by the end of 2011.

WAREHOUSE REAL ESTATE. MOSCOW.



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2010 was not an easy year for warehouse market participants, but signs of recovery were evident. Surplus space, which accumulated in 2008–2009, was taken up thanks to increase of tenant activity. The second half of the year saw strong growth of rents, and warehouse developments now look much more profitable than a year ago, so we expect to hear of new warehouse projects in 2011–2012. A key post-crisis trend among developers is to move beyond speculative warehouse construction: developers now aim to address specific needs of their customers and to create new models of cooperation. Turnkey projects are particularly popular.

Main indicators

Total supply (classes A, B, C), million sq m	10.54	
	Class A	Class B
Supply of quality space in classes A and B, million sq m	4.23	1.88
Total supply of quality space, million sq m	6.11	
Growth of supply in 2010, thousands of sq m	340	65
Projects due to be commissioned in 2011, thousands of sq m	350	30
Lease and sale transactions in 2010, thousands of sq m	800	
Average vacancy rate, %	5.0	11.5
Declared rental rates, \$ per sq m per annum*	115–130	90–110
Operating expenses, \$ per sq m per annum	30–45	25–40

* Excluding VAT, operating expenses and utility payments
Source: Knight Frank Research, 2011

Main events

- There were several notable purchase transactions on the warehouse market in 2010. At the end of the year an affiliate of BIN Group bought the Northern Domodedovo complex from Eurasia Logistic for an estimated sum of \$450–500 million, representing the biggest-ever transaction on the Russian warehouse market. The Austrian fund Immofinanz sold its share (53,000 sq m) in the Tomilino logistics complex to Sberbank for \$39 million. Raven Russia sold its 28,000 sq m Baltia logistics complex, located 7 km from MKAD on Novorizhskoye highway, to the Cyprus company Casebre Holdings Limited for \$42 million.
- There was a marked upturn in Russian freight transport during 2010. Freight carrying by all forms of transport rose by 7.6% in January–November compared with the same period in 2009. This

represents a strong recovery after 11.6% decline in 2009. (Figures from Rosstat)).

- Growth of retail turnover was also impressive. Turnover in Russian retail during 2010 was 16,436 billion rubles, which is 4.4% more than in 2009. That compares with a 4.9% decline of turnover in 2009. (Rosstat figures).
- Replacement of the Moscow city government in 2010 has spurred a number of initiatives to improve the situation on the capital's roads. These include tighter limits on access to the city and use of MKAD (the Moscow ring road) by heavy-goods vehicles, as well as development of a logistics system for construction of cargo terminals at access points to MKAD and the Lesser Moscow Ring (the outer Moscow ring road). These measures and a number of others are to be implemented in 2011–2012.
- A Russian Association of Industrial Parks has been set up, bringing together

industrial park operators and market experts. The purpose of the Association is to stimulate development of parks and find investors for projects, including government investors. Association founders include the non-profit organisation, Delovaya Rossiya (Business Russia), the Kaluga Development Corporation, and others.

- The self-storage format arrived in Russia in 2010. Plans for self-storage development in Moscow and other regions were announced by the companies Red Box and KR Properties ("City Box" brand) and also by the businessman Andrei Korkunov (Mobius project). Self-storage capacities remain very limited at present, with just 40,000 sq m in Moscow (less than 0.004 sq m per capita). By comparison the US market has about 0.65 sq m of self storage capacity per capita, and US capacity is growing by about 10% per annum (data from the Self Storage Association).



Large warehouse projects commissioned in 2010			
Name	Location	Space (sq m)	Developer
PNK Chekhov, buildings 3–5	Simferopolskoye highway, 49 km from MKAD	161,800	PNK Group
Krekshino, building 2B	Kievskoye highway, 24 km from MKAD	45,800	RosEuroDevelopment
Moscapstroy	1 Dorozhnaya street, Moscow	25,300	Moscapstroy
Istra logopark, stage 5	Novorizhskoye highway, 42 km from MKAD	18,800	Raven Russia

Source: Knight Frank Research, 2011

Supply

There was a major slowdown in construction of new warehouse complexes in Moscow and its region during the crisis, as lowering of rental rates due to decline of demand for warehouse space caused increase of project payback periods from 7–9 to 10–12 years. Lower yields and uncertainty about future demand levels made warehouse developments unattractive for investors and lenders.

The market felt the consequences of lower construction rates in 2010: supply growth was only 400,000 sq m which is the lowest level since 2003. In 2009 completion of

projects begun in the pre-crisis period gave 770,000 sq m of new quality warehouse space.

Total warehouse supply in classes A and B in Moscow and the surrounding region rose above 6 million sq m in 2010, of which 4.23 million sq m (nearly 70% of total supply) is class A and 1.88 million sq m is class B.

In H2 2010 developers responded to growing demand by announcement of new warehouse plans, but these are mainly small-scale projects or extensions to existing complexes.

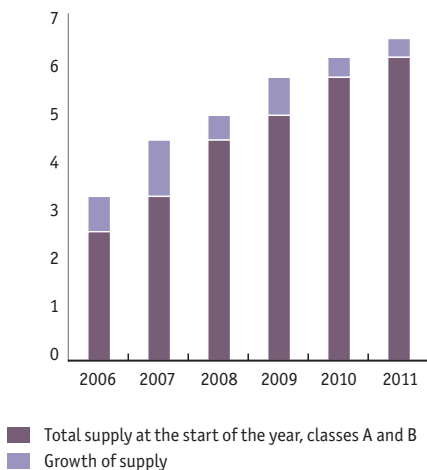
Construction of about 600,000 sq m of new class A space has been announced for 2011 (included projects for specific customers).

We expect that some of these projects will not be completed until 2012 and that actual commissioning of new warehouse space in 2011 will be about 380,000 sq m. Large projects, due for completion in 2011, include:

- PNK-Chekhov, buildings 6–8 (49 km from MKAD on Simferopolskoye highway, class A, 86,700 sq m);
- VVV Company in Leninsky District of Moscow Region (Kashirskoye highway, 3 km from MKAD, class A, 85,000 sq m).

Growth of warehouse supply in Moscow and the surrounding region has seen a major slowdown in 2010–2011

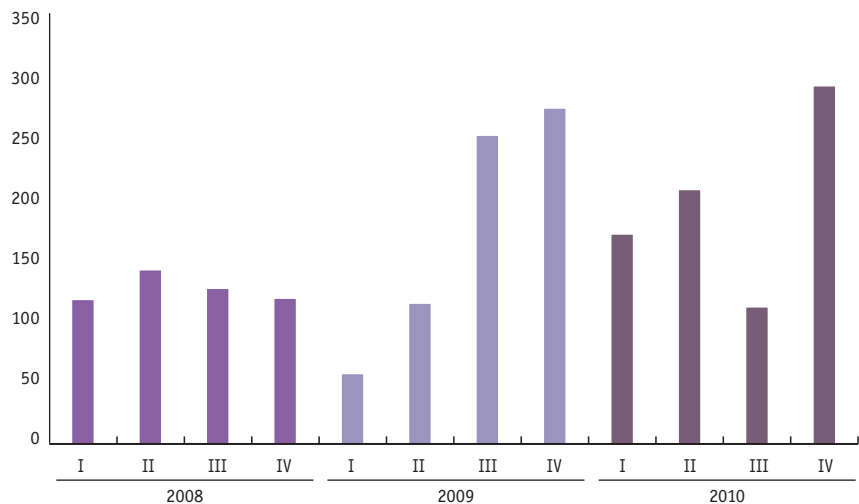
thousand sq m



Source: Knight Frank Research, 2011

Q4 2010 set a record for lease and purchase transactions in the warehouse segment

thousand sq m



Source: Knight Frank Research, 2011

2010 WAREHOUSE REAL ESTATE

Moscow



One of only a few class-A projects within the city's borders — Moscapstroy, Dorojnaya street, 1

Demand

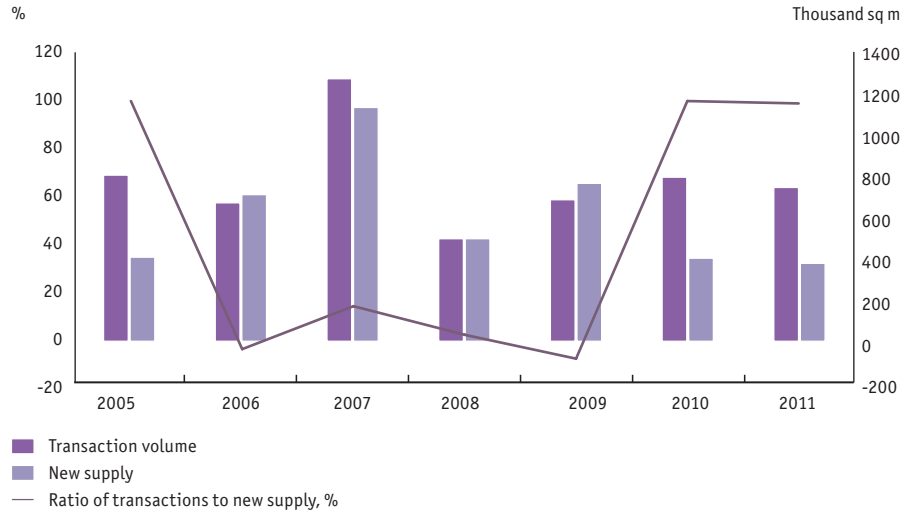
A number of positive factors for quality warehouse demand have now come into play, as follows:

- Pent-up demand (companies which had postponed their plans in the crisis environment are again considering relocation or expansion of their warehouse capacities);
- Revival of development plans by retailers, including regional expansion;
- M&A market activity, by which retailers and producers are acquiring logistics capacity and creating new distribution centres;
- Expansion of warehouse space by logistics operators, which have won tenders and need more capacity.

Lease and purchase of warehouse space in Moscow and the surrounding region in 2010 was at its highest level since the crisis, reaching 800,000 sq m. The busiest period was Q4 2010 when take-up was nearly 300,000 sq m (about 37% of the total for the year).

Transaction volumes in 2010 were nearly double the amount of new supply delivered to the market during the year (405,000 sq m). The last time such a large difference between demand and new supply was observed was in 2005, when transactions were also 800,000 sq m, and new supply was 410,000 sq m.

In 2010, for the first time since 2005, lease and purchase transactions exceeded growth of supply by nearly 100%



Source: Knight Frank Research, 2011

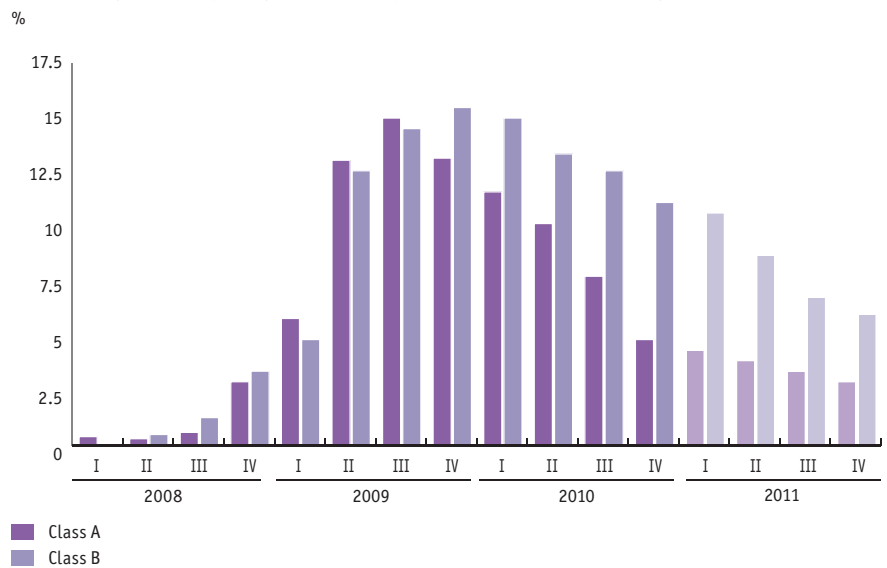
Rapid take-up of space caused rapid decline of the vacancy rate at warehouse complexes. The share of vacant space at class A premises declined from 12–13% at the end of 2009 to 5% by the end of 2010.

As much as 40% of take-up on the warehouse market in 2010 was on the south side of Moscow, where best results were shown by the PNK-Chekhov complex on Simferopolskoye

highway. Another 20% of warehouse lease and purchase was on the south-east side of the city, led by Tomilino logistics park and Trilogy Park Tomilino, both on Novoryazanskoye highway. The northern side of the city accounted for 16% of take-up, led by Sherland, Brack Capital Lobnya, and Leningradskiy Terminal.

It is important to note that distribution of take-up by zones around Moscow in 2010 was

The vacancy rate for quality warehouse space will fall as low as 3% by the end of 2011

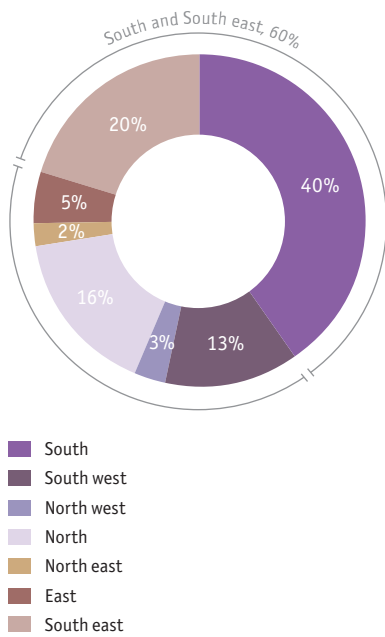


Source: Knight Frank Research, 2011



determined by location of existing warehouse premises, as was the case in 2006–2008. The north-eastern, north-western and eastern sides of the city accounted for only 10% of take-up in 2010, reflecting shortage of vacant space in these zones, although they accounted for about 30% of demand, as measured by requests from clients.

More than half of warehouse lease and purchase in 2010 was concentrated in southern and south-eastern approaches to Moscow



Source: Knight Frank Research, 2011

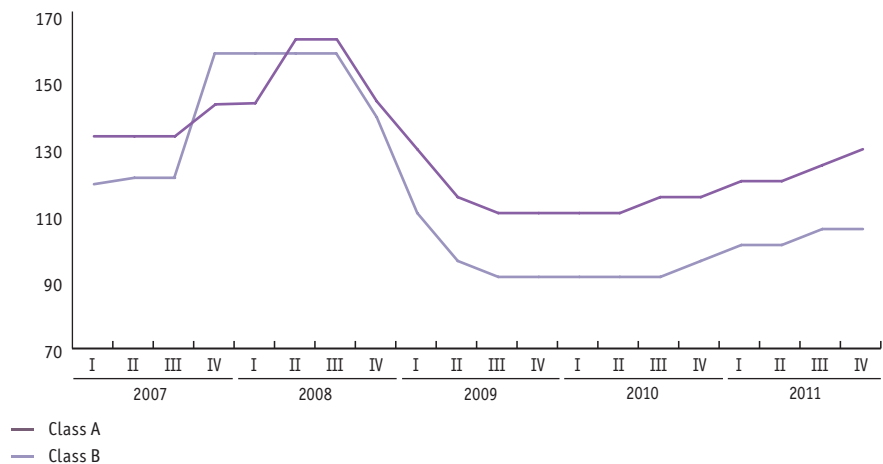
Commercial terms

Growth of demand and limited supply of warehouse premises in 2010 enabled warehouse owners to review commercial terms. After remaining unchanged for about a year, rental rates for quality space entered a phase of rapid growth in H2 2010. While the average class-A rental rate at the start of the year was \$100–110 per sq m per annum, by the end of the year rates of \$110–115 per sq m per annum were only available to largest and best tenants, i.e. international or top Russian companies with good reputation and strong market position, whose presence enhances the investment value of a warehouse complex.



Rent levels for quality warehouse premises grew in 2010 and the growth will continue in 2011

\$/sq m per year



Source: Knight Frank Research, 2011

Rental rates grew by 5–10% overall, and the standard rate by the end of 2010 (November–December) was \$115–120 per sq m per annum (not including VAT and operating expenses). A number of projects were asking \$130 per sq m per annum, but transactions at that level were rare.

The price range for class-B complexes is fairly wide, due partly to the large variety of formats, which are categorized as class B. Rental rates grew by approximately 10% to a level of \$80–100 per sq m per annum, not including VAT and operating expenses.

The upper limit for operating expenses at warehouse complexes also grew by about 10% in 2010: from \$40 to \$45 per sq m per annum in class-A complexes.

The most common lease term for rental transactions in 2010 was 3–5 years. Some agreements include an option for extension to 7 years, and there are some instances of 10-year agreements.

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Moscow



Forecasts

The swing back from a tenants' market to an owners' market will continue in 2011, driven by increasing demand for high-quality space.

We expect to see commissioning of 380,000 sq m of new class-A space in 2011.

We predict that demand in 2011 will remain at the level of 2010 and that 750–800,000 sq m of space in Moscow and the surrounding region will be leased and bought. So take-up could once again exceed new supply by nearly 100%, as happened in 2010.

This will entail further reduction of vacant space at quality warehouse complexes. Including warehouses vacated by tenants moving to new premises, the vacancy rate at class-A complexes should decline to 3% by the end of 2011, leaving less than 139,000 sq m of vacant class-A space on the market. The biggest shortage will be of warehouse premises with more than 20,000 sq m of space and premises that are located closer than 20 km from MKAD.

Rental rates will continue to rise in 2011 and the average rent level for class-A premises

could increase by 7–10% by the end of the year to reach \$125–130 per sq m per annum.

Observed and forecast growth of rental rates will encourage developer activity on the warehouse market, as projects in the segment offer increasingly high rates of return. The results will become visible in 2012 when we expect the volume of new premises coming onto the market to increase by 50–70% in comparison with 2010–2011.

3PL market

We expect to see increasing demand for the services of logistics operators in 2011 and, as a consequence, an increase in rental of warehouse space by 3PL operators in order to serve their customers. We will also see an increase in the practice, by which companies hire logistics operators to provide services at their warehouse premises. Renting of warehouse space by logistics operators will mainly be for the purpose of meeting specific contracts with customers.

Prices for logistics services will rise by 5–10% on average in 2011.

Land market

The usually inert market for land has also come to life recently. Large retailers have resumed their expansion plans and are therefore ready to acquire land plots for construction of shops in Moscow, the region around Moscow, and in other cities. There is also interest from producers and developers. Now, as previously, land owners and potential buyers have difficulty in finding a mutually acceptable price. However, increasing demand suggests that prices are unlikely to correct downwards to any significant extent. We expect the number of transactions on the land market to increase significantly in 2011.

OVERVIEW



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