



H1 2011

# WAREHOUSE REAL ESTATE MARKET

Moscow

**Knight Frank**

## EXECUTIVE SUMMARY

- The first half of 2011 saw a number of large lease and sale deals on the warehouse market in Moscow region.
- A little over 65,000 sq m of the warehouse space were commissioned during the first half of 2011, but the total amount of space in lease and sale deals was 520,000 sq m that exceeding new supply by eight times.
- There has been a recovery in construction of new warehouse complexes, but the accrued shortage will not be overcome before 2012.



WAREHOUSE REAL ESTATE MARKET.  
MOSCOW

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*There were several large lease and sale deals of warehouse space in the first half of 2011 with scale between 40,000 to 75,000 sq m, nearly matching pre-crisis levels. We expect competition for quality space to intensify towards the end of the year and high levels of demand will not decrease until new supply comes onto the market in 2012.*

## Key events

- There were two investment transactions on the warehouse market in Moscow area during the first half of 2011. Hines Global REIT fund bought a 75,000 sq m warehouse complex in Khimki from AIG European Real Estate Partners. It was the first Russian purchase by the fund and has been estimated at \$80 million.
- A pool of investors represented by PPF investment fund and the managing director of Giffels Management Russia, Chris van Riet, and partners acquired the industry park South Gate from Grove International Partners, that controls the South Gate developer, Giffels Management Russia. The deal was estimated at \$90 million.
- In Q2 2011 Knight Frank consulted a large deal on the "built-to-suit market", selling about 50,000 sq m at PNK-Vnukovo, which was the new project by PNK Group. Earlier TVOE Holding has bought 24,000 sq m space from the same developer at the PNK-Chekhov logistics park.

| Main indicators   | Trend*  |          |
|---|---------|----------|
| Total supply (classes A, B, C), mln sq m                              | 10.65   |          |
|   | Class A | Class B  |
| Total quality supply in classes A and B, mln sq m                     | 4.31    | 1.91     |
| Total supply, mln sq m  | 6.22    |          |
| Delivery in H1 2011, sq m   | 28,500  | 37,300   |
| Expected delivery in H2 2011, sq m                                    | 280,000 | 0        |
| Lease and sale transactions in 1H 2011, sq m                          | 520,000 | ↑        |
| Average vacancy rate, %   | 3       | 6 ↓      |
| Asking rental rates, \$ per sq m per annum**                          | 125-135 | 95-115 ↑ |
| Operating expenses, \$ per sq m per annum                             | 35-50   | 25-40 →  |
| * Compared with the same period of the last year                      |         |          |
| **Excluding VAT, operating expenses and utility payments (triple net) |         |          |
| Source: Knight Frank Research, 2011                                   |         |          |



- The biggest warehouse lease deal since the crisis was announced in April when X5 Retail Group has leased more than 75,000 sq m at the Raven Russia–Noginsk logistics park. This was the largest space leased at one time by a retailer in the history of the Russian warehouse real estate market.
- A new record was also set on the 3PL-services market when the company Alidi leased about 40,000 sq m at PNK-Chekhov, representing the largest-ever warehouse lease by a logistics operator. Knight Frank was a consultant of the deal.



## Supply

The warehouse market in Moscow region is feeling the consequences of the freeze in warehouse construction during the acute stage of the crisis. The new delivery in 2011 will be about 350,000 sq m, which is the lowest figure since 2003.

In the first half of 2011 there were commissioned 65,800 sq m of new warehouses, from which 28,500 sq m is Class A and 37,300 sq m is Class B. Growth of supply continues to lag take up growth rates, which has encouraged a return to the practice of the pre-lease agreements for projects still under construction.

About 280,000 sq m of quality warehouses is scheduled to be delivered in the second half of 2011, but projects announced by developers since mid-2010 will not come onto the market before 2012. If all announced warehouse projects will be implemented, the new delivery will exceed 750,000 sq m next year. Projects scheduled for completion in 2012 include PNK-Vnukovo (up to 300,000 sq m on Kievskoye Hwy, 20 km from MKAD), bld. 4 and bld. 5 at MLP Podolsk (81,000 sq m on Simferopolskoye Hwy, 17 km from MKAD), bld. 2 of Giffels South Gate (51,000 sq m on the Don Hwy, 30 km from MKAD), the Ghelamco project (62,000 sq m on Dmitrovskoye Hwy, 33 km from MKAD), and some others. Construction of "built-to-suit" warehouses is planned as part of some projects, including spaces for sale.

## Demand

The warehousing leasing market is high active despite the shrinkage of affordable supply. Q2 2011 showed the biggest quarterly take-up of warehouse space since 2007: totally about 360,000 sq m was leased and purchased, from which is more than 300,000 sq m is Class A and nearly 60,000 sq m is Class B.

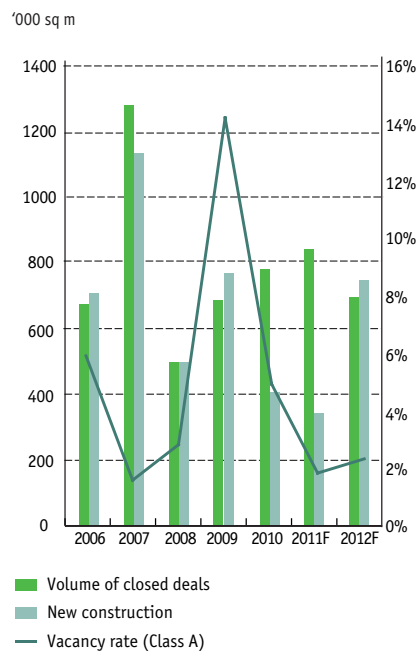
The volume of deals in 2011 is considered to be the highest in the Moscow region since the start of the crisis. Total warehouse sales in the first half of 2011 were 520,000 sq m (up from 380,000 sq m in H1 2010). Total space leased and purchased by the end-users could be in excess of 850,000 sq m in 2011 (up from 780,000 sq m in 2010).

The key projects, scheduled to the delivery in the second half of 2011

| Name                         | Location   | Area, sq m | Developer                                   |
|------------------------------|--|------------|---|
| PNK-Chekhov Bld. 8           | Simferopolskoye Hwy, 49 km from MKAD                 | 39,500     | PNK Group                                   |
| Belaya Dacha Bld. 5          | Novoryazanskoye Hwy, 4 km from MKAD                  | 32,000     | Hines International, Belaya Dacha agro-firm |
| Krekshino Bld. 4             | Between Minskoye and Kievskoye Hwys, 24 km from MKAD | 20,000     | RosEuroDevelopment                          |
| Infrastroy Bykovo Bld. C     | Novoryazanskoye Hwy, 19 km from MKAD                 | 34,000     | Infrastroy Bykovo                           |
| Raven Russia-Klimovsk Bld. 4 | Simferopolskoye Hwy, 21 km from MKAD                 | 19,000     | Raven Russia                                |

Source: Knight Frank Research, 2011

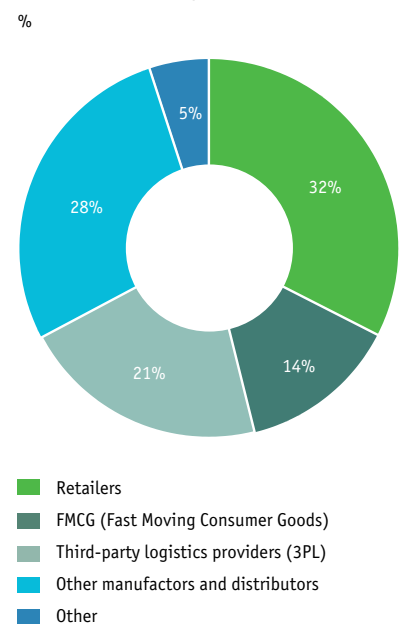
The gap between warehouse take-up and the new delivery in the Moscow region will not narrow before 2012



Source: Knight Frank Research, 2011

Such large volume of deals in the first half of the year is the result of development plans by retailers and distributors and, therefore, by 3PL operators. The tenant activity will remain in the second half of the year, but supply shortage and rising rental rates will be limiting factors for further growth of take-up.

Retailers take the biggest share of demand for quality warehouse space in the Moscow region



Source: Knight Frank Research, 2011

The vacancy rate for high-quality warehouse space was close to 3% for Class A warehouses and 7% for Class B in the first half of 2011.

Russian companies dominate among tenants for quality warehousing: their share of total leased warehouse space in class A and B rose from 60% in 2008 to 74% in 2010 and 2011.

The largest share in demand for warehouse space comes from the retailers, which accounted for 33% of leased and purchased space in the first half of 2011. Plans for rapid expansion, announced by several retailers at the end of 2010, promise further increase of warehouse demand from the retail sector.

Other tenants of warehouse space are producers and distributors of FMCG, other - consumers' goods and B2B production, as well as 3PL operators.

The level of activity of logistics operators are an important indicator of the market. During the crisis their share in take up declined from 44% in 2007 to 10-12% in 2009 and 2010. But 3PL companies closed a number of large lease transactions in the first half of 2011 and their share of demand exceeded 20%. However they remain cautious attitude, mainly leasing space for the needs of the concrete clients.

## Commercial terms

Shortage of warehouse space in the Moscow region enables owners to ask for higher rents. The highest asking rent for Class A space in H1 2011 was \$135 per sq m per annum (triple net), although only a few transactions have been closed at such rent, while most transactions were at the level of \$125-130 per sq m per annum. Transactions at \$135 only began to appear at the end of Q2. Class B rates were in a range of \$95-115 per sq m per annum.

It is important to note that rental rates in Moscow region have now reached levels at which, on the one hand, warehouse construction again looks appealing to developers. But, on the other hand, lease of Class A space no longer appears justified for many potential tenants. The first point is confirmed by the announcement of new warehouse projects, but the second factor may have adverse effect on demand, creating obstacles to further growth of rental rates.

The most usual lease term for large tenants is 5-10 years. Operating expenses are at the level of \$35-45 per sq m per annum for class A premises, and \$25-40 per sq m per annum for class B. Annual indexation, which is spelled out in most lease agreements, is between 3% and 8-9% (the latter is the officially reported inflation rate in Russia).

## Forecasts

Further growth of the warehouse take-up will be limited by shortage of affordable supply, and the market will see a traditional summer slowdown in Q3. Therefore we expect the volume of deals in the Moscow region will not exceed the level of 350-370,000 sq m in the second half of 2011, already achieved in the first half of the year.

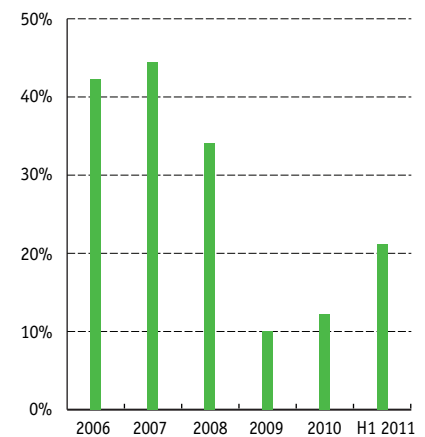
New construction will be no greater than 280,000 sq m in the second half of 2011, and total growth of supply in 2011 will not exceed 350,000 sq m. New projects, including new phases of existing warehouse complexes, will begin to appear in 2012 so that the market could add 700-750,000 sq m of quality space next year.

Growth of rental rents will be limited by solvency of potential tenants, but we expect asking rents for Class A space within 25 km radius of MKAD to reach \$140 per sq m per annum by the end of the year (triple net). Rent levels are likely to stabilize in 2012 as substantial volumes of new supply come onto the market.

Shortage of affordable quality premises for rapid lease will compel companies to plan their warehouse needs well in advance. Sustained high levels of demand will be met through provisional rental agreements at projects under construction and also through cooperation with developers in the "built-to-suit" format.



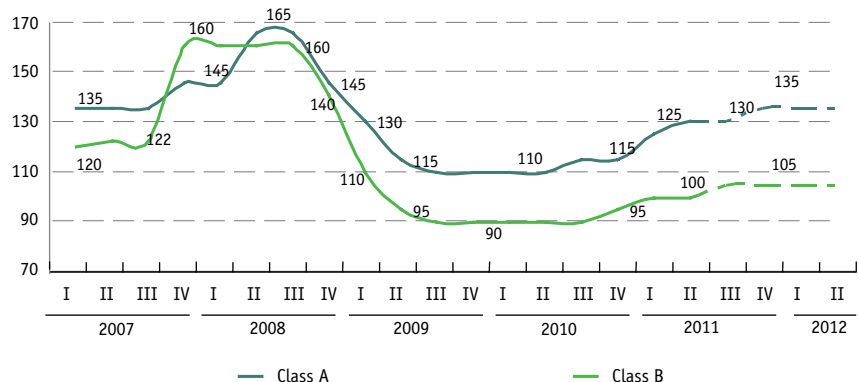
**The share of logistics operators in total transaction volume rose from 12% in 2010 to 21% in H1 2011**



Source: Knight Frank Research, 2011

**Average rental rates for Class A warehouse space in Q1 2011 were \$125-130 per sq m per annum, but in H2 2011 the growth of the number of deals at \$135 per sq m per annum is expected (triple net)**

\$ per sq m per annum



Source: Knight Frank Research, 2011

# OVERVIEW



## Europe

Austria  
Belgium  
Czech Republic  
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