



## Q1 2013 WAREHOUSE MARKET REPORT

Moscow

**Knight Frank**

### HIGHLIGHTS

- The construction volume of new high-quality warehouse space continues to grow. In Q1 2013, about 137 thousand sq m were delivered, which is 30% more than for the same period in 2012.
- The demand remains high and still exceeds the supply. For the first 3 months, about 200 thousand sq m of warehouse space was leased and purchased on the market of Moscow region.
- A shortage of available storage space in finished warehouses remains characteristic of the market (the vacancy rate remains at the level of 1.5–2%), which is partly compensated by the offer of space in facilities under construction.
- Almost half of new high-quality warehouse space scheduled for delivery in 2013, has already been leased on preliminary agreement basis or purchased by the end-users.
- The imbalance between supply and demand is putting pressure on rental rates, however, on average the figure remains in the range of 135–140 \$/sq m/year.

# WAREHOUSE REAL ESTATE MARKET



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«The first months of 2013 were traditionally quiet for the warehouse market in terms of making deals on the lease and purchase of warehouse space. However, the amount of take-up in Q1 was higher than last year, which permits us speak of high market activity retention.

A growing volume of new construction slightly reduces the acute shortage of available storage space in finished warehouses, which has appeared about a year ago.

A growth in rental rates is also observed in the Moscow region. Furthermore, for the first time in the post-recession period, we note uneven changes in this figure depending on the distance from the city.

In the area of the “first concrete road” (A107), developers offer facilities at rates ranging from 135 to 140 \$/sq m/year, while the rates for space in objects located at a distance of 5–10 km from the Moscow Ring Road reach up to 150 \$/sq m/year, – these warehouses too are successful in finding their tenants».

## Supply

At the end of Q1 2013 the total high-quality warehouse space stock amounts to approximately 7,316 thousand sq m. In the first 3 months, the stock grew by 137 thousand sq m of Class A warehouse space. This is almost 30% more than in the same period last year. The trend of warehouse construction in the southern direction remains characteristic of the Moscow region market. Thus, the south-west and south-east of Moscow region in Q1 2013 accounted for over 70% of the total delivery volume.

### Main indicators. Dynamics\*

Indicator	Class A	Class B	
Total supply, thousand sq m	7,316		▲
including thousand sq m	5,393	1,913	
Delivery in Q1 2013, thousand sq m	137	–	
Expected delivery in 2013, thousand sq m	908		▲
Lease and sale transactions in Q1 2013, thousand sq m	200		▲
Average vacancy rate, %	1.5	2.0	▲
Asking rental rates, \$/sq m/year**	135–140	115–117	▶
Operating expenses, \$/sq m/year	35–45	25–50	▶
Estimated capitalization rates, %	10–10.5	11–12	▶

\* As compared to Q4 2012  
 \*\* Without VAT, operational costs and utility bills  
 Source: Knight Frank Research, 2013

In anticipation of possible future competition for tenants, the owners of properties, which are currently under construction or in planning, are implementing new technological solutions for added efficiency (e.g. energy efficiency), and building security. Class B objects are almost never built, except those that are intended for

own use, or for the use by industrial facilities, where Class A compliance is not required.

The vacancy rate for Class A storage facilities for the past 1.5 years (mid-2011) remains at a very low level. According to the results of Q1,

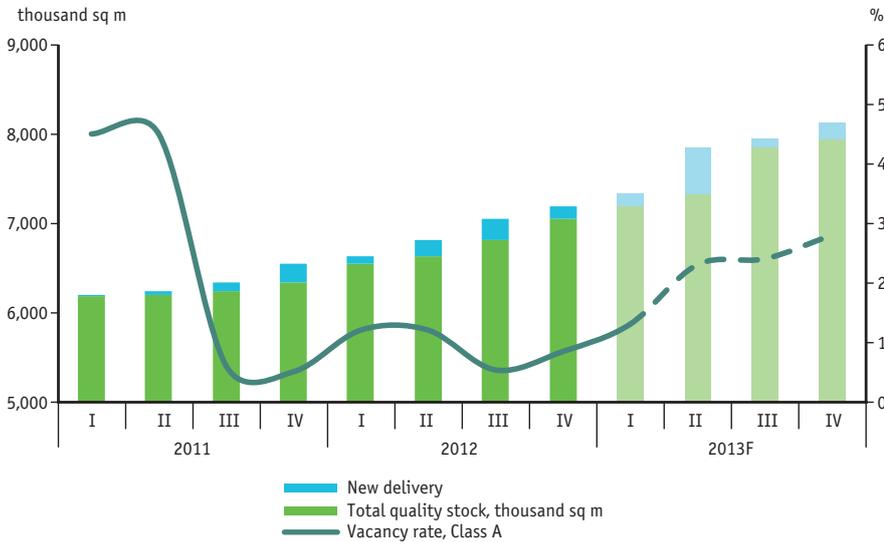
### Key projects delivered in Q1 2013 and planned for delivery during 2013\*

Property Name	Direction	Total area, sq m
Logopark North	Leningradskoe	96,000
Sloboda	Novoryazanskoe	90,000
TP Logistics, bld. 2, 3	Novorizhskoe	67,000
Infrastroy Bykovo, bld. T**, L	Novoryazanskoe	62,000; 50,000
PNK Vnukovo, bld. 3, 9**	Borovskoe	58,000; 25,000
Logopark Klimovsk, bld. 7, 8	Simferopolskoe	42,000
Logopark Noginsk, bld. 2	Gorkovskoe	36,000
Matveevskoe, phase 1, 2**	Minskoe	30,000
Industrial complex Lesnoy Gorodok	Minskoe	28,000
Leshkovo	Novorizhskoe	27,000
Industrial complex Noginsk	Gorkovskoe	26,000
Logopark Gorki	Novokashirskoe	22,000
Vorsino, phase 1	Kievskoe	21,100

\* Warehouse properties that passed or going to pass the State Commission  
 \*\* Properties delivered in Q1 2013  
 Source: Knight Frank Research, 2013



**The volume of high-quality warehouse space and vacancy rates**



Source: Knight Frank Research, 2013

it amounted to about 1.5%. In the near future, most likely, this situation will change in view of substantial number of buildings presently under construction. However, we do not expect a significant growth: about a half of the storage space, planned for delivery in Q2–Q4 2013, has already been preleased.

**Demand**

The total transactions volume in Q1 2013 amounted to about 280 thousand sq m. Of these, about 200 thousand sq m belong to the Moscow

region, which is 35% more than for the same period in 2012.

In terms of geographical distribution, the largest amount of take-up occurred in the southern and southeastern areas: about 70%. About one third of the transactions occurred in the north of the Moscow region. In the situation of scarcity of the market, where the vacancy rate is less than 2%, the demand follows available supply, and the bulk of transactions is concentrated in the same areas as those where active construction takes place.

The average deal size has continued to grow. In Q1 2013 it reached 12.7 thousand sq m in the Moscow region – almost 18% more than in Q1 2012.

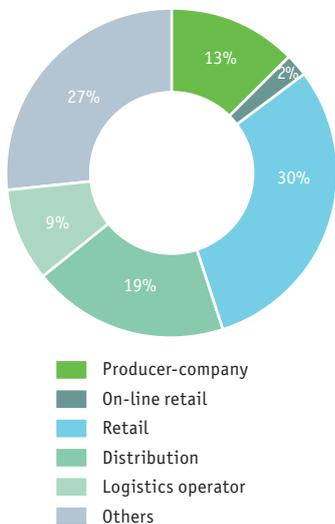
In Q1 2013, the retailers and distributors were the predominant buyers and tenants of high-quality warehouse space: they accounted for about half of the take-up of high-quality warehouse space in all of Russia. In comparison with Q1 2012, the demand from manufacturing companies has grown to 13% versus 4% for the same period of the previous year. In 3 months of 2013, the logistics operators entered into several lease transactions of warehouse space with a total area of about 25 thousand sq m – about 9% of the total take-up. 3PL-services operators are still not in a hurry to engage in the speculative development.

**Commercial terms**

By the end of Q1 2013, the asking rental rates on the market of high-quality warehouse properties of Moscow region remained unchanged and amounted to 135–140 \$/sq m/year for Class A and 115–117 \$/sq m/year for Class B (triple net).

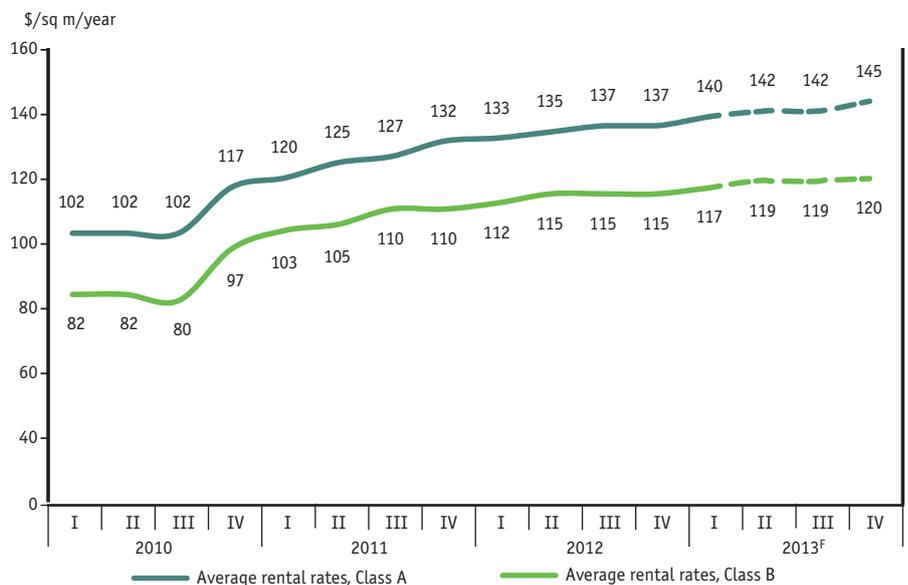
We also note differentiation of rental rates depending on the distance from the Moscow Ring Road: warehouse space in complexes located within 10-kilometer radius, is offered at the rates of 140–150 \$/sq m/year, while Class A warehouse rent at a greater distance from the Moscow Ring Road would cost less: 135–140 \$/sq m/year. It should be noted, that in some cases the tenants are willing to lease warehouses at higher rates if the facilities are located close to the city borders, but not in all

**The total transactions volume distribution by the profiles of warehouse tenants and buyers**



Source: Knight Frank Research, 2013

**Rental rates continue to grow moderately**

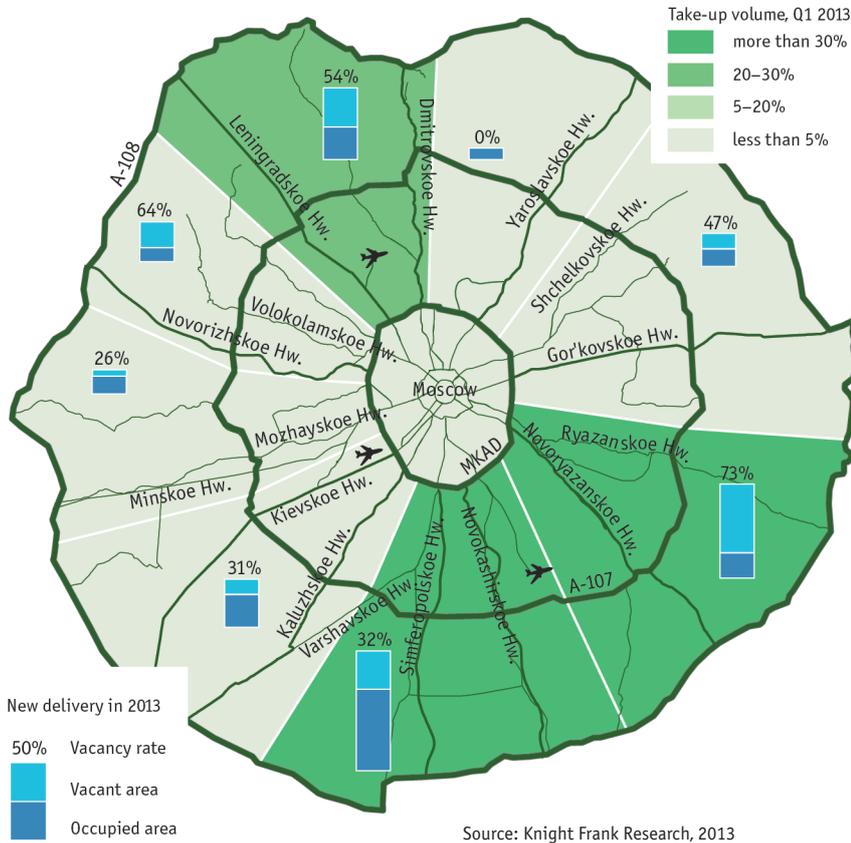


Source: Knight Frank Research, 2013

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## The distribution of warehouse space planned for market delivery in 2013



sectors: besides the distance, road throughput capacity is also taken into consideration. Thus, Class "A-Prime" facilities came to be, precisely in terms of rental rates: the functional properties of these complexes can be second to modern facilities in technological terms. The latter are the largest objects built by developers at a greater distance from the Moscow Ring Road (where technological solutions conforming to international standards, such as FM Global, BREEAM, LEED, etc., are used to improve efficiency and reliability of the warehouses).

The asking sales price for warehouse space has not changed since the end of 2012 and amounts to 1,200–1,500 \$/sq m on average for Class A. The capitalization rate also remained the same – 11% on average, while the number of investment transactions remains low (in the Q1 2013, not a single such transaction occurred).

## Forecast

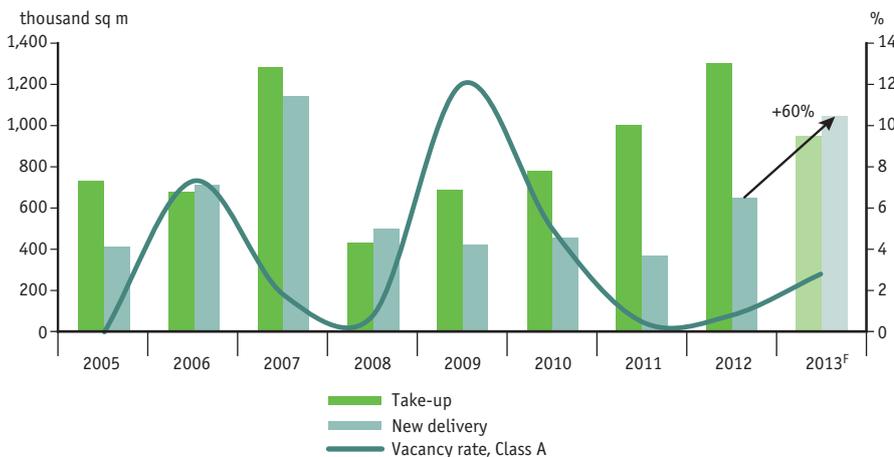
We expect that by the end of the current year, high-quality warehouse space delivery will amount to about 900 thousand sq m, which is 1.5 times more than in 2012. Thus, by the end of 2013, the total stock volume might amount to more than 8,000 thousand sq m.

According to preliminary data, the largest share of new construction will take place in the territories of southern direction – almost 60%, while the new stock in the northern territories will be 2 times smaller: about 30%. It should be noted once more, that some of the warehouse space located in objects under construction in the aforementioned areas has already been leased out based on preliminary agreements. Market delivery of the facilities located in the said territories in these volumes will not result, for example, in greater affordability of the projects in the southern than in the northern areas of the region.

In 2013, we expect the demand for high-quality warehouse space on the market of Moscow region to remain at the same high level: about 950 thousand sq m, however, presently, it is difficult to predict the likelihood of correlation with the record level of 2012.

During the year, a slight growth in the average asking rents level on the market by about 2–3% – up to 137–143 \$/sq m/year for Class A is possible in the Moscow region.

## Recovery in the volumes of new construction will lower the deficit of high-quality space on the warehouse market of Moscow



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