



Q1 2012

INDUSTRIAL AND WAREHOUSE MARKET

Moscow

Knight Frank

EXECUTIVE SUMMARY

- Q1 2012 recorded 105.7 thousand sq m of new quality warehouse area that is 8 times higher in comparison with the same period of 2011. By the end of the year more than 670 thousand sq m of quality warehouse area will be commissioned.
- Rental rates for quality warehouses did not change during Q1 2012 and remained in the range of \$130-135 per sq m per year for Class A, and \$110-115 per sq m per year for Class B (Excluding VAT and operational costs).
- By the end of the year a slight increase of vacancy rates to the level of 2-2.5% is predicted.

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Vyacheslav Kholopov
Regional Director, Industrial,
Warehouse and Land,
Knight Frank

«Q1 2012 was quiet for the Moscow region warehouse market. It should be noted that developers commissioned new warehouse in time announced earlier that reduced the shortage of quality warehouse area in some degree. Moreover, we assume that the volume of new construction would be 670 thousand sq m by the end of the year. Therefore, we can expect rental rates stabilization after the significant growth in 2011».

Key Events

- A number of companies decided to build warehouses in regional cities for their own needs. These are primarily large organizations engaged in retail and wholesale, manufacturers and logistics operators. For example, Bosch concern branched out its own warehouse complex in Novosibirsk, Sladkaya Zhizn company opened a warehouse in Dzerzhinsk, retailer Magnit opened distribution center in Lermontov town in the Stavropol region. Mostly due to these complexes volume of new construction in regions will grow in the next 2–3 years.
- American investment fund Hines Global REIT declined the purchase of logistics complex with total area of over 393 thousand sq m in Chekhov town (Moscow region).

Supply

Q1 2012 recorded 105.7 thousand sq m of new quality warehouse area of Class A warehouses. This is 8 times higher in comparison with the same period in 2011.

The vacant rate increased to 1.2% from the near-zero level at the end of 2011. Most of the vacant area concentrated in the properties located in the south of Moscow region, where the most intensive growth of new supply is observed.

Main indicators	Class A	Class B	Trend
Total quality supply in Classes A and B, thousand sq m	6,628		↑
including, thousand sq m	4,716	1,912	↑
Delivery in Q1 2012, thousand sq m	105.7	-	↑
Expected delivery in 2012, thousand sq m	670		↑
Total take-up in Q1 2012, thousand sq m	175.1		↓
Vacancy rate, %	1.2	2.0	↑
Asking rental rates, \$ per sq m per year*	130–135	110–125	→
Operating expenses, \$ per sq m per year	35–45	25–50	→
Capitalisation rate, %	10–10.5	11–12	→
*Excluding VAT, operational costs and utility bills Source: Knight Frank Research, 2012			





The key projects commissioned in Q1 2012

Name	Location	Area, sq m	Developer
Vnukovo Logistik, Bld 5,6	Borovskoye Hwy, 17 km from MKAD	18,300	Tushino Pivo
MLP Podolsk, Bld 5,6	Simferopolskoye Hwy, 17 km from MKAD	81,400	MLP

Source: Knight Frank Research, 2012

with some uncertainty created by the elections of President of the Russian Federation. However, the total take-up in the Moscow region is 10% higher than it was in the same period of the previous year and amounts to 175 thousand sq m.

Talking about the geographical distribution of transactions, we should note that, as before, the major share (71%) is concentrated in the Moscow region. The share of transactions made on the warehouse market of St. Petersburg was 15.8%.

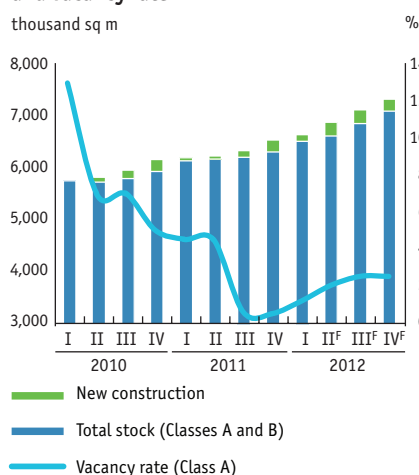
Moreover the average deal size in the Moscow region continued to increase and amounted 12.1 thousand sq m in Q1 2012. This is due to both actual increase in the average size of the required space and a significant growth of the share of sale transactions that are usually larger

The minimum size of blocks for lease in Class A warehouses in the Moscow region is in the range of 4–6 thousand sq m. The situation is different in the regional markets where landlords are ready to lease out blocks with a total area of less than 2 thousand sq m, even in high-quality projects.

Demand

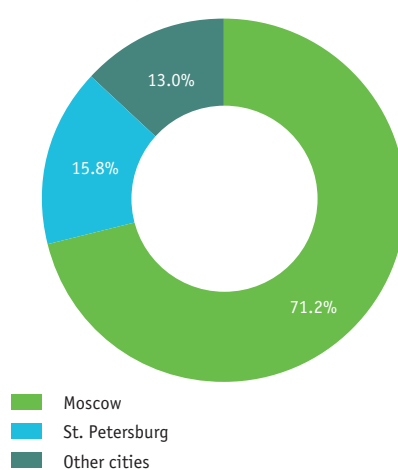
In Q1 2012 the demand for quality warehouse areas decreased compared with the second half of 2011. This is due primarily to seasonal fluctuations of demand and as well as linked

Total stock, new construction and vacancy rate



Source: Knight Frank Research, 2012

The geographical distribution of the take up volume



Source: Knight Frank Research, 2012

The distribution of take up volume in the Moscow region, by type of transaction

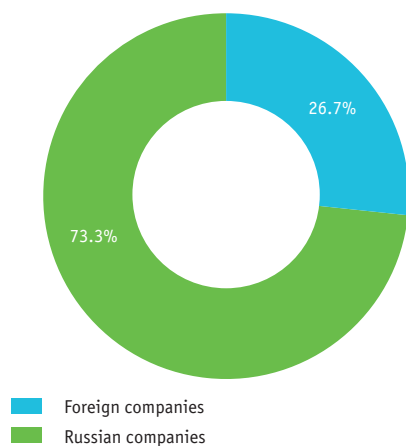


Source: Knight Frank Research, 2012

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Moscow

The share of foreign companies in the take-up volume



Source: Knight Frank Research, 2012

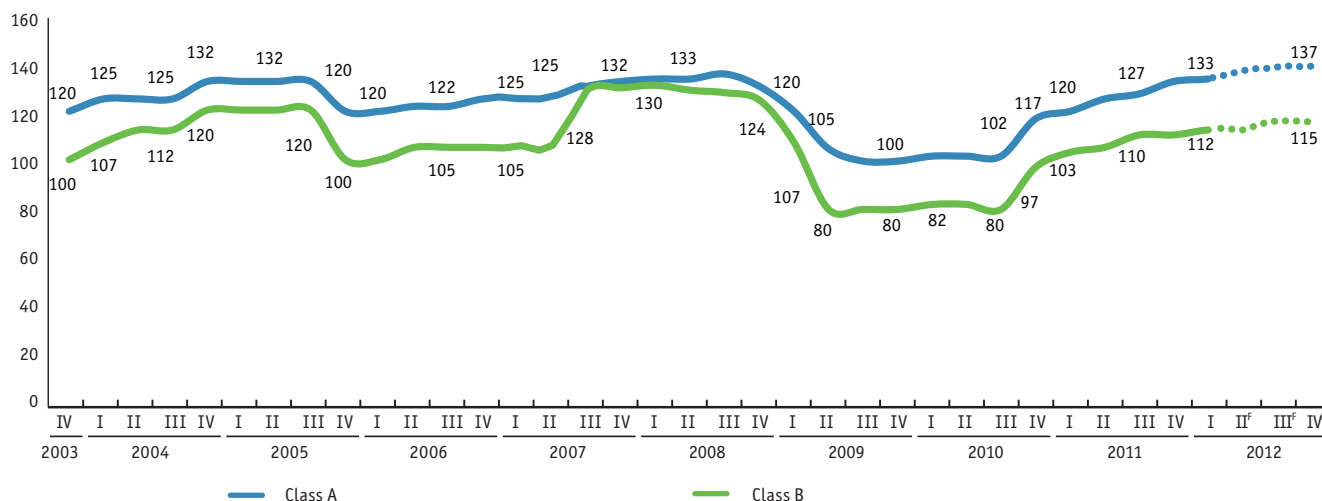
than lease transactions. The share of purchased area was 30% which is 15 percentage points more than in 2011. We expect that this indicator remains at the same level on the results of 2012.

It should be noted that there are only Russian companies among end-use buyers of warehouses. It is important to mention that talking about foreign companies we mean companies registered in other countries and those who are the representatives of international organizations registered in Russia. In general 73.3% of the total take-up has been formed by Russian companies in Q1 2012 that approximately lines with the level of 2011.



Dynamics of warehouse rental rates for Classes A and B

\$ per sq m per annum



Source: Knight Frank Research, 2012



Commercial Terms

Asking rental rates for warehouse space in Moscow region did not change a lot in Q1 2012. The average range for Class A complexes is \$130–135 per sq m per annum. Moreover, in some warehouse complexes, for example located near the Moscow Ring Road, asking rental rates may exceed \$145 per sq m per annum. Operating expenses in Class A warehouses also remained stable – \$35–45 per sq m per annum.

Rental rates for Class B complexes are in the range of \$110–115 per sq m per annum, operating expenses – \$25–45 per sq m per annum.

In Q1 2012 capitalization rate has also remained unchanged compared to the end of 2011: for high-quality warehouses complexes average capitalization rate is 11%. The average sale price for Class A warehouse space ranges from \$1,250 to \$1,400 per sq m.

Forecast

We expect the commissioning of approximately 670 thousand sq m of quality warehouse space by the end of this year. Thus total quality warehouse premises delivered to the market in 2012 may reach about 800 thousand sq m that is more than two times higher than in 2011. Such volume of commissioned areas is comparable to pre-crisis level.

As in 2011, the most active development of warehouse complexes seems to be in the south-west and south of Moscow region. In the northern part where the shortage of warehouses is the most sharp no more than 110 thousand sq m scheduled for commissioning in 2012. However in 2013 the volume of new supply in the north may grow significantly. It should be noted that the tenants are ready to

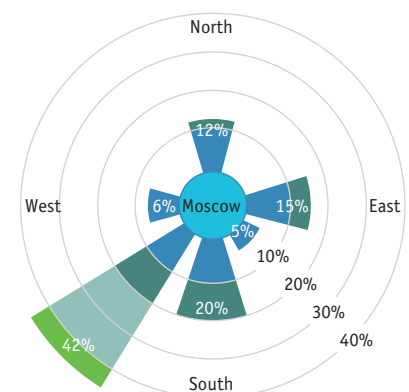


conclude a pre-lease agreements more than six months before the delivery of the facilities located in this area.

This situation leads to the fact that rental rates in the areas where the shortage is the most sharp (for example, in the north and west of Moscow region) are on the higher level: \$135–140 per sq m per annum.

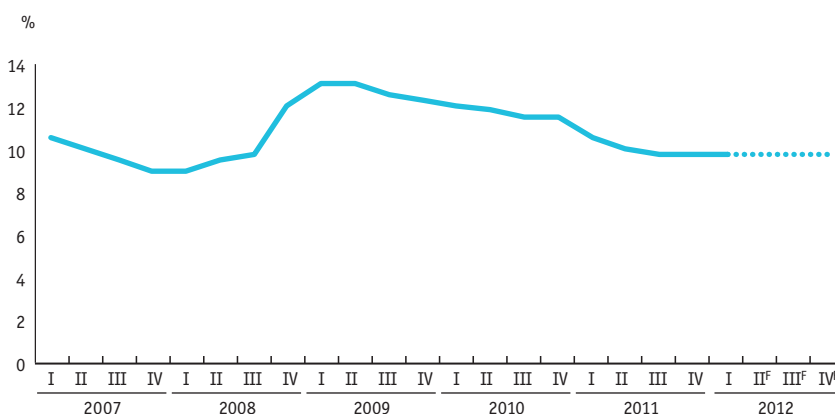
In general we do not expect significant changes in commercial lease or sale terms in the Moscow region in the nearest quarter: till the end of this year asking rental rates for Class A warehouses will be about \$130–140 per sq m per year (without VAT and operating expenses). We also do not expect changes of yields for the warehouse properties: they will remain at the level of 2011.

Geographical distribution of the new supply in 2012



Source: Knight Frank Research, 2012

Dynamics of capitalization rate for quality warehouse complexes



Source: Knight Frank Research, 2012

OVERVIEW



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Italy
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Malaysia
New Zealand
Singapore
South Korea
Thailand
Vietnam

Americas & Canada

Bermuda
Caribbean
Canada
USA



Office Real Estate

Stanislav Tikhonov
Partner
stas.tikhonov@ru.knightfrank.com



Warehouse Real Estate, land

Viacheslav Kholopov
Regional Director
viacheslav.kholopov@ru.knightfrank.com



Retail Real Estate

Sergey Gipsh
Regional Director, Partner
sergey.gipsh@ru.knightfrank.com



Residential Real Estate

Elena Yurgeneva
Regional Director
elena.yurgeneva@ru.knightfrank.com



International Investments

Heiko Davids
Partner
heiko.davids@ru.knightfrank.com



Professional Consulting Services

Konstantin Romanov
Partner, Director
konstantin.romanov@ru.knightfrank.com



Financial Markets and Investing

Evgeniy Semyonov
Partner, Director
evgeniy.semyonov@ru.knightfrank.com



Valuation Services

Olga Kochetova
Regional Director
olga.kochetova@ru.knightfrank.com



Marketing, PR, Market Research, HR

Maria Kotova
Partner, Executive Director
maria.kotova@ru.knightfrank.com



Business Development

Andrey Petrov
Partner
andrey.petrov@ru.knightfrank.com



Saint Petersburg

Nikolai Pashkov
General Director
nikolai.pashkov@ru.knightfrank.com



Kyiv

Yaroslava Chapko
Business Development Director
yaroslava.chapko@ua.knightfrank.com

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MOSCOW

Russia, 119021,
11 Timura Frunze Str.
Phone: +7 (495) 981 0000
Fax: +7 (495) 981 0011

ST. PETERSBURG

Russia, 191025,
3B Mayakovskogo Str.
Phone: +7 (812) 363 2222
Fax: +7 (812) 363 2223

KYIV

Ukraine, 04071,
39-41 Horyva Str.
Phone: +380 (44) 545 6122
Fax: +380 (44) 545 6122

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