

RESEARCH



2018 WAREHOUSE MARKET REPORT

Moscow



HIGHLIGHTS

About 70% of all new properties delivered to the market in 2018 were built to order.

2018 saw a record high number of transactions with quality warehouse property in the Moscow region totaling to 1,806,000 sq m.

The vacancy rate dropped by 3.6 percentage points to 4.2% as compared with last year's final figure.

As of 2018, the average weighted asking rent rate for Class A warehouses amounted to 3,650 RUB/sq m/year.



Sergey Kuzichev

Regional director, Industrial, Warehouses and Land, Knight Frank, Russia and CIS

"2018 was marked with an array of positive trends in the warehouse property market of the Moscow region. First of all, it was a dynamic year in terms of demand and we expect the prospective tenants to remain as active in 2019. Secondly, there was a rise in asking rent rates near the end of the year, which was attributable to the decline in vacancy rates and a quite low-level volume of new speculative warehouse deliveries. Further decrease in vacancy rates along with the growth of asking rent rates is likely to boost up speculative construction in 2019".

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Key indicators. Dynamics

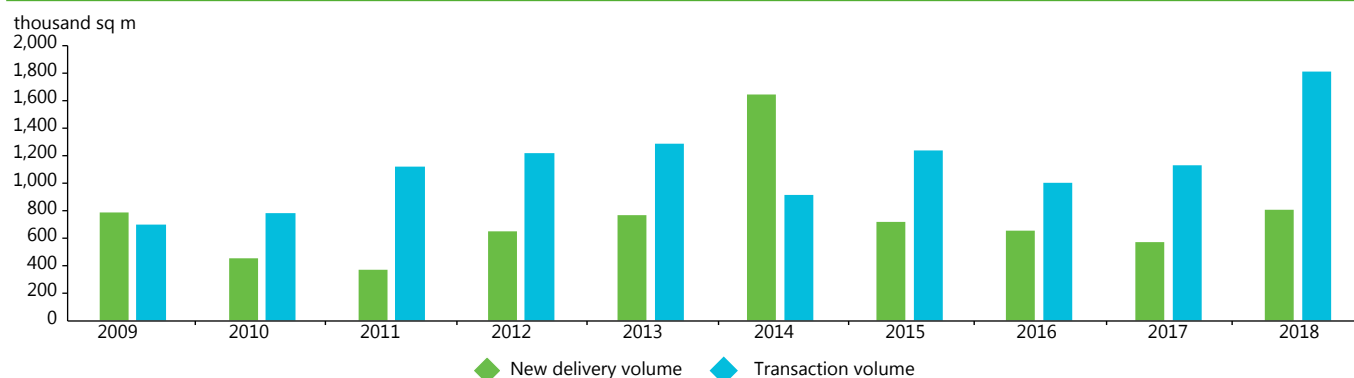
| | 2017 | 2018 |
|--|---------------|-----------------|
| Total stock of quality warehouse property, thousand sq m | 13,375 | 14,180 ▲ |
| Delivery, thousand sq m | 570 | 805 ▲ |
| Volume of sales and rent transactions, thousand sq m including: | 1,198 | 1,806 ▲ |
| sales and lease transactions in completed buildings | 931 | 1,478 ▲ |
| built-to-suit transactions | 267 | 328 ▲ |
| Net absorption, thousand sq m | 853 | 1,166 ▲ |
| Vacancy rate, % | 7.8 | 4.2 ▼ |
| Class A average weighted asking rent rate, RUB/sq m/year* | 3,700 | 3 650 ▼ |
| Operating expenses range, RUB/sq m/year** | 900–1,300 | 900–1,300 ► |
| Average asking price range for purchasing completed Class A dry warehouse, RUB/sq m/year** | 35,000–40,000 | 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

Delivery and transaction volume



Source: Knight Frank Research, 2019

Supply

As of 2018, about 805,000 sq m of quality warehouse property were delivered to the market of the Moscow region, which is 41% more than in 2017, namely 570,000 sq m. Although the delivery of some major properties expected in the end of 2018 was rescheduled for the beginning of 2019, the volume of warehouse premises delivered in 2018 is the largest since 2015. The total stock of quality warehouse property in the Moscow region amounted to 14,180,000 sq m by the end of 2018.

Within the newly delivered properties built-to-suit projects continued to outperform (45% or about 365,000 sq m, which is four times more than in 2017). The largest built-to-suit properties delivered in 2018 were Auchan Retail Russia distribution center of about 140,000 sq m built by Radius Group in a close vicinity to South Gate industrial park; the Utkonos distribution center of about 70,000 sq m completed by Orientir in the Orientir Sever-3 logistics park, as well as a distribution center for the retailer Detsky Mir of 60,000 sq m in the PNK Park Bekasovo.

About 248,000 sq m (31% of all delivered properties) were delivered speculatively to the warehouse property market of the Moscow region in 2018, which is 24% less than in 2017. Among the largest speculative warehouse complexes delivered in 2018 were building 1 of PNK Park Koledino (about 53,000 sq m), phase II of Greenstore warehouse complex (about 37,000 sq m), and phase II of Borisovsky terminal (about 33,000 sq m).

Twenty-four percent or about 192,000 sq m of all warehouse properties delivered in 2018 were built for own use with the general contractor. That is 26% more than in 2017. Among the largest properties in this category are phase II of Major Terminal warehouse complex of about 57,000 sq m in area and the exhibition and logistics center of Online Trade of 23,000 sq m.

The vacancy rate dropped by 3.6 percentage points to 4.2% or about 600,000 sq m in figures by the end of 2018, compared with the final figure of 2017.

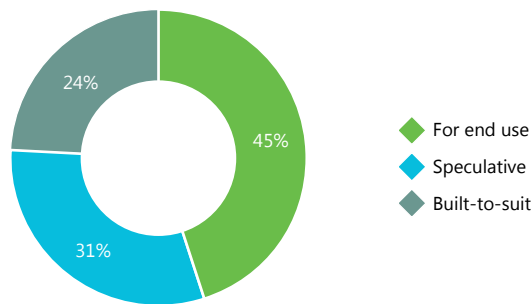
It is worth mentioning, that the significant decrease in the vacancy rate was noted in the last months of 2018, when all the remaining premises within multiple warehouse complexes had been rent out.

As of 2018, the highest vacancy rate was reported for the south (11.5% or about

Built-to-suit has been rapidly developing over the past years. Thus, major manufacture and logistics companies as well as retailers increasingly prefer this very format. However, clients are not prepared to wait for their built-to-suit property for

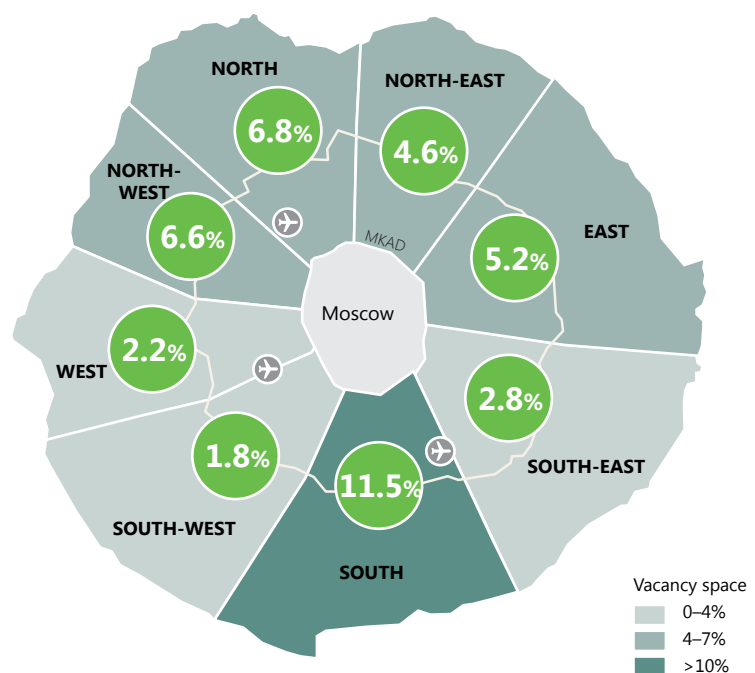
longer than one construction season these days, which seems only logical as the time of construction tends to decrease. At the same time, the quality of new buildings keeps increasing due to the engagement of new technologies.

Distribution of completed in 2018 warehouse buildings by type of constructions



Source: Knight Frank Research, 2019

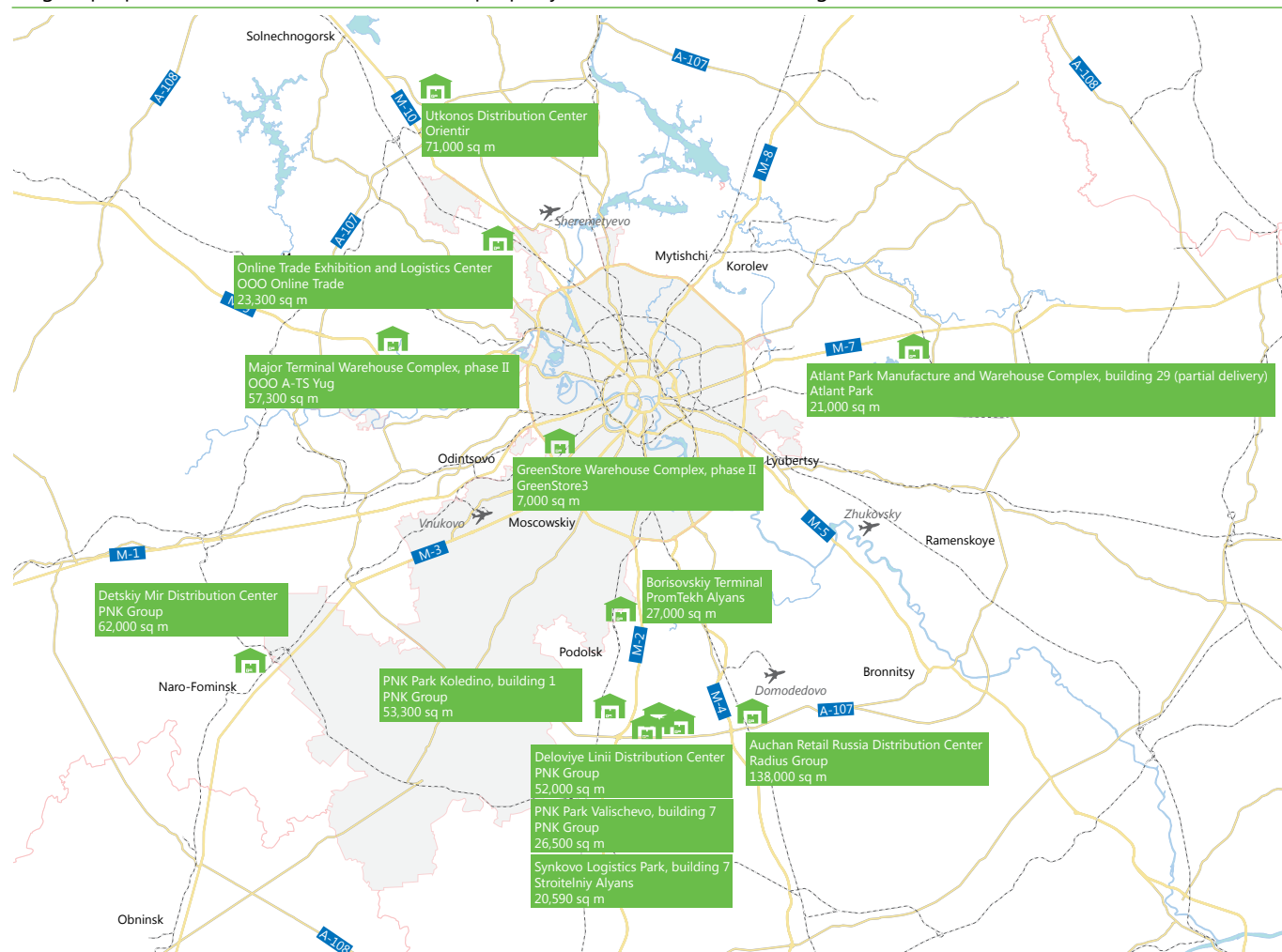
Vacancy rate by directions, 2018



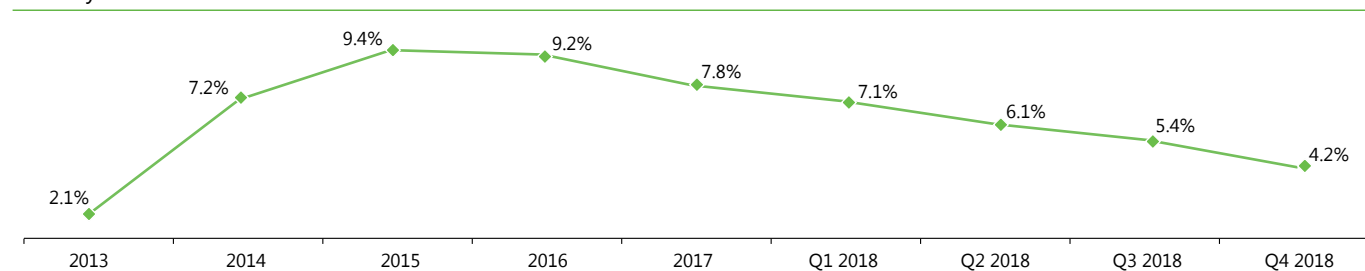
Source: Knight Frank Research, 2019

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Largest properties delivered to the warehouse property market of the Moscow region in 2018



Vacancy rate



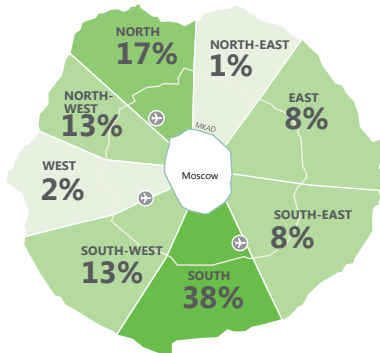
Source: Knight Frank Research, 2019

Largest properties planned for delivery in 2019 in the Moscow region

| Title | Developer | Total area, sq m |
|--------------------------------------|---------------------|------------------|
| Wildberries distribution center | A Plus Development | 145,000 |
| Distribution center in Esipovo | A Plus Development | 90,000 |
| Lenta distribution center | PNK Group | 70,000 |
| Vnukovo 2 logistics complex, phase 3 | Logistics Partners | 50,000 |
| Sofino logopark, block 3.1 | Logopark Management | 41,000 |
| Sofino logopark, block 3.2 | Logopark Management | 39,160 |
| Atlant-Park, block 30 | Atlant-Park | 34,200 |
| Svitino warehouse complex | VS-Nedvizhimost | 27,750 |

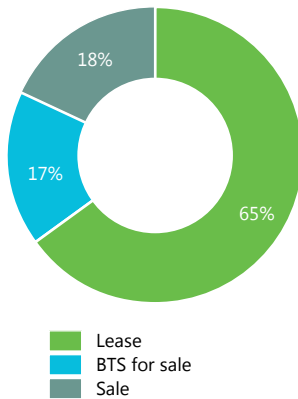
Source: Knight Frank Research, 2019

Distribution of lease/sale transactions by directions, 2018



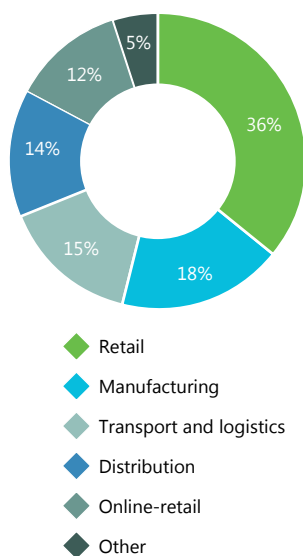
Source: Knight Frank Research, 2019

Distribution of the transactions by type, 2018



Source: Knight Frank Research, 2019

Distribution of the transactions by tenants/ buyers type, 2018



Source: Knight Frank Research, 2019

176,000 sq m), the north (about 6.8% or 131,000 sq m), and the north-west of the Moscow region (about 6.6% or 100,000 sq m). The lowest vacancy rate was recorded for the south-west of the Moscow region – 1.8% or about 20,000 sq m, as of 2018.

Demand

As of 2018, the total warehouse transaction volume in the Moscow region amounted to 1.8 million sq m, which is a historic market high.

About 38% of all transactions closed in 2018 (or about 686,000 sq m) were in the south of the Moscow region; about 17% (or about 300,000 sq m) – in the north of the region, 13% of all deals were signed in each of the following directions of the region: the south-west (232,000 sq m) and the north-west (231,000 sq m). The demand for the remaining four directions of the Moscow region amounted to less than 10% of all transactions.

Completed buildings accounted for the biggest amount of transactions signed in 2018 (82% of all deals), 65% (or about 1,175,000 sq m) of which were rent deals in completed buildings, 17% (or about 303,000 sq m) were sales of completed buildings, and the remaining 18% (or 329,000 sq m) were transactions with own built-to-suit warehouse complexes. The average deal area in a completed building amounted to 10,500 sq m, which is almost 1,000 sq m more than the average deal area in 2017 (9,700 sq m). The average BTS transaction area amounted to about 47,000 sq m in 2018, which is almost two times less than an average BTS deal in 2017 (89,000 sq m).

As for the number of deals, there were 129 transactions signed in the market of the Moscow region in 2018, which is 25% more than in 2017. The number of deals with completed warehouse complexes amounted to 112 in 2018 against 85 in 2017, 10 sale deals with completed buildings in 2018 against nine deals in 2017, and seven built-to-suit deals in 2018 against three of those in 2017.

Retail sector took up the largest share in the demand structure in 2018, it amounted to 36% of all transactions or 650,000 sq m in figures. The most sizeable deals in this category were construction contracts to build own distribution centers of 140,000 sq m and 72,000 sq m in area for Leroy Merlin and Lenta, accordingly. The construction is being performed by PNK Group.

The manufacturers came in second in the demand structure, with their deals amounting to about 320,000 sq m in 2018. Some of the most significant transactions in this category were the rent of 25,000 sq m in Noginsk Logistics Park by Rockwool, the manufacturer of sound- and thermal insulating materials, and a 14,000 sq m built-to-suit to rent construction contract signed by A Plus Development and Hino Motors, the Japanese manufacturer of trucks.

The transport and logistics sector's share amounted to 15% of all deals. The most significant transaction in this category recorded was the rent of over 37,000 sq m in PNK Park Valishchevo by the logistics operator ID Logistics.

Online-retail was responsible for 12% of all deals or about 214,000 sq m, which is 33% lower than last year's figure. The largest




Vnukovo 2 logistics complex, Kievskoe highway, 22 km from MKAD

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Largest deals closed in the warehouse property market of the Moscow region in 2018

| Year | Quarter | Tenant | Company field | Property/Location | Total area, sq m | Transaction type |
|------|---------|--|---------------|---|------------------|------------------|
| 2018 | Q3 | Leroy Merlin | Retail | Beliy Rast Logistics Complex | 140,000 | BTS for sale |
| 2018 | Q4 | OZON.RU | Online retail | Orientir Sever-1 | 122,000 | Lease |
| 2018 | Q4 | Lenta | Retail | PNK Park Valischevo | 71,600 | BTS for sale |
| 2018 | Q3 | Denskiy Mir | Retail | PNK Park Bekasovo | 62,000 | BTS for sale |
| 2018 | Q2 | Auchan | Retail | South Gate | 53,000 | Lease |
| 2018 | Q1 | Vkusvil | Retail | PNK Severnoye Sharemyevo, Diksi warehouse | 52,000 | Lease |
| 2018 | Q1 | Maksidom  | Retail | Nidan | 41,490 | Sale |
| 2018 | Q1 | DNS Retail | Retail | Atlant Park | 39,250 | Lease |
| 2018 | Q4 | Vostok-Zapad  | Distribution | Noginsk Warehouse Complex | 22,100 | Lease |
| 2018 | Q1 | Real Pro | Manufacture | Automotive plant in Klin (A Plus Development) | 20,000 | BTS for sale |
| 2018 | Q2 | Tmall | Online-retail | South Gate | 20,000 | Lease |
| 2018 | Q2 | OZON  | Online-retail | Leningradsky Terminal | 18,200 | Lease |
| 2018 | Q2 | Hitachi | Manufacture | Nikolskoye | 16,985 | Lease |
| 2018 | Q2 | Alidi | Distribution | PNK Park Valishchevo | 14,500 | Lease |
| 2018 | Q1 | Hino Motors | Manufacture | Khimki, Vashutinskoye Highwat | 14,000 | BTS for sale |

 Сделка с участием Knight Frank
Source: Knight Frank Research, 2019

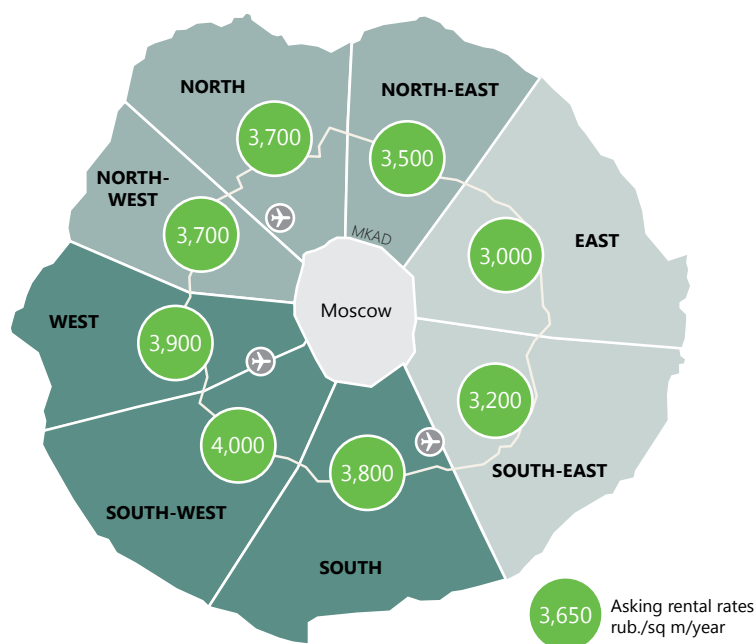
transactions in this sector were the rent of 122,000 sq m in the Orientir Sever-1 logistics park and the rent of more than 18,000 sq m in the Leningradsky Terminal warehouse complex by OZON.RU, the rent of about 20,000 sq m of South Gate industrial park by Tmall (Alibaba Group).

Commercial terms

As the vacancy rates were declining and the delivery of speculative projects was scarce, the average weighted asking rent rate went up a little to 3,650 RUB/sq m/year with no VAT, operating expenses and utility changes included by the end of 2018, as compared with the average weighted figures of Q1-Q3 2018. However, the annual figure was reported to be 1.4% lower than the average weighted asking rent rate in 2017.

As of 2018, the highest asking rent rates were found in the south-west of the Moscow region (4,000 rubles per sq m per year), where the demand is mainly formed at the expense of the properties located around Vnukovo Airport; and in the west of the Moscow region (3,900 RUB/sq m/year). The lowest asking rent rates were recorded for the east and the southeast of

Asking rent rates for Class A warehouses by directions of the Moscow region



Source: Knight Frank Research, 2019

the Moscow region (3,000 RUB/sq m/year and 3,200 RUB/sq m/year triple net). The low rents in the east can be explained by a high vacancy rate around Noginsk, in the south-east – by the poor transport infrastructure.

The operating expenses remained within the range of 900-1,300 RUB/sq m/year with no VAT included throughout 2018. The operating expenses include:

- ♦ building repairs;
- ♦ cleaning services, litter and snow removal, etc.;
- ♦ security;
- ♦ maintenance;
- ♦ salary budget;
- ♦ taxes, land expenses;
- ♦ advertising and marketing;
- ♦ management fees (managing company payments).

As of 2018, the average asking price of construction for a built-to-suit project for sale, with an area of 10,000+ sq m, was within the range of 30,000-35,000 RUB/sq m/year with no VAT.

Forecast

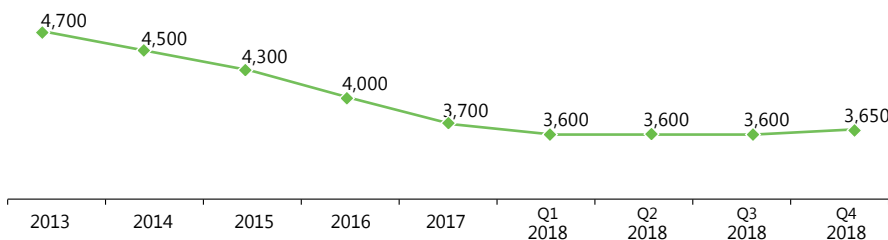
According to Knight Frank Research, the volume of delivery of quality warehouse property in the Moscow region will amount to 900,000 sq m in 2019, 60% of which will be built to order, while the remaining 40% will be used for subsequent lease.

The demand for quality warehouse property in the Moscow region is expected to remain strong and amount to 1.2-1.4 million sq m by the end of 2019. There will be no significant changes in the structure of demand, with the majority of transactions traditionally referring to retailers, who will continue to rent and build warehouse complexes in the

Moscow region for both sales points and online stores.

The vacancy rate will continue declining and is likely to establish at 3% by the end of 2019. There will still be available blocks in completed warehouse complexes, as there is ongoing speculative construction and some major companies are building own distribution centers and will be moving out of the premises they are currently occupying. In spite of that, there is an increase of asking rent rates reported for some properties, the forecast for the average rent rate for 2019 is rather conservative. The rate is very likely to stand at 3,650 RUB/sq m/year triple net in H1 2019, while an insignificant growth of the average rent rate to 3,700 RUB/sq m/year triple net is possible in H2 2019.

Dynamics of average asking Class A rental rates , RUB/sq m/year



Source: Knight Frank Research, 2019



Borisovskiy terminal, Simferopolskoe highway, 13 km from MKAD

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