

59% of new construction was taken by facilities built on own land parcels under the scheme of general contract

The total volume of bargains with warehouse property in the first half of 2020 reached **468 thousand sq m**



WAREHOUSE MARKET REPORT MOSCOW

HI 2020





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"Certainly, the development of the warehousing property market of the Moscow region was considerable influenced by the quarantine introduced due to the pandemic that slowed down the acquisition and lead-in of spaces, and driven down the rental rate, keeping it at the level of the end of 2019. Nevertheless, there are all the prerequisites to the subsequent growth of rates and an expansion in the number and volume of bargains in the second half of the year."

Key points

- ♦ The largest share in the structure of new construction was taken by facilities built on own land parcels under the scheme of general contract – 59%
- ♦ In the first half of 2020, the vacant spaces share continued to decline and consolidated at a level 2.3%
- ♦ The total volume of bargains with warehouse property in the first half of 2020 reached 468 thousand sq m, which is 44% lower than the same figure in 2019
- ♦ The average weighted asked rental rate remained at the end of 2019 and amounted to 3,950 rubles per sq m per year triple net.

Supply

At the end of the first half 2020, 416 thousand sq m were commissioned in the warehousing property market, which corresponds to the same figure for the first half of 2019, when the input was 413 thousand sq m. The total supply in the Moscow region reached 15,621 thousand sq m.

In the first half of 2020, the largest share in the structure of input volume is occupied by facilities built on own land parcels under the scheme of general contract – 59%, or 247 thousand sq m. The largest facilities were the 2nd and 3rd stages of the Wildberries

distribution center in Koledino – 92 thousand sq m.

30%, or 124 thousand sq m, accounted for facilities realized for speculative renting on the overt market. The largest facility became building 3.2 in the Sofyino Logopark with an area of over 49 thousand sq m.

The facilities built according to the built-to-suit scheme comprised 11% of the total input volume. It is worth to mark out the distribution center of the food retailer Vernyi with an area of more than 44 thousand sq m, built by PNK Group, which it leases from PLT in Chekhov.

Market indicators

	H1 2019	2019	H1 2020	Change
Total supply volume of quality warehouse space, thousand sq m	14,640	15,205	15,621	–
New delivery, thousand sq m	413	978	416	▲
Lease and purchase transaction volume, thousand sq m including:				
Lease and purchase in delivered facilities	633	1 362	291	–
construction of new facilities	208	203	177	–
Vacancy rate, %	3	2.7	2.3	▼
Class A average weighted asking rent rate, RUB/sq m/year*	3,750	3,900	3,950	▲
Operating expenses range, RUB/sq m/year, no VAT**	900–1,250	900–1,300	900–1,300	►
Average asking price range for purchasing completed Class A warehouse, RUB/sq m/year, no VAT	32,000–36,000	33,000–40,000	33,000–40,000	▲

* 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.

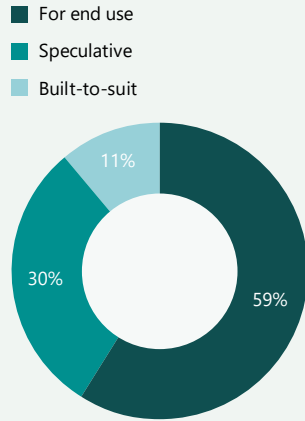
Source: Knight Frank Research, 2020

48%, which in absolute terms comprises to 200 thousand sq m, of warehouse spaces were built at a distance of 15-30 km from the Moscow Automobile Ring Road (MKAD). The total supply in this zone reached 5,118 thousand sq m. At a distance of 30–45 km from the MKAD, 18%, or 74 thousand sq m, were commissioned of the total commissioning volume in the first half of 2020. There is still low commissioning of new facilities close to the MKAD, despite the high demand for such facilities. This is first of all down to the lack of supply of land parcels available for warehouse property development in the zone up to 7 km from the MKAD.

It is worth pointing out that the largest supply of high-quality warehouse property in the Moscow region is concentrated at a distance of up to 30 km from the MKAD – over 10 million sq m.

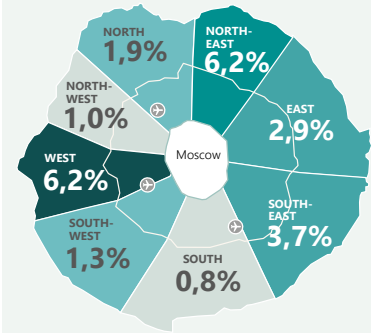
During all the first half of 2020, it was observable the vacant spaces deleverage, and at the end of the first half of 2020 it comprised to 2.3%. In absolute terms, the volume of vacant spaces is a little over 354 thousand sq m. The small volume of new construction, especially speculative facilities, contributes to the vacant spaces deleverage. Herewith, new speculative facilities which are commissioned are often already occupied by lessees. For example, speculative building 3.2 in the Sofyino Logopark by the time of commissioning was 50% full, and the property developer has agreements on the full lease of all spaces at the beginning of 2021.

Distribution of completed warehouse buildings by type of constructions, H1 2020



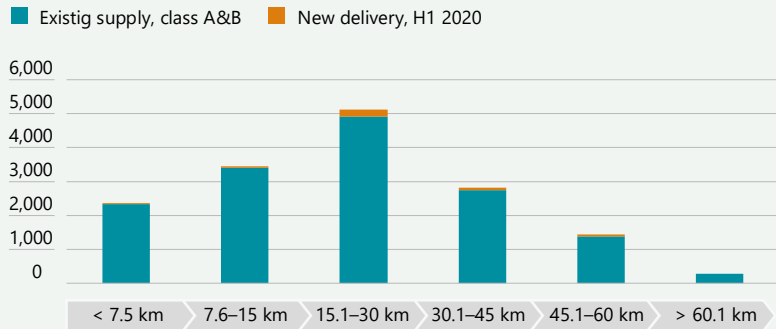
Source: Knight Frank Research, 2020

Vacancy rate by the directions



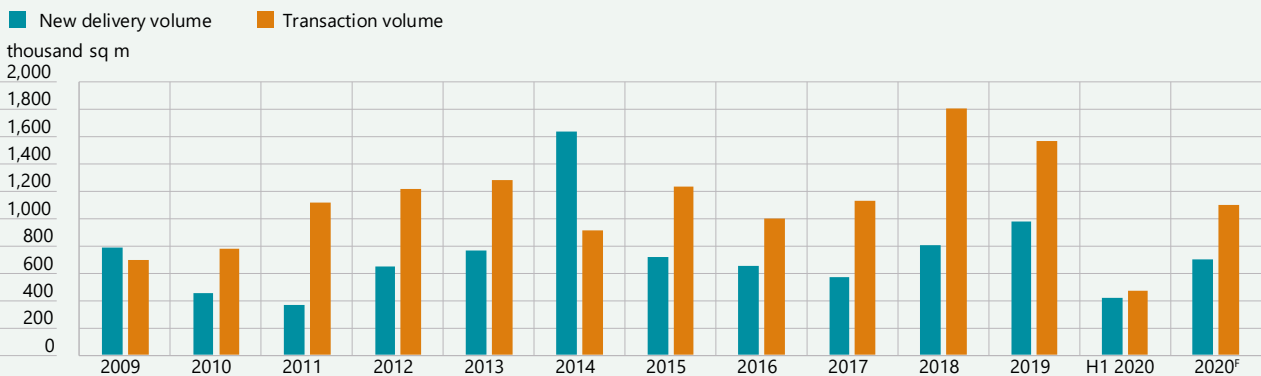
Source: Knight Frank Research, 2020

Quality warehouse stock distribution by distance from MKAD



Source: Knight Frank Research, 2020

Dynamics of new delivery and transaction volume



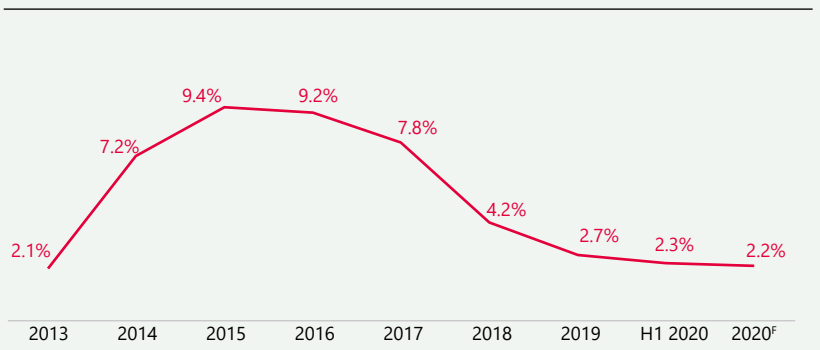
Source: Knight Frank Research, 2020

The largest properties delivered to the market of the Moscow region in H1 2020

Title	Developer	Total area, sq m
Wildberries Distribution Centre, (phase II/ III)	A Plus Development/ Wildberries	92,000
Sofyino Logistics Park. building 3.2	Logopark Management	49,615
Vernyy Distribution Centre	PLT	44,444
Bikovo logistic park, block R	Logopark Management	42,894
Logistic Centre	Lizard	26,971

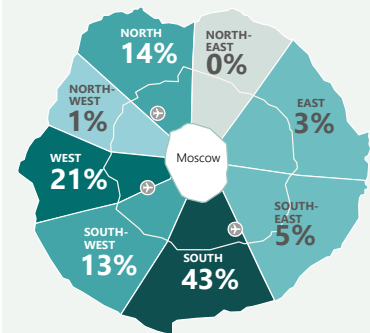
Source: Knight Frank Research, 2020

Vacancy rate



Source: Knight Frank Research, 2020

Distribution of lease/sale transactions by directions



Source: Knight Frank Research, 2020

The largest volume of disposable storage spaces in absolute amount was clamped to the south-easterly direction of the Moscow region – slightly less of 84 thousand sq m, or 3.7% of the total supply in this direction. The smallest volume of free offer in absolute amount is marked in the north-westerly direction of the Moscow region – 17 thousand sq m, which is 1% of the total supply of warehouses in the north-west.

The largest change in the share of vacant spaces occurred in the north-easterly direction, where the share of vacant spaces increased by 3.6 p.p. compared to the end of 2019. A significant increase in free space is associated with the entrance to the market of a large lot of 38 thousand sq m in the Pushkino Logopark.

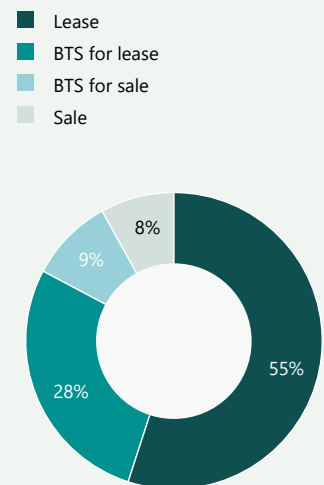
In the northerly direction of the Moscow region, the vacancy decreased by 2.5 p.p. compared to the end of 2019;

the decrease in the share of vacant spaces is due, among other things, to the exit from the market of warehouse blocks on the territory of Northern Sheremetyevo.

Demand

At the end of the first half of 2020, the total volume of bargains in the market of high-quality warehouse property in the Moscow region comprised to slightly less than 468 thousand sq m, which is 44% lower than the same figure in 2019. Although the fact that in the first quarter of 2020, amid the spread of COVID-19, there was business loss in the market, in second quarter there is a high demand for warehouse spaces. So, 69% of the total volume of bargains concluded in the first half of 2020 accounted for the second quarter of 2020.

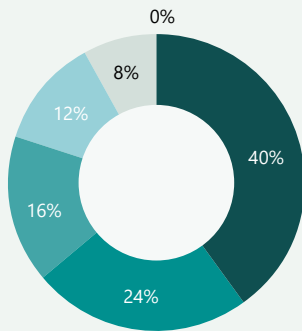
Distribution of the transactions by type, H1 2020



Source: Knight Frank Research, 2020

Distribution of transactions by tenant/buyer, H1 2020

- Retail
- Online-retail
- Transport and logistics
- Distribution
- Manufacturing
- Other



Source: Knight Frank Research, 2020



Pushkino Logopark

By more than 200 thousand sq m, or 43% of the total volume of bargains, were struck in the southerly direction of the Moscow region. The second place in the structure of demand under the directions was taken by the west of the Moscow region: it accounted for 21% of the total volume of bargains, or more than 98 thousand sq m, the northerly and south-westerly directions accounted for 14% and 13% of the total volume of bargains, respectively. The least activity was observed in the southeast and east of the region, as well as in the northwest. In these directions, the share of bargains with high-quality warehouse property was comprised from 1% to 5% of the total volume. At the end of the current six months, no bargains were struck in the north-east, which is explained by the deficit of upscale offer in this direction. Nevertheless, in the second half of the year there is a high probability of a large number of bargains in the north-easterly direction due to active sales of PNK Pushkino Park, Pushkino Logopark by Raven Russia and Kholmogory Logopark by Rusich.

55%, or more than 255 thousand sq m, of the total volume of bargains fell on speculative lease. This format has become the most popular in the online-

trade segment: in the first quarter alone, Wildberries rented more than 65 thousand sq m of warehouse space in the Moscow region. The share of speculative lease bargains decreased by 20 p.p. compared to the bottom-line figure in 2019, when it was 75% of total demand. The demand volume lowering for lease is caused by the low share of vacant spaces in the Moscow region market.

8% of the total volume of bargains, or 35 thousand sq m in absolute values, accounted for the purchase of finished buildings at the end of the first half of 2020.

The share of bargains executed according to the built-to-suit scheme with subsequent lease in the first half of 2020 increased by 20 p.p. compared to the final figure in 2019 and reached 28% of the total acquisition, which in absolute values is 133 thousand sq m. The largest bargain realized according to the built-to-suit scheme as a result of the first six months was the signing of a lease agreement by X5 Retail Group, which rented more than 89 thousand sq m in the new Logopark on Novorizhskoye highway.

The leading position at the end of the first half 2020 in quantity demanded was

taken by the retail trading segment: it accounted for 40% of the total volume of bargains, or 187 thousand sq m. The largest bargains in this segment were struck by one of the leading retail companies in Russia – X5 Retail Group. For example, it rented almost 44 thousand sq m in the Sever-4 Logopark.

At the end of the first half year, there is a high demand for warehouse spaces from the representatives of online trade, who rented 111 thousand sq m, or 24% of the total volume of bargains. It is worth to mark out the signing of a lease agreement by the Utkonos for almost 15 thousand sq m in Kaleva Park. The share of bargains in the online trade segment in the total volume increased by 17 p.p. compared to the end of 2019. The impetus for this vigorous growth was the increased interest of customers in online purchases during the period of self-isolation, as well as a general change in shopping behavior. Transport and logistics companies took the third place in the structure of distribution of bargains on profiles: they accounted for 16% of composite demand. The total volume of bargains of distributor companies amounted to 59 thousand sq m in absolute amount.

Commercial conditions

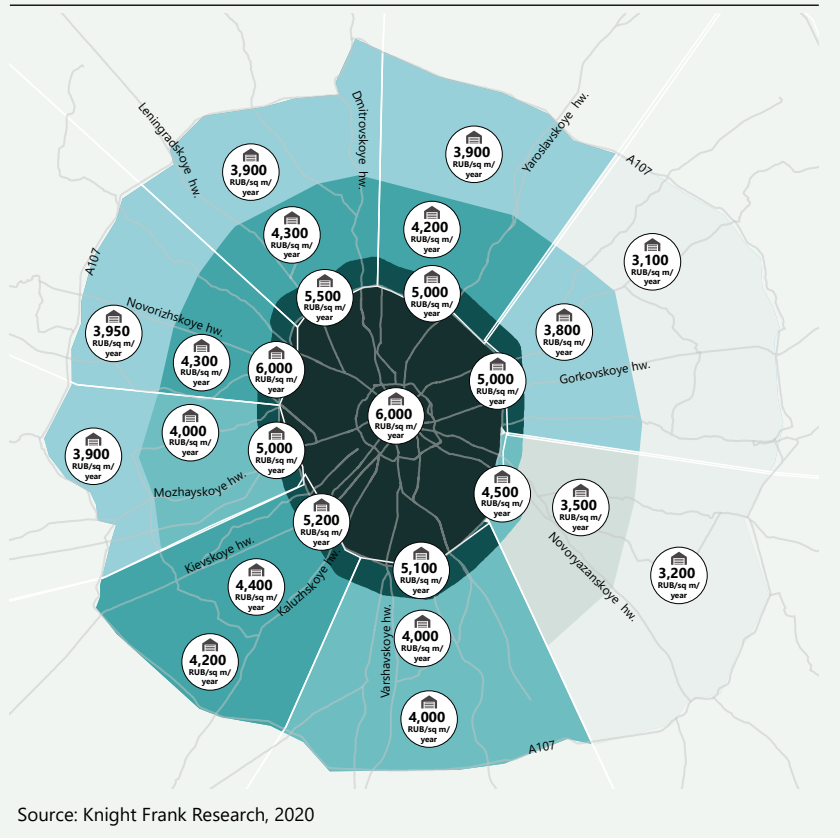
At the end of the first half of 2020, the value of the average weighted asked rental rate did not change and remained at the level of the end of 2019 – 3,950 rubles per sq m per year triple net.

The highest level of the average weighted asked rental rate remained in the south-westerly direction of the Moscow region – 4,605 rubles per sq m per year triple net. Such a high level of rental rate is due to the availability of free warehouse spaces at a rate of 5,000–6,000 rubles per sq m per year triple net. For example, in the Salarevo warehouse complex the asked rental rate is 5,000 rubles per sq m per year triple net, this rate is explained by the proximity of the warehouse complex to Moscow: it is located 3 km from the MKAD.

The lowest level of the asked rental rate was clamped to the east of the Moscow region – 3,100 rubles per sq m per year triple net. The rental rate in the easterly direction decreased by 12% compared to the same figure in the first quarter of 2020, when it reached 3,500 rubles per sq m per year triple net. The low values of the asked rental rate are explained by the fact that at the end of the first half of 2020, the base quantity of the free offer is formed by inexpensive blocks.

The level of operating expenses remained unchanged since 2018 and was within the range of 900–1,300 rubles per sq m per year triple net excluding VAT by the end of 2019.

Average weighted asking rental rates in the directions of the Moscow region, RUB/sq m/year triple net



Forecast

According to the predictions of Knight Frank analysts, towards the end of 2020, about 700 thousand sq m of warehouse spaces will be commissioned on the warehousing property market in the Moscow region, of which almost half will be represented in speculative facilities.

At the end of 2020, the total demand for warehouse spaces may reach 1,000–1,100 thousand sq m. The reservation of the considerable proportion of the retail trade and online trade segment is expected in the demand structure. The volume reduction of bargains is associated not only with the COVID-19 pandemic and its consequences, but also with the shift in demand for high-quality warehouses to the regions, which has been observed since 2019.

In the absence of critical external factors and maintaining macroeconomic stability towards the end of 2020, the vacant spaces share will merely continue to decline to the level of 2.1–2.2%.

The average weighted asked rental rate for class A warehouses at the end of 2020 will remain at the current level and amount to 3,900–4,000 rubles per sq m per year triple net. The warehousing property market is currently one of the most stable market segments, where rental rates, owing to the low volume of new construction and the small share of vacant spaces, have a high potential for growth. But the current macroeconomic uncertainty will hold back considerable increase of rates.



Logopark Sever-4

Largest properties scheduled for delivery in H2 2020

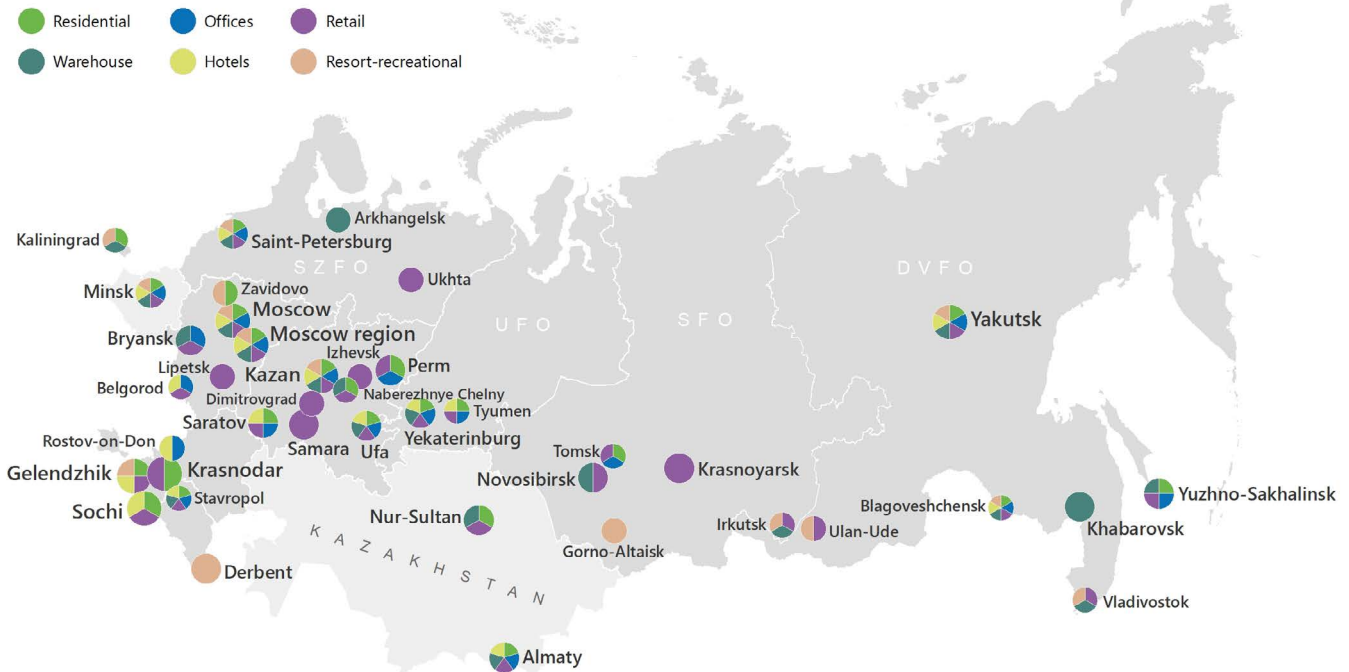
Title	Developer	Total area, sq m
Logopark Sever-4	Orientir	60,000
Atlant-Park, block 33	Atlant-Park	49,980
Vnukovo II Logistics Complex	Logistics Partners	30,000
Synkovo Industrial city	Stroitelniy Alyans	24,000
Techopark Pererva	KR Properties	19 340
Mikhaylovskaya slobova Warehouse complex	Meridian	18,675

Source: Knight Frank Research, 2020

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