



Q3 2018
**WAREHOUSE
MARKET
REPORT**
Moscow

HIGHLIGHTS

In Q1–Q3 2018 over 458,000 sq m have been delivered to the warehouse market.

16 of 22 warehouse objects delivered in the first nine months of 2018 were built to order.

Over 1.3 million sq m of quality warehouses were purchased or leased over the first three quarters of 2018, which is the highest market record.

The retail sector prevailed in the demand structure in the first nine months of 2018.



Sergey Kuzichev

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

“Recently there were discussions on the upswing in the online retail (mainly e-commerce companies with no offline retail services) demand for warehouse space. However, our market research data suggests the opposite: following the three quarters of 2018 the share of online retail in the demand structure for quality warehouses in the Moscow region is only 6%.

This low market share can be attributed to the merge of traditional and online commerce which is actually a common technique used by e-commerce companies, i.e. offline-retailers launch online-platforms, while online-retailers open physical show rooms, customer service and pick-up points. Both online and offline retailers often don't have dedicated warehouses for their brick and mortar or online stores, as well as they don't necessarily have particular storage spaces and areas for completing ordered goods for points of sales and online-orders. Because of that, singling out the precise share of online commerce in the structure of demand for warehouse space appears to be a tough challenge”.

WAREHOUSE MARKET REPORT MOSCOW

Key indicators. Dynamics

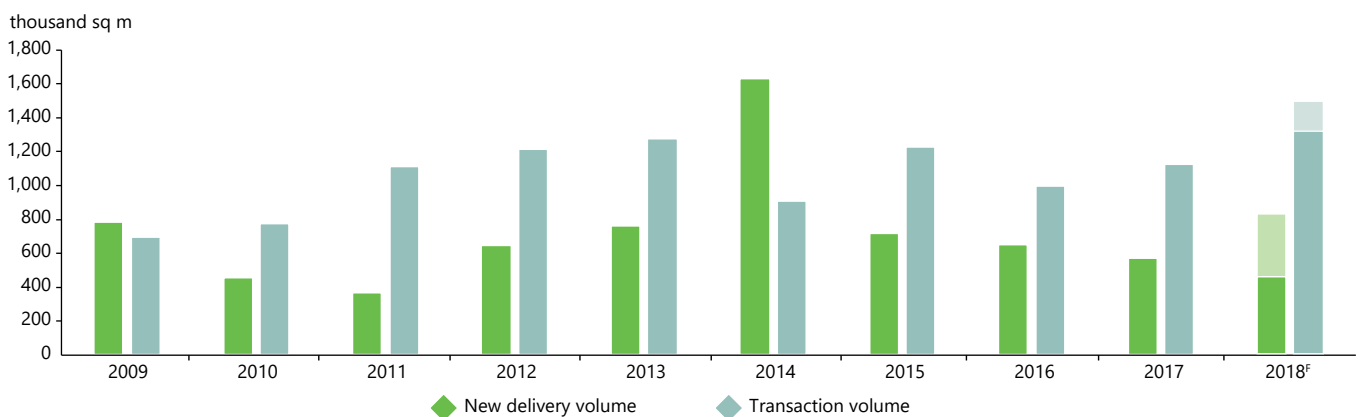
	Q1-Q3 2018	Q1-Q3 2017
Total stock of quality warehouse property, thousand sq m	13,817	12,904
Delivery, thousand sq m	458 ▲	239
Volume of sales and rent transactions, sq m including:	1,321 ▲	818
sales and lease transactions in completed buildings	1 064	603
built-to-suit transactions	257	215
Net absorption, sq m	682 ▲	612
Vacancy rate, %	5,4 ▼	9,2
Class A average weighted asking rent rate, RUB/sq m/year*	3,600 ▼	3,700
Operating expenses range, RUB/sq m/year**	900–1,300 ▶	900–1 300
Asking price range for purchasing completed Class A dry warehouse, RUB/sq m/year**	30,000–35,000 ▶	30,000–35,000

* Hereinafter, asking rent rate for a standard Class A dry warehouse excl. VAT, operating expenses, and utility charges.

** Hereinafter, commercial terms for Class A warehouse, excl. VAT.

Source: Knight Frank Research, 2018

Dynamics of new delivery and transaction volume



Source: Knight Frank Research, 2018

Supply

As many as 179,700 sq m of quality warehouse objects were delivered to the market of the Moscow region during Q3 2018, taking the cumulative nine-month figure to 458,000 sq m (22 properties in total), which is almost twice as much as last year's nine-month figure. The largest speculative warehouse delivered in Q3 2018 was phase II of Borisovskiy terminal, with a total area of about 33,000 sq m. The largest built-to-suit warehouse delivered in Q3 2018 was Utkonos distribution center completed by Orientir company, with a total area over 70,000 sq m, located in the Orientir Sever III logistics park. It is worth mentioning, that the delivery of some properties was rescheduled for Q4 2018 from Q3 2018. This delay was likely due to the prolonged procedure of receiving the commissioning certificate. By the end of Q3 2018 the total stock of quality warehouse property in the Moscow region amounted to 13,817,000 sq m.

16 of the 22 properties delivered in the first nine months of 2018 were built under the order: by 36% or about 166,000 sq m and 165,000 sq m were the properties built to order on own land plots with a hired general contractor and built-to-suit properties respectively, and the remaining 28% or about 127,000 sq m were constructed to be subsequently rent out.

As of Q3 2018, the vacancy rate dipped by 0.7 percentage points as compared to H1 2018 to reach 5.4% or 746,000 sq m in figures.

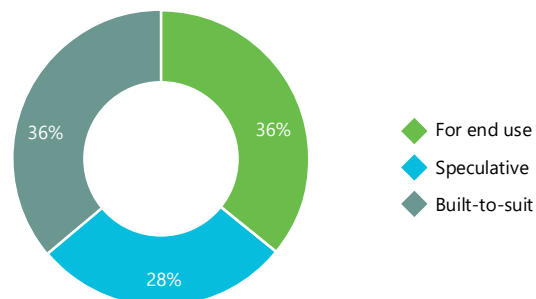
In Q1–Q3 2018, the largest volume of vacant warehouse space was recorded for the north of the Moscow region and amounted to about 237,000 sq m. About 170,000 sq m were available in the south and about 130,000 sq m – in the northwest. The smallest number of vacant warehouse space was found in the southwest and southeast of the Moscow region, about 21,000 sq m and 24,000 sq m, respectively.

Largest properties delivered in the Moscow region, Q1–Q3 2018

Title	Quarter	Total area, sq m
Utkonos distribution center	Q3	71,000
Major Terminal warehouse complex, phase II	Q2	57,300
Commercial Property Operator distribution center	Q3	52,000
GreenStore warehouse complex, phase II	Q1	37,000
Borisovskiy Terminal, phase II	Q3	33,000
PNK Park Valischevo, building 7	Q2	26,500
Atlant Park warehouse complex, building 29 (part of the building)	Q2	21,000
Synkovo logistics park, building 7	Q2	20,585
PNK Park Valischevo, building 6	Q2	11,230
Katuar warehouse complex	Q1	11,000
PNK Park Valischevo, building 3.1	Q2	8,640
Noginsk technopark	Q2	7,085

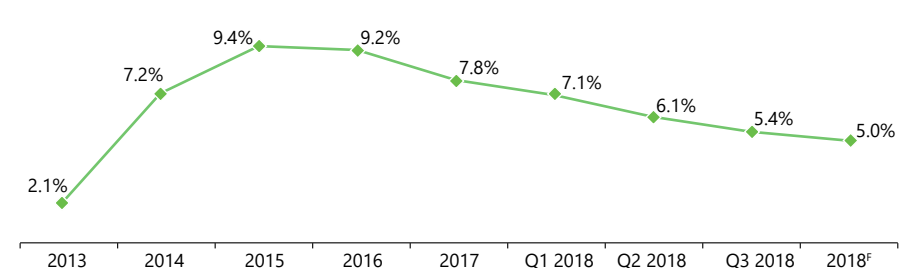
Source: Knight Frank Research, 2018

Distribution of completed in Q1–Q3 2018 warehouse buildings by type of construction



Source: Knight Frank Research, 2018

Vacancy rate



Source: Knight Frank Research, 2018

Demand

Over the first nine months of 2018, the total volume of rent and sale transactions in the warehouse market of the Moscow region amounted to 1,321,000 sq m, which is an unprecedented historic market high. About 445,000 sq m of these premises were rent and sold in Q3 2018 only, which is 45,000 sq m more than last year's figure.

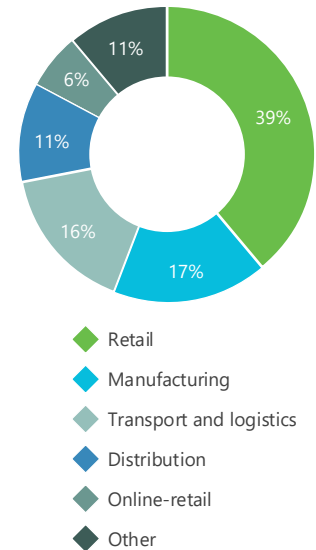
Most of lease and sale transactions, signed in the first nine months of 2018, were in the completed buildings. The share of lease transactions in the completed warehouse buildings was 60% of total volume or 787,000 sq m). The number of these lease transactions amounted to 80, 18 of which with the area more than 10,000 sq m (the average deal area in this category was 21,900 sq m), the remaining 62 lease transactions were with the area less than 10,000 sq m (the average deal area in this category was 6,300 sq m). The share of sale transactions in the completed buildings amounted to 21% or 277,000 sq m. The share of BTS transactions was 19% or 257,000 sq m, that in numerical terms equals to 6 deals with an average area of

42,800 sq m. There were no built-to-suit for rent transactions in 2018, all built-to-suit deals were for sale.

The south of the Moscow region is leading in terms of the transaction volume in the first nine months of 2018, with the share of 36% of total volume of the deals, or 477,000 sq m. The northern part of the Moscow region came in second, with 21% total volume of the deals, or 280,000 sq m. The southeast and the southwest share the 10% result, with about 150,000 sq m and about 140,000 sq m, respectively. A smaller share of 9% or 112,000 sq m belongs to the east of the Moscow region. The west, northwest and northeast recorded less than 100,000 sq m each.




Based on Q1–Q3 results the retail segment prevailed in the demand structure, continuing to take on lease or purchase the warehouse buildings both for offline and online shops. The transactions volume of the retail segment amounted to about 506,000 sq m. The largest transactions among the retailers was the contract for constructing a Leroy Merlin distribution center on the Belyi Rast logistics complex


Distribution of transactions by tenant/buyer, Q1-Q3 2018



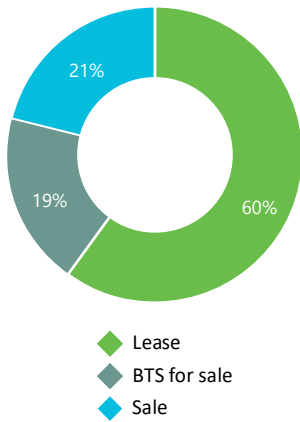
Source: Knight Frank Research, 2018

The largest transactions in the Moscow region, Q1–Q3 2018

Quarter	Tenant / buyer	Type of company	Property / location	Total area, sq m	Type of transaction
Q3	Leroy Merlin	Retail	Belyi Rast logistics park	140,000	BTS
Q3	Detsky Mir	Retail	PNK Park Bekasovo	62,000	BTS
Q2	Auchan	Retail	South Gate industrial park	53,000	Lease
Q1	VkusVill	Retail	PNK Park Northern Sheremetyevo, Dixy warehouse	52,000	Lease
Q3	ID Logistics 	Transport and logistics	PNK Park Valischevo	37,000	Lease
Q1	Rockwool	Manufacture	Noginsk logistics park	25,790	Lease
Q2	Tmall	Online-retail	South Gate industrial park	20,000	Lease
Q2	OZON 	Online-retail	Leningradskiy Terminal warehouse complex	18,200	Lease
Q2	Hitachi Construction	Manufacture	Nikolskoye warehouse complex	16,985	Lease
Q1	Hino Motors	Manufacture	Land plot in Khimki, Vashutinskoye highway	14,000	BTS
Q3	Forafarm	Distribution	Vashutinskoye highway	14,000	BTS
Q2	Valta Pets 	Online-retail	Borisovskiy terminal	13,890	Lease
Other transactions				853,700	BTS, lease, sale

 Transaction assisted by Knight Frank
Source: Knight Frank Research, 2018

Distribution of the transactions by types, Q1-Q3 2018



Source: Knight Frank Research, 2018

by PNK Group in the north of the Moscow region (about 140,000 sq m) and the built-to-suit for sale of about 62,000 sq m warehouse for Detsky Mir in the PNK Park Bekasovo. Also, the largest transactions in this segment were with federal retailers: the lease of 53,000 sq m by Auchan in South Gate industrial park and the lease of 52,000 sq m by VkusVill in Dixy warehouse in the PNK Park Severnoe Sheremetyevo.

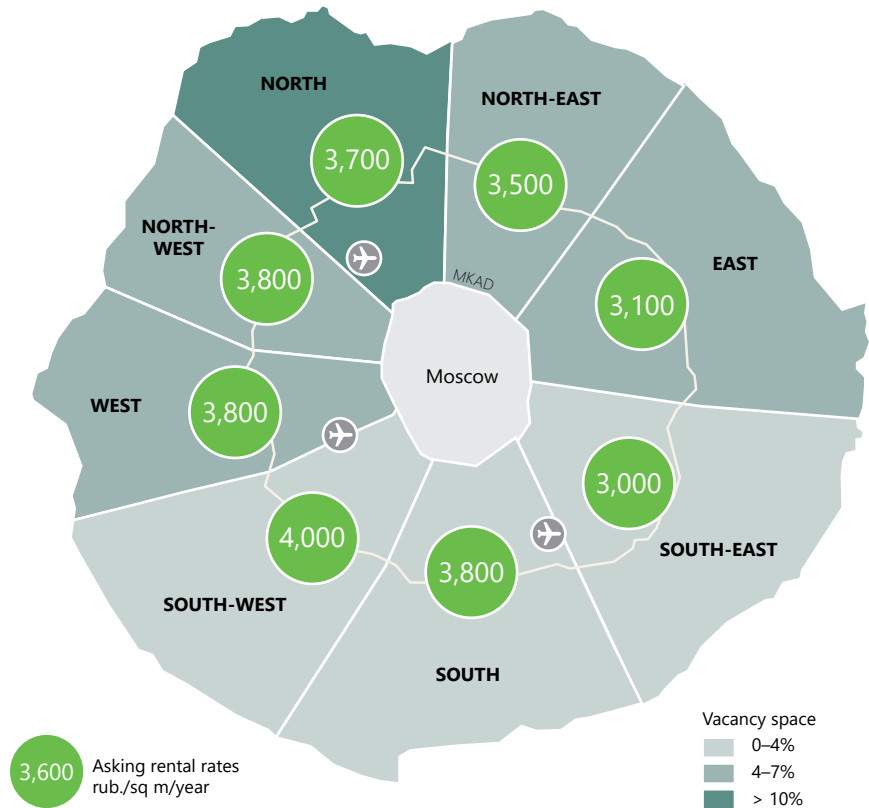
Manufacturers secured the second place in the demand structure. The largest transactions of this sector were the rent of about 26,000 sq m by Rockwool, the manufacturer of construction materials, in Noginsk and the contract for constructing a warehouse complex for Asahi Glass Co., Ltd. (AGC), the world's largest glass manufacturer, of more than 20,000 sq m by A Plus Development and Rail Pro.

Logistics operators came in third in the demand structure, with the share of about 16% or 204,000 sq m. One of the largest transaction of this sector was the rent of about 37,000 sq m by ID Logistics in PNK Park Valishevo.

Commercial terms

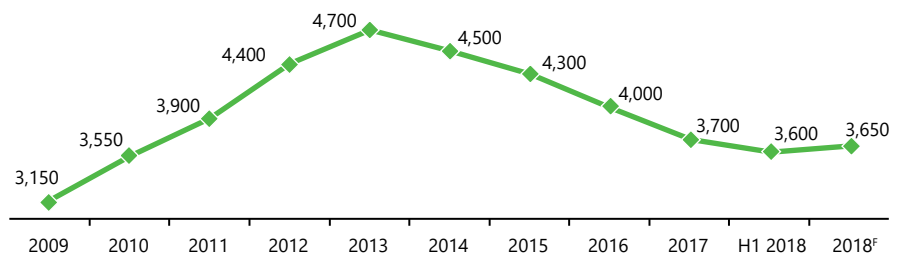
As of the first nine months of 2018, the asking average weighted rent rate remained at 3,600 RUB/sq m/year excluding VAT, operating expenses and utility charges. Due to the vacancy rate decline, there is a certain rise in the asking rental rate in some large Class A properties, which,

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



Source: Knight Frank Research, 2018

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



Source: Knight Frank Research, 2018

nevertheless, has not affected the current asking average weighted rental rate. That is because there are still some Class A properties on the market that are offering available premises at 3,000 RUB/sq m/year. For the most part, these properties are located in the east and the southeast of the Moscow region. Over Q3 2018,

the highest asking rental rate of 4,000 RUB/sq m/year triple net was recorded for the southeastern direction, followed by the south, the west and the northwest, where the asking rental rate was 3,800 RUB/sq m/year triple net.

Largest properties scheduled for delivery in Q4 2018

Title	Developer	Area, sq m
Wildberries distribution center	A Plus Development	145,000
Auchan distribution center	Radius Group	138,000
Warehouse complex in Esipovo	A Plus Development	90,000
Svitino warehouse complex	VS Nedvizhimost	27,750

Source: Knight Frank Research, 2018

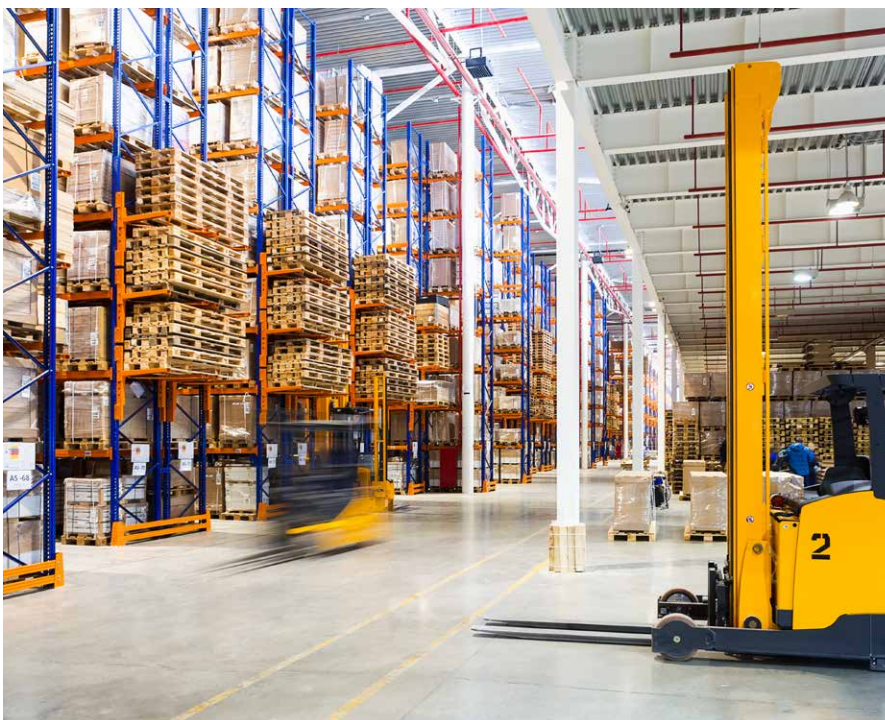
Forecast

Based on the list of warehouses scheduled for delivery before the end of 2018, there is about 400,000 sq m of quality warehouse properties expected to be delivered in Q4 2018. More than 50% of this amount are being constructed in built-to-suit format. We expect some of these projects to be rescheduled for H1 2019, due to the overall slow pace of delivery. In general, the warehouse market of the Moscow region is currently developing quite rapidly: many companies either have started building their own facilities or are looking for suitable land plots or developers with land plots considering the construction of own warehouses in the future.

The vacancy rate will keep declining to 5% at the end of the year. Eventually, it is more likely that the Moscow region companies that are building their own distribution centers (such as Auchan, Leroy Merlin, etc.) will move from the premises they currently rent and therefore vacant blocks will appear on the secondhand market.

According to Knight Frank forecast, the average asking rental rate will slightly grow to 3,650 RUB/sq m/year by the end of 2018.

The total volume of transactions will amount to about 1.5-1.6 million sq m by the end of the year, while retail sector, will hold the key share of the demand structure. Significant transactions are expected to be signed by online-retailers shortly, however, this will not affect the share of online-retail in the demand structure.



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