



1Q 2011  
**WAREHOUSE  
REAL ESTATE MARKET**  
Moscow  
**Knight Frank**

## EXECUTIVE SUMMARY

- The increase in supply for Q1 equaled only 13,000 sq m of warehouse space, but another 430,000 sq m of class-A and class-B warehouses are expected by the end of the year.
- The volume of deals in the warehouse segment for the first 3 months of the year equaled about 160,000 sq m – slightly less than the analogous period from 2010.
- In 2011 the rate of absorption for warehouse space will outstrip the rate of new construction, which will lead to a further decrease in the level of vacant space and to an increase in rental rates.

# 1Q 2011 WAREHOUSE REAL ESTATE MARKET

Moscow

## WAREHOUSE REAL ESTATE MARKET



**Vyachislav Kholopov,**  
director of industrial,  
warehouse and land  
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«The beginning of 2011 proved to be significantly less active than Q4 2010 judging by the volume of completed rental deals for warehouse premises. But this does not indicate a general decrease in interest in warehouse properties: Both a decrease in the volume of accessible warehouse complexes and a continuing increase in rental rates for quality premises influenced Q1 results.

A deficit of ready supply and a high level of renter activity will lead to a wash-out of completed warehouse space from the market in Q2 2011, after which the market will return to pre-recessionary practices of completing initial contracts. The change in the situation on the market compared to the recessionary period is leading to developers preferring to build properties under-key for clients desiring either to acquire modern warehouse buildings or to rent them for an extended period».

### Key events

- Since the beginning of the year, construction plans in Russia have been made known by national and foreign companies for a series of factories. Among the examples are Nokian, a Finnish company planning to construct a second tire factory in Russia; Geely, a Chinese automobile manufacturer; Axel Springer, a German medicinal concern conducting negotiations for the construction of a paper factory in Russia; Boing, which will build a factory for the mechanical processing of titanium details on the territory of OEEZ «Titanium Valley» in Sverdlovsky Oblast; as well as others.
- The events in Japan had a significant influence on the development plans of Japanese companies, as well as on the supply of Japanese products – including electronic components – to businesses outside of the country. A contraction in demand for warehouse and manufacturing space from Japanese

### Key indicators

	Class A	Class B	Dynamics
Total supply (classes A, B, C), mln sq m	10,55		
Supply of quality space in classes A and B, mln sq m	4,24	1,88	
Total supply of quality space, mln sq m	6,12		
Growth of supply in Q1 2011, thousands of sq m	8,5	4,5	↓
Expected Growth of supply in Q2-Q4 2011, thousands of sq m	404	23,5	↑
Lease and sale transactions in Q1 2011, thousands of sq m	160		↓
Average vacancy rate, %	4,5	9	↓
Declared rental rates, \$ per sq m per annum*	125-130	95-110	↑
Operating expenses, \$ per sq m per annum	35-45	25-40	→

\* Excluding VAT, operating expenses and utility payments  
Source: Knight Frank Research, 2011

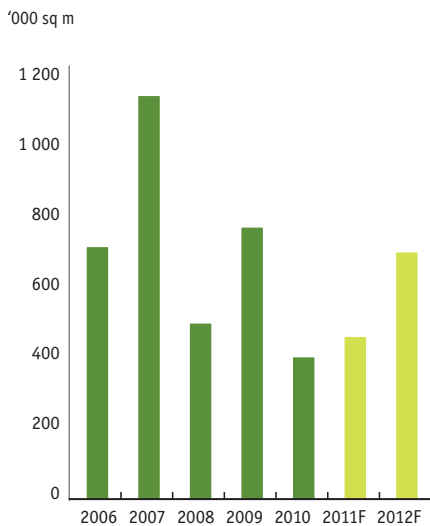
companies, as well as from manufacturers using Japanese components, might become one of the consequences of the natural disaster.

- The recovery of regional markets, which began in 2010, is continuing. In Q1 2011, several noticeable rental agreements for warehouses outside of the Moscow region were reached.

Among the examples are large deals in St. Petersburg: «Imperia-Farma», a pharmaceutical distributor, is renting 8,500 sq m in «Gorigo», a logistics center, and TPV Technology, a Chinese manufacturer, is renting more than 15,000 sq m in «AKM-Logistics», a project in Shusharakh.



**According to plans of developers, the rate of increase for supply in 2011 and 2012 will increase**



Source: Knight Frank Research, 2011

- Retail operators are once again ready to expand, announcing development plans in Moscow and in the regions, which suggests future growth in demand for warehouse space from this group of renters, which occupies more than 20% of the demand structure for warehouse space. Among the large retailers planning active expansion is X5 Retail Group N.V., «Magnit», «El Dorado», Metro Group, and «Kesko».
- In March 2011, a communication regarding the sale of Southgate, a logistics complex, appeared. Raven Russia, Cristopher Van Rit, minority shareholder and managing director of Giffels Management Russia, and David Simons, also a minority shareholder, were mentioned among the candidates for acquiring the asset. All have priority rights for purchasing the shares of Cypress Grove International, the seller. In any even, this deal would be the first large deal of warehouse real estate in 2011, confirming the already formed trend of a gradual return of interest in acquiring warehouse real estate in Russia.

**Supply**

In Q1 2011, buildings in only 2 projects were commissioned in the Moscow region, leading to an increase in supply equal to 13,000 sq m. The total supply of quality warehouse space in the Moscow region at the end of 2011 equalled 6.12 mln sq m, of which 4.24 mln sq m belong to class A and 1.88 mln sq m belong to class B.

Nevertheless, an increase in developer activity is being observed on the Moscow region's warehouse market: Although the volume of warehouse space announced for commissioning in 2011 equalled only

450,000 sq m, which is twice as less as the average volume of commissioning in the pre-recessionary years of 2006 and 2007, about 700,000 sq m of class-A and class-B space are planned for commissioning in 2012.

If in 2009-2010 «pre-crisis» projects entered the market, then currently the supply of warehouses is being filled by warehouse complexes that started their construction after the passing of the recession's sharpest phase. Moreover, professional developers of warehouse real estate are announcing the construction not just of new warehouses, but also of new phases of already existing projects and develop new platforms. New market players are announcing similar intentions.

It is worth noting that a part of those projects announced for commissioning in 2011 might be delayed until 2012, which will facilitate the formation of a sharp deficit of ready warehouse space during 2011.

**Demand**

A high demand for quality warehouse space from renters is being maintained on the Moscow region's market. An analysis of deals, closed in 2010 and in Q1 2011 allows one to come to the conclusion that a significant share of warehouse tenants (up to 30%) are moving from lower quality warehouses (class-C and class-D).

About half of the companies renting warehouses are expanding their existing warehouse abilities or are renting warehouse or manufacturing space for the first time.

Examples of warehouse projects expecting commissioning in 2011			
Name	Location	Area, sq m	Developer
PNK-Chekhov, bldg. 6-8	Simpheropolskoye hwy., 49 km from MKAD	86,700	PNK Group
VVV Aparinki	Kashirskoye hwy., 3 km from MKAD	85,000	VVV Company
Belaya Dacha, bldg. 5	Novoryazanskoye hwy., 4 km from MKAD	32,000	Hines International, «Agrofirma Belaya Dacha».
Krekshino Logistics Park, bldg. 4	Between Minskoye and Kievskoye hways., 24 km from MKAD	20,000	«RosEvroDevelopment»

Source: Knight Frank Research, 2011

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Moscow

The remaining 20% of renters are moving from warehouses of the same level. Moves of companies away from 3PL operators in order to manage their own logistics processes themselves can also be counted in this last 20%.

According to Q1 2011 results, the volume of rental deals and buy-sell deals for warehouses in the Moscow region equalled about 160,000 sq m, which is comparable to the indicator from Q1 2010 when 170,000 sq m of class-A and class-B warehouse space were rented. A significant amount of rental deals were in negotiation phases at the end of Q1, which allows one to anticipate that the volume of deals at the end of 2011 will be comparable to the indicator of 2010 when about 780,000 sq m were either rented or purchased.

The vacancy rate in existing warehouse complexes continues to decrease, equalled a market average of about 4.5% for class-A objects and 9% for class-B objects at the end of March 2011.

It is important to note that the practice of initial rental of space in not yet commissioned warehouse complexes is returning to the market. The deficit of ready warehouse space is forcing tenants to consider space in the building phases, as well as conduct negotiations for the construction of «under key» premises – we will see a significant amount of initial rental agreements already in this year.

## Commercial conditions

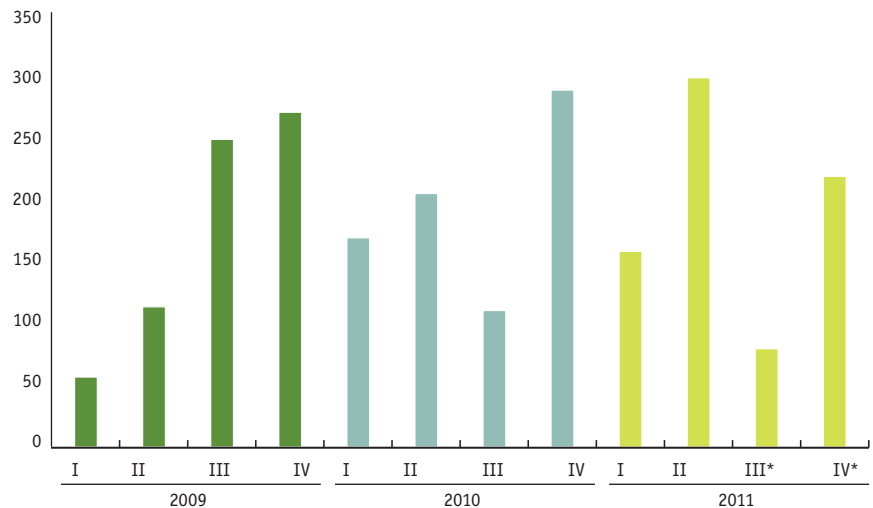
In Q1 2011, rental rates continued to increase. The maintaining increase in absorption rates over commissioning rates for new warehouse properties in the Moscow region became a result of an increase in rental rates for class-A premises from \$115-120 sq m per year in Q4 2010 to \$125-130 sq m per year by the end of Q1 2011 (without considering VAT, utility payments, or operational expenses).

With the contraction in the quantity of vacant space, a supply of premises for \$130 per sq m per year is becoming more and more widespread. For large tenants, as well as for companies «with a name», owners of warehouses are prepared to lower requested rental rates by 5% on average.

For class-B warehouses and former manufacturing premises, the increase in rates is not so expressed, which is explained by a wide price gap in rental prices for warehouses in this category, connected with a wide differentiation of properties according to quality. Nevertheless, an increase in rates is also noticeable here: At the end of Q1 one can

**In Q1 2011 a decrease in activity from warehouse renters was observed, which is traditional for the beginning of the year.**

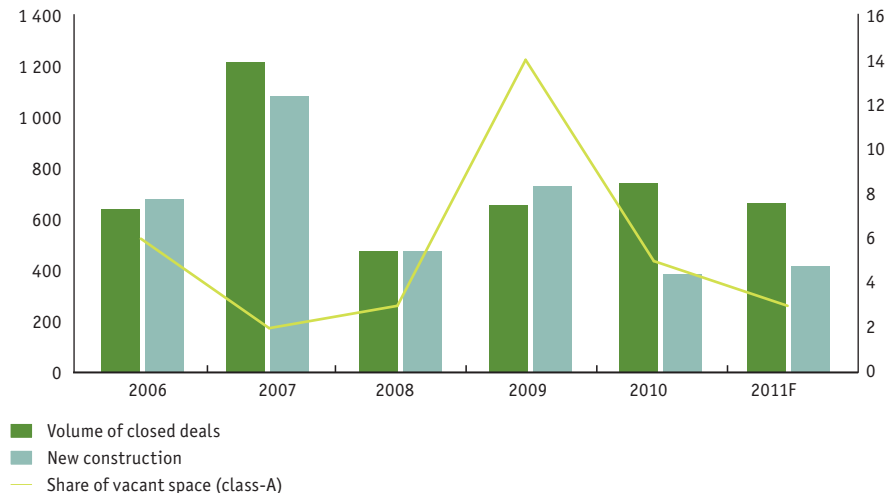
'000 sq m



\* Forecast  
Source: Knight Frank Research, 2011

**In the post-crisis period (from 2010), the volume of deals is significantly surpassing the increase in warehouse supply, which leads to a decrease in the share of vacant space**

'000 sq m



Source: Knight Frank Research, 2011

speak of an increase in rates to \$95-110 per sq m per year. Operational expenses equal \$35-45 per sq m per year for class-A premises and \$25-40 per sq m per year for class-B premises.

Regarding the length of rental contracts for warehouses, one can note a trend towards a decrease in the share of short-term agreements (three years and less), which has

been observed since 2009. Moreover, the share of deals closed on terms for 5 years and more is increasing: If in 2009 about 30% of all rental deals fell in this category, then in 2010-2011 already more than half (57%) of all renters are occupying warehouses for a length of 5 years and more. In large logistics complexes, owners are once again offering premises for long-term rental – starting from seven years.



Istra Logopark  
Novorizhskoye hwy., 42 km from MKAD

### Forecasts

Only about 450,000 sq m are planned for commissioning in 2011, of which about 130,000 sq m of class-A and class-B warehouses might be commissioned in Q2 and about 300,000 sq m will be commissioned in H2.

Assuming the maintenance of current trends in the economy, the volume of deals in Q2-Q4 will equal about 550,000 sq m, meaning that the total volume of absorption in the Moscow region for 2011 might surpass 700,000 sq m.

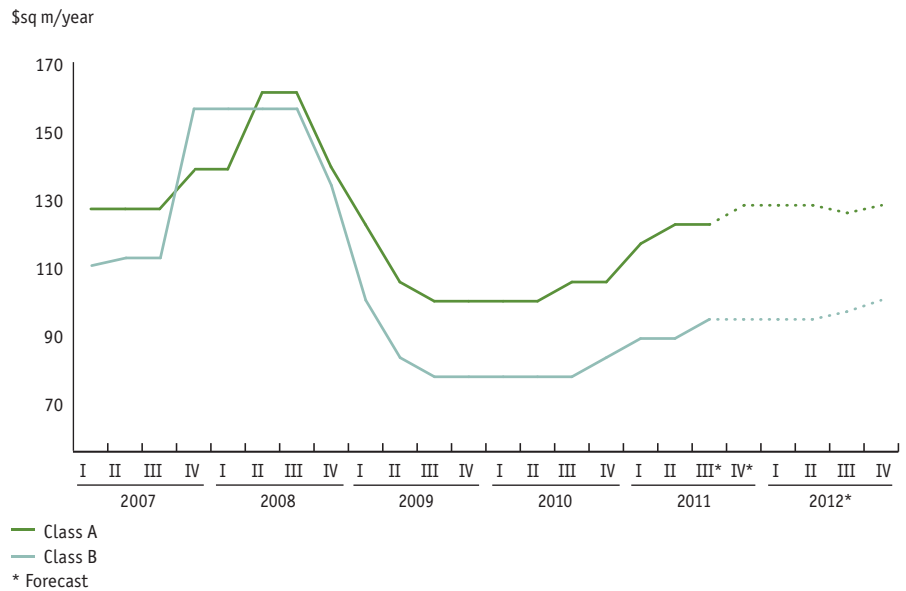
Absorption rates will be higher than new construction rates to the end of the year. With a significant likelihood, the commissioning of a part of properties under construction will be delayed until 2012.

Because of this, a large share of deals in the current year will be closed as initial rental agreements for space in complexes under construction.

The level of vacant space in existing warehouse projects will continue to decrease, having reached 2-3% for class-A premises by the end of 2011.

We also anticipate that in 2011 a growth in rental rates will continue and that by the

**In Q1 2011, the growth of rental rates continued, having reached \$125-130 per sq m per year for class-A warehouses (not including VAT and operational expenses).**



Source: Knight Frank Research, 2011

end of the year the requested rental rate for class-A warehouse premises will reach \$130-135 per sq m per year. Future growth of rental rates will be held

mostly by the entrance to market of a serious amount of new warehouse space, announced for commissioning in H1 2012.



# OVERVIEW

## Americas

USA  
Caribbean

## Europe

Belgium  
Czech Republic  
France  
Germany  
Hungary  
Ireland  
Italy  
Monaco  
Poland  
Portugal  
Romania  
Russia  
Spain  
Switzerland  
The Netherlands  
UK  
Ukraine

## Africa

Botswana  
Kenya  
Malawi  
Nigeria  
Tanzania  
Uganda  
Zimbabwe  
Zambia  
South Africa

## Asia

Cambodia  
China  
Hong Kong  
India  
Indonesia  
Japan  
Malaysia  
Singapore  
South Korea  
Thailand  
Vietnam

## Australasia

Australia  
New Zealand

## Middle East

Bahrain



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