



2018
WAREHOUSE MARKET
REPORT
Russia

KEY FINDINGS

As of 2018, about 302,000 sq m of quality warehouse properties were delivered to the regional warehouse market of Russia.

Yekaterinburg is the largest region of Russia in terms of the volume of quality warehouse premises, excluding the Moscow region, St. Petersburg and the Leningrad region.

Retail sector accounted for 50% of all transactions in Russia's regions in 2018.

The average asking rental rate for Class A warehouses amounted to 3,500 RUB/sq m/year triple net in 2018.



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

“The regional warehouse property market did not show significant growth or progress in 2018. Most new deliveries accounted for the projects built to order, while retailers that are developing both in the cities with more than 1 million inhabitants and in the cities with 250,000–500,000 residents, remain the vastest category absorbing warehouse property. However, we expect a large volume of speculative warehouses to enter the regional market in 2019. Such projects are currently under construction in Yekaterinburg, Novosibirsk, Rostov-on-Don, etc.”

WAREHOUSE MARKET REPORT RUSSIA

Key indicators. Dynamics

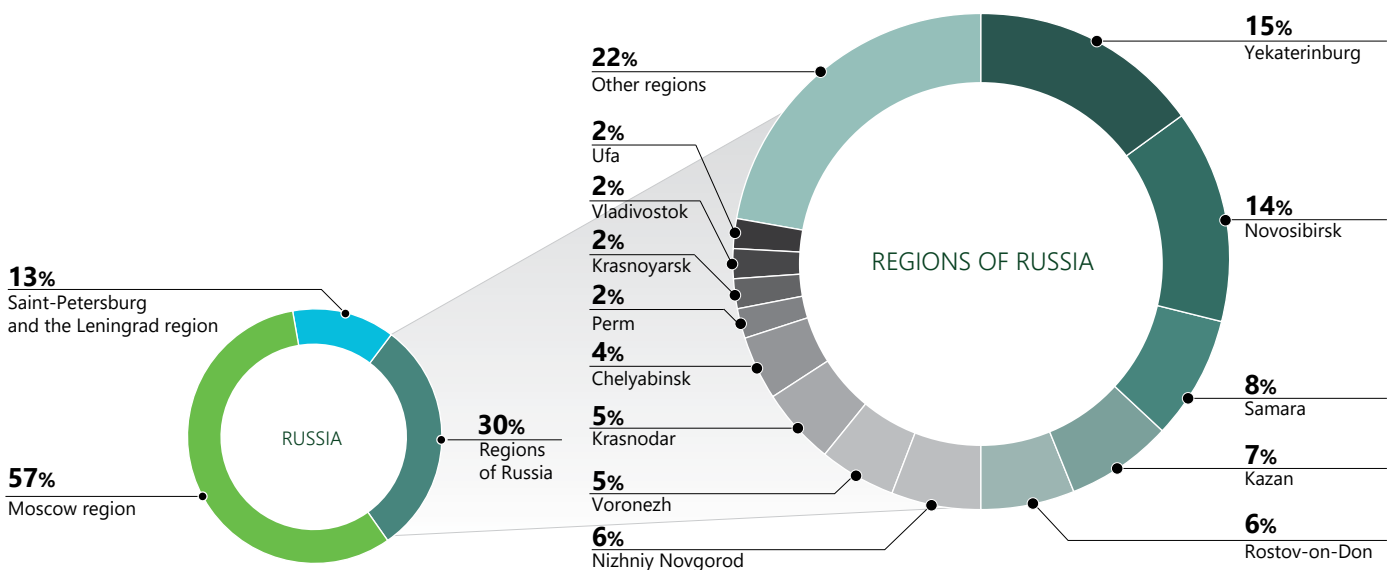
	2017	2018
Total stock of quality warehouse property, thousand sq m	7,136	7,437 ▲
Delivery, thousand sq m	350	302 ▼
Volume of sales and lease transactions, thousand sq m including:	439	220 ▼
sales and lease transactions in completed buildings	296	164 ▼
built-to-suit transactions	143	56 ▼
Vacancy rate, %	4.4	4.4 ▶
Class A average weighted asking rental rate, RUB/sq m/year*	3,500	3,500 ▶
Operating expenses range, RUB/sq m/year, no VAT**	900–1,200	900–1,200 ▶
Asking price range for purchasing completed Class A dry warehouse, RUB/sq m/year, no VAT	35,000–45,000	35,000–45,000 ▶

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

** Hereinafter, operating expenses range for a standard Class A dry warehouse.

Source: Knight Frank Research, 2019

Distribution of the total stock of quality warehouse property by regions of Russia, 2018



Source: Knight Frank Research, 2019

Supply

As of 2018, the total stock of quality warehouse properties amounted to 24.9 million sq m throughout Russia, 57% or 14.2 million sq m of which are in the Moscow region, 13% or 3.3 million sq m account for St. Petersburg and the Leningrad region, and 30% or 7.4 million sq m are situated in the regional markets of the country.

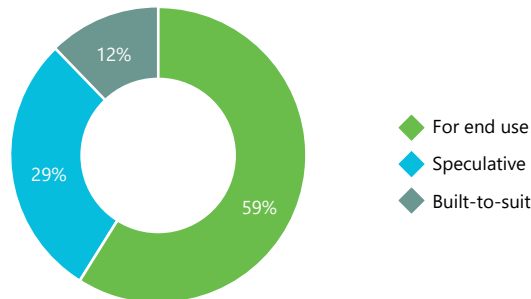
As of 2018, the total delivery amounted to more than 1.2 million sq m throughout Russia, 67% or 805,000 sq m of which were delivered in the Moscow region, 10% or 124,000 sq m – to St. Petersburg and the Leningrad region, and the remaining 23% or 302,000 sq m – in the regional markets of Russia. The new delivery in the regions of Russia (excluding St. Petersburg and the Leningrad region) is 14% lower in 2018 than in 2017.

Most of the properties delivered in the regions of Russia in 2018 were built to order: 59% or about 178,000 sq m were built with the help of a contractor on an own land plot. Another 12% or about 37,000 sq m were built-to-suit properties. The share of speculative projects amounted to 29% or about 87,000 sq m throughout Russia in 2018. It is worth mentioning that the delivery of about 45% of all deliveries scheduled for 2018 (speculative in most cases), was rescheduled for H1 2019.

The largest properties delivered in the regions of Russia in 2018 were X5 Retail Group distribution center in Yaroslavl (about 34,000 sq m), Pochta Rossii logistics center in Kazan (about 36,000 sq m), a new phase of ABC-Elektro warehouse complex in Voronezh (about 35,000 sq m), Monetka distribution center in Yekaterinburg (about 34,000 sq m), building 8 of Pridorozhniy warehouse complex in Samara (about 26,000 sq m), and ETM warehouse complex in Kazan (about 22,500 sq m).

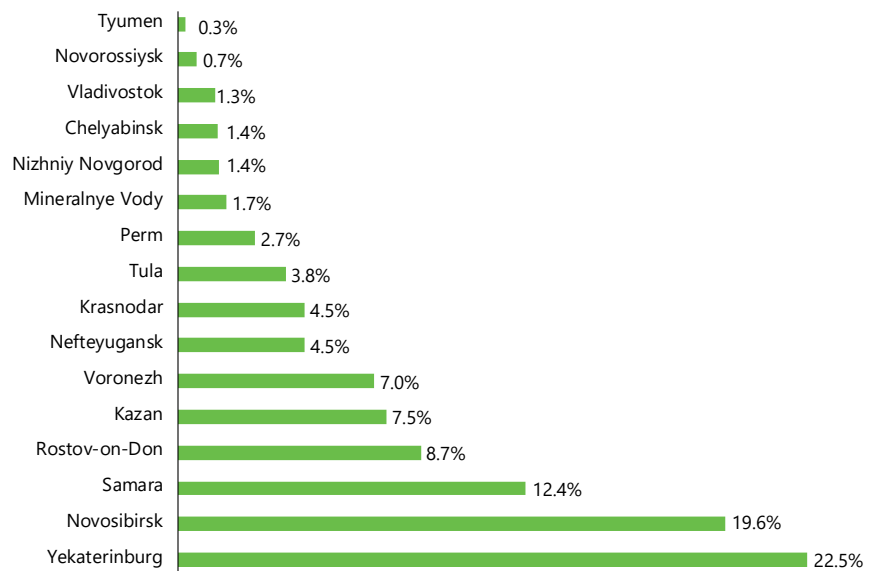
Despite the fact that most properties in Russia's regions are being built to order, there is still some ongoing speculative construction. For instance, phase III of Rolsy warehouse complex, which contains multi-temperature chambers and is about 50,000 sq m in area, is currently under construction in Yekaterinburg. Buildings of about 40,000 sq m and 20,000 sq m are being constructed within Sibirskiy warehouse complex in Novosibirsk. Adva company is building new phases of its parks in Rostov-on-Don and Krasnodar, with the areas of 30,000 sq m and 10,000

Warehouse buildings completed in 2018, by type of constructions



Source: Knight Frank Research, 2019

Distributions of transactions by regions of Russia, 2017–2018



Source: Knight Frank Research, 2019

sq m accordingly. FM Logistics is building a more than 37,000 sq m block for further lease, also located in Rostov-on-Don.

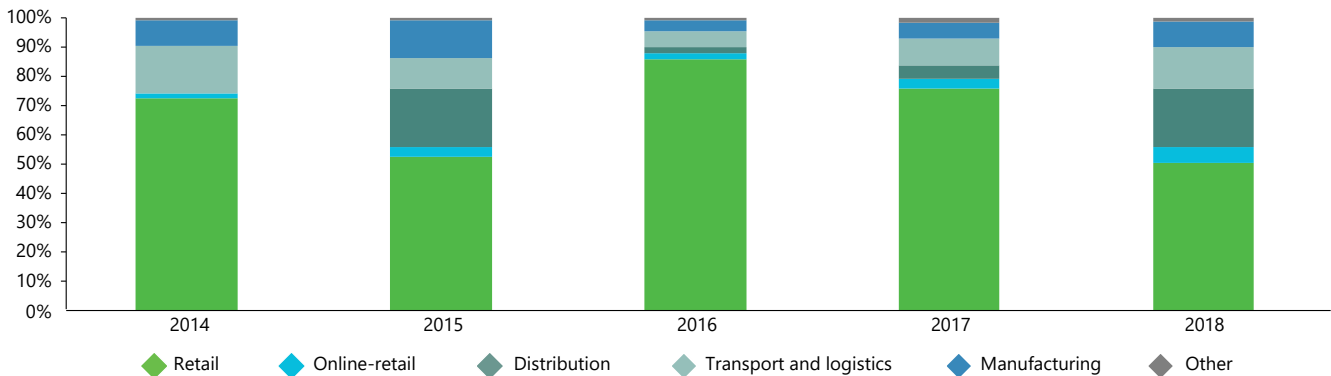
As of 2018, there is a deficit of available completed Class A warehouses, while the vacancy rate stands at 4.4% or about 325,000 sq m in figures, so it is quite difficult to find an available 10,000+ sq m Class A warehouse in most regions of Russia. As a rule, a rise in vacancy space may be observed in case a new property is delivered to the market and a tenant moves out of a warehouse space at the same time.

Demand

As of 2018, about 220,000 sq m of warehouse property was rented or purchased throughout Russia except for the Moscow region, St. Petersburg and the Leningrad region, which is two times less than the trading volume of 2017.

Historically, retail sector takes up the largest share in the demand structure for quality warehouse property in the regions of Russia. As of 2018, this trend remained strong, with retail operators accounting for 50% of all regional transactions or

Distribution of transactions by tenant/buyer profile



Source: Knight Frank Research, 2019

111,000 sq m in figures. The largest deal in this sector was the signing of a construction contract by Lenta, a retail food chain, in order to build an own distribution center of about 30,000 sq m in area in the grounds of PNK Tolmachyovo in Novosibirsk. The distribution sector came in second in the demand structure, with its share amounting to about 20% or 44,000 sq m. The largest transaction here was the signing of a construction contract by ETM, the electric equipment distributor, to build their own retail and warehouse complex as a built-to-suit property in Samara (about 26,000 sq m).

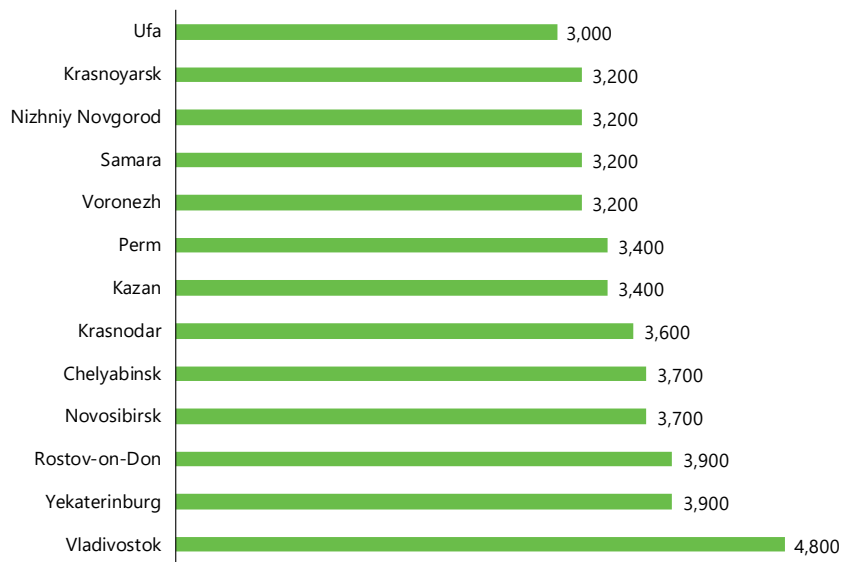
Commercial terms

The average asking rental rate for quality warehouse property amounted to 3,500 RUB/sq m/year triple net in the regions of Russia in 2018. The highest asking rent rate was recorded for Vladivostok (4,800 RUB/sq m/year triple net). Such a high figure is due to the lack of completed quality properties in this location. Yekaterinburg also featured a top-level asking rent rate of 3,800 RUB/sq m/year triple net, while the figure for Rostov-on-Don and Novosibirsk stood at 3,700 RUB/sq m/year triple net. The lowest asking rental rate for completed Class A warehouses was recorded for Ufa and Krasnoyarsk (3,000 RUB/sq m/year triple net).

The average operating expenses stand at 800–1,200 RUB/sq m/year.

The average asking construction price for a 10,000+ sq m built-to-suit property for sale was at 35,000–45,000 RUB/sq m with no VAT in 2018. It is worth mentioning that the construction cost for a warehouse complex in the regions of Russia exceeds that of the Capital region. It is mainly due

Average asking rental rates for Class A warehouses, RUB/sq m/year triple net



Source: Knight Frank Research, 2019

to the extra logistics expenses to deliver construction materials, hiring qualified teams locally, etc.

Forecast

According to Knight Frank, the volume of new delivery to the regions of Russia, except the Moscow region, St. Petersburg and the Leningrad region, will amount to about 500,000–600,000 sq m in 2019, while quite a large number of warehouse properties is currently under speculative construction in some regions of the country. Therefore, the vacancy rate is likely to grow in an array of Russia’s

regions as these speculative projects get delivered.

The average asking rent rate for quality Class A warehouses will amount to 3,500 RUB/sq m/year excluding VAT, operating expenses and utility costs, in the regions of Russia in 2019. It will grow upward or downward depending on the region and its vacancy rate, the volume of rented properties and the terms of the lease contract.

Retailers will keep their leadership in the demand structure in 2019 and will rent and (or) build their own warehouse complexes and distribution centers.

Key warehouse property market indicators in the regions of Russia

Region*	Supply, thousand sq m	Vacancy, %	Inhabitants as of 1 January 2018, thousand people *	Retail turnover in 2017, billion rubles	Asking rent rate, RUB/sq m/ year**
Yekaterinburg	1,128	4.3%	4,325.27	1,078.23	3,800
Novosibirsk	1,060	2.9%	2,788.85	473.4	3,700
Samara	598	10.0%	3,193.51	613.6	3,200
Kazan	517	1.5%	3,894.28	843.9	3,400
Rostov-on-Don	475	4.2%	4,220.45	880.4	3,700
Nizhniy Novgorod	400	0.9%	3,234.75	696.9	3,200
Voronezh	393	1.1%	2,333.77	516.6	3,200
Krasnodar	385	0.2%	5,603.42	1,306.9	3,600
Chelyabinsk	258	9.8%	3,493.04	492.4	3,600
Perm	174	4.6%	2,623.12	502.3	3,400
Krasnoyarsk	157	5.1%	2,876.50	511.1	3,000
Vladivostok	124	1.6%	1,913.04	375.0	4,800
Ufa	110	0.0%	4,063.29	841.1	3,000

* By Federal subjects of the Russian Federation with the volume of quality warehouse property of at least 100,000 sq m.

** Triple net – hereinafter, rent rates for standard Class A warehouses with no VAT, operating expenses, and utility charges included. The rent rates for multi-temperature warehouses are 20-35% higher depending on the share of temperature zones and the cost of selected equipment.

Source: Federal State Statistics Service, Knight Frank Research 2019



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