



Q3 2012 INDUSTRIAL MARKET REPORT

Moscow

Knight Frank

HIGHLIGHTS

- New construction volume in Q1-Q3 of 2012 in Moscow region amounted to 523 thousand sq m, which is 43% more than was built over the whole past year. In 2013, this figure will increase by 80% (comparing to 2012), and will almost equal the peak year 2007. Meanwhile, vacancy rate in Class A still does not exceed 1-2%.
- In Q3 2012 the amount of take-up in warehousing market of Moscow region reached a record high of about 500 thousand sq m.
- Rental rates for warehouse space remained stable in 2012 with a tendency to grow. Average rental rate for Class A warehouse facilities is at the level of \$135 per sq m p.a.

INDUSTRIAL MARKET REPORT



Vyacheslav Kholopov,
Director, Russia & CIS
Industrial, Warehouses and
Land

“Currently the volume of supply and demand is almost comparable to the level that we observed in 2007. We are also pleased to note that our last year’s predictions forecasting significant amount of new construction and high level of demand from both Russian and foreign companies are being confirmed. Although the latter factor contributes to some shortage of high-quality warehouse space, thanks to the former, for now there is no serious pressure on rental rates. Presently, a good number of tenants is interested in blocks of significantly large area (15 thousand sq m), with the average size of transactions having also increased. For instance, a share of deals with an area of over 20 thousand sq m amounted to almost a quarter of total volume in terms of quantity this year. By comparison, last year they only amounted to 13%”.

Main figures. Dynamics*

Total supply volume (Classes A, B and C), thousand sq m	11,950	
	Class A	Class B
Total volume of quality supply, thousand sq m	5,135 ▲	1,922 ▲
Increase in supply in Q3 2012, thousand sq m	254 ▲	
Expected increase in supply for 2012, thousand sq m	735 ▲	
Volume of lease and sales transactions in Q3 2012, thousand sq m	500 ▲	
Average level of vacant areas, %	0.6 ▼	3.7 ▼
Asking rental rates, \$ per sq m p.a.**	135-145 ▲	100-130 ▲
Operating costs, \$ per sq m p.a.	35-45 ▶	25-40 ▶

* comparing to previous quarter
 ** excluding VAT, operating costs and utility costs
 Source: Knight Frank Research, 2012

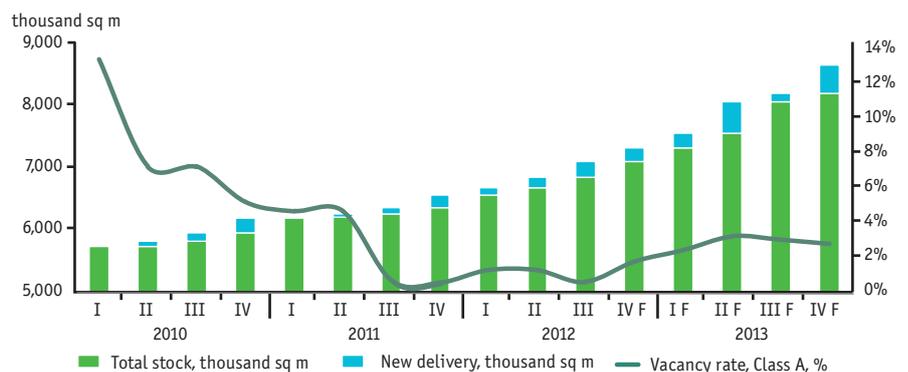
Supply

Total stock in warehouse market of Moscow region in Q3 2012 exceeded 5 million sq m in Class A and about 2 million sq m in Class B.

Since the beginning of 2012 over the past months 523 thousand sq m of warehouse facilities of Class A and B entered the market. Conclusions based on development of the whole current year give reason to expect an increase in new supply in the range of 735 thousand sq m, which is twice as much as in 2011.

Recession of 2008-2009 has led to reduction in number of developers working on realization of warehouse complexes. The main share of facilities built in 2011 (72% of the total area) stemmed from the biggest players on the market. In 2012 this situation changes: a number of developers

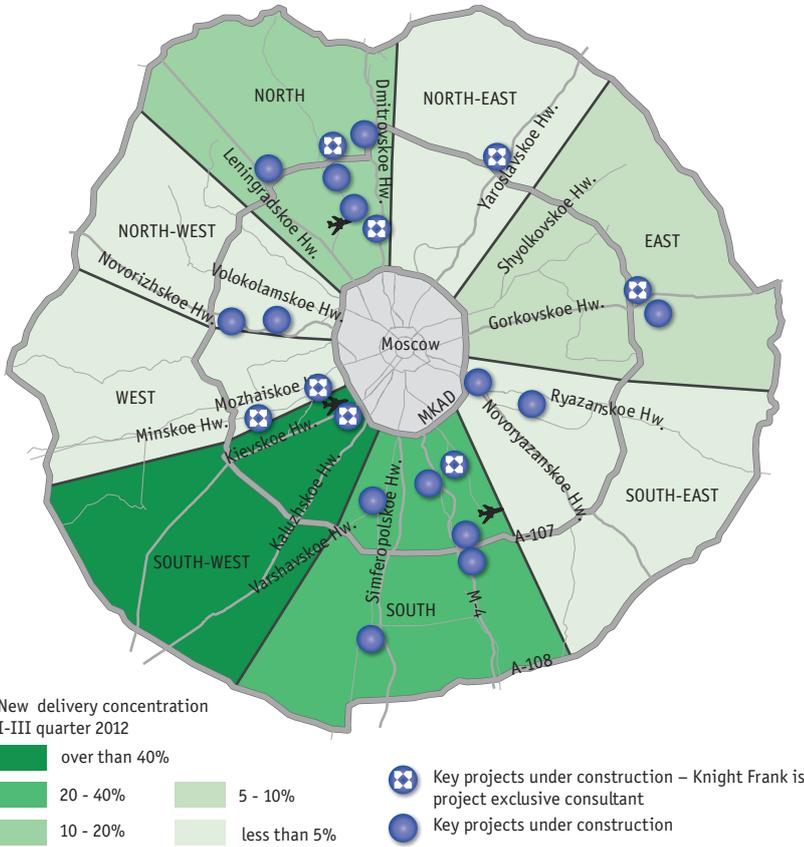
Warehouse facilities commissioning volume, the vacancy rate



Source: Knight Frank Research, 2012



Geographical distribution of warehouse projects under construction in the Moscow region



Source: Knight Frank Research, 2012

previously not specializing on warehousing enters the market. The latter are responsible for about 35% of annual volume of new warehouse construction in Class A and B.

This change is particularly noticeable in absolute values: 100 thousand sq m in 2011, against 250 thousand sq m in 2012.

The main bulk of new construction is concentrated in the south and south-west of Moscow region: 70% of new warehouses placed in service over the past 9 months in 2012 were built precisely there.

Only 15% of warehouse facilities volume was placed in service in northern area, whereas the lowest volume was observed in the west, north-west and north-east of Moscow region.

We noted appearance of built-to-suit projects last year, which resulted from shortage of high-quality warehouse space.

During the first three quarters of current year we also observe a significant number of such projects.

In particular, National Computer Corporation made a decision to realize a build-to-suit format

project (total area more than 58 thousand sq m, the deal consultant – Knight Frank).

It is worth noting that supply corresponding to this demand starts emerging on the market: a number of developers are ready to begin construction of objects corresponding to individual customer requirements upon agreement with the tenant or buyer.

Furthermore, a brand new product appeared on Russian market of warehouse estate: storage facilities built for sale.

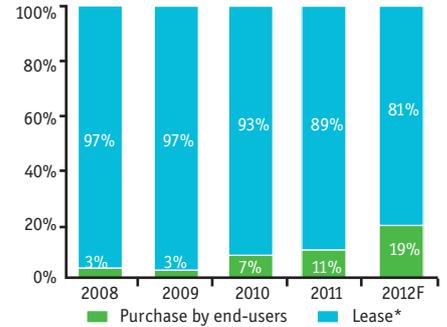
A single such offer existed on the market earlier, and in 2012 PNK-Group company launched Russia's first speculative warehouse complex designed solely for sale to end users – PNK-Vnukovo.

Demand

Q3 2012 shows a record high level of demand: about 500 thousand sq m of quality warehouse space was leased out and sold in the Moscow region.

In the first three quarters of 2012 the volume

The share of acquisitions in total volume of transactions on the warehousing market significantly increased in 2012



*including sublease
Source: Knight Frank Research, 2012

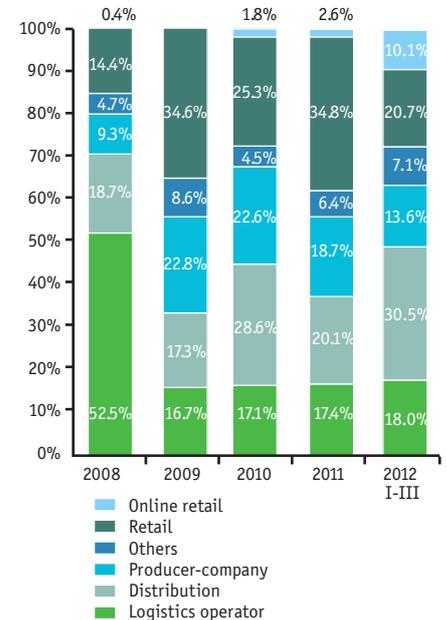
of take-up reached almost 900 thousand sq m, which is 12% more than the same numbers last year.

As in 2011, the increase in take-up volume is partly constrained by a limited amount of available supply. The vacancy rate in Class A remains low (1–2%) for already a year.

By the end of Q3 2012 it amounted to less than 1%, despite the high volume of new supply introduction.

This is due to the fact that much of the space in the objects that are put into operation this year is leased out on preliminary contracts basis. In 2013 a record amount of new construction is

Online retailers increase their share in the take-up volume



Source: Knight Frank Research, 2012

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announced – roughly 1.3 million sq m, and nearly one-fifth of these areas is already leased out or sold to end-users.

It is worth noting that in 2012 the share of warehouse space acquisition for own use has greatly increased considering total volume of acquisition.

One could refer to this situation as the return of pent-up demand for the premises for purchase to the market, which has intensified with emergence of a new quality supply in this segment and the more relaxed attitude of Russian business to economic instability in the world.

From January to September 2012, purchase transactions of about 200 thousand sq m of modern high-quality facilities (considered transactions over 5 thousand sq m) were completed in the Moscow region, this accounted for almost one fifth of the total take-up (lease and sales) for the said period.

A continued growth of an average deal size is observed in the Moscow region; in Q1–Q3 2012 it amounted to about 16 thousand sq m, which is 50% more than last year, and 80% more than in 2010.

For now Russian companies (62%) dominate among tenants and buyers on the warehousing market, however, foreign companies are expanding their presence on the Russian market, since 2010, their share has been increasing by 3-5 percentage points per year.

In 2012 companies operating in the field of e-commerce occupied a significant proportion (10%) of the total take-up for the first time. Meanwhile the share of companies engaged in retail and companies-distributors declined.

The share of logistics operators in the structure of take-up slightly increased, although in general remained at the level of previous years – 17–18%. Speaking of the geography of warehousing market in Russia, it is worth noting that the main demand is still concentrated in the Moscow region.

In the first nine months of 2012, the share of transactions concluded on the space in warehouse complexes in St. Petersburg (including the Leningrad region) decreased from 13% to 7.3%, due to low amount of available supply in the city.

Commercial terms

The proposed rental rates in modern warehouse complexes have not undergone major changes and remained at \$130-140 per sq m p.a. (triple net*).

It should be noted that while a year ago this was the proposed rental rate, and deals could be concluded with some discount, now it is the average rate at which the deal closes.

Therefore, actual rate has increased by 3% comparing to that of 2011. Asking rental rate for individual complexes in case of a beneficial location: the availability of convenient road access, high-quality construction of the object; is now running at \$150 per sq m p.a. (triple net*). Although most of the tenants are not prepared to discuss such rates.

Warehouse space sale prices have not changed in comparison with the previous year, average sq m of Class A warehouse space costs from \$1,200 to \$1,400, Class B – from \$900 to \$1,300.

Capitalization rates also remained at the level of mid-2012, with the average figure of 11%. As a rule, this is a maximum value of capitalization rate for Class A and the minimum – for Class B.

Forecast

Planned volume of new construction in 2013 promises to surpass the figure of 2007. This is a positive sign: a record amount of investment in real estate last year was to develop projects, for which the construction will be completed in 2012–2013.

Geographical distribution of new construction in 2013 will experience slight changes: about 60% will be located in the southern part of Moscow region (from Ryazanskoe Hwy to Minskoe Hwy).

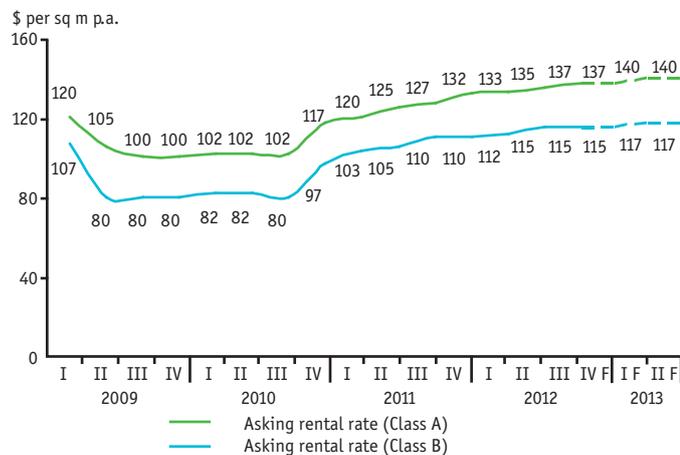
The smallest number of projects will appear in the east, where demand is relatively low because of a complex traffic situation.

We expect that by the end of this year the take-up volume on the warehousing market of the Moscow region will amount to about 1.2 million sq m, which is 20% higher than last year.

Thus by the end of 2012 this figure will reach the level of 2007, and in case of absence of major macroeconomic shocks high level of demand will persist in 2013.

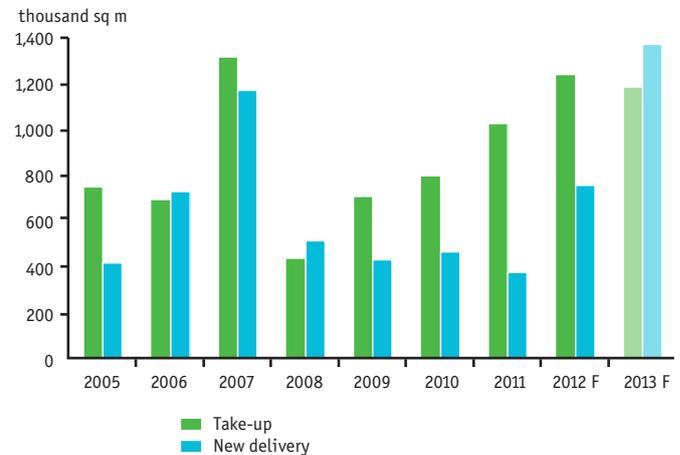
The market continues to experience shortage of high-quality warehouse space, so one notes a trend of growth in rental rates. However, growth is constrained by solvency of tenants, as well as significant amount of space under construction, including projects announced for the coming year.

Asking rental rates for high-quality warehouse complexes remain stable since the beginning of 2012



Source: Knight Frank Research, 2012

The dynamics of new supply and transactions volume in the Moscow region



Source: Knight Frank Research, 2012

* Triple net - the rental rate calculated per 1 sq m excluding operational expenses, utilities and VAT

OVERVIEW



Europe

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Malaysia
New Zealand
Singapore
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Thailand
Vietnam

Americas & Canada

Bermuda
Caribbean
Canada
USA

Office Real Estate

Nikola Obajdin
Director
nikola.obajdin@ru.knightfrank.com

Warehouse Real Estate, land

Viacheslav Kholopov
Director, Russia & CIS
viacheslav.kholopov@ru.knightfrank.com

Retail Real Estate

Sergey Gipsh
Director, Russia & CIS, Partner
sergey.gipsh@ru.knightfrank.com

Residential Real Estate

Elena Yurgeneva
Director, Russia & CIS
elena.yurgeneva@ru.knightfrank.com

International Investments

Heiko Davids
Partner
heiko.davids@ru.knightfrank.com

Financial Markets and Investing

Evgeniy Semyonov
Director, Partner
evgeniy.semyonov@ru.knightfrank.com

Professional Consulting Services

Konstantin Romanov
Director, Partner
konstantin.romanov@ru.knightfrank.com

Valuation Services

Olga Kochetova
Director, Russia & CIS
olga.kochetova@ru.knightfrank.com

Marketing, PR, Market Research, HR

Maria Kotova
Executive Director, Partner
maria.kotova@ru.knightfrank.com

Business Development

Andrey Petrov
Partner
andrey.petrov@ru.knightfrank.com

Saint Petersburg

Nikolai Pashkov
General Director
nikolai.pashkov@ru.knightfrank.com

Kyiv

Yaroslava Chapko
Business Development Director
yaroslava.chapko@ua.knightfrank.com

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MOSCOW

Russia, 115054,
26 Valovaya Str.
Phone: +7 (495) 981 0000
Fax: +7 (495) 981 0011

ST. PETERSBURG

Russia, 191025,
3B Mayakovskogo Str.
Phone: +7 (812) 363 2222
Fax: +7 (812) 363 2223

KYIV

Ukraine, 04071,
39-41 Horyva Str.
Phone: +380 (44) 545 6122
Fax: +380 (44) 545 6122

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