



2013 WAREHOUSE MARKET REPORT

Moscow

HIGHLIGHTS

- In the course of 2013, high-quality warehouse space growth in the Moscow region was around 10%: about 762 thousand sq m were delivered, with the total supply reaching the figure of 7.93 million sq m.
- Take-up of high-quality space on the warehouse market of Russia has set another historical record: almost 1.8 million sq m were leased or purchased in 2013. Of them about 72% fell with the Moscow region (1.3 million sq m).
- By the end of 2013, the vacancy rate for Class A has reached approximately 1.9%. It is worth noting that it has not exceeded 2% in the last 2.5 years.
- Asking rental rates remained stable during the year – at 135–140 \$/sq m/year. The growth of the dollar exchange value against the ruble may result in a decline of rental rates denominated in dollars to 130–135 \$/sq m/year.

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"Contrary to the cautious forecasts, results of 2013 turned out to be the best not only in the history of the Russian warehouse market, but also for the Department of warehouse and industrial real estate of the Knight Frank company. It is a pleasure to know that this year we were able to beat our own record: never before could any consulting company surpass the figure of half a million sq m. And I am glad that our team managed to do the impossible - a record of 560 thousand sq m is set! Such results would have been unmanageable without the trust of our clients, and I would like to express sincere gratitude to all our partners. In the future, we wish to carry on finding new and unexpected solutions in the implementation of the most unusual tasks."



Supply

In 2013, the new high-quality warehouse space supply stock of the Moscow region amounted to about 729 thousand sq m, with the total supply stock reaching 7.93 million sq m. During 2013, 15% more storage space was introduced than in 2012.

The main cargo traffic coming to the Moscow region goes through Simferopol highway and Moscow-Don highway in the south of Moscow Oblast and through Leningrad highway – in the north. With the main bulk always concentrated around the southern (south, southwest and southeast) directions. Twice as much space is built there as in the northern (north, northwest and northeast) area. However, it is in the northern suburbs of Moscow that active construction of high-quality facilities is underway, and in 2014, 930 thousand sq m have been announced for delivery – more

Key indicators. Dynamics

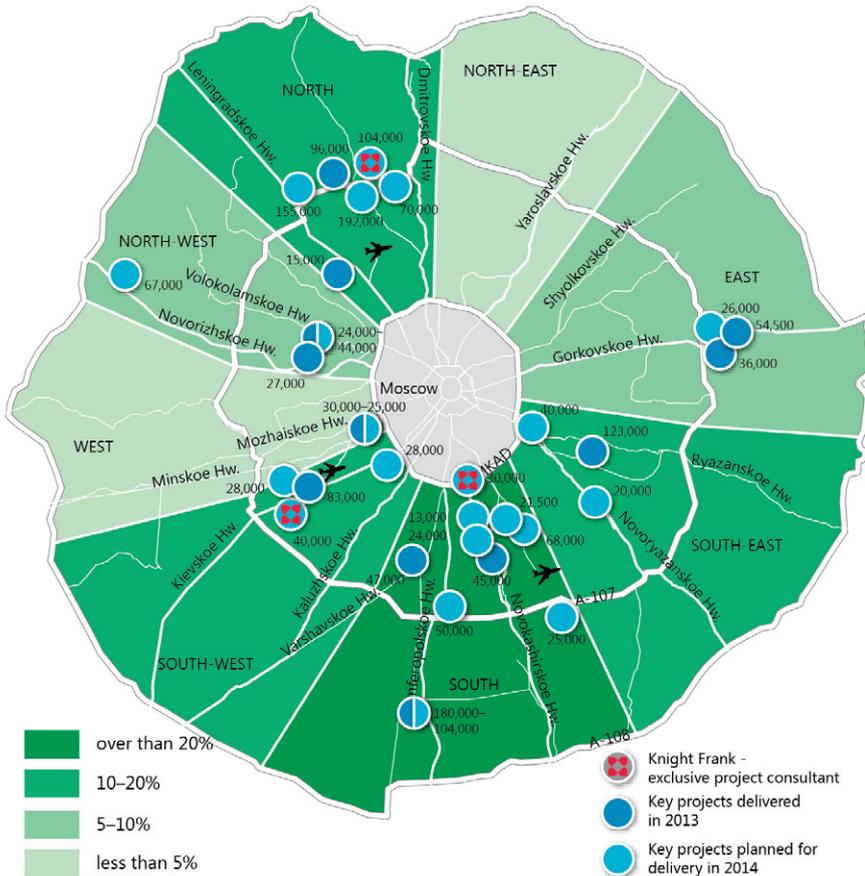
Key indicators	Class A	Class B	Dynamics*
Total high-quality supply stock, thousand sq m	7,933		▲
including, thousand sq m	5,982 +14%*	1,951 +1.5%*	▲
Delivered in 2013, thousand sq m	762		
including, thousand sq m	734	28	▲
Take-up volume in 2013, thousand sq m	1,280		▲
Average vacancy rate, %	1.9	2.5	▶
Asking rental rates**, \$/sq m/year	135–145	115–120	▶
Operational expenses, \$/sq m/year	35–45	25–40	▶
Capitalization rate, %	11.0–11.5	11.0–12.0	▶

* Changes compared to Q4 2012 figures

** Excluding Operational Expenses, VAT and utility bills

Source: Knight Frank Research, 2014

Geographical distribution of the total warehouse space supply stock (Q4, 2013)



Source: Knight Frank Research, 2014

than a half of the total estimated annual input. Yet even so, the resulting geographic concentration of space will remain the same in 2014.

Demand

The take-up of high-quality space on the warehouse market of the Moscow region has reached another historical record: almost 1.3 million sq m were leased or purchased during 2013. The total volume of transactions in Russia amounted to about 1.8 million sq m, with 13% of warehouse space take-up falling with St. Petersburg and about 14% of the total transactions volume – with the other regional cities of the country.

Almost 36% of concluded deals in the Moscow region are those with block area of about 40 thousand sq m and more. The average deal size in the Moscow region has grown to 15 thousand sq m versus 11 thousand sq m in 2011 and 13 thousand sq m in 2012. The volume of high-quality space purchase transactions by the end users is almost 1.8 times greater than in the previous year, reaching almost 500 thousand sq m across Russia (about 350 thousand sq m of them in the Moscow region). It should be noted that this growth occurred due to the large transactions size, while their number remained practically unchanged comparing to 2012.

It were mainly the large trading companies (online and offline commerce operators, distributors) that showed the highest warehouse space lease and purchase activity, and to a lesser extent – the producers. The

On the transport situation in the Moscow region

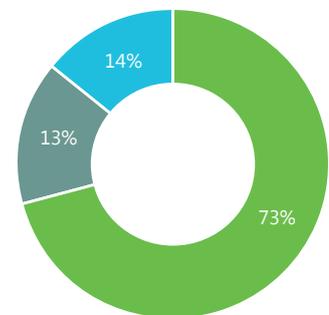
The passing year has clearly shown that changes in transport regulation can have a significant effect on the warehouse real estate market. As such, the restriction of freight transport movement inside MKAD has led to the situation when companies operating in Moscow began considering warehouses in close proximity to the highway, while those tenants that cater to several cities from their distribution hub, by contrast, showed interest in warehouses inside the Moscow Small Ring area.

The expected construction of the Central Ring Road should relieve many areas and improve the transport situation, however, the completion time of this project is difficult to predict. In our opinion, the construction of toll roads in the near future will have almost no

impact on the market, since most companies that own freight transport will use free highways in order to avoid the growth of transportation costs. The companies for which the speed and regularity of supply are extremely important might become the exception.

Traffic improvements lead to changes on the warehouse real estate market with a time lag of 2 to 3 years. However, the prices for land plots located along the highways that are being actively reconstructed have already gone up. Leningrad highway, as well as the southern and southwestern directions: Minskoe, Kievskoe, Simferopolskoe and M4 Moscow-Don are in highest demand by the tenants and buyers of warehouses.

Total regional warehouse lease and purchase transactions volume distribution



- Moscow Region
- St. Petersburg
- Other Regions

Source: Knight Frank Research, 2014

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users of warehouses have become more selective: the majority of tenants have a strict set of requirements, the satisfaction of which enables them to operate at the warehouse more efficiently thus reducing their own costs. Tenants carry out contract drafting with great care. The build-to-suit format now remains in demand not so much due to the lack of speculative supply but rather because of its convenience for the user. The share of such transactions in 2013 amounted to more than 20%.

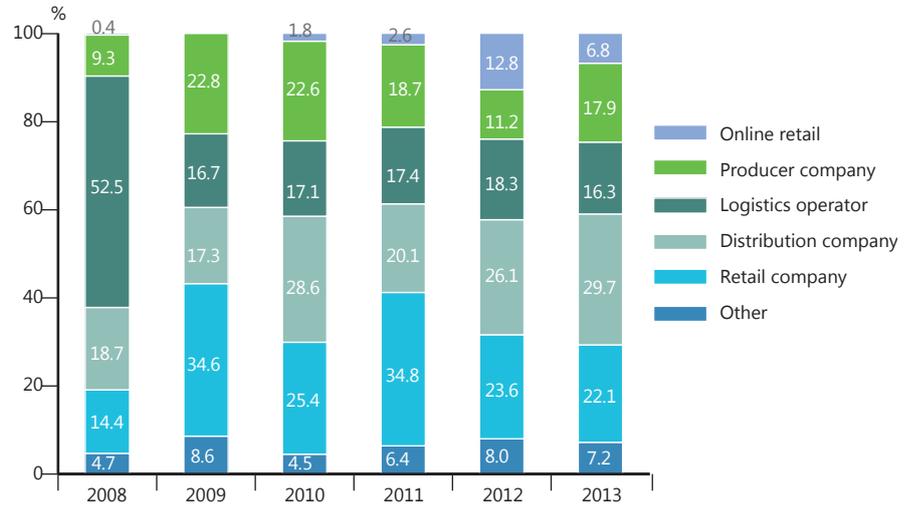
Over the past two years, the share of vacant warehouse space in the Moscow region has not exceed 2%. Now the market is in a balanced state: the tenants and buyers have a choice of warehouses of a high readiness degree, however, it is still quite limited, and the owners are not to making significant concessions on rental rates and purchase prices.

Activity growth in the regional cities has been an important event on the high-quality warehouse market of Russia in 2013. Yekaterinburg, Novosibirsk, Krasnodar and Rostov-on-Don are the most attractive among them. That year, these four cities accounted for about 76% of the total regional cities' take-up (excluding the Moscow region and the Leningrad region). The number of requests for warehouses in Samara has significantly grown, however the warehouse market of the city is characterized by low vacancy rates, and at present only one object of Class A is under active construction. It is also important to mark the beginning of high-quality warehouse real estate market development in the Far Eastern region of the country. For instance, in 2014, about 50 thousand sq m are scheduled for delivery in the M60 logistics park. Furthermore, the demand for modern warehouse complexes in the region permits one to expect that the projects will be filled up with tenants already at the construction stage.

On the logistics market

This year, the space occupancy with logistics operators has greatly increased: the major operators have almost no vacant space, and it is difficult to find a spot for more than 2,000 pallet-places. However, logistics operators are still cautious when it comes to speculative space lease. Moreover, several examples where companies have leased storage space, and then invited a logistics company to cooperate have occurred on the market.

Transactions volume distribution by the business profile of warehouse tenants and buyers



Source: Knight Frank Research, 2014

The largest private capital owners of Russia remain interested in the warehouse property investment. Over the past year, the volume of investments has nearly doubled rising to \$1.2 billion. The record-high take-up, ready-to-move-in objects deficit, improved construction quality, as well as the steady growth of rental rates, all make warehouse facilities an attractive investment product. Several major investment transactions occurred in 2013: an acquisition of a warehouse facility in Tomilino and of the portfolio of MLP company by the BIN group, the purchase of Tinkoff factory by the A+ Development, the purchase of a warehouse building in the PNK-Vnukovo complex by Akvion company, as well as the acquisition of a building in the warehouse complex PNK-Chekhov by the RB Invest company. All these

transactions amount to almost 15% of the total investment transactions volume in the segment of commercial real estate.

Commercial terms

Asking rental rates remained stable throughout the year at 135–140 \$/sq m/year. Given the growth of the dollar exchange rate against the ruble, we are quite likely to witness a decline of the dollar-denominated rental rates to the level of 130–135 \$/sq m/year. A growing number of lease contracts where the rate is denominated in rubles is also worth noting.

The rental rates differentiation depending on the location of the object has become

The rental rates have not changed over 2013; and in 2014, we expect downward correction of the rental rates in dollar terms due to the exchange rate dynamics



Source: Knight Frank Research, 2014



more noticeable: in the beginning, one could observe a significant growth in rates for warehouses near MKAD. Furthermore, the rates fluctuate by 10–15% depending on the direction, as the traffic situation on the eastern highways is more complicated than to the north and the south. However, the construction of new roads and expansion of existing ones are already having some impact, making many directions more popular following the traffic situation improvement (such as the Novoryazanskoye direction).

The selling price remains the same: for Class A average price ranges from \$1,200 to \$1,400 per sq m, for Class B – from \$900 to \$1,300 per sq m (excluding VAT).

Capitalization rates also remained at the level of the beginning of 2013: the figure is about 11.5% for the best facilities on the market. However, despite the growth of investors' interest in the warehouse and industrial real estate segment, there are few investment deals on the market and this more of an expert figure.

Forecast

We expect a drop in demand to the level of 900 thousand sq m the coming year. Meanwhile, the delivery volume will be at a record high: according to our estimates, out of about 1.7 million sq m of high-quality warehouse facilities announced for construction,

about one million sq m will be finished and delivered to the market. However, most likely, the vacancy rate will not exceed 5% by the end of 2014: about a fifth of the planned facilities has already been leased or purchased by the properties' end users.

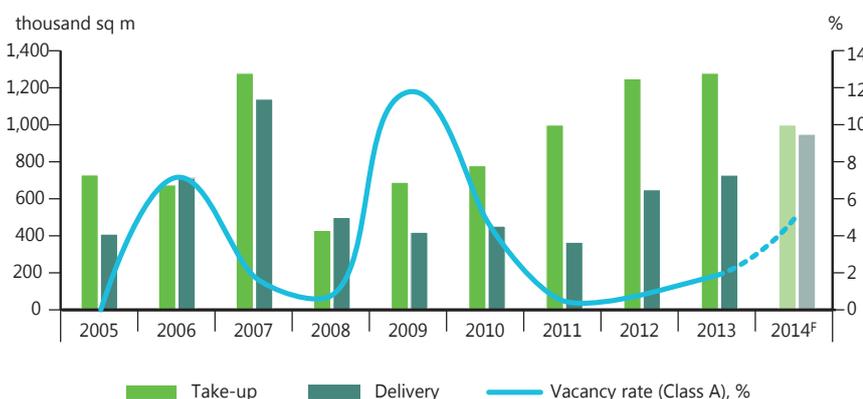
Moreover, there might appear special geographical areas, where the situation may differ from the market average. For example, a higher vacancy rate is possible in the northern direction, where about 45% of all warehouses under construction will be delivered.

On the New Moscow

Although the situation is gradually improving, there is still a lot of uncertainty on the land plots market of the New Moscow. Adoption of the Master Plan of Moscow development taking into account the annexed territories is expected only in 2014, and the city planning commission responsible for the coordination of construction on the annexed territories has not yet been formed. Thus, the construction of new facilities is complicated, and the facilities presently undergoing construction are those planned for before the city boundaries expansion occurred.

Serious complications in obtaining permits for facilities construction on the annexed lands territory has led to postponement of purchasing decisions for the land plots in this area. Several players decided to switch their focus to land plots located in the Moscow region.

The demand for storage space on the warehouse real estate market of the Moscow region exceeds available supply stock in the constructed facilities



Source: Knight Frank Research, 2014

Europe

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

Africa

Botswana
Kenya
Malawi
Nigeria
Tanzania
Uganda
Zimbabwe
Zambia
South Africa

Middle East

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Australia
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Established in London more than a century ago, Knight Frank is the renowned leader of the international real estate market. Together with Newmark Company, Knight Frank's strategic partner, the company encompasses 370 offices in 48 countries across six continents.

Knight Frank has been a symbol of professionalism for tens of thousands of clients all over the world for 117 years. After 17 years, Knight Frank has become the leading company in the commercial, warehouse, retail and residential real estate segments of the Russian real estate market. More than 500 large Russian and international companies in Russia have already made use of the company's services.

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