OVERVIEW

IIIQ 2011

WAREHOUSE REAL ESTATE MARKET

Moscow

Knight Frank

EXECUTIVE SUMMARY

- Totaly 91,000 sq m of new Class A warehouse space came onto the market in Q3 2011. All but a third of space in these projects has already been pre-leased, and there are almost no other vacancies: vacant space stands at about 30,000 sq m or just 0.6% of total Class A warehouse space in Moscow Region.
- Warehouse demand in 2011 remains high in comparison with 2010. According to preliminary data, transaction figures in January-September were about 730,000 sq m, which is double the volume in the same period of 2010. Full-year take-up in 2011 is expected to be around 1 million sq m, which will be the highest level since 2007.
- There was no major change in rent levels for modern warehouse space in Q3 2011. Offered rates remained at a level of $130-135 (triple net).

WAREHOUSE REAL ESTATE MARKET. MOSCOW

Vyacheslav Kholopov
Director of Industrial, Warehouse and Land, Knight Frank

«Shortage of quality warehouse space in Moscow Region and high levels of demand (including demand for large premises) suggest that new warehouse projects will not be sufficient to saturate the market in 2012. It is also possible that developers will have difficulty obtaining financing due to the macroeconomic situation, in which case volumes of new supply in 2012-2013 will be lower than expected.»

Kulon Pulkovo warehouse complex St-Petersburg

Main indicators			Trend*
Total supply (classes A, B, C), mln sq m	10 750		
	Class A	Class B	
Total quality supply in classes A and B, thousand sq m	4 402	1 912	↑
Delivery in Q3 2011, thousand sq m	91,5	-	↓
Expected delivery in 2011, thousand sq m	312	71	↓
Lease and sale transactions** in Q3 2011, thousand sq m	220		↓
Average vacancy rate, %	0,6	4,5	↓
Asking rental rates, $ per sq m per annum***	130-135	100-120	↑
Operating expenses, $ per sq m per annum	35-50	25-40	→

* Compared with the same period of the last year
**Preliminary data
**Excluding VAT, operating expenses and utility payments (triple net)
Source: Knight Frank Research, 2011

Key events

- The British investment fund Raven Russia took over the businesses of three construction companies, becoming the effective sole owner of the warehouse complexes Kulon Pulkovo (36,000 sq m total area) and Pulkovo Estate (60,000 sq m total area) in St. Petersburg and the Noginsk-Vostok logistics park (230,000 sq m total area) in Moscow Region. Raven Russia was previously joint owner of these projects with the development company Espro.
- An agreement was signed in Q3 2011 for construction of a major project using on "design&build" basis: PNK Group will build a 44,000 sq m logistics centre for the retailer Dixy Group. The centre will be divided into several temperatures zones as required by Dixy. The transaction is one of the biggest in Russia's emerging segment of build-to-suit warehouse construction for specific clients.
- Giffels Management Russia changed its name to Radius Group. A pool of investors including the minority shareholder Chris Van Riet and the investment fund PPF bought 100% of company shares in spring 2011. Assets in the transaction are the South Gates warehouse complex with 76,500 sq m total area and a land plot of about 80 hectares for development.
- Development company MLP obtained a credit for construction of a second phase of the MLP Podolsk logistics complex (204,000 sq m total area). A credit line with upper limit of $143.8 million was opened by Srednerussky Bank of Sberbank of Russia. Launch of the asset is planned in 2012.

Supply

Total quality supply on the warehouse property market in Moscow Region in Q3 2011 was 4.4 million sq m in Class A and about 2 million sq m in Class B. New supply to the market in Classes A and B was 157,000 sq m to date in 2011, and the full-year figure is expected to be 390,000 sq m. That will be the lowest figure since 2003. The slowdown reflects low levels of developers' activity in 2008-2009.

The difficult environment in 2008-2009 reduced the number of developers operating on the market. Most new properties in 2011 (72% of total space) have been built by the largest players. Most future construction plans are for projects in excess of 50,000 sq m.

Total 91,000 sq m of new high-quality (Class A) warehouse space came into operation during Q3 2011. All but a third of space in these projects has already been taken up, and there are almost no other vacancies at Class A premises: vacant space in the segment stands at about 30,000 sq m or just 0.6% of total Class A space in Moscow Region.

Reduction in supply of warehouse space available for rent has led to reappearance on the market of the practice of preliminary rental contracts at the construction stage. This practice was widespread until 2008 when the vacancy rate at Class A projects rarely exceeded 1%.

Shortages of large warehouse premises (ready and under construction) are now in evidence once again in Moscow Region: only 10 warehouse projects with space in excess of 20,000 sq m will come onto the market in the whole of 2011.

Shortage of ready space for rent and need for warehouse space with specific features has encouraged several potential tenants, which are able to make long-term business development plans, to consider construction of warehouse premises on a "build-to-suit" basis. A number of such contracts have been made in 2011. They include a contract signed by a Russian retail company for construction of about 50,000 sq m at the PNK Vnukovo complex in Moscow Region (Knight Frank acted as transaction consultant). PNK Group also plans to build a distribution centre for Dixy retail group. Despite longer realization time and additional financial expenses, such projects have great potential in the current environment, where there is a shortage of speculative premises.

The key projects are entering the market in 2011

Name	Location	Area, sq m	Developer
PNK-Chekhov Bld. 8,	Simferopolskoye Hwy, 49 km from MKAD	39 500	PNK Group
Belaya Dacha Bld. 5	Novoryazanskoye Hwy, 4 km from MKAD	32 000	Hines International, Belaya Dacha agro-firm
Krekshino Bld. 4	Between Minskoye and Kievskoye Hwys, 24 km from MKAD	20 000	RosEuroDevelopment
Infrastroy Bykovo Bld. C	Novoryazanskoye Hwy, 19 km from MKAD	34 000	Infrastroy Bykovo
Raven Russia-Klimovsk Bld. 4	Simferopolskoye Hwy, 21 km from MKAD	19 000	Raven Russia
PNK-Vnukovo	Borovskoye Hwy, 20 km from MKAD	100 000	PNK Group
MSK-SU9 Bld. 3	Novoryazanskoye Hwy., 1 km from MKAD	22 500	MSK-SU9
Karlo Pazolini	Kievskoye Hwy., 3 km from MKAD	20 000	Karlo Pazolini

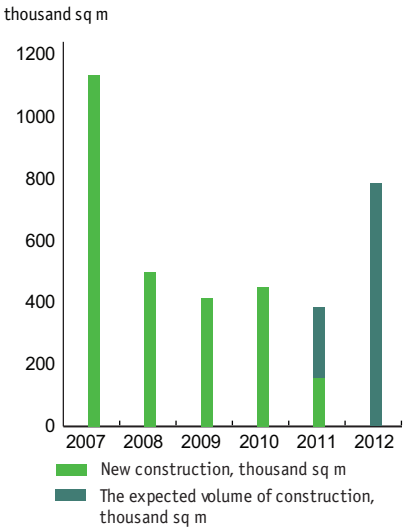
Source: Knight Frank Research, 2011

Demand

Demand for warehouse premises has remained at high levels in 2011 compared with 2010. According to preliminary estimates, the volume of transactions in January-September was about 730,000 sq m, which is double the level in the same period last year. Take-up in the whole of 2011 is expected to be about 1 million sq m, representing the highest level since 2007.

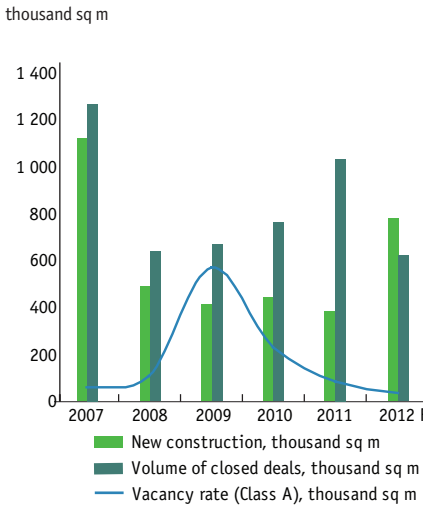
Growth of take-up is being held back by shrinking supply, leading to an increase in the share of transactions that are made when projects are still at the construction stage. While in 2010 such preliminary rental agreements accounted for only 20% of overall take-up, the figure was above 30% in the first

The share of logistics operators in total transaction volume rose from 12% in 2010 to 21% in H1 2011



Source: Knight Frank Research, 2011

New supply dynamics, transaction volumes and vacant warehouse space in Moscow Region



Источник: Knight Frank Research, 2011

nine months of 2011. Decline of the vacancy rate to near zero (0.6% in Class A at the end of September), makes it likely that the share of preliminary rental contracts will reach 40-45% of total new contracts in the whole of 2011. This forecast is borne out by results in the third quarter, when more than a half of new rental contracts (53%) were made when projects were still under construction.

Performance by 3PL operators is an important indicator for the warehouse real estate market. Transactions involving logistics operators were up by more than 30% in the first nine months of 2011 compared with 2010 (from 93,000 sq m in 2010 to 125,000 sq m in the first nine months of 2011). The figure does not include cases in which warehouse space is rented by the final user of logistics services and the logistics service provider is hired. This represents a new trend on the 3PL market in 2011.

There has been an increase in the size of premises sought for rental and average transaction size has increased. The average rental request in nine months of 2011 by companies seeking to rent was for about 10,000 sq m of space, up from about 7,000 sq m in 2010. Average amount of space rented per transaction increased by 20% in comparison with the 2008 low point.

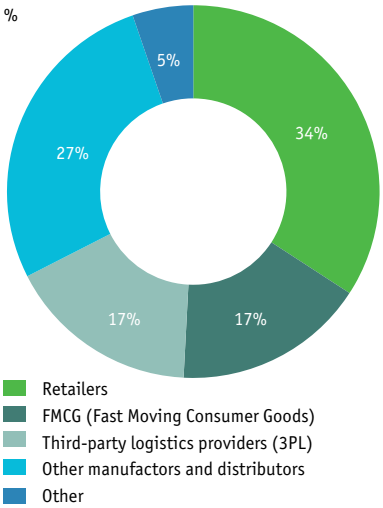
These factors, combined with decline of supply and market shortage of large warehouse buildings (more than 20,000 sq m) is leading to a qualitative change in the nature of demand: potential buyers and tenants are ready to consider projects on a "design&build" basis in accordance with their needs.

Commercial terms

Rental levels for modern warehouse space did not change significantly in Q3 2011, remaining in a range of $130-135 (triple net). However, reduction in the amount of vacant space available for rent and greater activity on the market (usual after the end of the summer holiday period) may exert upward pressure on rental rates in Moscow Region.

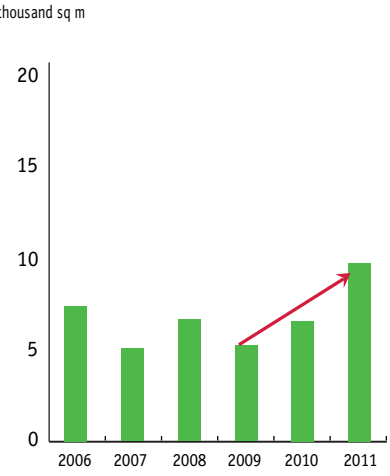
The current macroeconomic situation has encouraged a number of potential tenants to ask landlords to include a currency band in contracts. However, no contracts have been made on such terms to date.

Retailers take the biggest share of demand for quality warehouse space in the Moscow region



Source: Knight Frank Research, 2011

Change in average size of warehouse premises requested for rent in Moscow Region



Source: Knight Frank Research, 2011

Forecasts

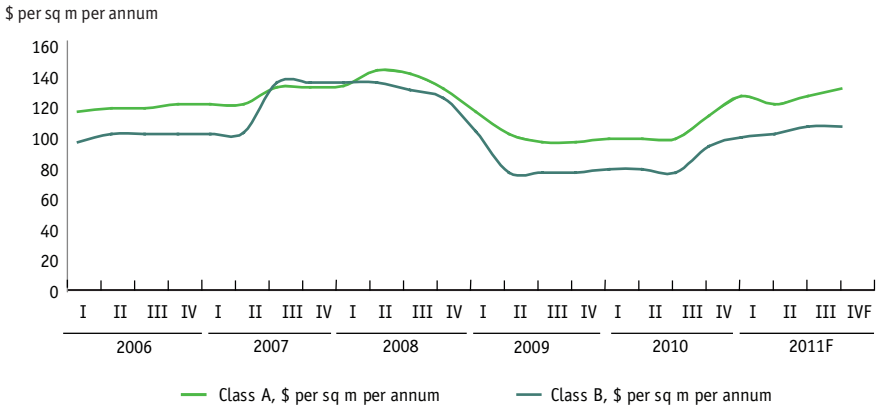
About 390,000 sq m of new warehouse space is likely to be supplied to the market in the whole of 2011. But negotiations regarding this space are in progress and rental agreements are likely to be made before the end of the year. As a result the vacancy rate by the end of the year will be no higher than 1.5%.

We expect an increase in volumes of new supply in 2012 to a level of 790,000 sq m in Classes A and B. However, surplus of demand compared with supply suggests that a substantial part of these volumes will be leased through preliminary agreements at the construction stage, and some of these agreements will be made before the end of 2011.

Shortage of warehouse premises is holding back growth of take-up and transactions in 2012 are unlikely to exceed 700,000 sq m, which will be 20-25% less than in 2011. About half of this amount will consist of properties that are still at the construction stage.

Growth of rental rates will be held back by what tenants can afford, but we expect offered rates for Class A warehouses within 25 km radius of MKAD to reach $135-140 per sq m per annum (triple net) by the end of 2011. Rental rates are likely to stabilize in 2012 as large volumes of new supply come to market.

Rent levels are steadily increasing



Source: Knight Frank Research, 2011

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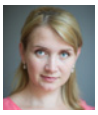

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Established in London more than a century ago, Knight Frank is the renowned leader of the international real estate market. Together with Newmark Company, Knight Frank's strategic partner, the company encompasses 243 offices in 43 countries across six continents.

Knight Frank has been a symbol of professionalism for tens of thousands of clients all over the world for 116 years. After 16 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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