In 2020 ***766,000 sq m*** *was commissioned at the market of high-quality warehouse real estate in Russian provinces*

Maximum figure at the regional market – ***851,000 sq m***

The volume of built-to-suit transactions grew by ***5 times*** *compared to 2019*

Knight Frank

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WAREHOUSE MARKET REPORT RUSSIA

2020

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«The year 2020 showed that there is a demand for high-quality warehouse space in Russian provinces, which continues to grow every year among major market players. At the same time, the supply does not yet keep up with demand and the regional markets are still far from being saturated with high-quality warehouse products, in comparison with those of the Moscow area and St. Petersburg. Developers will be closing this development gap in the years to come».

Key findings

- In 2020, 766,000 sq m was commissioned at the market of high-quality warehouse real estate in Russian provinces, which is the highest figure since the end of 2015.
- In 2020, the total volume of transactions in Russian provinces amounted to 851,000 sq m, which is the maximum figure at the regional market of high-quality warehouse real estate in the entire history of records.
- The volume of built-to-suit transactions grew by 5 times compared to 2019.
- The average weighted rental rate for Class A warehouses at the end of 2019 increased by 2.8% and reached 3,700 rubles/sq m/year triple net.

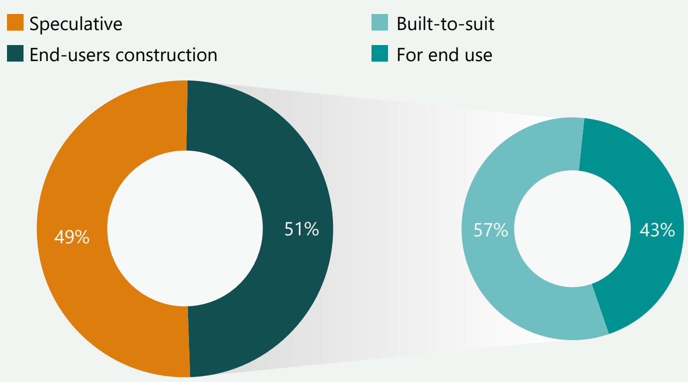
Market indicators

	2019	2020	Change
Total stock of quality warehouse property, thousand sq m	8,648*	9,395	▲
Delivery, thousand sq m	573	766	▲
Volume of sales and lease transactions, thousand sq m including	585	851	▲
sales and lease transactions in completed buildings	497	415.5	▼
built-to-suit transactions	88	435.5	▲
Vacancy rate, %	4.9	4.5	▼
Class A average weighted asking rental rate, RUB/sq m/year*	3,600	3,700	▲
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	►

* Revision of the database
** 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, 2021

Warehouse buildings completed in 2020, by type of constructions



Source: Knight Frank Research, 2021

Supply

The total warehouse space commissioned in 2020 is 1.9 mln sq m, including 44% (837,000 sq m) commissioned in Moscow, 16% — in St. Petersburg (312,000 sq m) and 40% (or 766,000 sq m) — in other regions of Russia. It should be noted that the structure of commissioning new high-quality warehouses has changed significantly in 2020. If in 2019 56% of high-quality warehouse space was commissioned in Moscow, then in 2020 this figure turned out to be 12 pp less. In turn, the share of commissioned facilities in St. Petersburg and Russian provinces increased (by 4 and 8 pp, respectively). Such changes in the commissioning structure reflect the emerging trend for the development of regional warehouse markets in Russia.

As in the previous year, Novosibirsk was the leader in terms of the regional warehouse construction with 157,000 sq m of high-quality warehouse real estate commissioned, including the commissioning of “Magnit” distribution center (62,000 sq m) and the Russian Post office (45,000 sq m). 104,000 sq m were sold in Kazan, including 50,000 sq m of the Wildberries warehouse complex. The warehouse market of Rostov-on-Don increased by 86,000 sq m, including 38,000 sq m of OZON distribution center and 35,000 sq m of PNK Park Rostov-on-Don.

Following 2020, the warehouse space throughout Russia amounted to 29.3 mln sq m, where 54% (16 mln sq m) falls on the Moscow region, 14% (4 mln sq m) falls on St. Petersburg and the Leningrad oblast, and 32% (9.3 mln sq m) — to the rest of Russian regions.

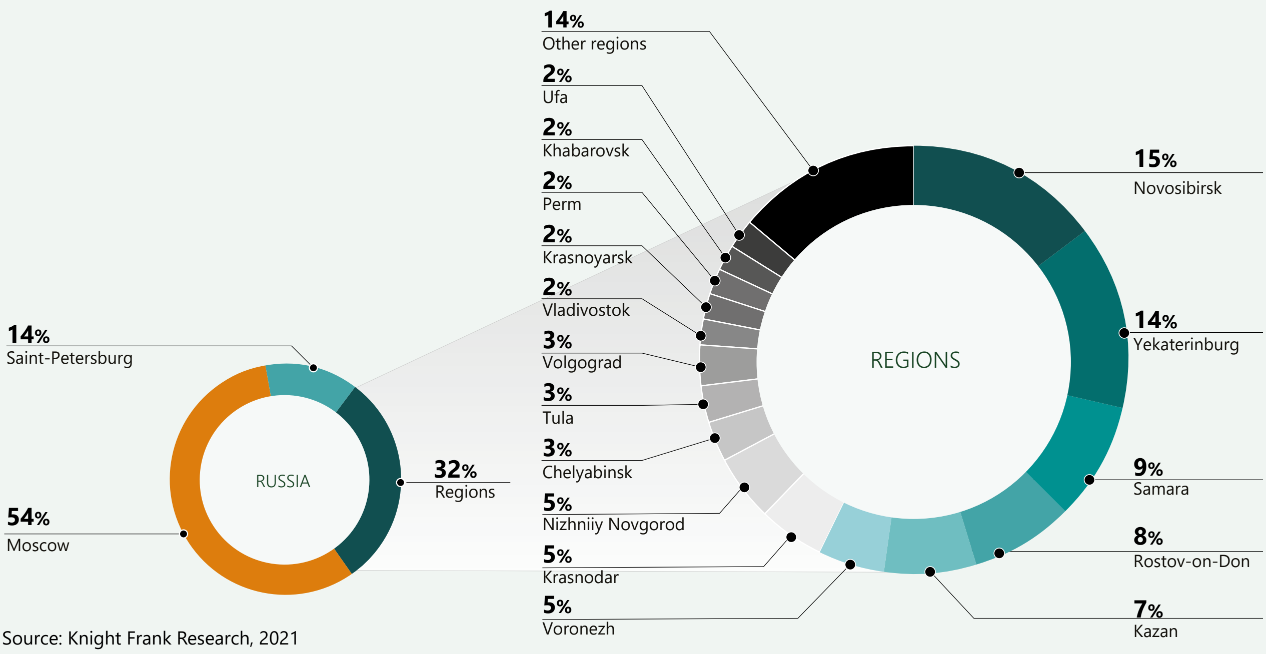
Four leading regions (Yekaterinburg, Novosibirsk, Samara, and Rostov-on-Don) form 46% of the total high-quality regional warehouse real estate market. The high concentration of high-quality warehouse supply in these regions may be explained by the fact that these four cities are the largest economic centers of their Federal Districts (Ural FD, Siberian FD, Volga FD and Southern FD, respectively), where 51% of the population of the Russian Federation lives. Thus, these provinces are the most important regional logistics hubs.

In 2020, 49% of the commissioned square meters of high-quality warehouse space was constructed speculatively and was intended for rent. The largest new speculative warehouse complexes are the “AVS-Electro” facility in Voronezh (60,000 sq m), the “Arbuz” logistics center in Volgograd (55,000 sq m), “PNK Park Rostov-on-Don” (35,000 sq m), the11th building of the “Pridorozhny” logistics complex in Samara (21,000 sq m), as well as a unit in the “Sibirsky” warehouse complex in Novosibirsk (20,000 sq m).

57% of the total commissioned non-speculative spaces were constructed as built-to-suit facilities. The largest built-to-suit facilities include a distribution center constructed for lease to “Magnit” in Novosibirsk by the PFO Group developer (43,000 sq m), the Russian Post logistics center in Novosibirsk (45,000 sq m) (by PNK Group developer), as well as distribution centers leased to OZON in Rostov-on-Don (ADVA Group developer) and Kazan (Romex Group) (38,000 sq m each). 69% of the built-to-suit facilities have been leased and 31% has been constructed to be sold.

43% of the non-speculative space commissioned was built by the end users with the engagement of a general contractor for their own use. The largest high-quality warehouse facilities of this type include the Wildberries warehouse in Kazan (about 50,000 sq m), the P&G distribution center in Tula (23,000 sq m), and the Russian Post logistics complex in Khabarovsk (20,000 sq m).

Distribution of the total stock of quality warehouse property in Russia, 2020

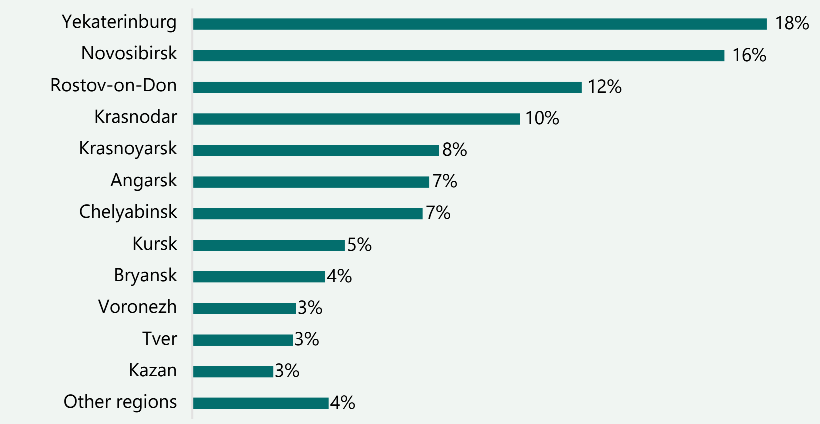


Source: Knight Frank Research, 2021

It is worth noting that the share of speculative facilities in the total structure of commissioned space decreased in 2020. If in 2019 55% of the commissioned space was intended for lease, then in 2020 this figure decreased by 6 pp. The growth of own and built-to-suit facilities is due to the entry into the market of large federal companies with special requirements for warehouse facilities and a small share of vacant space in speculative facilities.

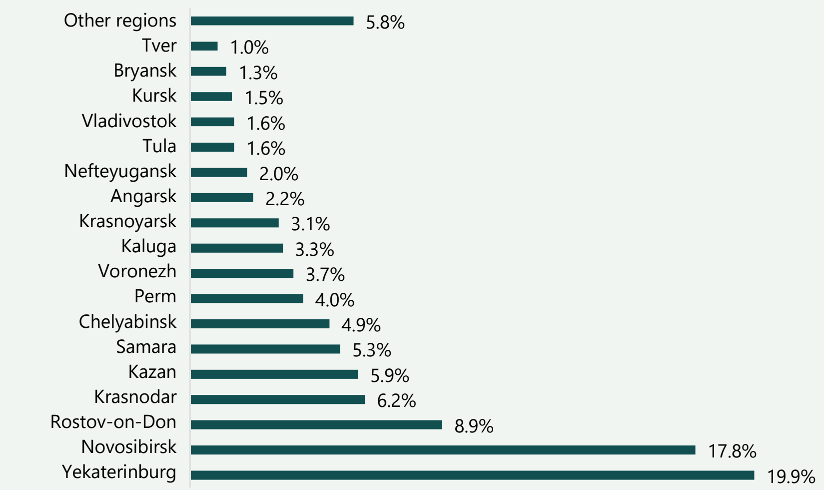
The vacant space in general in the regions of Russia (apart from the Moscow area, as well as St. Petersburg and Leningrad oblast) decreased by 0.3 pp compared to 2019 and amounted to 4.6%. The total space available for rent is about 425,000 sq m. This change is due to the fact that there was a record demand for warehouse real estate in Russia in 2020. Moreover, the market has grown substantially due to the commissioning of the space used by the owners for their own needs.

Distribution of transactions by regions of Russia, 2020



Source: Knight Frank Research, 2021

Distribution of transactions by regions of Russia, 2015-2020



Source: Knight Frank Research, 2021

Demand

The total lease and sale transactions in high-quality warehouse real estate in Russian provinces (apart from Moscow, the Moscow area, as well as St. Petersburg and Leningrad oblast) amounted to 851,000 sq m at the end of 2020, which is an absolute record in the entire history of the high-quality warehouses market in the Russian provinces. The total volume of new regional transactions is 45% higher than in the same period of 2019.

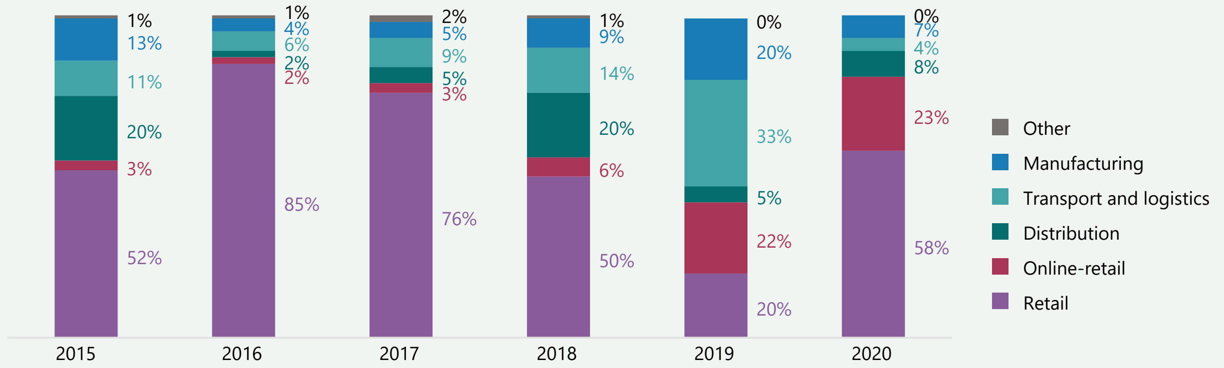
Leaders in terms of demand for high-quality warehouses in 2015–2020 are Yekaterinburg (19.9% of the total consumed square meters) and Novosibirsk (17.8%). The cities of the Southern Federal District, i.e. Rostov-on-Don and Krasnodar, also showed a fairly significant demand (8.9% and 6.2%, respectively). In turn, the largest cities of the Volga Federal District (Kazan and Samara) accounted for 5.9% and 5.3% of the total demand for warehouse real estate in the Russian provinces.

Historically, the retail segment formed the largest share in the structure of demand for high-quality warehouse real estate in Russian provinces. However, after a peak in 2016, the share of retail facilities in the total distribution of transactions started to decrease. In 2019, the demand for regional warehouse space among retailers was only 20%. In 2020, retailers again became more active at the regional markets, absorbing 58% of all contracted space. For example, FIX Price acquired 67,000 sq m in Krasnodar as built-to-suit facility with the subsequent purchase and rented 44,000 sq m in Novosibirsk. X5 Retail Group was also active in the regional market. The company rented 40,000 sq m in Kursk and 35,000 sq m in Bryansk under the built-to-suit scheme. In turn, “Detsky Mir” acquired built-to-suit 63,000 sq m in Yekaterinburg and rented about 6,000 sq m in Rostov-on-Don.

For the second year in a row, online retailers are among the leaders in terms of consumed warehouse space in Russian provinces having bought / rented 23% of the consumed space. OZON, that additionally rented about 175,000 sq m of warehouses to the existing areas, including 79,000 sq m in Yekaterinburg and 78,000 sq m in Rostov-on-Don, became the most active representative of the sector. The above facilities are now being constructed by ADVA Group developer as built-to-suit.

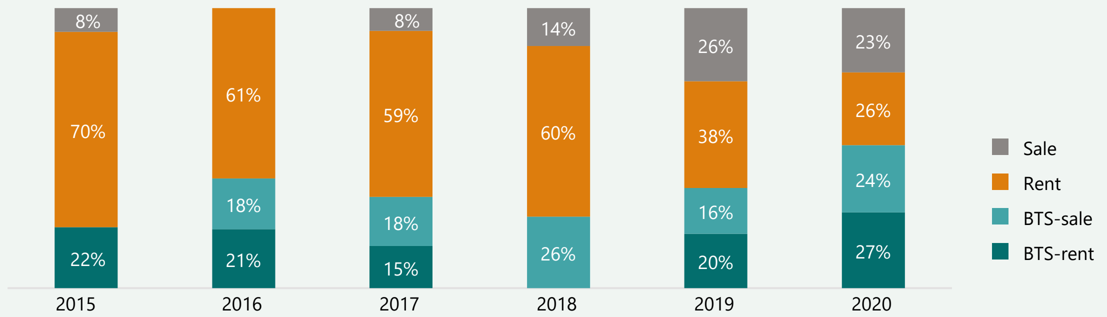
53% of the contracted high-quality warehouses was purchased as built-to-suit facilities (including 27% of the BTS leases and 24% of the BTS sales), while 47% of the demand fell on existing buildings (including 26% of rent and 23% of sale).

Distribution of transactions by tenant/buyer profile



Source: Knight Frank Research, 2021

Distribution of transactions by tenant/buyer type



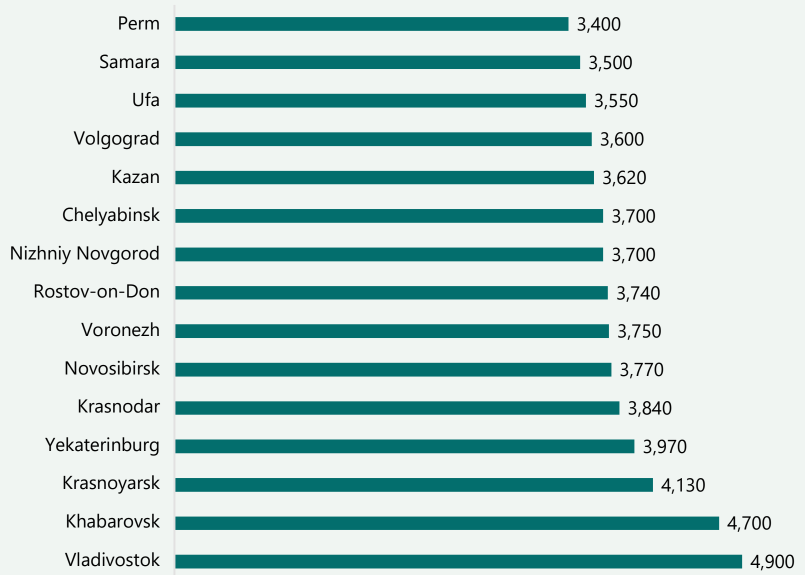
Source: Knight Frank Research, 2021

When comparing the distribution of transactions by type with the 2019 data, it can be noted that the share of built-to-suit transactions increased by 17 pp, which is due to both the minor share of vacant space in the provinces and the market players' non-standard requirements for warehouses.

Commercial terms

As in the Moscow area, the increase in rental prices was observed in the regional warehouse real estate market against the low vacancy rates, stable demand, and growth in warehouse construction costs in 2020. The average weighted rental rate for Class A warehouses in the Russian provinces amounts to 3,700 rubles/sq m/year (ex. VAT and OPEX), which is 2.8% more than in the late 2019. Vladivostok remains the region with the most expensive

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



Source: Knight Frank Research, 2021

warehouse space in Russia, where the rental rate reached 4,900 rubles/sq m/year (ex. VAT and OPEX) in 2020. At the same time, high rental rates were recorded in another large city of the Far East, Khabarovsk. The rental rate there for Class A warehouses can reach 4,700 rubles/sq m/year (ex. VAT and OPEX). Rental rates are among the highest within Russian provinces in the most popular cities in terms of demand for warehouse real estate: e.g., in Yekaterinburg, the average weighted rental rate for the highest quality warehouse facilities amounts to 3,970 rubles/sq m/year (ex. VAT and OPEX), in Krasnodar this rate amounts to 3,840 rubles/sq m/year (ex. VAT and OPEX), and in Novosibirsk and Rostov-on-Don — 3,770 and 3,740 rubles/sq m/year (ex. VAT and OPEX), respectively.

The average level of operating payments is within the range of 900–1,200 rubles/sq m/year.

The average asked price for the construction of a built-to-suit facility for sale with the area from 10,000 sq m was within the range of 35,000-45,000 rubles/sq m (ex. VAT) by 2019. It should be noted that the cost of a warehouse complex construction in a number of Russian provinces exceeds the cost of warehouses construction in the metropolitan area. First, this is due to increased cost of building materials carrying, the need to look for qualified personnel, etc.

Forecast

According to Knight Frank's forecasts, the newly commissioned high-quality warehouse space will amount to 800,000-900,000 sq m in 2021 in Russian provinces (not including the Moscow area and St. Petersburg). It is expected that the share of speculative warehouse facilities in the total structure of commissioning will continue to decline. It is planned to complete the construction of the Russian Post warehouses (15,000 sq m each in Krasnodar, Krasnoyarsk, Samara, as well as 30,000 sq m in Rostov-on-Don) in 2021. Wildberries may launch its logistics center in Udmurtia (50,000 sq m) and OZON may commission a warehouse in Yekaterinburg (38,000 sq m). Moreover, the construction of X5 Retail Group distribution centers (40,000 sq m in Kursk, 35,000 sq m in Bryansk, and 16,000 sq m in Smolensk) will be completed in 2021. At the same time, the total space of new regional transactions may exceed 1mln sq m. Thus, the vacancy share will decrease and will amount to about 4.5–4%.

It should be noted that the tendency to the increase of non-speculative warehouse commissioning is expected to continue following 2021, which will be due to the continuing increase in the number of built-to-suit transactions, as well as the completion of the construction of the largest distribution centers of federal companies.

In turn, the average weighted rental rates for Class A warehouses in Russian provinces in 2021 may continue to grow and amount to 3,800–3,900/sq m/year (ex. VAT and OPEX).

It is expected that the main drivers of demand for regional warehouse space in 2021 will be retailers as well as representatives of online retailers.

Key warehouse property market indicators in the regions of Russia with the volume of quality warehouse property of at least 150,000 sq m

Region	Supply, thousand sq m	Vacancy, %	Inhabitants as of 1 January 2020, thousand people	Retail turnover in 2020, billion rubles	Asking rent rate, rubles per sq m per year*
Novosibirsk	1,353	0.5%	2,786.4	528.9	3,770
Yekaterinburg	1,326	2%	4,315.6	1,163.6	3,970
Samara	798	10.9%	3,179.0	658	3,500
Rostov-on-Don	778	6.5%	4,196.0	889.9	3,740
Kazan	646	3.8%	3,894.5	883.3	3,620
Voronezh	476	0.6%	2,324.2	551.4	3,750
Krasnodar	457	2.5%	5,675.5	1,353.7	3,840
Nizhniy Novgorod	427	1.0%	3,202.9	755.9	3,700
Chelyabinsk	296	4.7%	3,466.3	548.3	3,700
Tula	261	8.5%	1,466.0	301.3	3,650
Volgograd	239	27.1%	2,491.0	390.6	3,600
Vladivostok	219	0.0%	1,895.8	427.4	4,900
Krasnoyarsk	209	5.3%	2,867.8	563.5	4,130
Perm	174	1.0%	2,599.3	539.2	3,400
Khabarovsk	172	5.0%	1,315.6	361.0	4,700
Ufa	156	0.0%	4,037.0	848.8	3,550

* Triple net – hereinafter, rent rates for standard Class A warehouses with no VAT, operating expenses, and utility charges included
Source: Knight Frank Research, Rosstat, 2021

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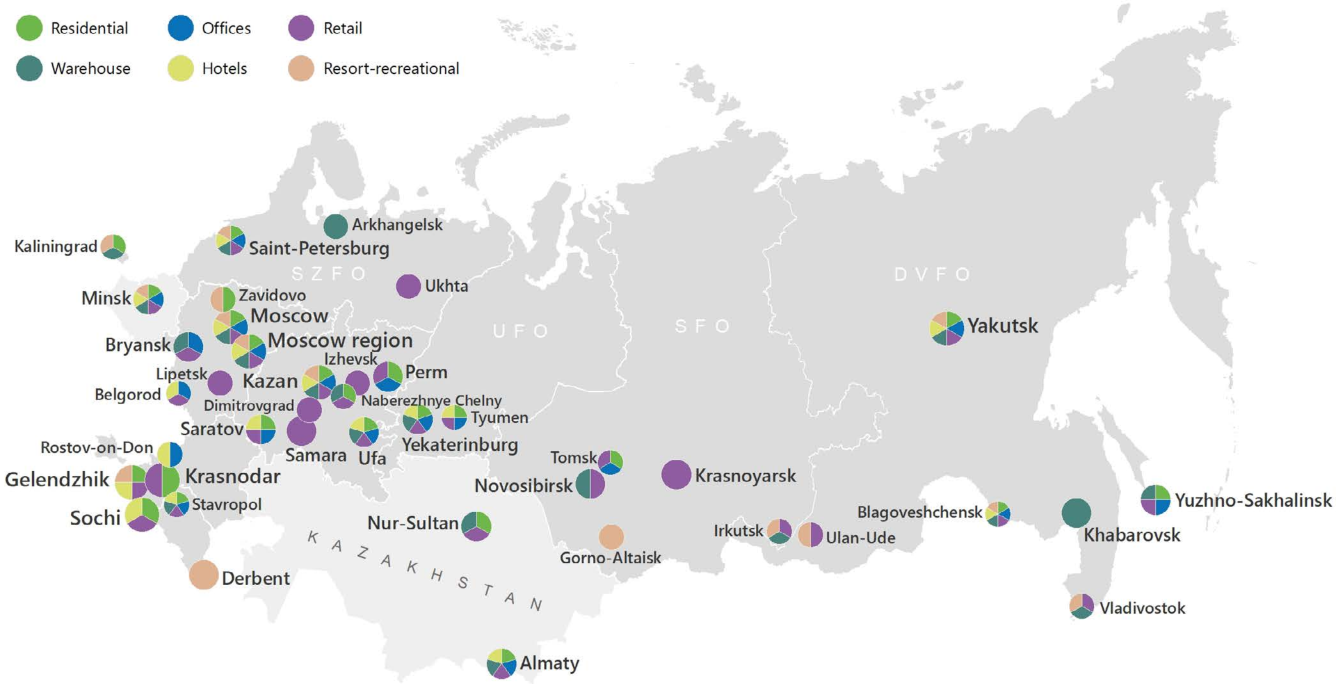

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