

In Q1 2022, **197,000 sq m** were commissioned in the Moscow region doubling the same figure recorded in 2021

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WAREHOUSE MARKET REPORT MOSCOW REGION

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Q1 2022



South Gate Industrial Park



Konstantin Fomichenko

Regional Director, Industrial & Warehouses
Knight Frank

«Current events have greatly impacted the warehouse property market. We are witnessing a situation where developers are putting speculative projects on hold. Besides that, clients have also taken a break to revise their plans to adapt to new realities. We forecast a certain amount of vacant space to enter the secondary market, including the sublease market offerings, which will subsequently lead to the rental rate stabilization or even its reduction to some extent. Nevertheless, warehouse property will remain the most stable segment of the commercial real estate in any case. We expect the market to adjust to new realities and continue its development within a year».

Key conclusions

- ♦ In Q1 2022, 197,000 sq m were commissioned in the Moscow region doubling the same figure recorded in 2021.
- ♦ At the end of Q1 2022 the vacancy rate was 1.2%.
- ♦ The total take-up volume in the Moscow region reached 297,000 sq m, which is 14% higher than the same indicator in 2021.
- ♦ The average weighted asking rental rate in the Moscow region remained at the level of 5,500 RUB/sq m/year triple net for the existing projects in Q1 2022. It is hardly possible to determine the rental rate for BTS projects now.

Supply

According to the results of Q1 2022, 197,000 sq m of quality warehouse property were commissioned in the Moscow region, which is 2.5 times higher than the same indicator of the previous year. The total warehouse stock in Moscow region reached 19.1 million sq m.

Owner-occupied projects took the largest share of completions in Q1 2022, reaching

67% or 132,000 sq m in absolute terms. The largest facility was the first stage of the logistics centre for the online retailer Wildberries in Elektrostal with an area of 108,000 sq m.

Speculative projects accounted for 18% of the total commissioned space, or about 35,000 sq m. Built-to-suit projects represented 15% of the total commissioned volume.

Key indicators

	Q1 2021	2021 Results	Q1 2022	Change
Total quality warehouse stock, thousand sq m	17,679	18,931	19,128	–
including: supply within MKAD, thousand sq m	1,277	1,367	1,367	–
Completions, thousand sq m	74	1,326	197	▲
Take-up, thousand sq m including:	261	2,676	297	▲
deals concluded in secondary premises	192	1,217	119	▼
transactions with newly built facilities	68	1,458	178	▲
Vacancy rate, %	1.7	0.4	1.2	▼
Weighted average rental rate for Class A BTS projects, rubles/sq m/year*	4,150	5,500	7,000	▲
Weighted average rental rate for existing class A premises, rubles/sq m/year*	4,100	5,500	5,500	▲
Weighted average rental rate for class A premises located within the Moscow Ring Road, rubles/sq m/year*	8,500	10,000- 12,000	10,000- 12,000	▲
Operating expenses, rubles/sq m/year excluding VAT**	1,000– 1,400	1,100– 1,500	1,100–1,500	▲
Requested price range for existing class A dry warehouse, rubles/sq m excluding VAT	35,000– 42,000	50,000 – 55,000	55,000 – 65,000	▲
Requested price range for class A dry warehouse BTS projects, rubles/sq m excluding VAT	55,000- 65,000	55,000- 65,000	starting from 65,000	▲

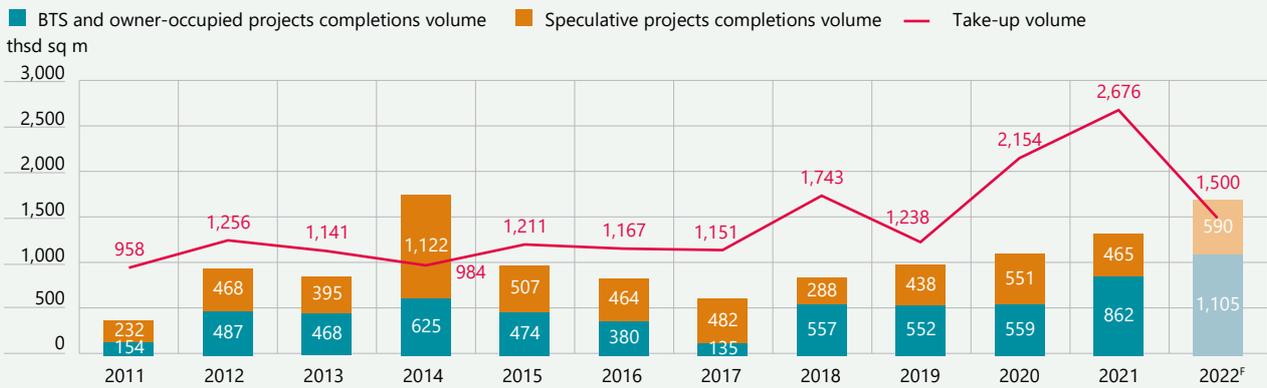
* Compared to Q1 2021

** Hereinafter, asking rental rate for a standard Class A dry warehouse with no VAT, operating expenses, and utility charges.

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

Source: Knight Frank Research, 2022

Completions and take-up dynamics



Source: Knight Frank Research, 2022

In the current environment, developers have taken a wait-and-see attitude, and most speculative projects are now suspended. The majority of potential built-to-suit projects are on hold as the clients are reviewing their plans, and only few particular projects are being discussed. In the future, the decision to start construction will depend on the national economic situation and the Russian Central Bank's decision on the key rate.

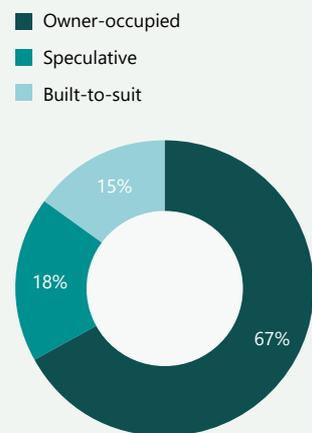
The vacancy rate stabilized and reached 1.2% by the end of Q1 2022. In absolute terms, 232,000 sq m of quality warehouse space were available by the end of Q1. We expect a significant volume of vacant space in the secondary market. According to our forecasts, the vacancy rate may reach 4%-5% by the end of 2022. In addition to the traditional indicator of the vacancy rate, it is also worth noting the sublease space: at the end of Q1 2022, the total volume of available sublease space in the Moscow region exceeded 150,000 sq m, which is a significant figure against the background of the total vacant space of 232,000 sq m. Alongside the increase in sublease offerings, we expect a large volume of future availability. In this context, about 410,000 sq m of space in the existing projects are announced to enter the market by the year-end. In addition, speculative projects under construction are also announced for commissioning with a total area of about 147,000 sq m.

Vacancy rate



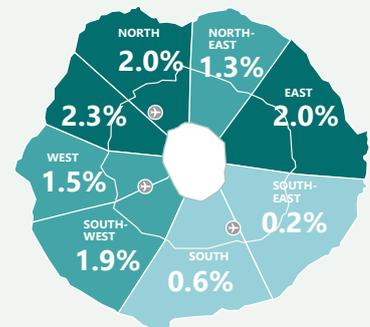
Source: Knight Frank Research, 2022

Completions breakdown by type, Q1 2022



Source: Knight Frank Research, 2022

Distribution of the share of vacancy premises by directions, Q1 2022



Source: Knight Frank Research, 2022

Largest projects commissioned in Q1 2022

Project name	Developer/Owner	Total area, sq m
Wildberries Distribution Centre in Elektrostal	WB-Development	108,000
DPD Logistics Centre in "South Gate" IP	Radius Group	30,000
Industrial City, Synkovo 3	Construction Alliance	19,200

Source: Knight Frank Research, 2022

Thus, the market will see more than 550,000 sq m of vacant warehouse space. Given all the factors concerned, it can be argued that the vacancy rate can reach 6%-8% with the sublease space taken into account. Compared with the final indicator of 2021, the vacancy rate in the Moscow region increased by 0.8 p.p. In absolute terms, the increase in the share of vacant premises in Q1 2022 amounted to 155,000 sq m.

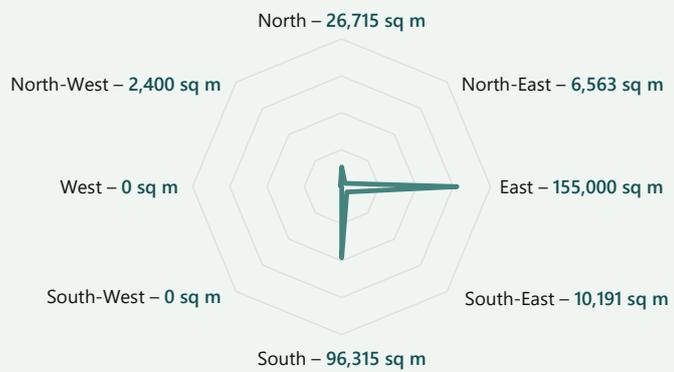
The largest volume of vacant space was observed in the northern and south-western directions – 74,000 sq m (32% of the total vacant space volume) and 39,000 sq m (17% of the total vacant space volume), respectively.

Demand

The total volume of transactions in the Moscow region warehouse market amounted to 297,000 sq m at the end of Q1 2022, which is 14% higher than the same indicator of 2021. While the indicators are comparable, this is a delayed effect of those deals discussed and prepared at the end of 2021. In the future, we expect a decrease in the take-up volume.

More than 50% of the total transactions volume or 155,000 sq m were concluded in the east of the Moscow region. The south of the Moscow region accounted for 32% of the total transactions volume, or about 96,000 sq m in absolute terms. In other directions, the share of transactions with quality warehouse property was relatively small on the back of the available space shortage.

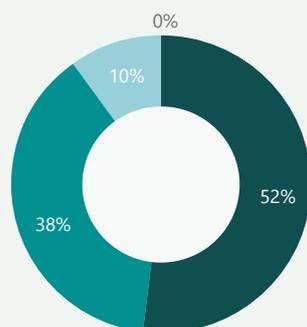
Take-up by direction, Q1 2022



Source: Knight Frank Research, 2022

Deals breakdown by type, Q1 2022

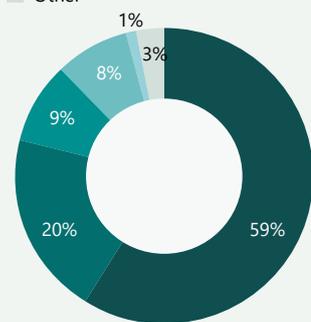
- BTS Lease
- Lease
- Sale
- BTS Sale



Source: Knight Frank Research, 2022

Deals breakdown by tenant type, Q1 2022

- E-commerce
- Distribution
- Logistics
- Retail
- Manufacturing
- Other



Source: Knight Frank Research, 2022

Take-up by sector, 2015–2021



Source: Knight Frank Research, 2022

Largest transactions, Q1 2022

Tenant	Company type	Facility/location	Total area, sq m	Type of transaction
Armtex	Distribution	Sloboda Warehouse Complex	20,587	Lease
Apex Security	Retail	Mistral Koledino	17,238	Lease
OKN (Delovye Linii)	Transport and logistics	MLP Nikolskoye	11,660	Lease
Noviy Produkt	Distribution	Severovo Warehouse Complex	10,416	Sale

Transactions involving Knight Frank

Source: Knight Frank Research, 2022

There were no transactions observed in the south-west and west of the Moscow region in Q1 2022.

Built-to-suit lease deals represented 52% of the total transactions volume or 155,000 sq m in absolute terms.

The share of speculative lease transactions equalled to 38% or 112,000 sq m in absolute terms.

About 10% of the deals volume or 30,000 sq m were purchase transactions.

There were no transactions carried out under the built-to-suit sale scheme observed in Q1 2022.

Online-retailers were the main demand drivers accounting for 59% of the deals volume, which in absolute terms is 176,000 sq m.

Take-up by companies' origin, 2017-2021



Source: Knight Frank Research, 2022

Distributors accounted for 20% of the total transactions volume, or 59,000 in absolute terms. Deals with logistics companies represented 9% of the take-up volume or 26,000 sq m.

In previous crises food retailers, manufacturers and distributors of alcohol and medicines proved to be the most stable in terms of demand for warehouses. Over the past 8 years a new segment (e-commerce and marketplaces) that tends to be the most active in terms of warehouse space absorption has appeared. The e-commerce sector represented 35%-70% of the 2021 take-up, depending on the region. The state of the warehouse market as a whole will depend on how this segment responds to the new realities in the crisis we are facing now.

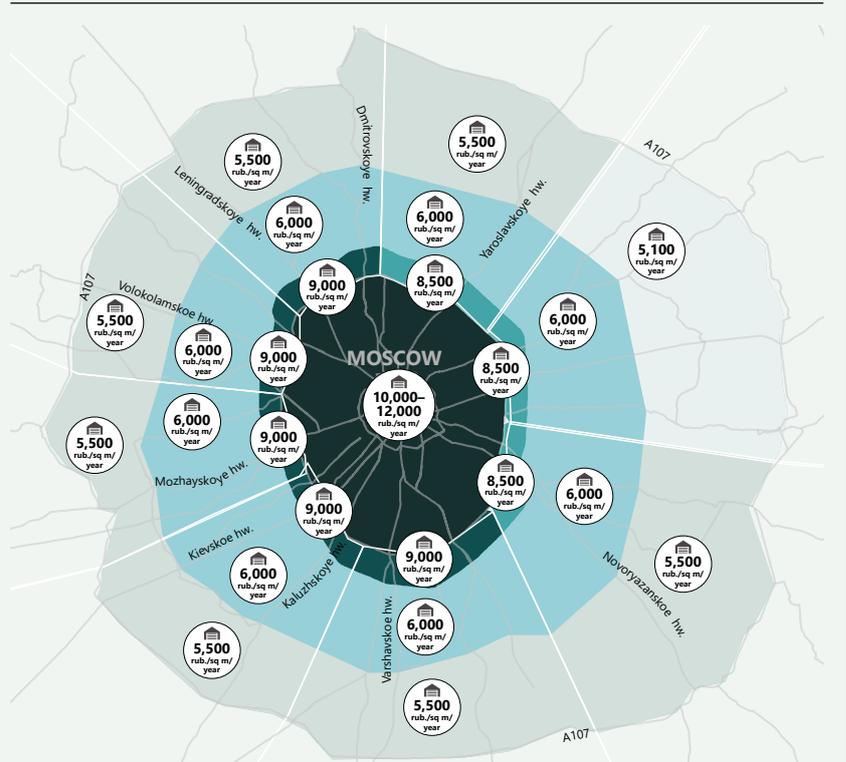
The majority of transactions from 2017 to 2021 was represented by domestic companies. By the end of 2021, transactions involving foreign companies accounted for 17% of the annual take-up volume. It is important to emphasize that foreign companies in the current situation continue to occupy the leased space and pay rent complying with the terms of their contracts, so a spike in vacant space occupied by the companies concerned should not be expected for now.

Commercial terms

The average weighted rental rate remained unchanged by the end of Q1 2022 and amounted to 5,500 RUB/sq m/year triple net. The significant amount of vacant space in the secondary market, including both direct lease and sublease offerings, may lead to rental rate growth stall with its possible slight reduction by 5% compared with the final figure of 2021.

The asking rental rate for quality warehouse property within MKAD is 10,000-12,000 RUB/sq m/year triple net, with 15,000 RUB/sq m/year triple net for a number of premium projects (such as PNK Park Medvedkovo and PNK Park MKAD M4).

Average weighted asking rental rates in directions of the Moscow region, RUB/sq m/year triple net



Source: Knight Frank Research, 2022

Rental rate for class A warehouses dynamics



Source: Knight Frank Research, 2022

Largest built to suit projects announced for delivery, 2022-2024

Project name	Developer	Total area, sq m
Ozon Distribution Centre in PNK Park Pushkino-2	PNK Group	269,700
DNS Distribution Centre in Kholmogory Industrial Park	Rusich Concern	115,900
Sberlogistika Distribution Centre in PNK Park Pushkino-2	PNK Group	107,800
Yandex.Market Distribution Centre in Sofyino LP	AT-Nedvizhimost	90,800

Source: Knight Frank Research, 2022

Forecast

By the end of 2022, the volume of commissioned space in the Moscow region is expected to reach 1.6-1.7 million sq m. The main projects that are now at the stage of construction should be commissioned within the stated deadlines. The majority of the projects announced for delivery in 2022-2023 as speculative construction will now be offered as built-to-suit projects only. In comparison with the crisis of 2014-2015, when many speculative projects were commissioned (the share of speculative projects by the end of 2014 was 64% or more than 1.1 million sq m), the market has become more cautious

about speculative construction due to such factors as rising construction costs and financing. Thus, in 2021 speculative projects represented 35% of new supply, with almost all the premises being leased before their putting into operation. In the spring of 2022, the construction of many speculative projects was supposed to start, but developers put them on hold.

According to Knight Frank analysts, the vacancy rate in H1 2022 is expected to grow to 2%-3% and reach 4%-5% by the end of the year.

Major tenants who were considering new warehouse projects for their own needs took a pause to revise their plans to adapt to new realities, i.e. new supply

chains and new strategies adjusted to the changes in the consumer purchasing power. We assume that demand from the e-commerce sector will remain stable but moderate. This is due to the fact that Russian suppliers and manufacturers who were focused on cooperation with Western networks will sell their goods on marketplaces that have created their own infrastructure. The same applies to Russian small and medium enterprises, which will be able to rely on the largest marketplaces to sale, store and deliver their goods.

Knight Frank analysts forecast the average weighted asking rental rate to reach 5,200-5,300 RUB/sq m/year triple net by the end of 2022.

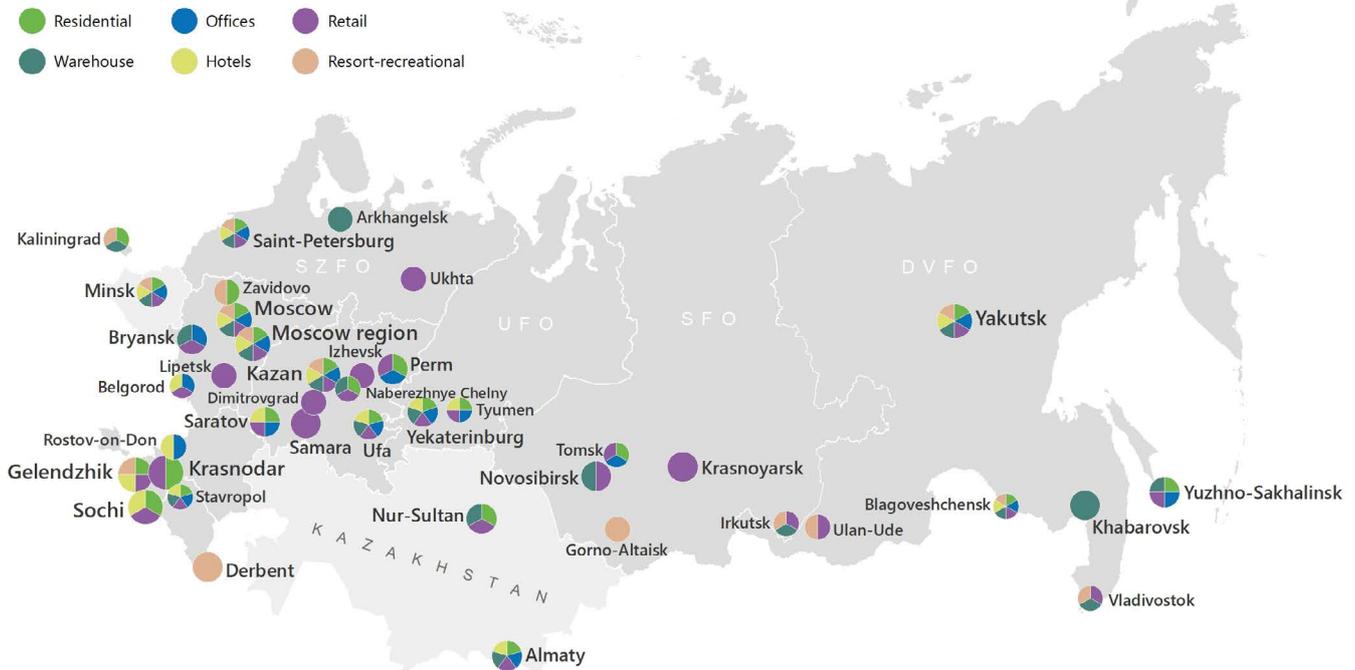


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+7 (495) 023-08-12
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CONSULTING & RESEARCH

Olga Shirokova

Director, Russia & CIS
OShirokova@kf.expert

REAL ESTATE VALUATION

Olga Reshetnyakova

Director, Russia & CIS
OR@kf.expert



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Konstantin Fomichenko

Regional Director, Industrial & Warehouses
Knight Frank

Konstantin.Fomichenko@ru.knightfrank.com