

Moscow Region Industrial Big Box, Q3 2016

Vacancy is polarizing

 **New Delivery**
313,854 sq m

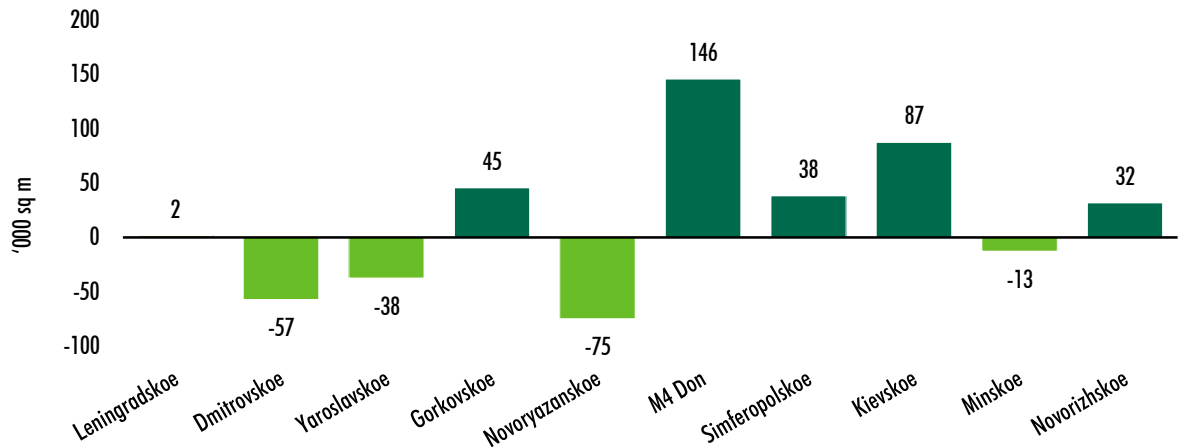
 **Take-up**
133,095 sq m

 **Vacancy Rate**
12.7%

 **Average Rental Rate**
RUB 3,800 / sq m / year

* Arrows indicate change from previous quarter

Figure 1: Vacant space changes by highway, Q3 2016 vs Q3 2015, '000 sq m



Source: CBRE, Q3 2016

- Vacancy rate decreased by 1ppts compared to previous quarter and amounted to 12.7%.
- Rental rates remain constant. Average weighted rent is RUB3,800/sq m/year.
- New supply increased by four times compared to previous quarter and reached 313,000 sq m. The majority of commissioned buildings were built for end users.
- Demand activity is comparable to previous quarter results. Take up in Q3 amounted to 133,000 sq m.

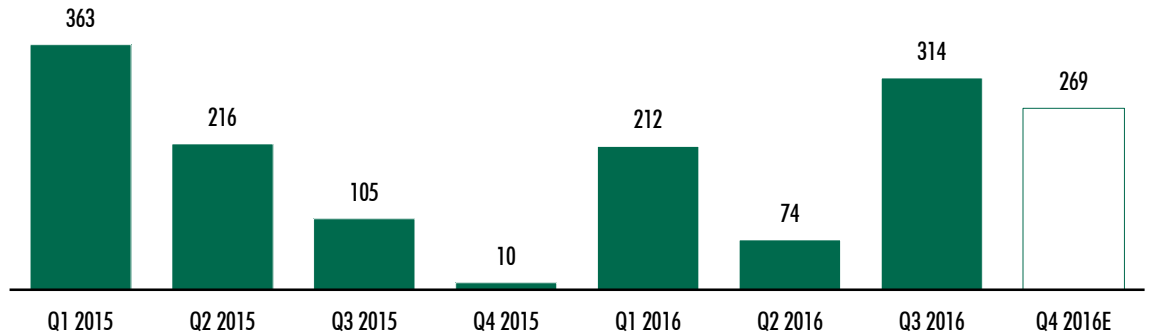
GLOBAL VIEW

Moscow region warehouse market differentiates in terms of quality of projects and their location. Supply-demand balance differs from across submarkets.

Over the last four quarters vacancy in some parts of the region, in particular in the north, not only stayed at the same level but also decreased despite general market trends. Significant upturn of a vacant space was seen in zones where completions were the highest in the last two years.

Therefore, warehouse segment is recovering selectively, but it is a good signal for the market and this process is likely to become a general trend in a while.

Figure 2: New supply, '000 sq m



Source: CBRE, Q3 2016

SUPPLY

314,000 sq m was delivered in Q3 2016, which is 10% higher than completions volume in first half of the year. Increase of supply was caused by completion of a number of end-users' projects and by commissioning of large distribution centre of Leroy Merlin (total area 97,000 sq m) in South Gate Industrial Park (developer – Radius Group).

Only 25% of quarterly supply relates to speculative development, while other buildings were not offered to the market. This is a trend of last twelve months and is reflected in this year's delivery pipeline structure – 60% of buildings is initially intended for specific companies.

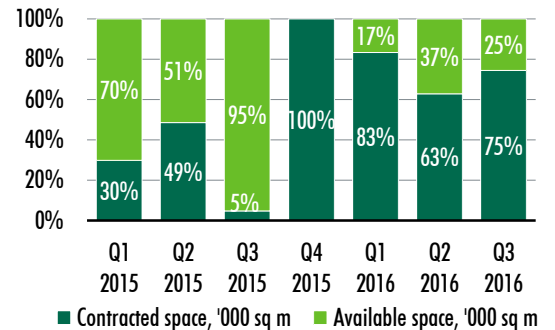
269,000 sq m of a warehouse space is expected for delivery by the end of the year. Annual completions level is likely to be 860,000 sq m.

Major buildings delivered in Q3 2016

Project	Area, sq m	Developer
South Gate, Leroy Merlin building	97,000	Radius Group
Vnukovo II, 1 st phase	50,000	Logistic Partners

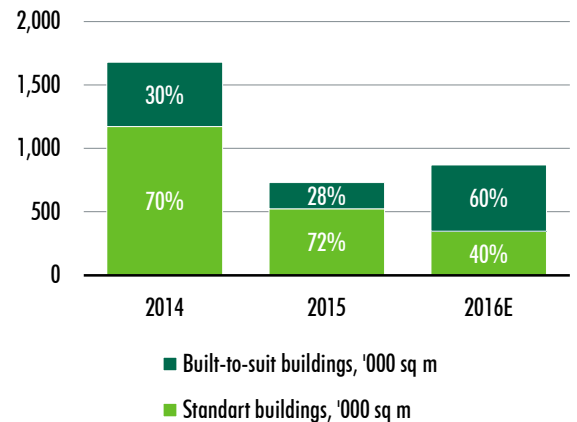
Source: CBRE, Q3 2016

Figure 3: New supply structure, %



Source: CBRE, Q3 2016

Figure 4: New supply annually, '000 sq m



Source: CBRE, Q3 2016

DEMAND

Q3 2016 take-up amounted to 133,000 sq m. Deals volume remains moderate. Nevertheless business activity on the market stays high and a number of big transactions is expected to be closed in coming months.

Build-to-suit deals again appeared in take-up structure – 35% of Q3 transactions. Major part of demand within this sector was formed by one deal* between BMW and PNK Group – developer to construct 34,000 sq m building in accordance with client’s requirements.

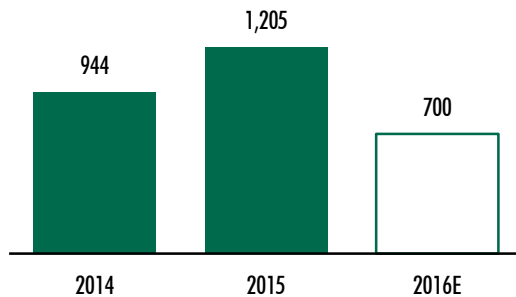
Other 65% of take-up is the deals currently vacant space.

Annual take-up is expected at 700,000 sq m, which is 41% lower than in 2015.

Along with traditional demand such as lease and sale transactions new cooperation scheme between developers and occupiers appeared on the market. New demand comes from general contracting segment where developers construct buildings for end users on their own sites. A good example of this trend is the agreement between Auchan and Radius Group – developer will act as a general contractor and build a large distribution centre with a total area of 138,000 sq m.

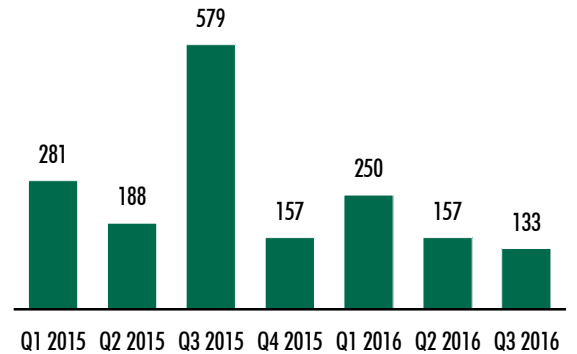
* Consultant of the deal was CBRE

Figure 7: Take-up, '000 sq m



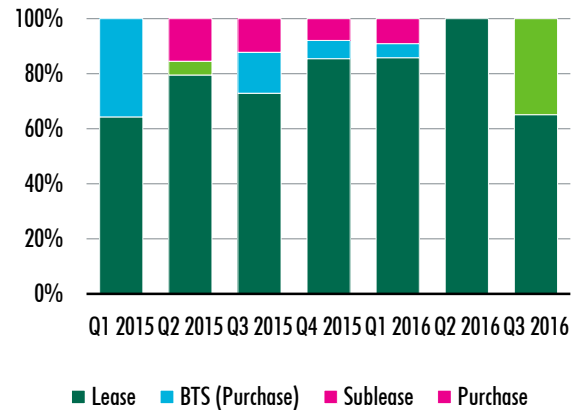
Source: CBRE, Q3 2016

Figure 5: Take-up, '000 sq m



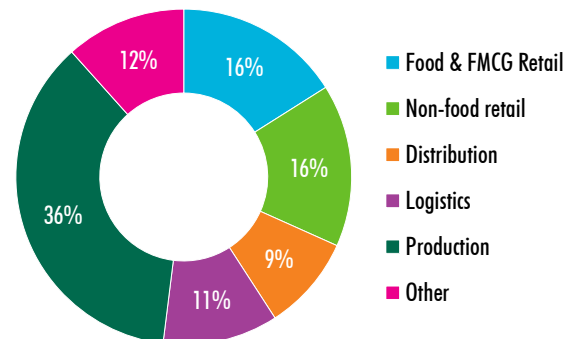
Source: CBRE, Q3 2016

Figure 6: Take-up structure, %



Source: CBRE, Q3 2016

Figure 8: Take-up by business sectors, '000 sq m



Source: CBRE, Q3 2016

VACANT SPACE

Total area of vacant space in Moscow region decreased by 51,000 sq m in Q3 2016 and amounted to 1,28 mn sq m or 12.7% of total stock.

New space and secondary market in vacancy structure remain equally distributed.

COMMERCIAL TERMS

Prices on the market are stable at the level comparable to previous quarter.

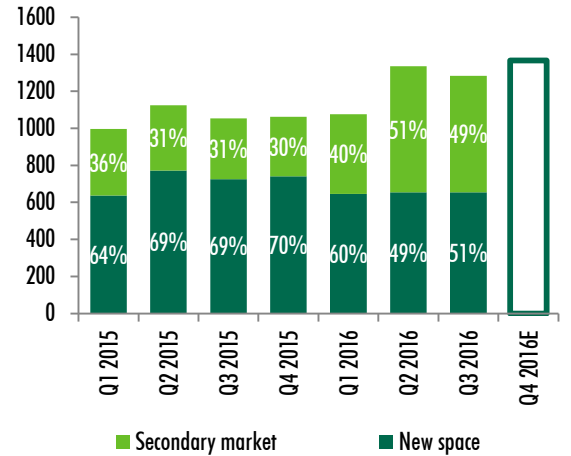
The average weighted base rent amounts to RUB 3,800/ sq m /year.

The average cost of operational expenses (OPEX) amounts to RUB 1,100 per sq m year.

Sale prices depend on a project:

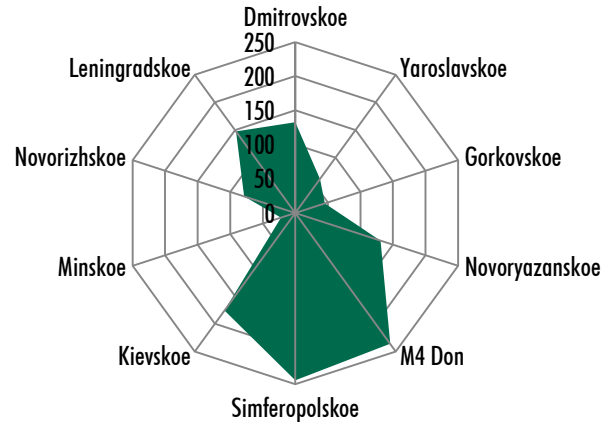
- Price for forward deals in buildings at project stage is RUB 30,000-35,000 per sq m;
- Completed new buildings offered at RUB 30,000-40,000 per sq m;
- Buildings on secondary market may be offered at RUB 40,000-45,000 per sq m.

Figure 9: Vacant space changes and structure, %, '000 sq m



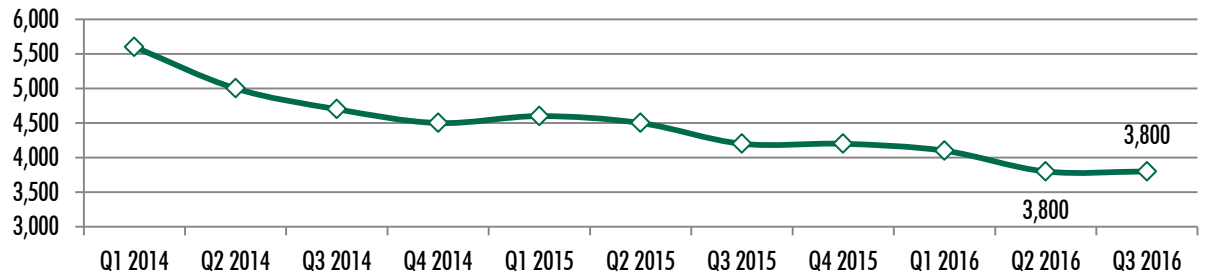
Source: CBRE, Q3 2016

Figure 10: Vacant space by highways, '000 sq m



Source: CBRE, Q3 2016

Figure 11: Rental rates, RUB/ sq m / year



Source: CBRE, Q3 2016

Key market indicators, Moscow region

	2014	2015	2016 E
Total supply (end of the year), class A, mn sq m	8,78	9,47	10,3
New delivery, mn sq m	1,6	0,69	0,87
Take-up, mn sq m	0,94	1,20	0,87
Weighted average rental rates, RUB/sq m /year	4,300	4,200	3,800
Vacancy, %	8,8	11,2	13,2

Source: CBRE, Q3 2016

CONTACTS
Olesya Dzuba
Director, Russia Research

+7 495 258 3990

olesya.dzuba@cbre.com

Anton Alyabyev
Director, Head of Industrial & Logistics
Advisory & Transaction Services, Owner Services

+7 495 258 3990

anton.alabyev@cbre.com

Oxana Nikolaeva
Associate Director, Russia Research

+7 495 258 3990

oxana.nikolaeva@cbre.com

Vasily Grigoriev
Senior Consultant, Russia Research

+7 495 258 3990

vasily.grigoriev@cbre.com

Machiel Wolters
Head of Industrial and Logistics Research, EMEA Research

+31 2020 44092

machiel.wolters@cbre.com

CBRE OFFICE
Moscow, Russia

MIBC Moscow-City, BC OKO

 1 Krasnogvardeysky pr-d, 21, bld. 1,
29th floor

Moscow 123100, Russia

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