

Year-end 2023

Warehouse and Industrial Market

Russia | Regions

Macroeconomic situation

Table 1

Key macroeconomic indicators of the market

Source: Bank of Russia

	2022	2023F	2024F	2025F	2026F
GDP (%, y/y)	-2.1	3.1	1.3	1.5	1.5
CPI (% in December versus December of the previous year)	11.9	7.6	5.1	4.0	4.0
Key rate (p/a %, year's average)	10.6	9.9	14.0	9.0	7.0
USD/RUB exchange rate (RUB for 1 USD, year's average)	67.4	85.4	92	93	94.8
Unemployment rate (%, Dec.)	3.6	3.0	3.0	3.1	3.2
Export of goods and services (USD billion per year)	641	479	505	515	517
Import of goods and services (USD billion per year)	347	377	390	406	414
Brent oil price (USD/barrel, average 2023)	99	83	80	80	75

The dynamics of Russia's key economic indicators had a direct impact on the industrial real estate market. The gradual increase in the Central Bank's key rate to 16% resulted in a higher cost of debt financing, which hobbles the industrial development, pushing rents up.

In 2024, the annual key rate is expected to average 14.0%, which is likely to further restrict access to loans for new development projects. The inflation rate sinking to 5.1%, on the other

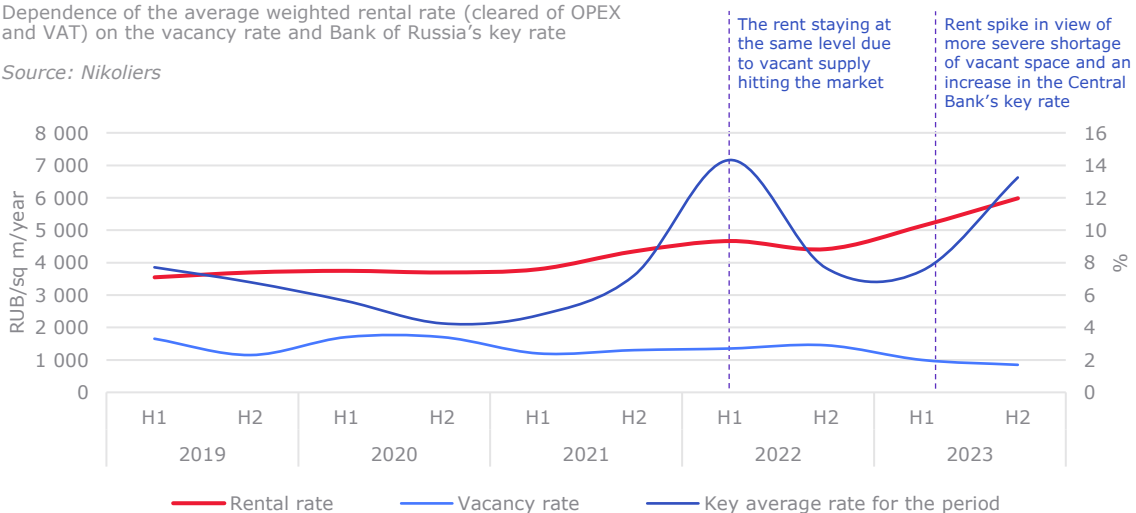
hand, may contribute to stabilization of prices for construction materials.

The USD/RUB exchange rate, which reached RUB 85.4/USD in 2023, affects Russia's international trade in overseas markets, leading to an imbalance between imports and exports. The expected weakening of the exchange rate in 2024 to RUB 92 per USD will put extra pressure on retail and hence on the industrial real estate market.

Chart 1

Dependence of the average weighted rental rate (cleared of OPEX and VAT) on the vacancy rate and Bank of Russia's key rate

Source: Nikoliers



Key market indicators

Table 2
Key market indicators

Source: Nikoliers

	2021	2022	2023
Total supply, thou sq m	11,535	12,155	13,261
Completions, thou sq m	1,113	620	1,106
Total take-up, thou sq m	1,193	728	2,289
Vacancy rate, %	2.6%	2.9%	1.7%
Rental rate, RUB/sq m/year*	4,350	4,420	5,990

*Exclusive of OPEX and VAT (20%); weighted average rent for ready-to-use dry warehouses

In 2023, the industrial real estate market in Russia's regions was characterized by robust demand across the entire country.

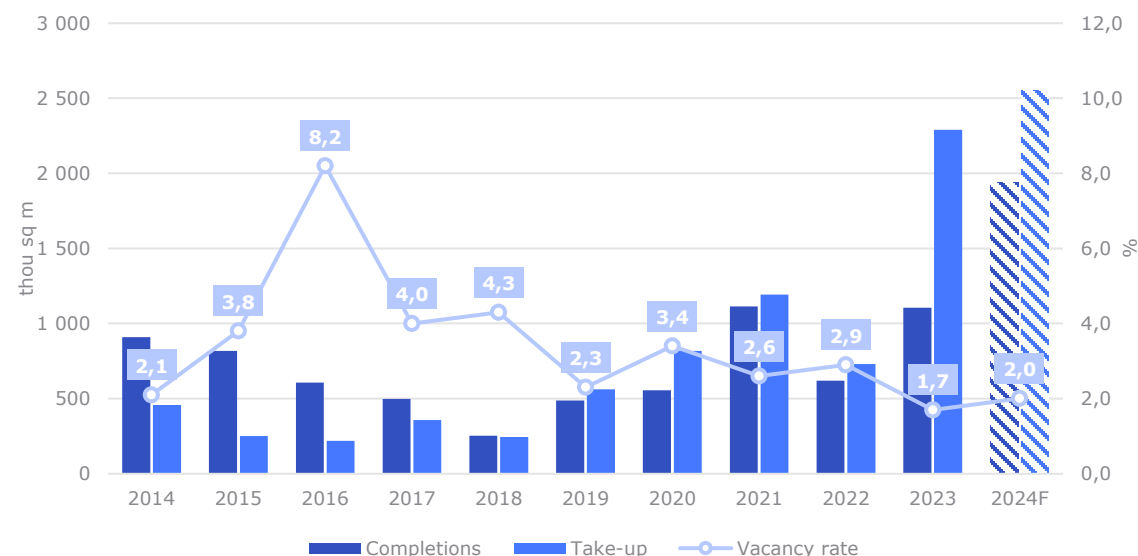
This trend was driven by the e-commerce sector, which, in response to a relative lull in business activity in 2022, began to actively enter into BTS deals, expanding its warehousing capacity in many regions of the country. By the end of the year, the market set a new record in terms of demand that reaches 2,289,000 sq m.

The phase of intensive storage space absorption resulted in the vacancy rate falling by 1.2 p.p. to 1.7%. This, in turn, pushed up rental rates [to the level of 6,000 rubles/sq m/year.

Nevertheless, the pace of speculative projects hitting the market and the fact that key developers are overstretched remain the limiting factors hampering full satisfaction of market players' needs. In this regard, a high level of activity is expected to continue in 2024 in concluding new BTS deals for large grocery chains and marketplaces, which are aimed at providing companies with warehouses that fully meet their requirements and demands.

Chart 2
Dynamics of key market indicators

Source: Nikoliers



Supply

As of the end of 2023, the commissioned warehousing space amounted to 1,106,000 sq m, which exceeded the result for 2022 by 78%. Thus, the industrial space supply in the Russian regions crossed the 13-million-sqm mark.

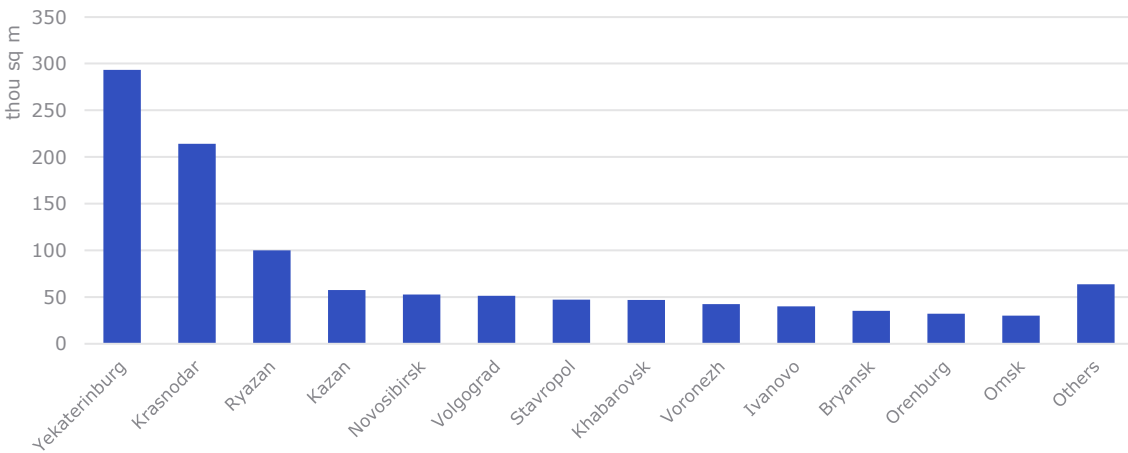
Standing out among the new storage facilities are the 67,000-sqm Fix Price distribution centre on the territory of the warehouse complex PNK Park Sibirsky Tract, as well as the 53,000-sqm Ozon sorting center on the territory of logopark Koltsovsky.

The leading cities in terms of commissioned industrial space are Yekaterinburg (293,000 sq m), Krasnodar (214,000 sq m) and Ryazan (100,000 sq m).

Chart 3

Geographical distribution of warehouse and industrial facilities commissioned in 2023

Source: Nikoliers



The share of the regional market in the distribution of industrial real estate commissioned in Russia amounted to 38%. In terms of new supply, build-to-suit facilities (BTS) prevail, accounting for 72%, or 796,000 sq m.

In 2024, the maximum commissioning of newly built industrial space is expected at the level of 1,900,000 sq m, which is caused by the completion of construction on a number of distribution centres for e-commerce players – Ozon and Wildberries.

Today online retailers are the key drivers of the market – the total floor area of existing and future storage facilities of marketplaces exceeds 11 million sq m. There is an aggressive expansion of e-commerce companies and grocery chains throughout Russia as they strive to widen their footprint across the entire country.

Chart 4

Speculative and BTS construction

Source: Nikoliers

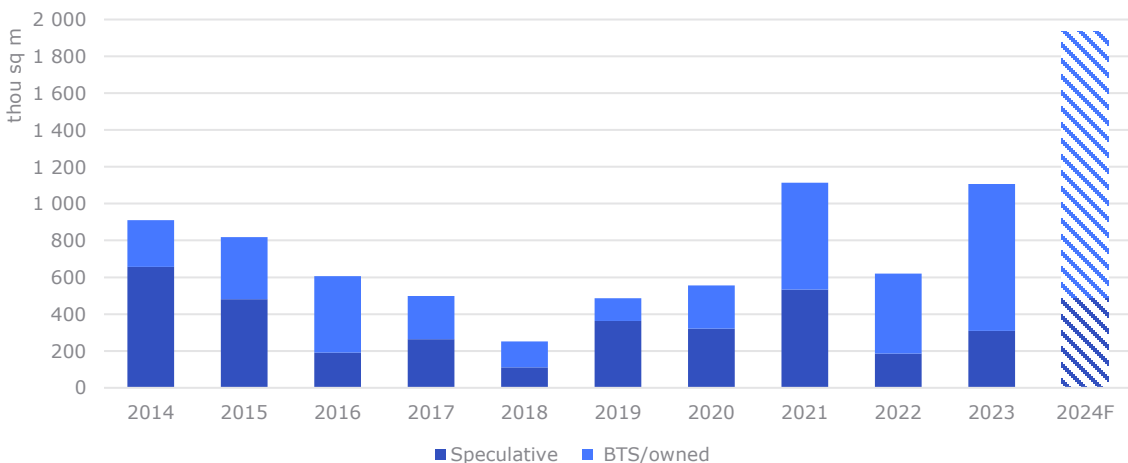
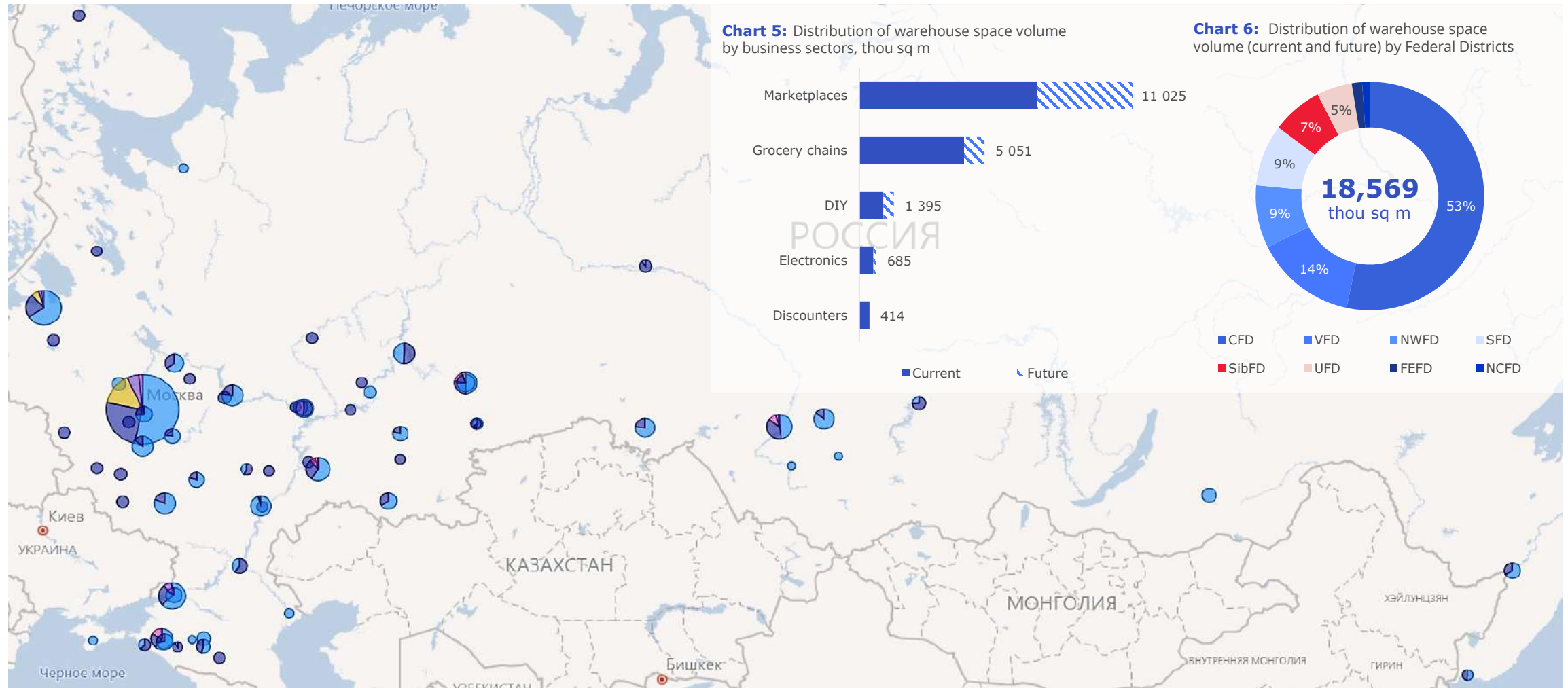


Figure 1
Distribution of current and future warehouse capacities of key retailers in Russia



● Marketplaces ● Grocery chains ● DIY ● Electronics ● Discounters

Source: Nikoliers

Storage space per capita

At the moment, the highest per capita storage space can be found in million-plus cities (excluding Moscow and Saint Petersburg), such as Yekaterinburg (1,404 sq m per 1,000 residents), Rostov-on-Don (1,057 sq m per thousand residents) and Novosibirsk (965 sq m).

The highest growth rates in per capita storage space year-on-year were demonstrated by cities like Krasnodar (59%), followed by Yekaterinburg (30%). Meanwhile, there is an increase in the indicator by 20-26% in cities such as Samara, Omsk and Kazan. Ufa and Krasnoyarsk showed negative dynamics, which is caused by extremely low figures of newly commissioned industrial space in those places, which do not keep pace with population growth.

Table 3
Comparing million-plus cities in terms of quality industrial real estate per capita

Source: Nikoliers

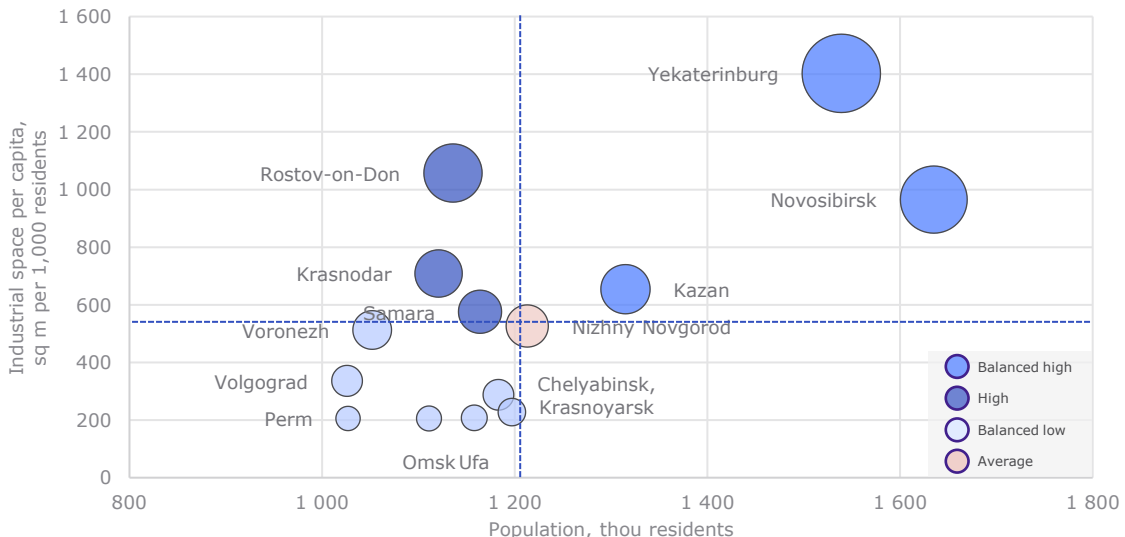
City	Population, thou residents	Per capita industrial space, sq m per 1,000 residents	Total supply, thou sq m
Moscow	13,104	1,771	23,201
Yekaterinburg	1,539	1,404	2,160
Rostov-on-Don	1,136	1,057	1,201
Novosibirsk	1,635	965	1,578
Saint Petersburg	5,598	848	4,748
Krasnodar	1,121	708	794
Kazan	1,315	654	860
Samara	1,164	576	670
Nizhny Novgorod	1,213	526	638
Voronezh	1,052	512	539
Volgograd	1,026	336	345
Chelyabinsk	1,183	287	340
Krasnoyarsk	1,197	227	272
Ufa	1,158	207	240
Perm	1,027	205	211
Omsk	1,111	205	228

The cities maintaining a perfect balance include Yekaterinburg, Novosibirsk and Kazan. In the meantime, Nizhny Novgorod of all the cities we analyzed demonstrates the best balance, which means that the population and supply are at a relatively average level.

In the future, the regional indicator of per capita storage space is expected to increase due to several factors, of which the key ones are the further entry of classic and online retailers into the regions, as well as the adaptation of players to changes in logistics.

Chart 7
Comparing million-plus cities in terms of per capita industrial space (the circle size corresponds with the amount of supply)*

Source: Nikoliers



*The degree of balance is calculated relative to the aggregate average indicators for million-plus cities.

Demand

In 2023, the total demand for industrial real estate in Russia’s regions reached a historical record of 2,289,000 sq m, which is twice as high as the previous highest level recorded in 2021. In 2024, the demand is expected to grow further to 2.5 million sq m.

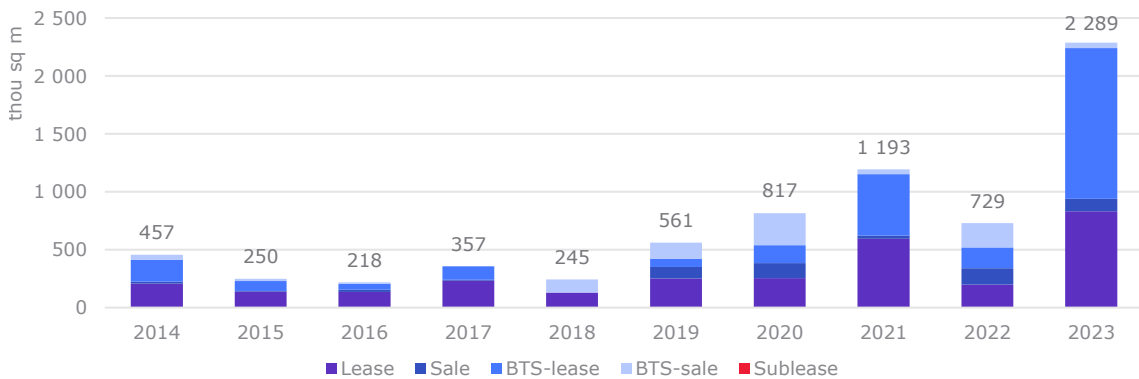
Such an impressive surge is due to the high business activity of marketplaces. Online-retailers, desperate for quality vacant storage space on offer, are increasingly often turning to the build-to-suit scheme, which, among other things, allows them to meet specific customer requirements. Thus, the share of BTS transactions concluded stood at 59% in 2023 – more than 1,349,000 sq m.

The largest recorded lease and sale transactions took place in cities such as Kazan (280,000 sq m), Nizhny Novgorod (232,000 sq m) and Yaroslavl (157,000 sq m).

Chart 8

Breakdown of demand by transaction types

Source: Nikoliers



More than half of the demand (64%) in Russian regions comes from e-commerce. Grocery chains (25%) also continue to actively build up their warehousing capacity. Distributors, manufacturing and logistics companies together accounted for 12% of the demand.

Chart 9

Breakdown of leased and purchased areas by sectors

Source: Nikoliers

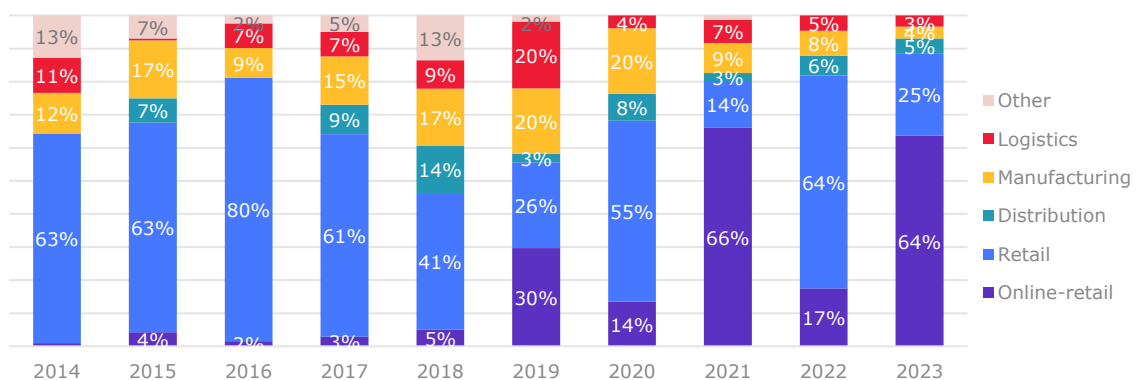
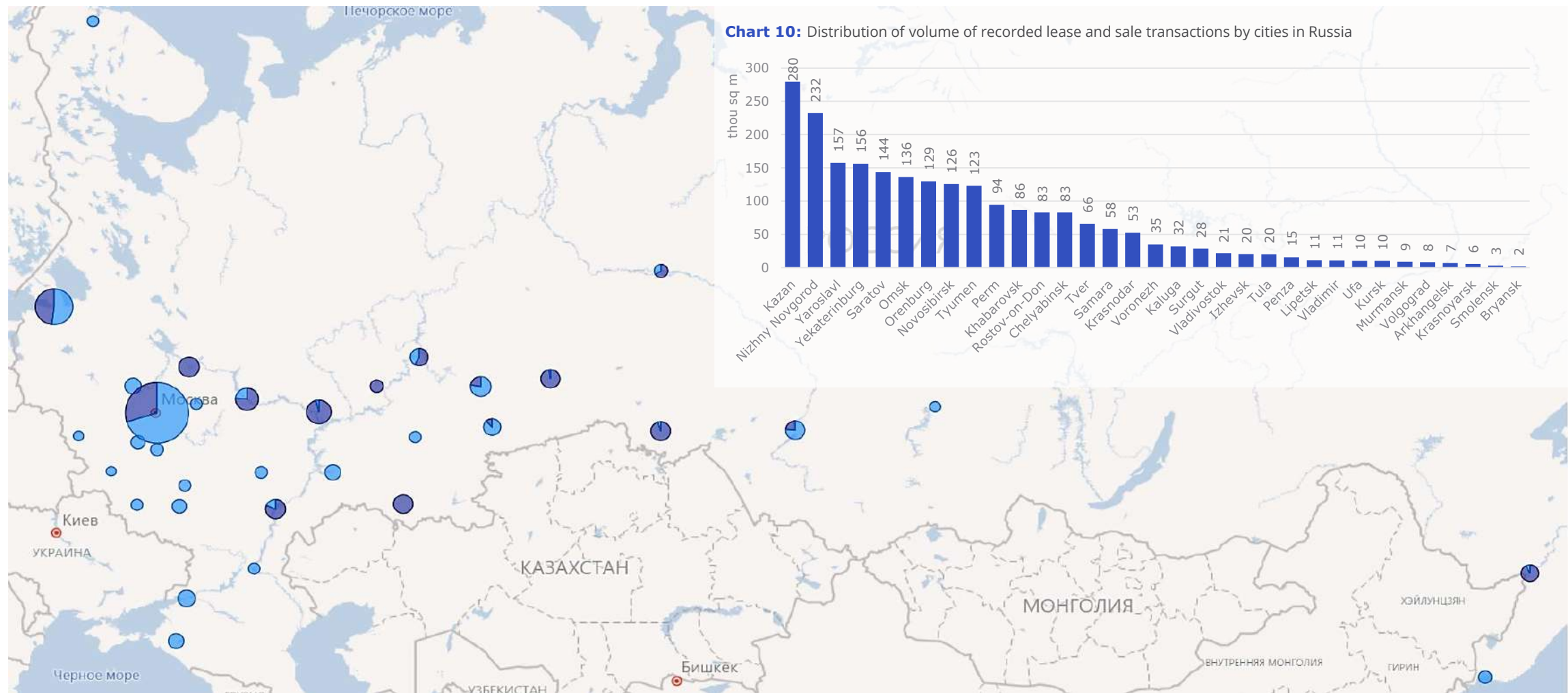


Table 4

Key deals closed in Russia’s regions in 2023

Company	Sector	Deal type	Size, sq m	Property name
Ozon	Online-retail	BTS-lease	157,450	IP MBM Yaroslavl
Ozon	Online-retail	BTS-lease	146,580	IP Kazan
Ozon	Online-retail	BTS-lease	117,450	LP PFO Omsk
Ozon	Online-retail	BTS-lease	117,450	LP PFO Orenburg
X5 Retail Group	Retail	BTS-lease	55,020	LP PFO Perm

Figure 2
Distribution of volume of recorded lease and sale transactions (speculative and BTS) by cities in Russia



● Speculative ● BTS

Source: Nikoliers

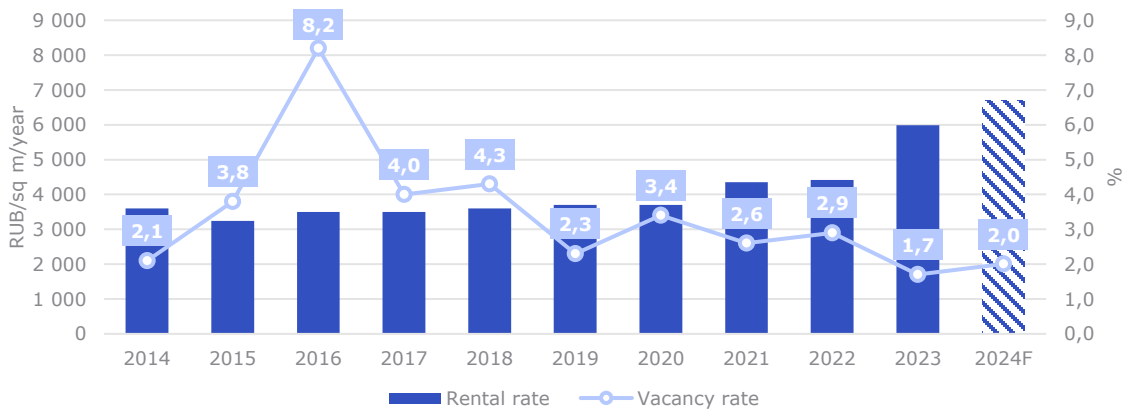
Vacancies and rental rates

Versus the end of 2022, the weighted average rental rate (excluding OPEX and VAT) grew by 35% and stabilized at the level of RUB 6,000/sq m/year, which is largely due to a sharp decrease in the vacancy rate by 1.2 p.p. to 1.7%. In 2024, the rental rate is predicted to further increase up to 6,500-7,000 rubles/sq m/year.

Russia’s regional industrial real estate market is crippled by an extreme shortage of ready-to-use vacant Class A warehouses, given that the main bulk of vacant space is concentrated in lower quality Class B/B+ facilities.

Chart 11
Dynamics of vacancy and rental rates

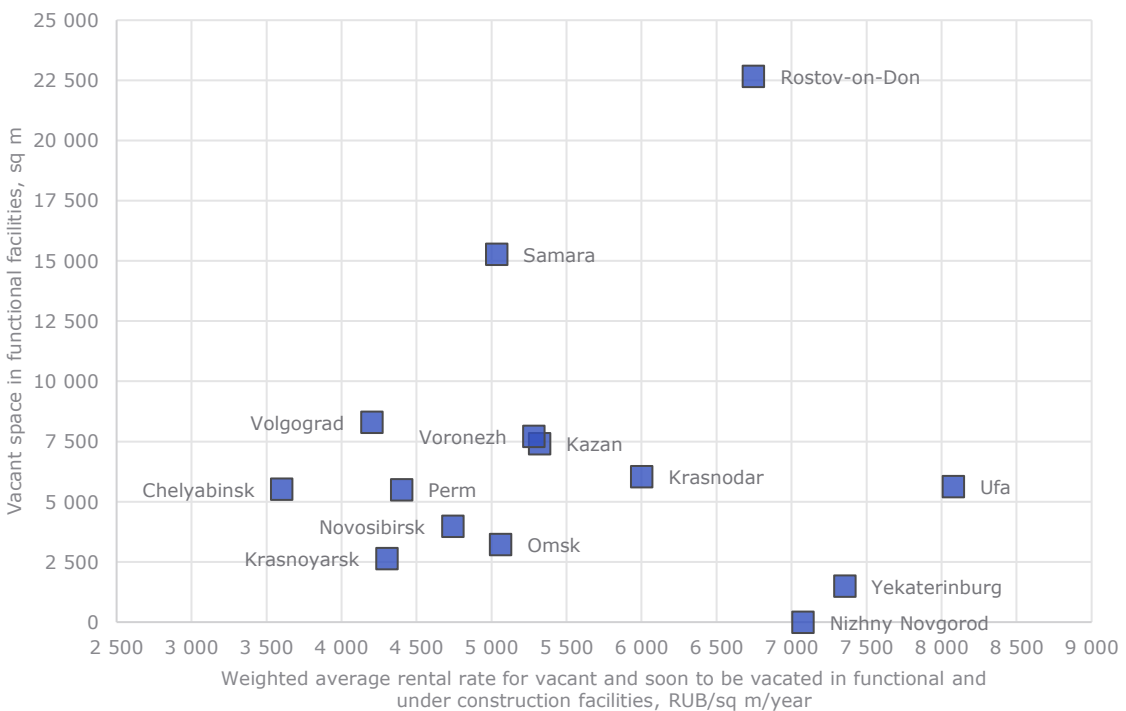
Source: Nikoliers



A thorough review of vacant space indicators reveals that there are practically no vacant functional warehouse units in cities such as Nizhny Novgorod, Yekaterinburg, Krasnoyarsk and Omsk. Weighted average rental rates in vacant and soon to be vacated units in the commissioned and under construction warehouses in Ufa, Nizhny Novgorod and Yekaterinburg already exceed the 7,000 rubles/sq m/year mark.

Chart 12
Distribution of vacant space available in ready-to-use warehouses and the weighted average rental rates for vacant or soon to be vacated units in existing and under construction facilities

Source: Nikoliers



Industrial real estate investment market

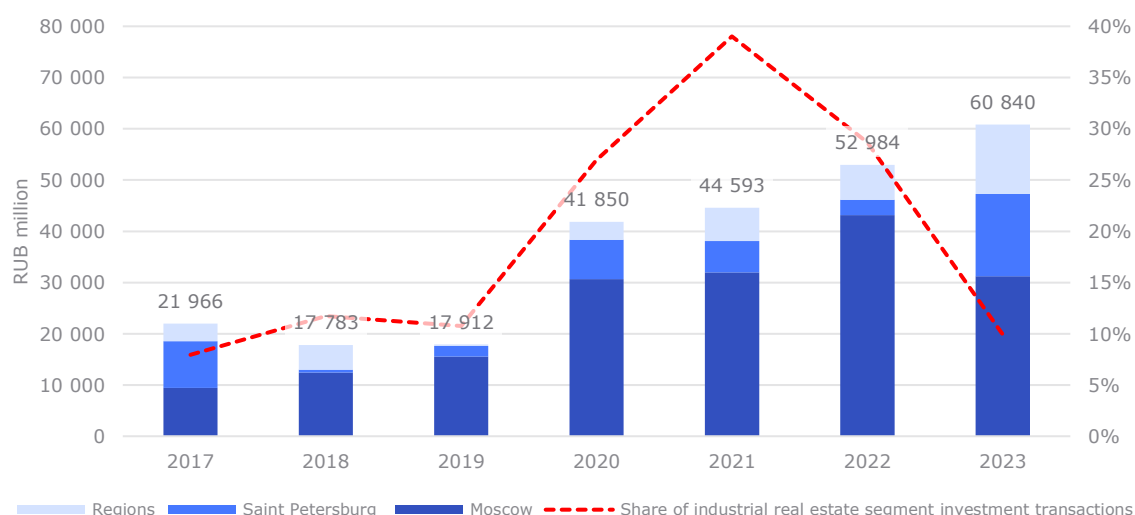
Based on the results for 2023, the level of investment in the industrial real estate of Russia reached RUB 61 billion, up 15% year-on-year. Storage facilities in the regions accounted for more than 22% of investment.

The trend of attracting collective investments in high-quality warehouse facilities is gathering momentum. Amid the high tenant demand, supply shortages and rising interest rates, funds offer attractive returns to private equity investors, including individuals. Mutual investment fund managers are vigorously looking for investment-grade assets; these are mainly high-quality speculative facilities generating a stable rental income, as well as projects intended for federal retail chains, marketplaces and logistics companies.

Chart 13

Dynamics of industrial real estate investment volume and the share of warehouse segment investment transactions in total commercial real estate investment*

Source: Nikoliers



*The investment volume does not include transactions with development land and industrial sites.

Table 4

Key industrial real estate investment deals in Russia, closed in 2023

Source: Nikoliers

Property name	Region	Size, sq m
FM Logistic in Dmitrov	Moscow region	120,000
DC Orientir OZON	Saint Petersburg	117,000
LC Trilogy Park Tomilino	Moscow	108,000
A portfolio of assets within PNK Park Valishchevo and PNK Park Shushary	Moscow, Saint Petersburg	65,000
LC Shosseynaya	Moscow	35,000
FC Kazan Express	Kazan	30,000



Trends and forecast

Cities with population below one million are getting keener on warehouses

As a result of the 2023 review, we can note an increase in demand for industrial real estate in cities with a population of less than one million, which has reached approximately 900,000 sq m, or about 40% of the total demand on the regional industrial real estate market.

A significant incentive for tenant companies was the desire to reach a wider audience and optimize logistics processes in the regions. In this context, marketplaces such as Ozon and Wildberries play a key role in shaping demand for warehousing even in relatively thinly populated places. Given that these companies aggressively expand their network of logistics hubs in many regions, this creates a high demand for high-quality warehouse space.

Persistent scarcity of vacant storage space in key regional logistics hubs

The shortage of vacant warehousing capacity in key regional logistics hubs is forecast to persist.

The given scarcity is due to low levels of speculative space commissioning under high absorption rates. However, a gradual change in this situation is expected in the future. As new fulfillment and distribution centers of marketplaces are commissioned in sufficient amounts, part of the space they currently occupy may gradually enter the rental market.

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The industrial real estate market is still in the stage of rapid growth, steadily following in the footsteps of booming retail and e-commerce in the country.

At present, there is a significant shortage of vacant space, as storage space per capita in Russia is below the indicators typical of the economies in Eastern and Western Europe.

It is becoming evident that market participants across Russia are in need of additional warehousing capacity. In response, real estate consultancies are ready to provide high-quality support for developers and consumers, offering them the most optimal solutions at a high professional level.



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