

Q1 2024

# Warehouse and Industrial Market

Russia | Moscow

## Macroeconomic situation

### Key market macroeconomic indicators

Source: Bank of Russia

	2022	2023	2024F	2025F	2026F
<b>GDP</b> (%, y/y)	-1.2	3.6	1.8	1.5	1.5
<b>CPI</b> (% Dec. vs. Dec. last year)	11.9	7.4	5.2	4.1	4.0
<b>Key interest rate</b> (% per annum, year's average)	10.6	9.9	14.5	9.4	7.5
<b>USD/RUB exchange rate</b> (RUB per USD, year's average)	67.4	85.2	91.2	93.8	95.0
<b>Unemployment rate</b> (%, Dec.)	3.6	3.0	3.0	3.1	3.2
<b>Export of goods and services</b> (USD billion per year)	641	465	472	489	490
<b>Import of goods and services</b> (USD billion per year)	347	379	384	397	408
<b>Brent oil price</b> (USD per barrel, year's average)	99	82	80	78	75

Maintaining the CBR key rate at 16% continues to keep the cost of project financing at a high level, which affects both the rates of building warehouse facilities and the decisions to build them. This, in turn, affects the quotation of rental rates, making them less affordable for potential consumers.

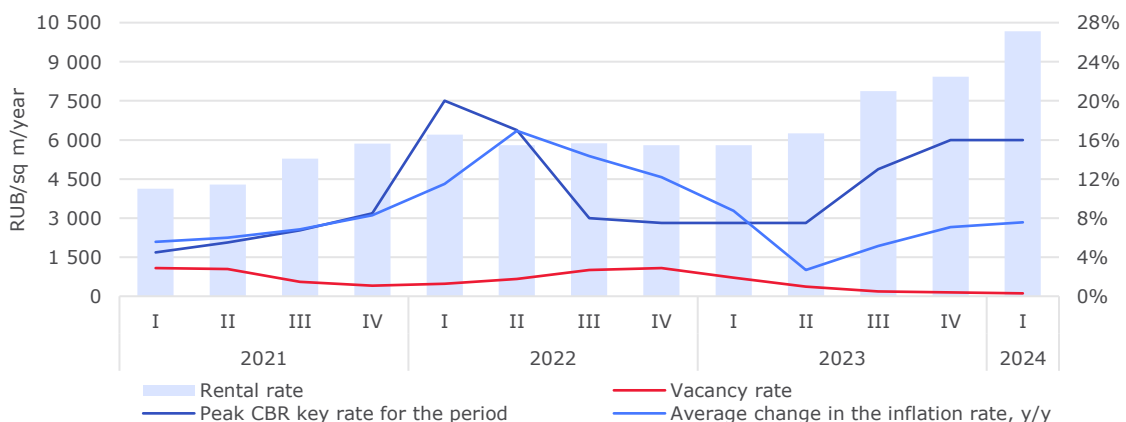
In the second half of this year, a slight decrease in the key rate of the Central Bank is expected, even though it will presumably remain at a relatively high level.

Accumulated inflationary pressures from previous years, as well as growth restraining factors in 2022, led to a marked leap in rental rates in 2023 amid record demand and near-zero vacancy.

The expected downward adjustment of the CPI to 5.2% this year will help stabilize operating prices and owner costs, and will also increase the likelihood of a reduction in the Bank of Russia's key rate by year-end. More affordable debt financing terms and continued growth of rental rates may boost development activity.

### Correlation of weighted average rental rate (excluding OPEX and VAT), vacancy rate, key interest rate and inflation

Source: Nikoliers



## Key market indicators

Source: Nikoliers

	2022	2023	Q1 2024	2024F
Total supply, thou sq m	21,862	23,303	23,618	25,692
Completions, thou sq m	1,675	1,441	315	2,389
Total take-up, thou sq m	1,352	3,283	275	2,953
Vacancy rate, %	2.9	0.4	0.3	0.1
Rental rate, RUB/sq m/year*	5,800	8,425	10,175	10,770

\*Here and henceforth the weighted average rental rate for ready-to-use dry warehouses, excluding OPEX and VAT, is quoted.

The industrial real estate market of the Moscow area is still affected by an acute imbalance of supply and demand and at the moment is definitely characterized as a landlord’s market.

Due to the robust absorption of storage space that outpaces the rate of commissioning of new facilities, the segment is crippled by a significant shortage of vacant premises. Only about 0.3% of the 23.6 million sq m of total quality supply is vacant, which in absolute terms is equivalent to 63,000 sq m. The given factor, in its turn, propelled the rent to new highs beyond the “psychological mark” of 10,000 RUB/sq m/year, which is a new historical maximum for the market.

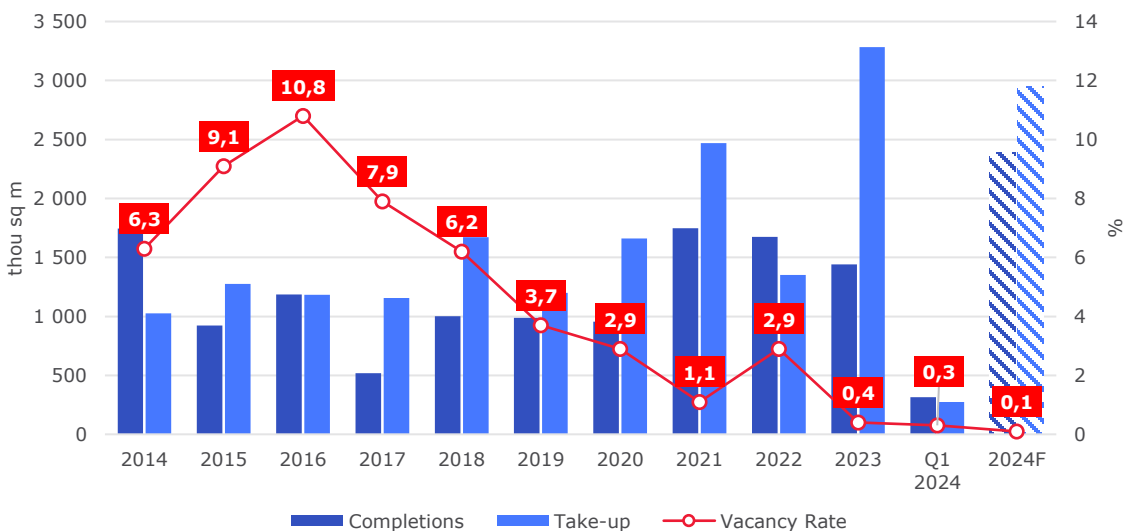
The new space commissioning is comparable with the level of this index for the same period of the

previous year – 315,000 sq m. However, this level of new supply is still insufficient to change the situation on the market. Furthermore, a considerable share of speculative premises had been contracted before their commissioning.

Taking into account the dynamics of demand and low vacancy rate in newly commissioned facilities, there is every reason to believe that by the end of 2024 the situation will not change drastically. It is forecasted that the rental rate will keep on climbing while the competition for vacant premises will get tougher.

### Dynamics of key market indicators

Source: Nikoliers



## Supply

In Q1 2024, total supply in the Moscow warehouse estate market has increased by 315,400 sq m. It is noteworthy that 75% of the commissioned space (237,000 sq m) are light industrial facilities. Keen interest in this segment persisted throughout the previous year, as more and more new industrial and residential developers kept entering it.

Among the largest projects brought out to the market, we can mention two phases of the industrial park Vesna RBNA (42 and 32 thou sq m) in Domodedovo, 14 km off the Moscow Ring Road. If we consider the classic big-box format, we can mention a project by Parametr in Butovo Industrial Park (26,000 sq m) and Likhachevsky warehouse complex (20,000 sq m).

### Speculative and BTS construction

Source: Nikoliers

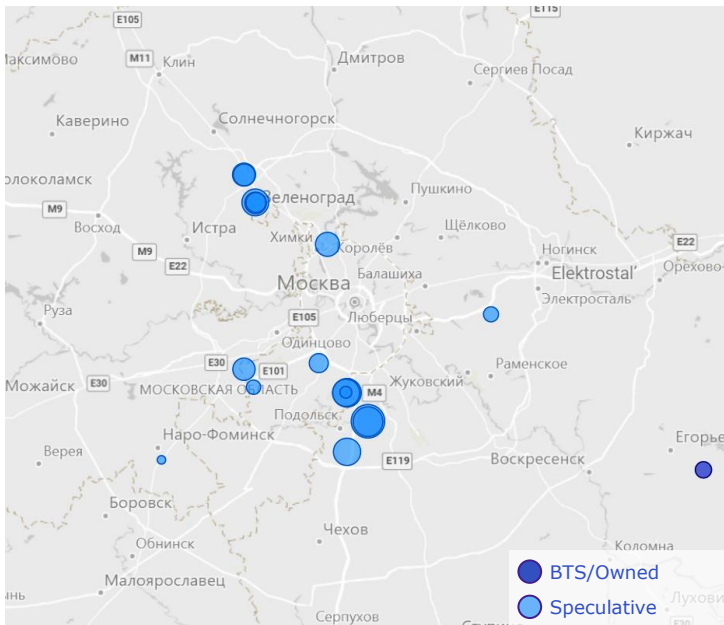


Half of the commissioned facilities (51%) are geographically located in the southern part of the Moscow area and more than a quarter (28%) along the north-western route. Practically all new warehouses are speculative developments (97%).

There is a growing interest in speculative development, but the high key rate is a limiting factor for a number of developers making them hesitant to launch their projects.

### Breakdown of storage facilities commissioned in 2024

Source: Nikoliers



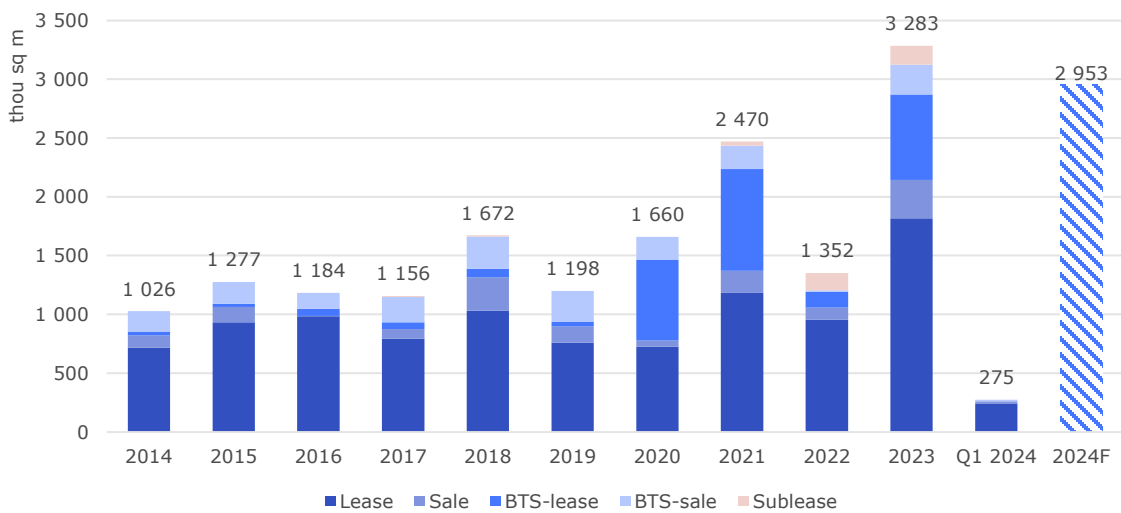
## Demand

In the initial three months of 2024, lease and sale transactions totaled to 275,000 sq m, which is almost two times less than for the first quarter of last year. The reason for such an impressive decline was not a reduction in demand from consumers, but, on the contrary, catastrophic difficulty of satisfying it. Last year there were many attractive options, which were quickly absorbed on the market at rental rates almost twice lower than the current rate. Today, the situation is radically different: if you manage to find a suitable warehouse unit, you first have to win the competition for it, not infrequently with the use of an auction approach, which certainly affects the behavior of players with insufficiently large financial resources at their disposal.

The average size of a speculative transaction, due to the limited availability of large units, amounted to 6,800 sq m, and the size of more than 70% of the recorded transactions was less than 10,000 sq m.

### Breakdown of demand by types of transactions

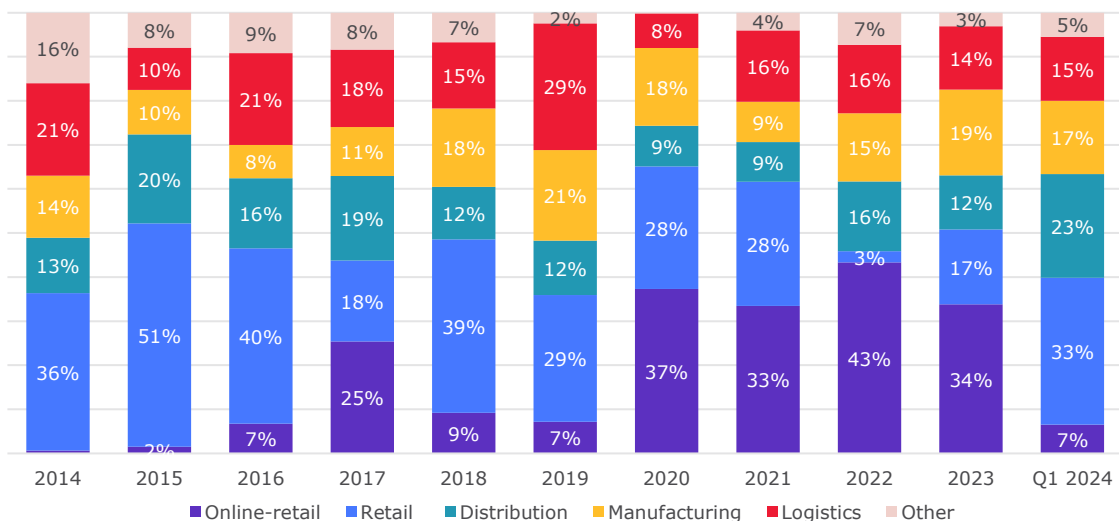
Source: Nikoliers



Representatives of e-commerce did not show high business activity on the Moscow warehouse market over the quarter, with a share of 7% of the total demand. Grocery chains significantly increased their warehousing capacity, becoming the leader in the distribution of leased and purchased space by sector – 33%. By the end of 2024, we expect a number of major deals to be closed by marketplaces, which will bring their share of demand to the top of the list.

### Breakdown of rented and bought spaces by industries (sectors)

Source: Nikoliers



## Vacancy

The vacancy rate has not stopped moving on a downward spiral, falling by 0.1 p.p. versus the end of 2023, and does not exceed 0.3% today. Thus, total vacant space, when compared to the peak in 2022, has shrunk tenfold.

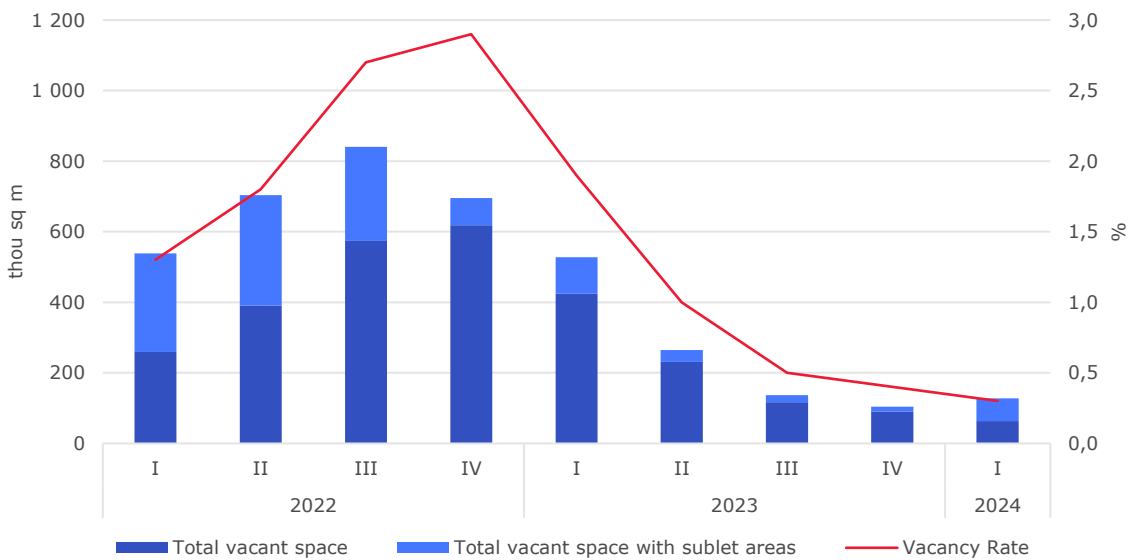
The configuration of the vacant space in direct lease has also changed, as vacant ready to move-in dry warehouse space of class A accounts for only 54% of the 63,000 sq m available, the rest formed by class B and light industrial units. Also, the average size of ready to move-in vacant units for lease has dropped to only 3,000 sq m.

At the same time, there is a sublease offer on the market in quality warehouse facilities, totaling to 65,000 sq m.

In total, about 1.2 million sq m of speculative storage space has been announced for commissioning in 2024, but a considerable part of this space has already been sold, so no noticeable breaking point in the trend of the index under review is anticipated.

### Dynamics of vacant spaces: direct lease and sublease

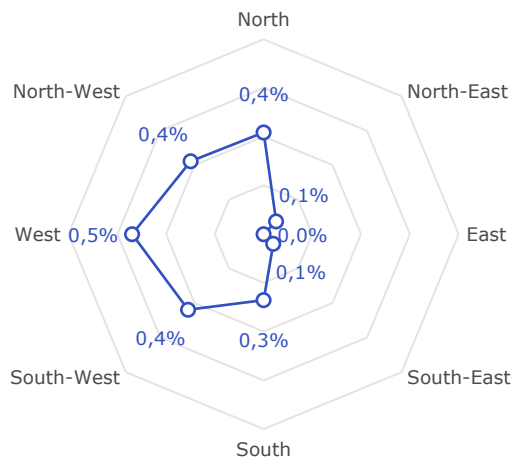
Source: Nikoliers



Along all the routes of the Moscow area the vacancy rate does not exceed 0.5%. The most tangible shortage of vacant space is observed in the east of the Moscow area, which may be caused by limited supply and changes in cargo transportation flows.

### The share of vacant spaces by routes

Source: Nikoliers



## Rental rates

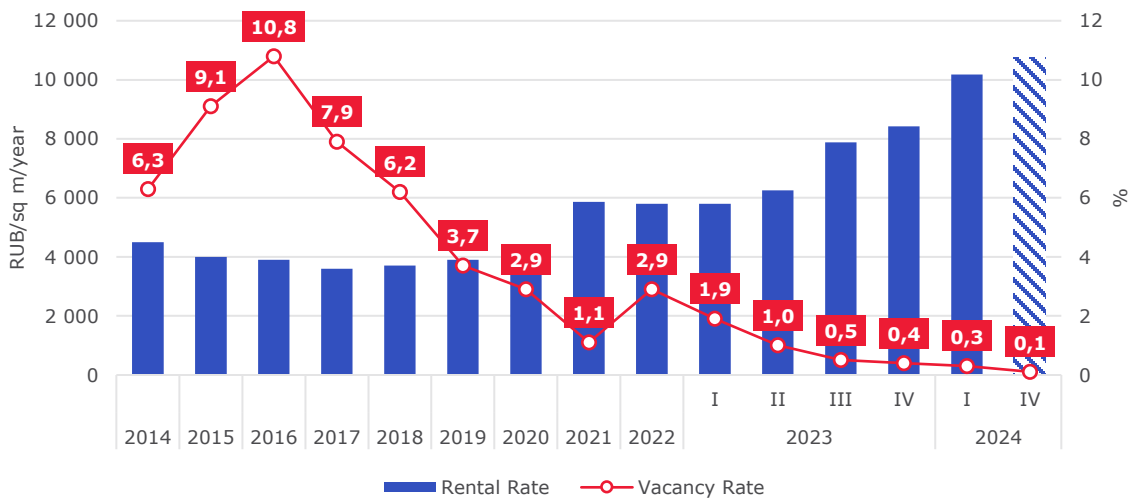
The weighted average base rent in the Moscow warehouse estate market has crossed the psychological barrier of 10,000 RUB/sq m/year and was fixed at the level of 10,175 RUB/sq m/year, showing a 21% growth as compared to the end of 2023. Due to a large number of applicants for attractive units, owners and stakeholders resort to upward auctions, and in some cases the rental rate may increase by 15% or more.

Due to the fact that such a sharp increase in rent is not comparable to the capabilities of some tenants, cases of rotation are becoming more frequent. Some tenants in search of a warehouse that suits their capabilities are willing to downgrade the quality of the facility, or its location and remoteness.

The rental rate is not much lower in projects under construction, which is largely justified by the high costs of developers, caused by project financing, the appreciated cost of construction on warehouse facilities, operating costs, etc., as well as market conditions.

### Vacancy dynamics and rental rates

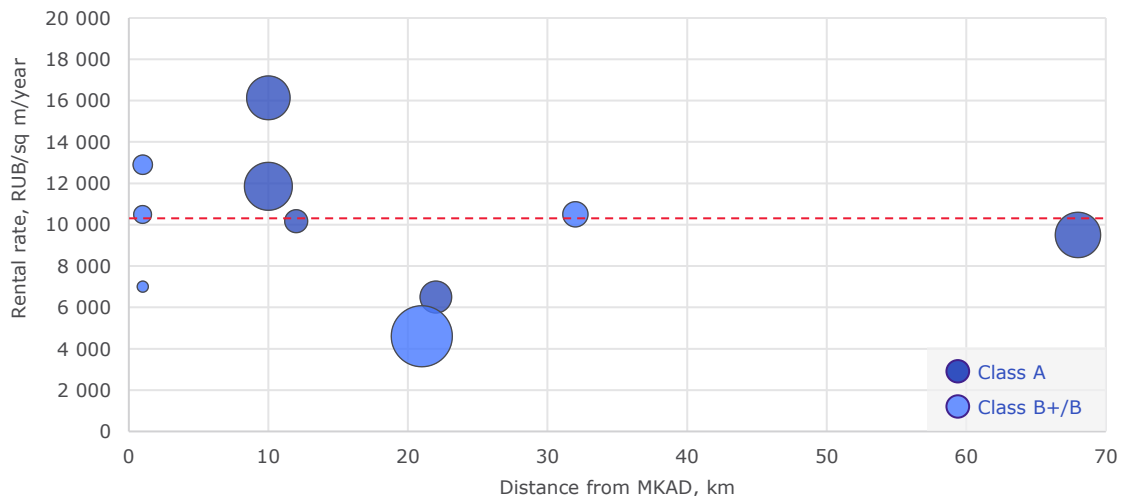
Source: Nikoliers



Depending on the size of the marketed unit, its characteristics and a distance of the facility from the city, the rental rate, excluding OPEX and VAT, varies in the range of 7,000-13,800 RUB/sq m/year for premises at a distance of 10 km or more off the MKAD and 6,500-10,500 RUB/sq m/year for more remote locations. Meanwhile, for some class A warehouses lying at a distance of up to 10 km, base rents are already quoted above 15,000 RUB/sq m/year, which is comparable to the rates for office premises located outside the MKAD.

### Breakdown of the basic weighted average rental rate by distance from MKAD (the circle size reflecting the size of a vacant unit)

Source: Nikoliers





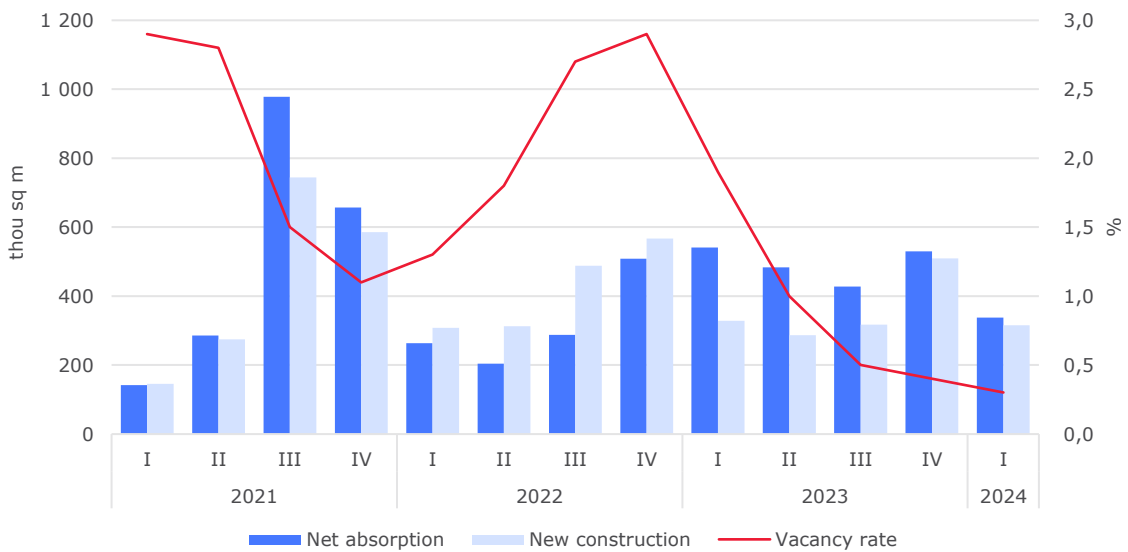
## Net absorption

The net absorption during five quarters outpaces the rates of warehouse space commissioning, which directly affects the share of vacant space. In fact, the market takes more than new space added to it: in total, over the past five quarters, the market has absorbed 563,000 sq m more than it has received.

The reason for the current dynamics of the net absorption index is the realization of pent-up demand accumulated in 2022, when, due to the general state of uncertainty, a large volume of vacant and sublet space hit the market. However, starting in Q3 2023, the gap between the net absorption and new construction has been narrowing, and as of Q1 2024, it has amounted to 22,000 sq m. For comparison, in Q1 2023 the gap between the net absorption and the aggregate commissioned space amounted to 212,000 sq m.

### Dynamics of net absorption volumes, new construction volumes and the level of vacant space

Source: Nikoliers

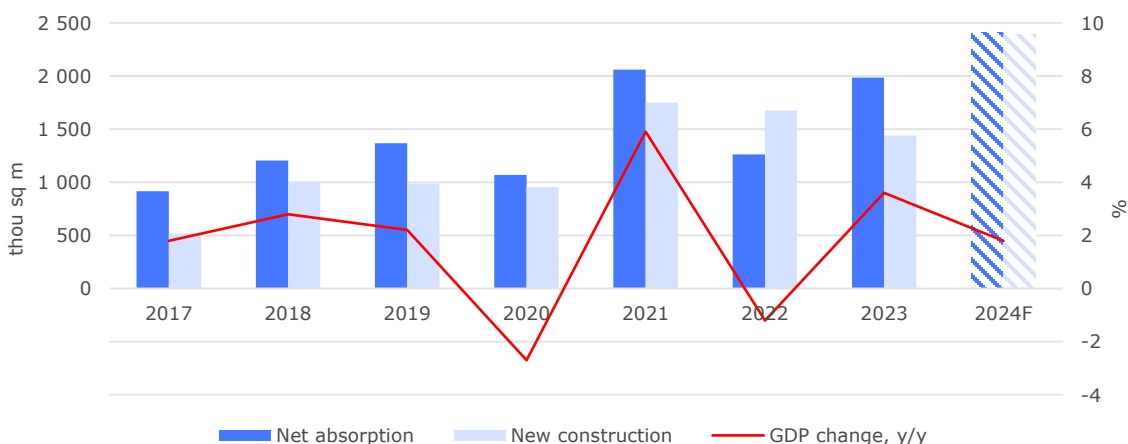


Absorption rates are expected to continue outpacing the commissioning rates, but not as significantly as last year due to the limited amount of available space at the moment.

Meanwhile, there is a correlation between the dynamics of net absorption and changes in GDP: with positive GDP dynamics the net absorption is growing, but when this index falls below zero mark the net absorption is sinking. Taking into account the current forecast from the Bank of Russia on GDP dynamics, business activity will remain at a high level similar to what we saw in 2023.

### Dynamics of net annual absorption and change in GDP

Source: Nikoliers, Bank of Russia





## Light industrial market

### Key market indicators

Source: Bank of Russia

Existing quality supply	Share of total storage space supply	Vacancy rate	Weighted average rental rate* RUB/sq m/year	Selling price** RUB/sq m
615,000 sq m	2.6%	8.4%	12,480	103,215

\*Exclusive of OPEX and VAT (20%) – ready to move-in and under-construction projects

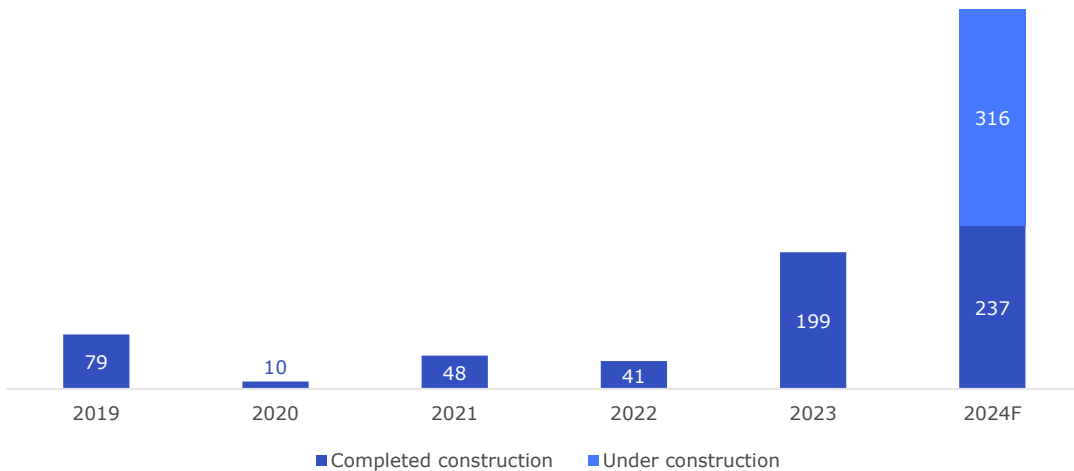
\*\*Exclusive of VAT (20%) – ready to move-in and under-construction projects

During the initial three months of 2024, the light industrial market in the Moscow area has trumped the total space commissioned in this format for the entire 2023: in Q1 2024 more than 237,000 sq m of LI premises have been commissioned. Thus, the total LI supply amounts to 615,000 sq m or 2.6% of the total warehousing space supply in Moscow.

The total commissioning in 2024 may reach 553,000 sq m, which is 2.8 times more than in the previous year. The vacancy rate dropped by 2.6 p.p. over the quarter and to 8.4% at present.

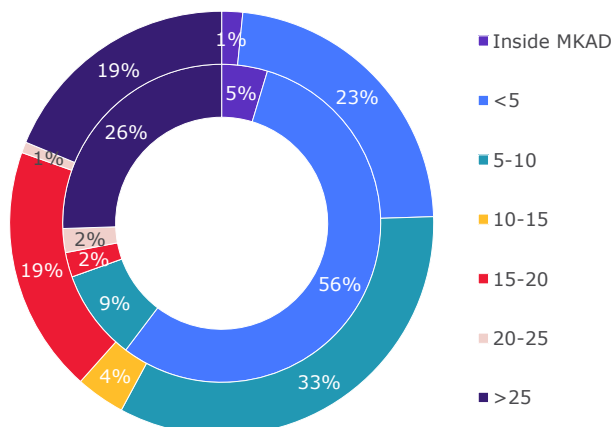
### Volumes of new construction on light industrial facilities

Source: Nikoliers



### Breakdown of supply by a distance from MKAD, 2023 (inner circle) / 2024 (outer circle)

Source: Nikoliers

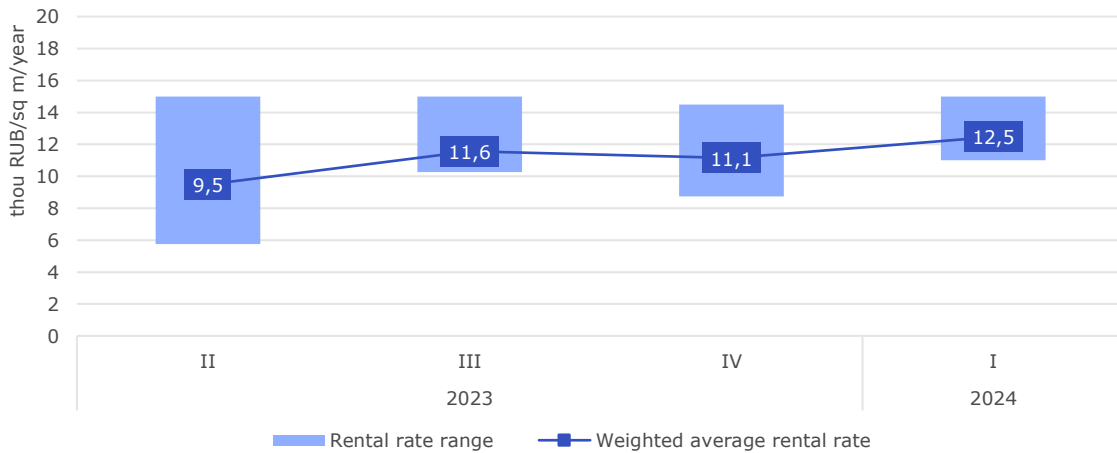


The weighted average base rent for ready and under construction facilities in the light industrial segment has gone up 12% to 12,480 RUB/sq m/year, with properties located at a distance within 20 km off MKAD showing the highest rental rates due to higher technical requirements for these premises and configuration of units, as well as a higher stage of project readiness.

The weighted average selling price (exclusive of VAT) stands at 103,215 RUB/sq m, but there are also offers with the price tag of up to 200,000 RUB/sq m, this price being justified by the proximity of these facilities to the MKAD.

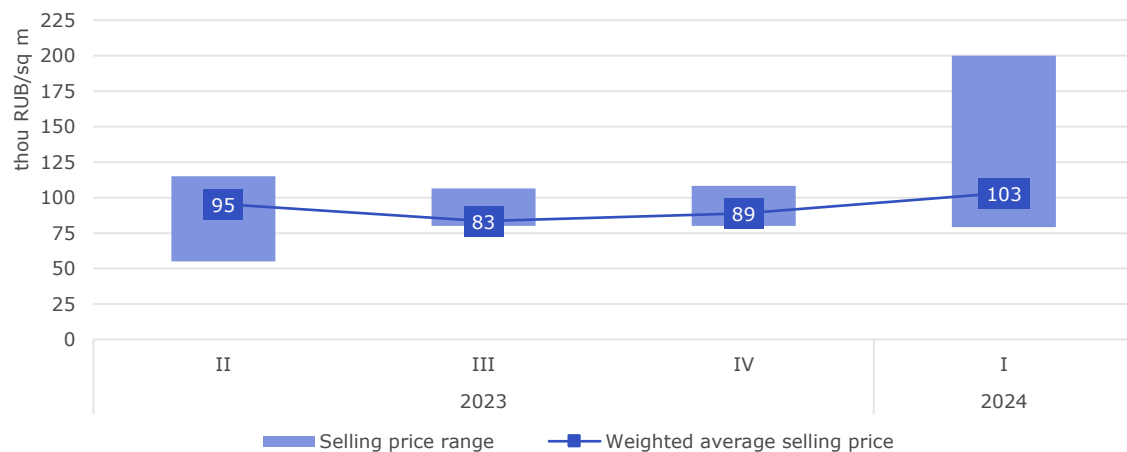
**The range of rental rates in light industrial facilities\***

Source: Nikoliers



**The range of selling prices in light industrial facilities\*\***

Source: Nikoliers



**Breakdown of rental rates and selling prices of light industrial facilities relative to their remoteness from MKAD**

Source: Nikoliers

	Under 10 km	10–20 km	20 km and more
Asked rental rate*, RUB/sq m/year	11,500	12,120	12,965
Selling price**, RUB/sq m	200,000	98,970	107,950

\*Excluding OPEX and VAT (20%) – ready to move-in and under-construction projects  
 \*\*Excluding VAT (20%) – ready to move-in and under-construction projects



## Trends and forecast

### Renegotiation of warehouse space lease agreements stepping up

There is a trend in the warehouse estate sector to renegotiate previously signed leases with a subsequent appreciation of rental rates. This is largely due to the shortage of storage space, which strengthens the position of landowners.

The latter are taking a tougher stance in revising the lease terms, increasing rental rates in order to adapt to changing market conditions and ensure the sustainability of their investments.

The revision of lease terms is driven not only by a shortage of storage space supply, but also by increased costs for property owners.

Rising rentals help property owners cope with rising operating costs and thus ensure stable income from their assets.

### Using alternative strategies to meet the needs for warehouses

The shortage of available warehouse space on the Moscow market challenges market players to react more flexibly to changing conditions.

The lack of ready vacant units, especially large ones, forces tenants to maximize the efficiency of using the already available resources. To meet their specific needs for large spaces, tenants are turning to various strategies, including turnkey build-to-suit construction (BTS) projects, in-house construction, or leasing space in off-plan projects.

In addition, an alternative solution to finding storage space comes down to utilizing other types of real estate for warehousing needs, which allows tenants to realize their business needs quickly and efficiently. The news about Megamarket's agreement to lease former IKEA stores for the purpose of their transformation into warehouses to meet the needs of its fulfillment partners is one of such case studies.

This kind of strategies allow tenants to get adapted to market conditions and to ensure the consistency of their operations.

### Boosting the automation of warehousing processes in the midst of staff shortages

This trend reflects the vibrant search for warehousing automation solutions by the largest warehouse consumers, such as marketplaces and grocery chains. The staffing bottleneck caused by the lack of qualified specialists encourages some companies to intensively implement modern technologies such as robotization, digitalization and automation of warehousing processes.

Such innovations make it possible for them to reduce their dependence on the human factor in warehousing operations, to improve the accuracy and speed of accomplishing their tasks, as well as to enhance the efficiency of warehouse resource utilization. As a result, companies are getting more competitive, minimizing their errors, and reducing labor costs.

In addition, automation and digitalization of warehousing processes enables more flexible and adaptive management of warehousing operations, which is especially important in a rapidly changing market environment.

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# Services



Offices



Industrial



Retail



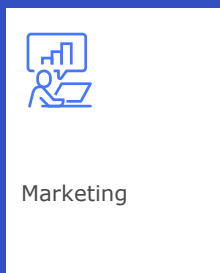
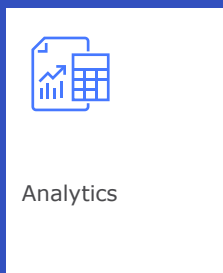
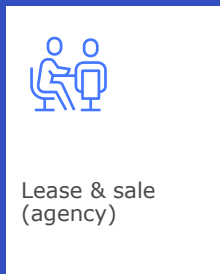
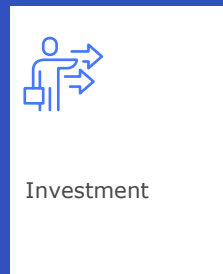
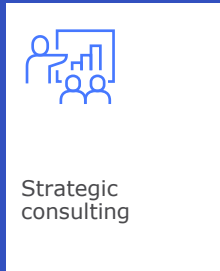
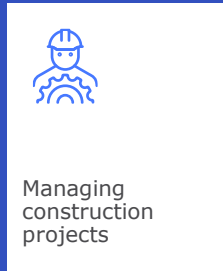
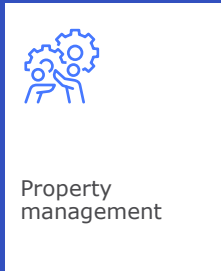
Residential



Hotels



Land plots



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