

Year-end 2023

Warehouse and Industrial Market

Russia | Moscow

Macroeconomic situation

Table 1

Key macroeconomic market indicators

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 in 2023. The gradual increase in the Central Bank's key rate to 16% entailed a higher cost of debt financing, which hobbles the industrial development, pushing rents up and making them less affordable for potential tenants.

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	20,089	21,764	23,201
Completions, thou sq m	1,746	1,675	1,441
Total take-up, thou sq m	2,470	1,352	3,283
Vacancy rate, %	1.1	2.9	0.4
Rental rate, RUB/sq m/year*	5,860	5,800	8,425

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

Last year the industrial real estate market of the Moscow area showed impressive records.

First of all, it should be noted that demand was at its high, having increased 2.4 times versus the previous year, reaching the mark of 3,283,000 sq m. The growth under review is largely due to the realization of pent-up demand, which accumulated as a result of relatively tepid business activity in 2022.

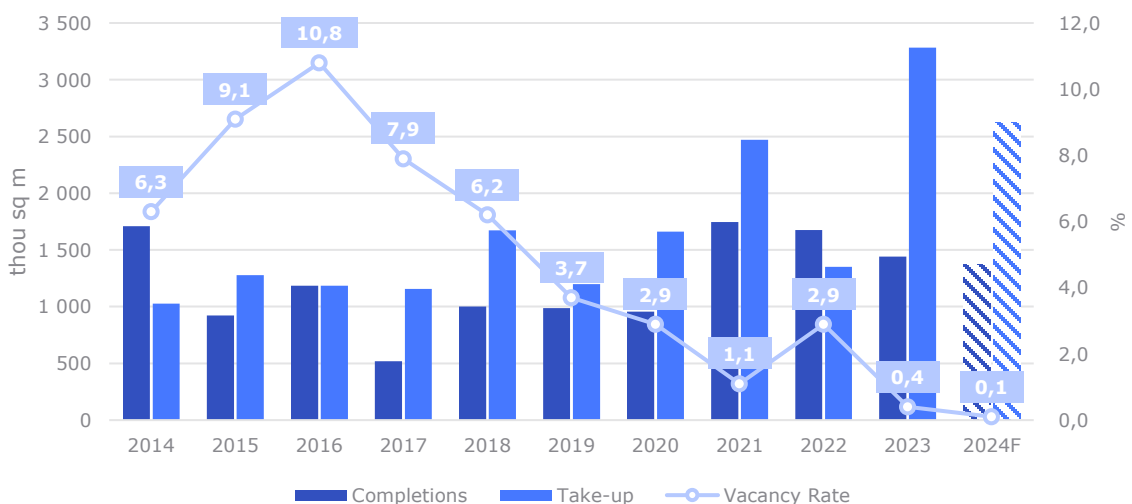
Along with the growth in demand, the market faced a critical shortage of vacant space. The vacant warehouse space fell to the level of 2012 – only 90,000 sq m, which is only 0.4% of the total supply. This factor led to a sharp increase in rental rates, and the weighted average base rate in the Moscow area increased by 45.3%, reaching 8,425 rubles/sq m/year.

The pace of commissioning of new warehouse projects cannot fully meet the current growing demand of customers. The majority of commissioned facilities enter the market almost completely filled, which further aggravates the shortage problem.

The acute imbalance between supply and demand is a key characteristic of the current market reality. It is predicted that next year we'll see the trend for rising shortage of vacant space continue, which, in turn, may cause additional impact on rental rates.

Chart 2
Dynamics of key market indicators

Source: Nikoliers



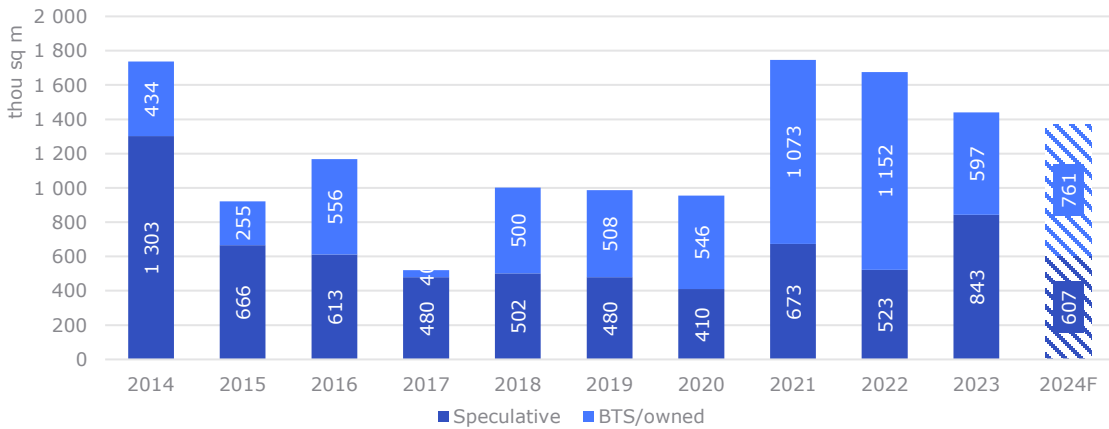
Supply

According to the results of 2023, the volume of new construction amounted to 1,441,000 sq m, which is 14% less than the volume achieved in the previous year. Thus, the total volume of storage space supply in the industrial real estate market of the Moscow area exceeded the 23-million-sqm mark.

In terms of new supply, speculative facilities prevail, their share amounting to 58%. Among the largest projects commissioned in 2023 are the multi-story high-bay warehouse complex PNK Park MKAD-M4 (129,000 sq m), as well as two buildings in the second phase of the Wildberries warehouse facility in Elektrostal with a total floor area of 170,000 sq m.

Chart 3
Speculative and BTS projects

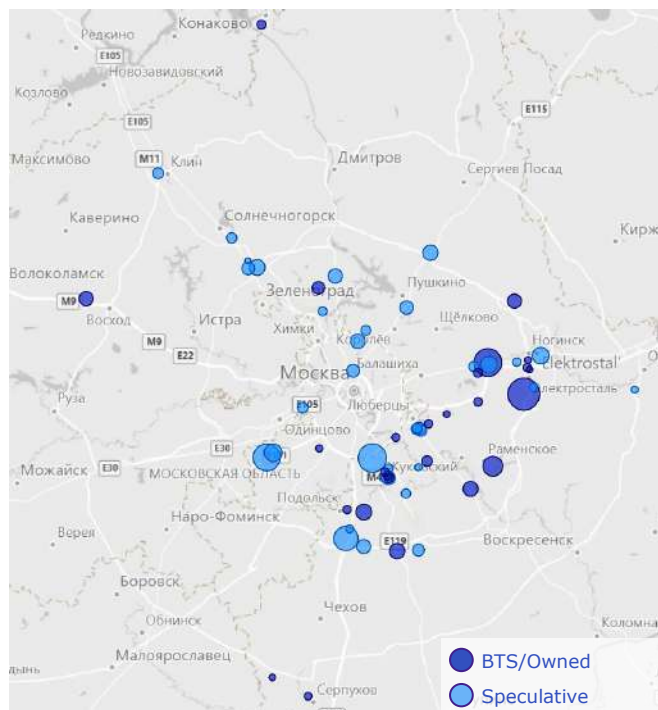
Source: Nikoliers



In 2024, the current level of industrial space commissioning at the level of 1.3-1.4 million sq m is expected to remain intact. Meanwhile, the share of BTS projects is projected to increase by 14% compared to 2023. At the moment, there is a gradual decline in the share of the Moscow area in the aggregate amount of commissioned industrial real estate in Russia, which is caused by the aggressive expansion of e-commerce and classic retail companies to the regions, the said businesses being bent on widening their coverage of the country.

Chart 4
Geographical distribution of warehouse projects commissioned in 2023

Source: Nikoliers



Demand

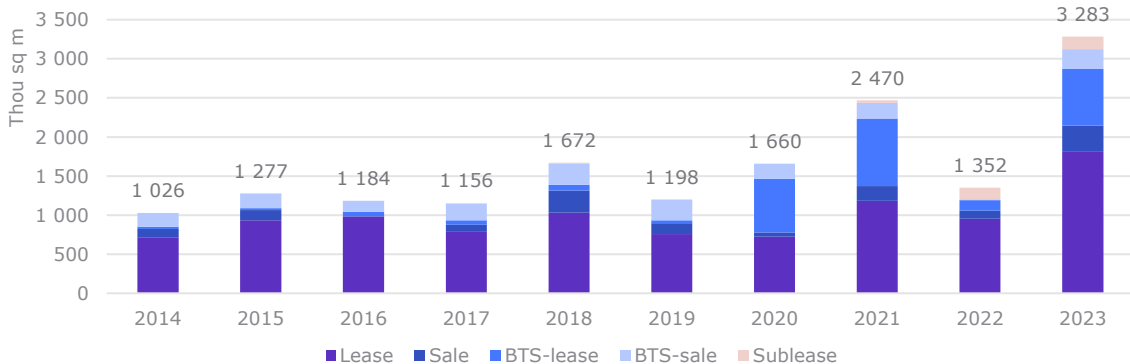
In 2023, demand for industrial real estate in the Moscow area reached a historical record of 3,283,000 sq m. The impressive growth is largely due to the spillover of pent-up demand accumulated due to low business activity in 2022, as well as the rampant demand from key market consumers. These results exceeded the previous year's figure by 2.4 times and, in response to the surge in demand, almost all available vacant space in the markets was occupied.

Amid the acute shortage of supply on the market, clients with large requests are increasingly often turning their eyes to build-to-suit projects. BTS transactions amounted to 979,000 sq m, which represents 30% of the total demand. A moderate slowdown in BTS transactions is expected next year, with a probable reduction to the level of 2.6-2.8 million sq m. Despite this decline, the indicator goes through the roof, highlighting the active development of the industrial real estate market.

Chart 5

Breakdown of demand by transaction types

Source: Nikoliers



The highest demand (34%) is generated by e-commerce companies such as Ozon, Wildberries and VseInstrumenty.ru. Manufacturers (19%) and grocery chains (17%) are also active in building up their warehousing capacity.

Chart 6

Breakdown of leased and purchased spaces by sectors

Source: Nikoliers

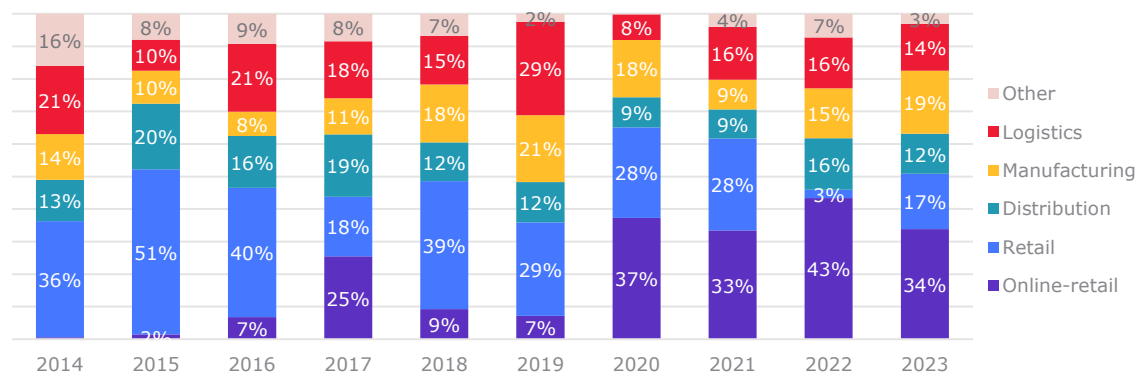


Table 3

Key deals closed in the Moscow area in 2023

Company	Sector	Deal type	Size, sq m	Property name
Ozon	Online-retail	BTS-lease	134,850	Vatutinki LC
VseInstrumenty.ru	Online-retail	BTS-lease	110,025	PNK Park Chashnikovo
VseInstrumenty.ru	Online-retail	BTS-lease	108,480	Obukhovo LC
SDEK	Logistics	Lease	88,780	PNK Park MKAD-M4
VseInstrumenty.ru	Online-retail	Lease	61,255	Bykovo LC

Vacancy and rental rates

Compared to the end of 2022, the amount of vacant premises in the industrial real estate market of the Moscow area showed a 7-fold decrease and dropped to only 90,000 sq m. The supply of storage space for sublease, peaking in 2022 at 313,000 sq m, was almost completely “washed out of the market” stabilizing at the level of 14,000 sq m. Thus, the level of vacant space late in 2023 amounted to 0.4%.

Almost complete absence of available warehouse supply has been recorded in the eastern and north-western directions. There is also an acute scarcity of vacant space in the northern and south-eastern directions (0.1% each, respectively).

It is forecasted that the shortage of available ready-to-use warehousing space will get exacerbated even further, and by the end of 2024 the vacancy rate may plummet to a new low of 0.1%.

Chart 7

Share of vacant space by major routes and directions

Source: Nikoliers

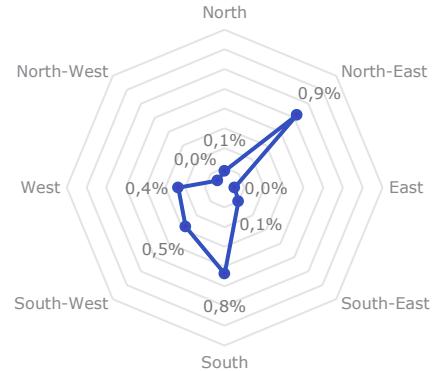
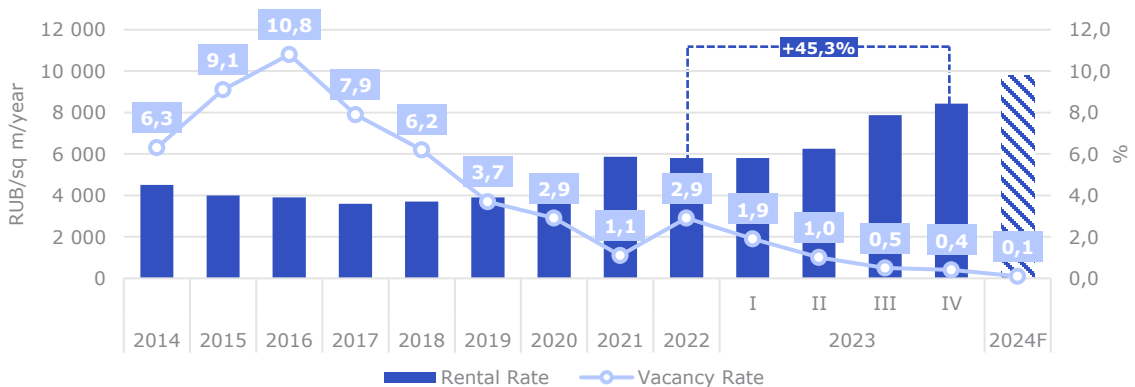


Chart 8

Vacancy and rental rate dynamics

Source: Nikoliers



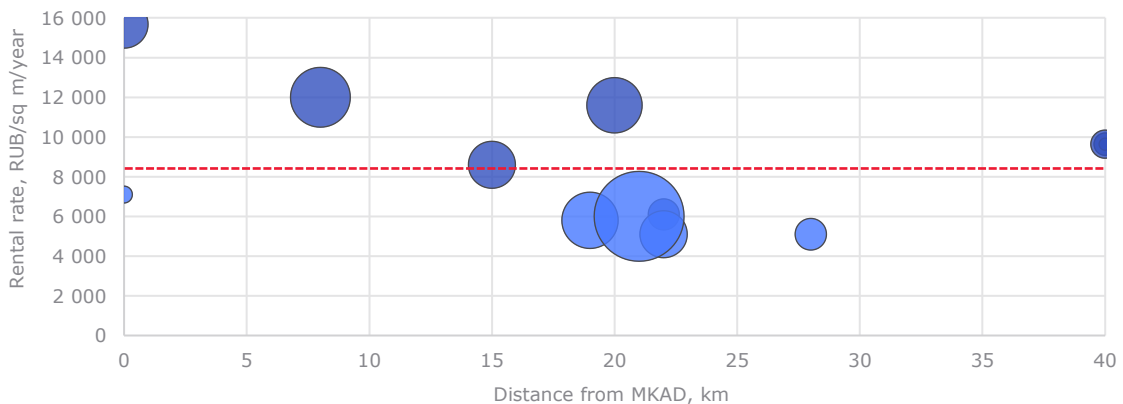
As of 2023, the weighted average rental rate (exclusive OPEX and VAT) for functional vacant warehouse premises increased by 45.3% (year-on-year) to RUB 8,425/sq m/year.

In 2024, this indicator is expected to continue climbing to 9,500-10,000 RUB/sq m/year triple net.

Chart 9

Distribution of weighted average rental rate (excluding OPEX and VAT) in vacant and functional warehouse premises by distance from MKAD (the size of the circle reflecting the size of a vacant unit)

Source: Nikoliers



Industrial real estate investment market

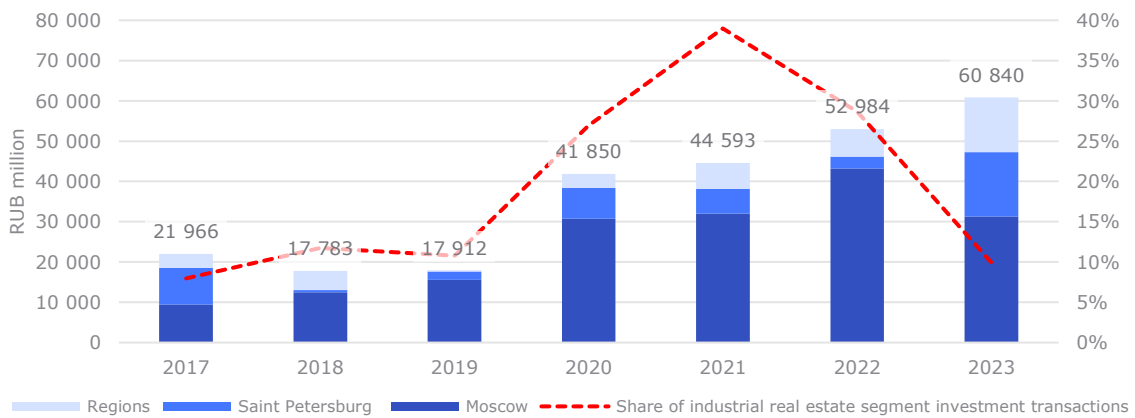
Based on the results for 2023, the level of industrial real estate investment in Russia reached RUB 61 billion, which is 15% higher than in 2022. Warehouse facilities in the Moscow area accounted for more than 50% of total investment. The process of asset sale by foreign companies to Russian investors continues. One of the examples is the sale of FM Logistic warehouse complex in Dmitrov under the sale-leaseback scheme.

At the same time, the trend of using mutual investments in high-quality industrial real estate assets is gathering pace. Amid the robust demand from tenants, the shortage of offers and growth of rental rates, investment funds offer attractive rates of return for private equity investors, including individuals. Mutual investment fund managers are vigorously looking for investment-grade assets, mainly in high-quality speculative facilities generating a stable rental income. The focus is also on properties designed for federal retail chains, marketplaces and logistics companies.

Chart 10

Dynamics of industrial real estate investment and the share of warehousing investment transactions in the total commercial real estate investment*

Source: Nikoliers



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

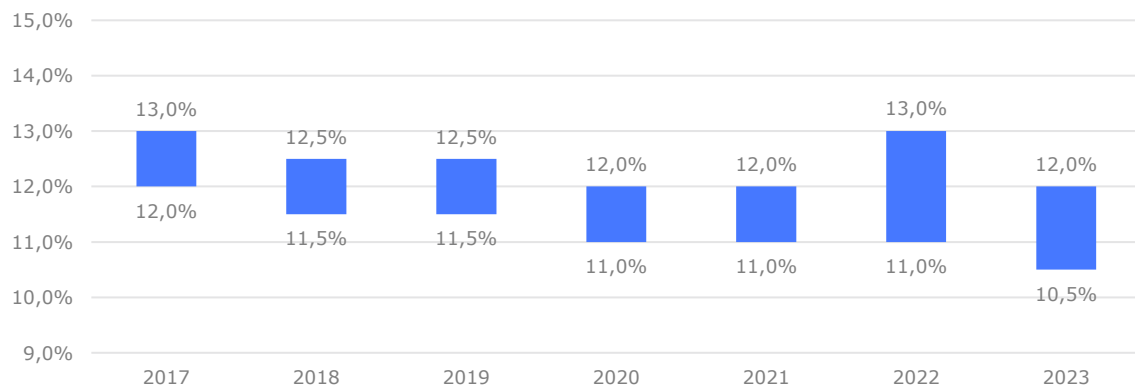
As of today the industrial real estate market in Moscow is characterized by decent cap rates in the range of 10.5-12%. This corroborates the current assessment of high market returns on investment in warehouse facilities in the Moscow area.

Capitalization rates for warehouse facilities are slightly higher than for the office and retail segments, which is due to the demand for industrial space on the back of the high tenant activity and relative scarcity of quality offer. This range of cap rates underscores the attractiveness of the warehouse segment for investors in the current market environment.

Chart 11

The range of cap rates in the industrial real estate market of Moscow, "prime" %

Source: Nikoliers



Light Industrial market

Table 4

Key market indicators

Source: Nikoliers

Existing quality supply	Share of storage space supply	Vacancy rate	Weighted average rent* RUB/sq m/ year	Selling price** RUB/sq m
362,000 sq m	1.6%	11%	11,140	88,995

*Exclusive of OPEX and VAT (20%) – existing and under construction projects

**Exclusive of VAT (20%) – existing and under construction projects

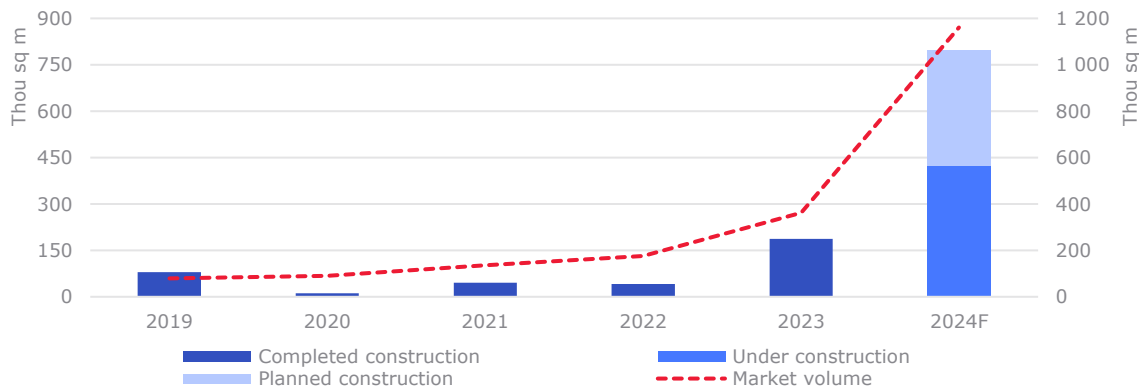
The existing quality supply of light industrial facilities doubled compared to the final figure for 2022, amounting to 362,000 sq m, which is equivalent to 1.6% of the total warehousing supply in the Moscow area. For all that, more than half of the existing supply lies at a distance of up to 5 km off the inner city.

In 2024, subject to the completion of planned and under-construction projects, the light industrial market in Moscow may crack the 1.2-million-sqm mark.

Chart 12

Greenfield light industrial project construction and supply

Source: Nikoliers



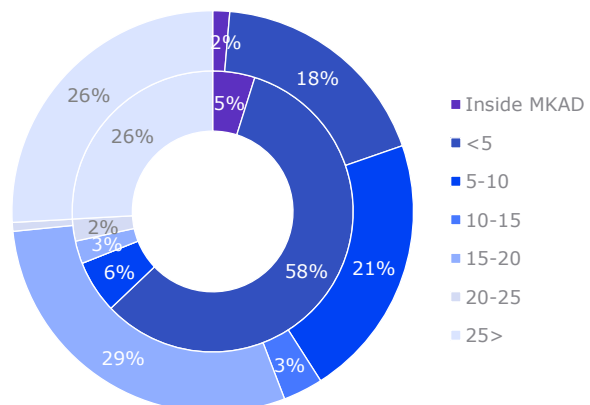
Currently, focus is on the light industrial segment which attracts both small and medium-sized businesses and investors. These categories of market participants consider this type of facilities not just reliable, but also very attractive assets.

Not taking into account available units in the industrial park PNK Park MKAD-M4, the share of unoccupied space in the light industrial market is very low amounting to only 0.1%.

Chart 13

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

Source: Nikoliers



Commercial terms for light industrial facilities depend on various factors, including location and technical characteristics of the building. The weighted average rental rate for existing and under construction facilities ranges from RUB 8,750 to 14,500 per sq m per annum. The weighted average cost per sq m, excluding VAT, stands at RUB 88,995. The lowest rental rate is most often fixed for facilities located 20 km or more off the Moscow Ring Road (MKAD).

Table 5

Breakdown of rental rates and selling prices for light industrial space depending on their remoteness from MKAD

Source: Nikoliers

	Less than 10 km	10–20 km	20 km or more
Asked rental rates*, RUB/sq m/year	12,150	11,365	8,840
Selling price**, RUB/sq m	-	89,540	87,250

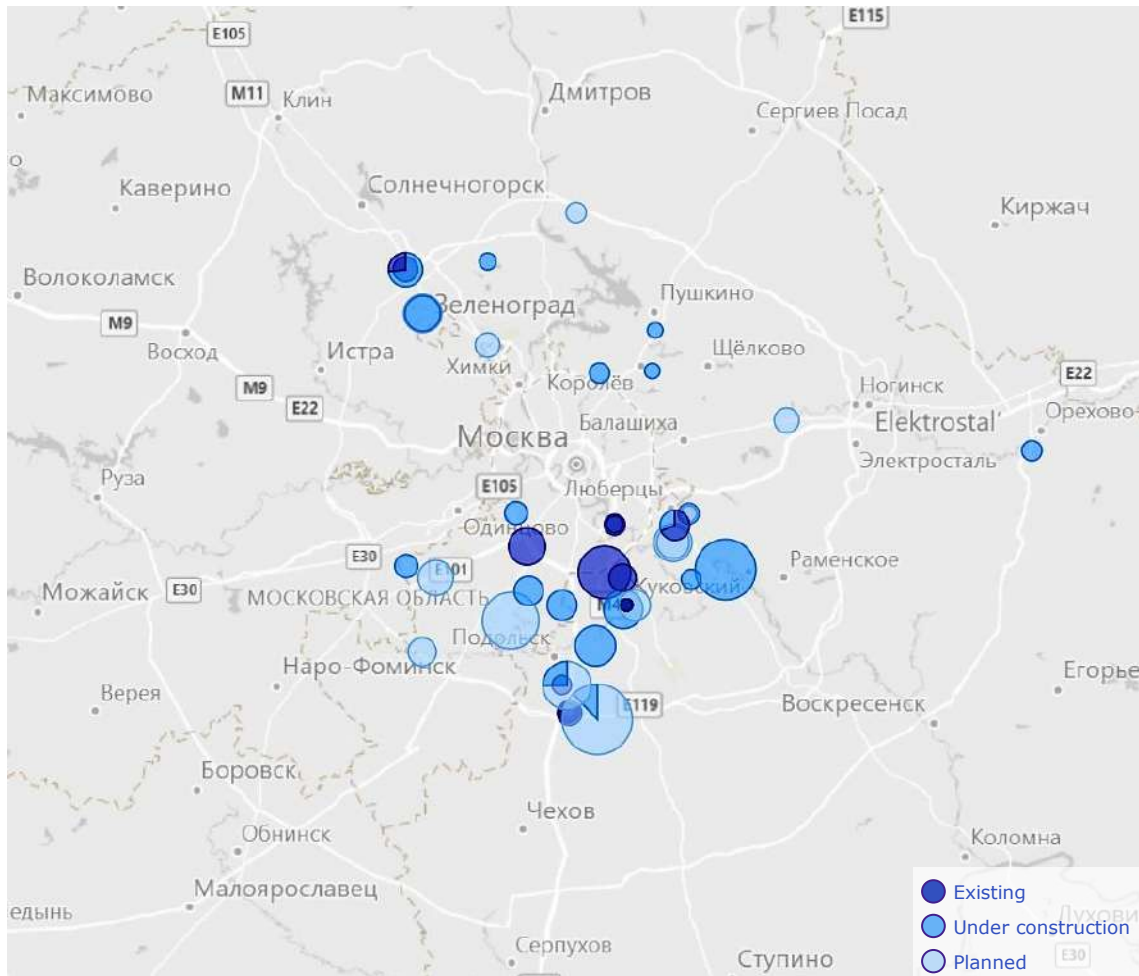
*Exclusive of OPEX and VAT (20%) – functional and under construction projects

**Exclusive of VAT (20%) – existing and under construction projects

Chart 14

Location of light industrial projects and facilities

Source: Nikoliers



Trends and forecast

Trade-off approach of potential tenants in the midst of industrial space scarcity

Amid a severe shortage of vacant warehouse space, potential tenants show greater flexibility and willingness to compromise on the warehouse options offered, even if not all their requirements can be fully satisfied.

This trend is whipped up by several factors, in particular strong competition for limited industrial space. Under the acute scarcity of industrial space, tenants realize that finding the ideal space meeting all their criteria is getting more difficult.

Escalation of the auction approach to the lease of attractive industrial space

The trend of continuing auctions for attractive and soon-to-be vacant warehouse units in Moscow is a reflection of market dynamics under record low vacancies. Owners apply a strategy of not fixing rental rates at the initial stage of negotiations, especially for most attractive lots. Large vacant units attract many potential tenants willing to offer more favorable financial terms than their rivals.

This competitive dynamic can lead to an increase in the cost of individual lots during the bidding process, creating a trend for a gradual increase of rental rates across the market. This trend, derived from intense competition, encourages warehouse owners to review and incrementally improve their offerings in an effort to meet current market demand and maximize the yield of their assets.

The rising trend of signing BTS deals

Given the shortage of speculative warehouse space, tenants are increasingly turning their eyes to the build-to-suit model, preferring to create customized projects suited to their unique needs. This trend is gathering momentum in the lack of sufficient speculative space commissioned on the market.

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Warehouse&Industrial Real Estate Department

Last year Russia's industrial real estate sector was characterized not only by records and dramatic changes, but also by challenges that required quick, comprehensive and balanced response from market participants.

Under an extreme shortage of vacant space in 2023, warehouse consumers were faced with the need to conduct in-depth market analysis and carefully negotiate commercial terms to ensure access to the desired premises. In turn, developers and asset owners were taking a closer look at opportunities to make their facilities more specialized and sustainable.

A more acute shortage of vacant options is expected in the coming year 2024. In this environment, the speed of response and willingness to take risks or make concessions are particularly important. Consultants are becoming key strategic partners helping tenants overcome the challenges of scarcity and helping asset owners with optimization of their portfolios for them to operate effectively in a highly competitive environment.



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Industrial real estate



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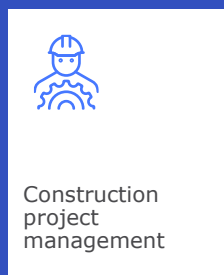
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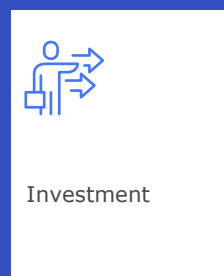
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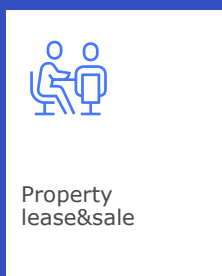
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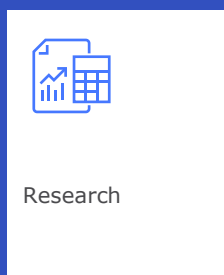
Investment



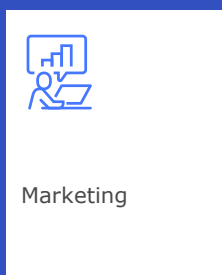
Property lease&sale



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