

Russia | Moscow

Warehouse and Industrial Market

H1 2023

Table 1
Key market indicators

Source: Nikoliers

	H1 2022	2022	H1 2023
Total supply, thousand sq m	20,781	21,813	22,351
Completions, thousand sq m	643	1,675	538
Total take-up, thousand sq m	619**	1,352**	1,389
Vacancy rate, %	1.8	2.9	1.0
Rental rate, RUB/sq m/year*	5,800	5,800	6,250

*Excluding VAT (20%) and OPEX.

**Including forward transactions by Aliexpress, which were later rescinded.

Main results

The industrial real estate market of the Moscow region is once again entering a higher activity phase, which is accompanied by higher rates and the reduction of available supply. The increased activity on the part of Russian business is reflected in the demand figures, which in the first six months of this year has already surpassed the annual result for 2022, being a record high six-month demand figure for the entire history of the Moscow industrial and logistics real estate market.

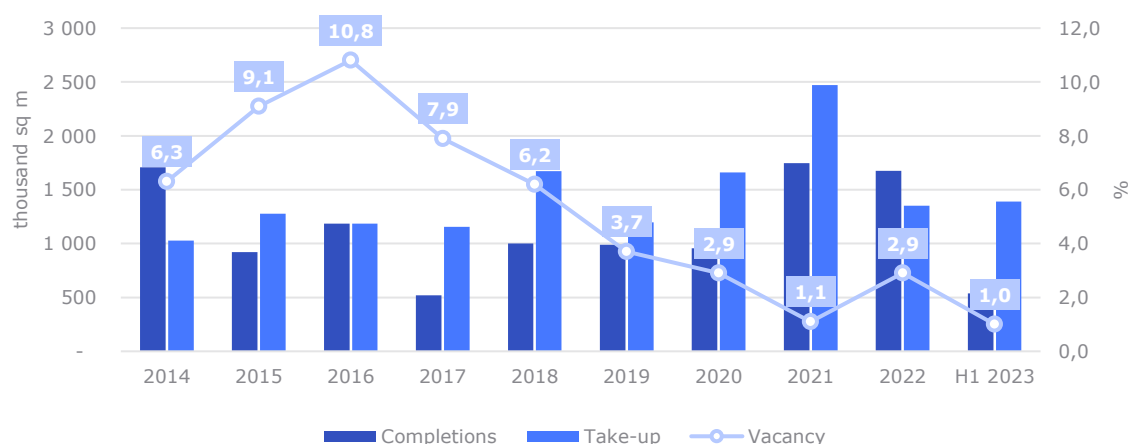
Due to the market turbulence and problems with planning in 2022, the new supply entering the market, which totaled only 538,000 sq m in the first half of 2023, is not keeping pace with the rapidly burgeoning demand.

As a result, the vacancy rate started to decline again, dropping to 1.0%, which in turn affected rental rates – at the end of H1 2023, the weighted average rental rate in existing high-quality dry warehouses stabilized at RUB 6,250/sq m/year.

According to our estimates, the new surge of activity on the market will be accompanied by the return of the trend towards the signing of contracts for build-to-suit projects, while the available speculative supply will remain limited.

Chart 1
Dynamics of the main market indicators

Source: Nikoliers



Supply

In the first half of 2023, the amount of new construction in the industrial real estate market of the Moscow area totaled 538,000 sq m, which is 16% lower than was built for the same period last year. Standing out among the largest facilities commissioned in Q2 of this year is the 45,000 sq m building of the multipurpose industrial and warehouse complex Orientir Yug, as well as the 29,000 sq m building of the industrial park Kholmogory.

By the year's end, the total amount of commissioned space is expected at a level of 1.5-1.6 million sq m, which is comparable to the amount commissioned in 2022. Due to the decrease in the number of build-to-suit transactions last year, in 2023 the predominant share of new builds will be represented by speculative facilities (66%). If all announced projects are commissioned on time, the annual growth of speculative supply will be the highest over the last 10 years. Nevertheless, some of the space in the schemes under construction is already being disputed, so we do not expect a sharp leap in vacancies as the projects under construction are commissioned.

Chart 2

Speculative and BTS construction, 2014 — 2023

Source: Nikoliers



Demand

Materialization of the pent-up demand generated during 2022 resulted in a record-high demand recorded in the first half of 2023, we mean for the entire history of the industrial real estate market in the Moscow area. The amount of lease and sale transactions completed already exceeds the figure for the entire year 2022 by 2.7%, standing at 1,389,000 sq m.

In terms of demand, lease transactions in already built warehouse complexes definitely prevail (66%). BTS-lease transactions also feature large (19%). At the same time, sublease supply is gradually being “washed out” of the market: “hidden vacancy” deals account for 5%, which is 67,000 sq m.

The online-retail segment (39%) remains the key market driver – after a more restrained expansion last year, it has been highly active once again. Logistics and distribution companies account for 19% of the demand each. Manufacturers trail the TOP-3, accounting for 17%.

Chart 3

Distribution of take up by business sector in the Moscow region, H1 2023

Source: Nikoliers

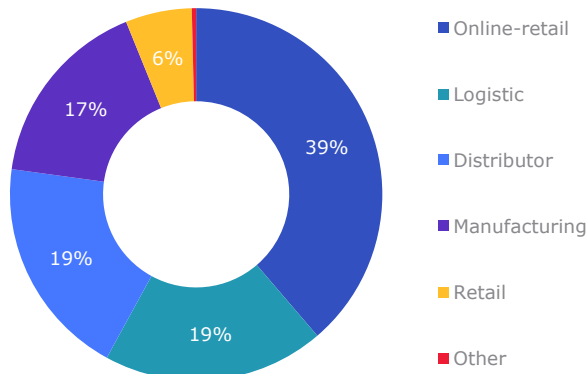


Table 2
Key deals in Moscow region, H1 2023

Company	Sector	Deal type	Size, sq m	Property name
Ozon	Online-retail	BTS-lease	134,849	Vatutinki LC
VseInstrumenty	Online-retail	BTS-lease	110,025	PNK Park Chashnikovo
CDEK	Logistics	Lease	88,776	PNK Park MKAD-M4
VseInstrumenty	Online-retail	Lease	61,254	Bykovo LC
United Confectioners	Manufacturing	Lease	37,000	Valishchevo Logistics Park
Wildberries	Online-retail	Lease	34,916	Atlant-Park Logistics

Vacancy and rental rates

At the end of Q2 2023 the vacancy rate stabilized at 1.0%, thus repeating the indicator of the late 2021. Thus, the total amount of vacant space on the market is only 231,000 sq m. Such a sharp decline in the indicator under review relative to the beginning of the year (by 1.9 p.p.) is explained by the washout from the market of large vacant units in ready-to-use quality facilities.

The supply scarcity can be observed in all parts of the Moscow area. The most acute shortage is in south-western and south-eastern directions (0.1% and 0.2% respectively). The vacancy rate in storage facilities inside Moscow is also 0.2%.

Due to the limited supply, the weighted average base rent has also grown (by 7.7%), which currently stands at 6,250 RUB/sq m/year exclusive of VAT and OPEX.

Chart 4
Geographic distribution of vacant warehouse spaces in the Moscow region, H1 2023

Source: Nikoliers

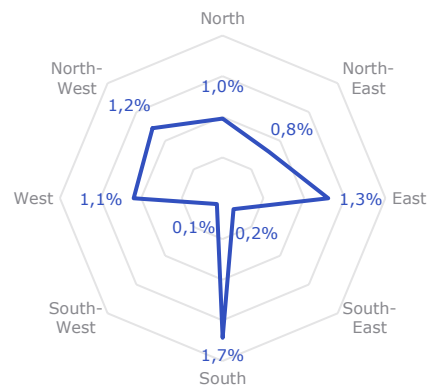
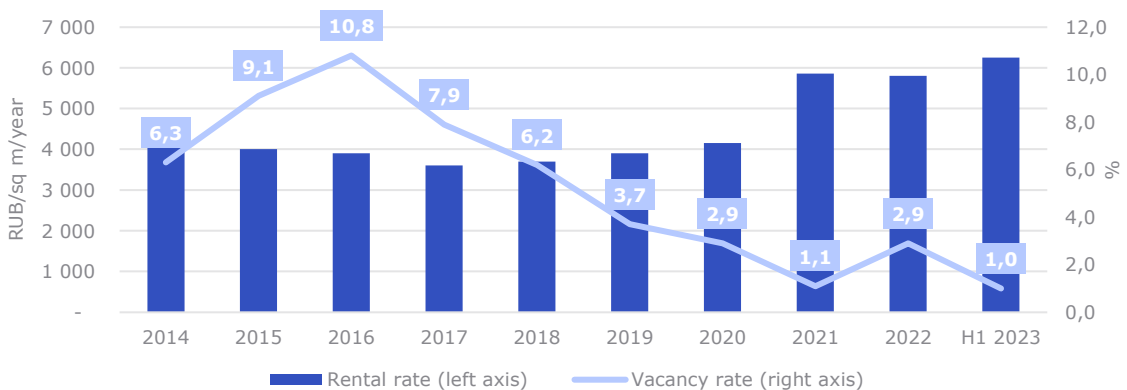


Chart 5
Dynamics of vacancy and rental rates, 2014 – H1 2023

Source: Nikoliers



Light Industrial market

Table 3

Key market indicators

Source: Nikoliers

Existing quality supply	Share of industrial space supply	Vacancy rate	Weighted average rental rate* RUB/sq m/year	Selling price** RUB/sq m
318,000 sq m	1.4%	13.2%	9,490	95,380

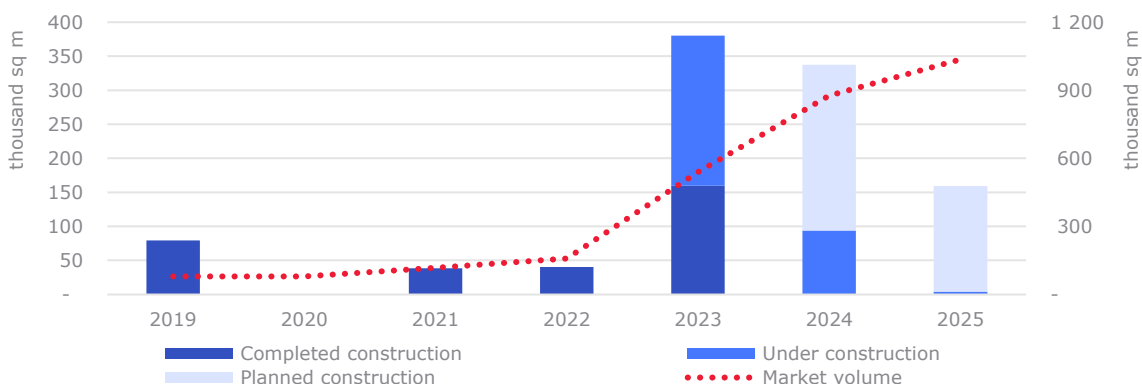
As of today, the supply of quality Light Industrial real estate in the Moscow area is 318,000 sq m, which is equivalent to 1.4% of the total volume of the Moscow industrial real estate market. The predominant share of existing supply is concentrated in the southern parts of the Moscow area. About 549,000 sq m of commissioned Light Industrial projects can be expected to hit the market in 2023.

Today there is a high level of occupancy in ready-to-use facilities, which is caused by both high demand and limited supply in this segment. The main bulk of vacant space can be found in the recently commissioned PNK Park MKAD M-4. Exclusive of vacant supply in PNK Park MKAD M-4, the vacancy rate in the Light Industrial segment of the market is only 0.4%.

Chart 6

Newly built Light Industrial space, supply 2019–2025

Source: Nikoliers



Commercial terms largely depend on the location and size of particular premises. Thus, the weighted average rental rate for existing and under-construction projects ranges from 7,500 to 15,000 RUB/sq m/year. As for the selling price, the weighted average price per square meter excluding VAT for ready-made and under-construction projects is 95,380 RUB/sq m/year.

Table 4

Breakdown of rental rates at Light Industrial facilities and their sale prices relative to their distance from MKAD

Source: Nikoliers

	Less than 10 km	10 – 20 km	20 km and more
Asked rental rate*, RUB/sq m/year	10,400	9,170	7,830
Sale price**, RUB/sq m	104,850	83,330	83,330

*Excluding VAT (20%) and OPEX

** Excluding VAT (20%)



Trends and forecasts

- The factor of pent-up demand

After last year's "lull", the industrial real estate market of the Moscow region is overwhelmed with vehement demand. Lease and sale transactions completed in the first half of 2023 already exceed the absorption of the entire previous year – thus, the final figure at the year's end may beat the record of 2021.

- Spike in activity with signing BTS-contracts

Amid the scarcity of large vacant units in the industrial real estate market, there is a tendency towards an increase in the number of transactions focused on the development of build-to-suit facilities to meet the needs of major market participants (build-to-suit).

- Auctions for attractive space

Given the low vacancy rate in the Moscow market, rental rates for some of the most attractive lots are not fixed by the owner at the start of negotiations. Similar to what was happening in Saint Petersburg back in 2021, large vacant lots simultaneously attract several interested parties willing to offer more favorable financial terms for rent than their competitors. As a result, in some cases the price may increase significantly during the bidding process, which, in turn, will encourage other owners to gradually increase rental rates on the market.

Contacts

Warehouse & Industrial Department

Victor Afanasenko
Regional Director
+7 495 258 5151
Victor.Afanasenko@nikoliers.ru

Research

Veronika Lezhneva
Director, Head of department
+7 495 258 5151
Veronika.Lezhneva@nikoliers.ru

Kirill Orishchenko
Analyst
+7 495 258 5151
Kirill.Orishchenko@nikoliers.ru

Marketing & PR

Olga Bakulina, MCIM
Regional Director
+7 495 258 5151
Olga.Bakulina@nikoliers.ru

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 **Nikoliers**

123112 Moscow
10 Presnenskaya Embankment
BC Naberezhnaya Tower
Block C, 52 floor