

RUSSIA

Industrial Market Snapshot

Second Quarter | 2019



MARKET INDICATORS

Market Outlook

- Prime Rents: As a result of the continued decline in the vacancy rate, rental rates are increasing. ▼
- Prime Yields: A slight increase of prime yields is expected by the end of the year. ▼
- Supply: Low construction volume leads to gradual decline of vacancy rate. ▶
- Demand: Demand remains stable high. Retailers have the largest share in demand structure. ▶

Prime Industrial Rents – June 2019

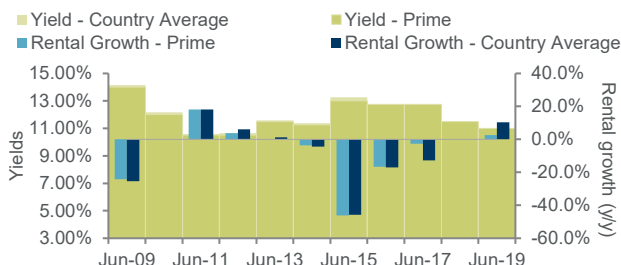
LOGISTICS LOCATIONS	RUB	€	US\$	GROWTH %	
	SQ.M YR	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Moscow	3,700	51.3	5.34	12.1	-15.7
St Petersburg	3,900	54.0	5.63	2.6	-14.1

Prime Industrial Yields – June 2019

LOGISTICS LOCATION (FIGURES ARE GROSS, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Moscow	11.00	11.00	11.50	14.00	10.50
St Petersburg	12.00	12.00	12.50	15.00	11.00

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Recent performance



Overview

Despite the long-term trend of the vacancy rate decrease and the rise of rental rates in the Moscow region, developers do not show interest in speculative construction. In H1 2019, 73% of new construction was built-to-suit projects, and only 27% of new construction was speculative.

In the regions, the share of speculative construction is higher than in Moscow.

Occupier focus

In Moscow, the demand for warehouse space is high. In 2019, the take up is expected to be only 10% lower than in 2018, which showed the record high indicator in the last 10 years.

Operators prefer to lease warehouse space rather than to purchase – lease transactions comprised 77% of the total take up. The most active market players are retailers – in H1 2019 their share in the take up structure is 43%.

In the regions, the demand is stable. As well as in the Moscow region, retailers are the most active market players.

Investment focus

The share of W&I sector in the total investment volume is low – only 11% in H1 2019. Due to one large transaction, the share of foreign capital in the segment is noticeable – almost 40% of investment volume is covered by foreign investors.

Outlook

In Moscow, in H2 2019 we expect the growth of the speculative construction. Nevertheless, by the end of the year, the total amount of speculative construction will be the lowest over the five-year period.

In the regions, in H2 2019 we expect the new construction to be almost twice larger than in H1 2019. Construction activity will be mainly provided by individual regions.

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