Average rental rate set to reach an all-time high of RUB 6,500 per sq m in 2022

▲ 559,332 sq m
New Delivery

▲ 779,765 sq m
Take-up

▼ 0.4%
Vacancy rate

▲ 5,651 RUB / sq m/ year
Average Rental Rate

Note: Arrows indicate change from previous quarter.

– New supply in the Moscow region reached 1.7 mn sq m in 2021. This is an all-time high.
– Take-up amounted to 2.5 mn sq m in 2021, which is 1.4 times the previous record of 2020.
– Total vacant space at the end of 2021 shrank to 60,995 sq m and the vacancy rate dropped to 0.4% – the lowest in the past decade.
– Average weighted base rent grew by 43% compared to late 2020 and amounted to RUB 5,651 per sq m at the end of 2021.

Key market indicators, Moscow region

	2020	2021	2022F
Total supply*, class A, mn sq m	13.7	15.4	17.5
New delivery, mn sq m	0.8	1.7	2.1
Take-up, mn sq m	1.9	2.5	2.2
Weighted average rental rate*, RUB/sq m /year	3,960	5,651	6,500
Vacancy rate*, %	2.9	0.4	1-2

*end of the year

Supply

New supply in the Moscow region reached 1.7 mn sq m in 2021. This is more than twice as high as in 2020 (793,386 sq m) and is an all-time high. The previous high was observed in 2014, when 1.6 mn sq m was commissioned.

But new construction practically does not add any new available space to the market — the bulk of the new supply is built-to-suit developments. In 2021, only 3% of the space in newly completed developments was still vacant by the time of commissioning.

Another trend in 2021 was **the entry of new players into the warehouse market**: developers from other real estate segments launch warehouse projects, and development companies from other regions enter the warehouse markets of Moscow and St. Petersburg. In the future, the arrival of new developers is expected to have a positive impact on the supply.

In 2022, supply is expected to grow to exceed 2 mn sq m. This will set a new record. The growth is due to the continued high built-to-suit construction activity and the launch of new speculative projects in response to the shortage of vacant space and strong demand.

TABLE 1: Largest facilities delivered in Q4 2021

Project	Developer / Owner	Type of project	Area, sq m
PNK Park Domodedovo, DC of the federal retailer	PNK Group	Built-to-suit	111,000
Wildberries's fulfillment center in Elektrostal	Wildberries	End-user construction	100,000
PNK Park Domodedovo, VseInstrumenty.ru warehouse, phase 2	PNK Group	Built-to-suit	94,000

FIGURE 1: New supply in 2021 by highways, '000 sq m

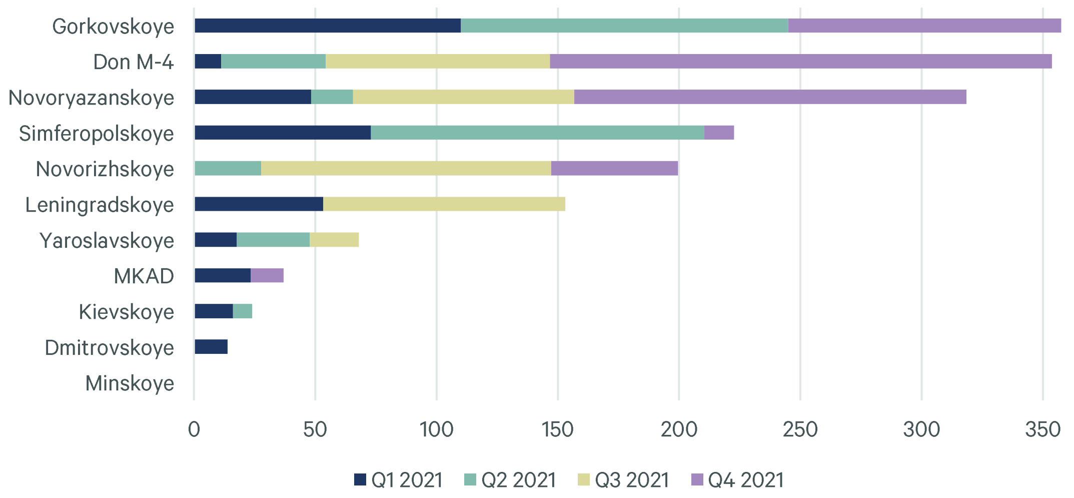
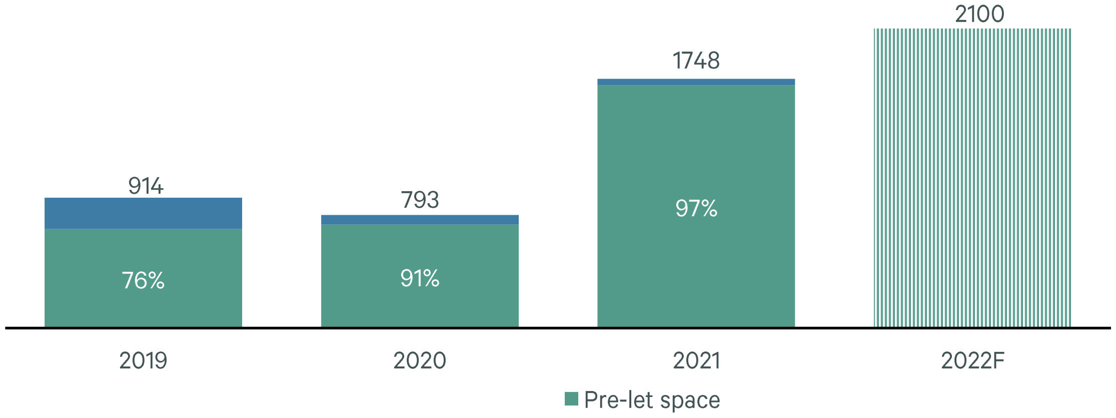


FIGURE 2: New supply, '000 sq m



Demand

Take-up amounted to 2.5 mn sq m in 2021, which is 1.4 times the record of 2020. Companies continue to actively develop their logistics infrastructure, the importance of which has become even more obvious during the period of covid-19 lockdowns.

2021 was marked by a number of major deals. For example, the combined floor area of the top 10 deals alone amounted to almost 1 mn sq m, and deals exceeding 40,000 sq m accounted for 47% of the take-up. At the same time, the segment of smaller spaces for lease/purchase remains robust.

The main demand drivers were brick-and-mortar and online retailers, whose combined share of the take-up exceeded 50% in 2021. Despite the covid-19-related disruptions to brick-and-mortar retail, the activity of retailers in the warehouse market is growing, including due to the development of in-house delivery services. As expected, online retail, which for the first time became the leader in terms of demand in 2020, has retained its leading position, increasing the volume of leased space in absolute terms.

In 2022, CBRE expects the demand to remain high — at 2.2 mn sq m. Retail, mainly grocery retail, continued growth in the discounter retail segment, and e-commerce will remain the drivers of demand.

TABLE 2: Largest deals in Q4 2021

Company	Area, sq m	Type of deal	Project, owner
SberLogistics	107,818	Built-to-suit (Lease)	PNK Park Pushkino 2, PNK Group
VkusVill	70,158	Lease	Tiera, Industry Partners Corporation
Fix Price	68,021	Built-to-suit (Purchase)	PNK Park Domodedovo, PNK Group

FIGURE 3: Take-up in 2021 by sectors

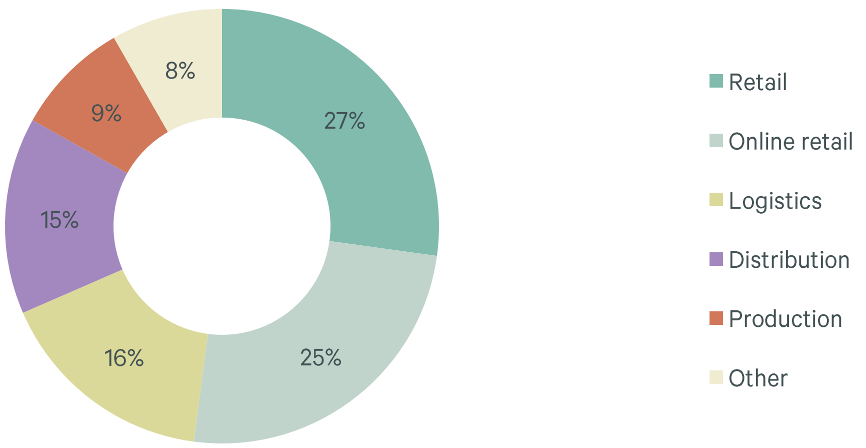
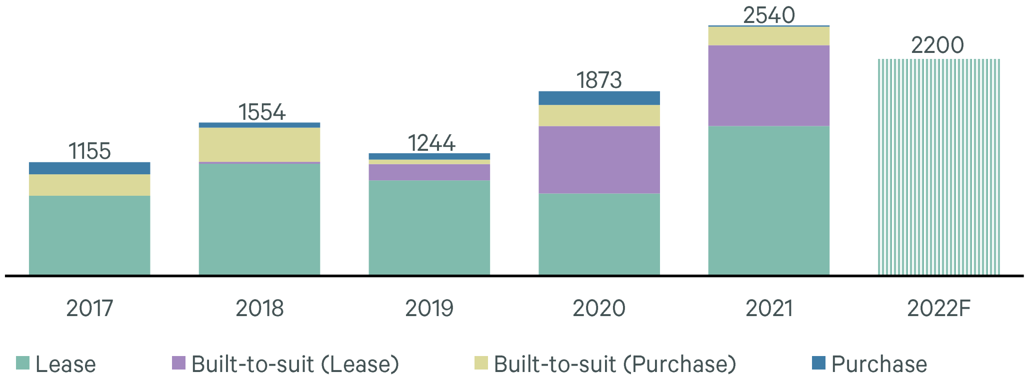


FIGURE 4: Take-up, '000 sq m



Vacancy rate

A shortage of vacant space in existing warehouse developments has been increasing throughout 2021. **By the end of 2021, total vacant space shrank to 60,995 sq m. Thus, vacancy rate dropped to 0.4% – the lowest in the past decade.** Moreover, only two options with an area of 10,000 sq m or larger remain vacant. Throughout the year, vacant space predominantly originated from the secondary market due to the extremely limited speculative development.

The shortage of vacant space is expected to stay at 1-1.5% throughout 2022. There is a possibility of a short-term increase to 2% by the end of the year owing to a completion of large speculative projects. However, this is insufficient to meet the market demand.

As expected, the annual net absorption exceeded 2 mn sq m, setting a new all-time high for the Moscow region's market. Net absorption is expected to reach 1.8 mn sq m in 2022, supported by the continued strong demand for warehouse space and the completion of built-to-suit projects.

FIGURE 6: Net absorption, '000 sq m

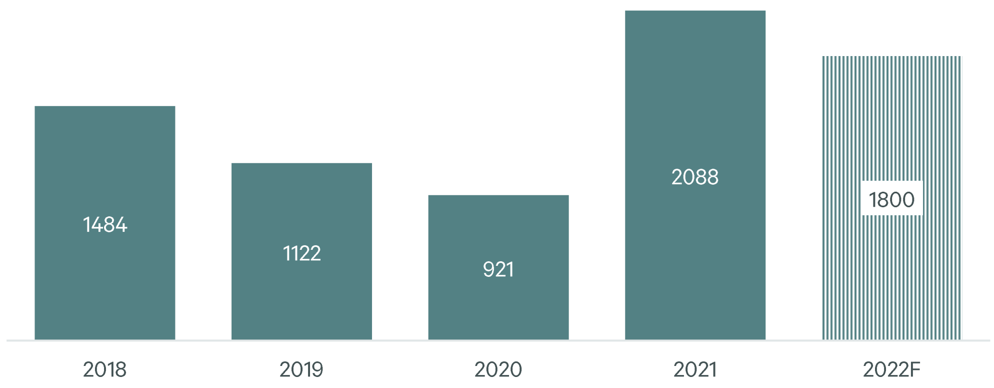


FIGURE 5: Vacancy rate and vacant space

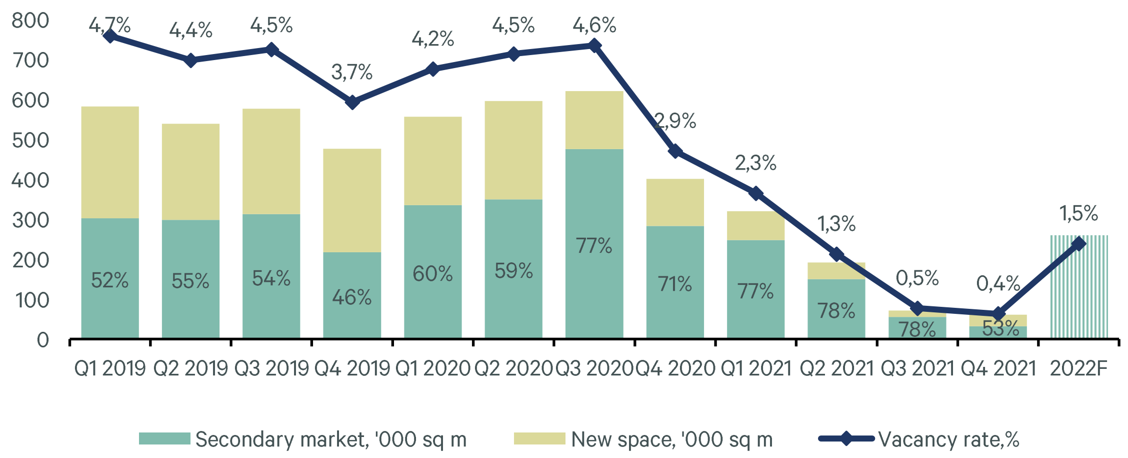
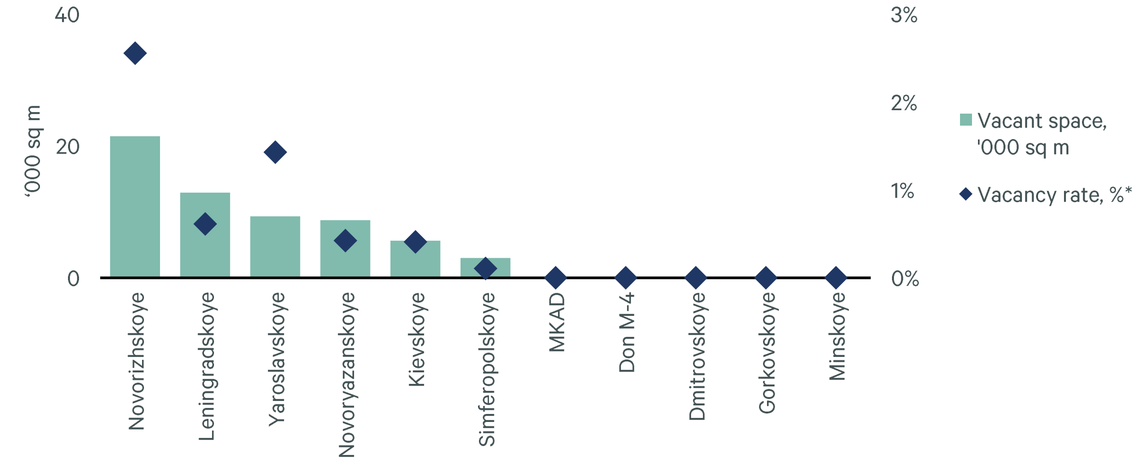


FIGURE 7: Vacant space in Q4 2021 by highways



*% of total stock on the highway

Commercial terms

By the end of 2021, the average weighted base rent in the Moscow region reached RUB 5,651 per sq m. Rates grew by 43% compared to late 2020. The growth rates on some submarkets exceeded 60%. Rates were growing throughout the year, increasing the pace in each subsequent quarter. The reasons for this acceleration in the rental rate growth include lack of available space, increase in construction costs during the period, and rising costs of capital.

Despite the observed significant increase in rental rates, these are returning to the level of 2013-2014. Furthermore, current rates are lower than the maximum values recorded during those years after adjustment for inflation.

At the same time, all the prerequisites for further growth of rates are in place. In 2022, CBRE expects rental rates to approach RUB 6,500 per sq m. This may be perceived as high by potential tenants, but the market is quickly adapting to the new rate levels.

FIGURE 8: Rental rates by highways in Q4 2021, rub/sq m/year

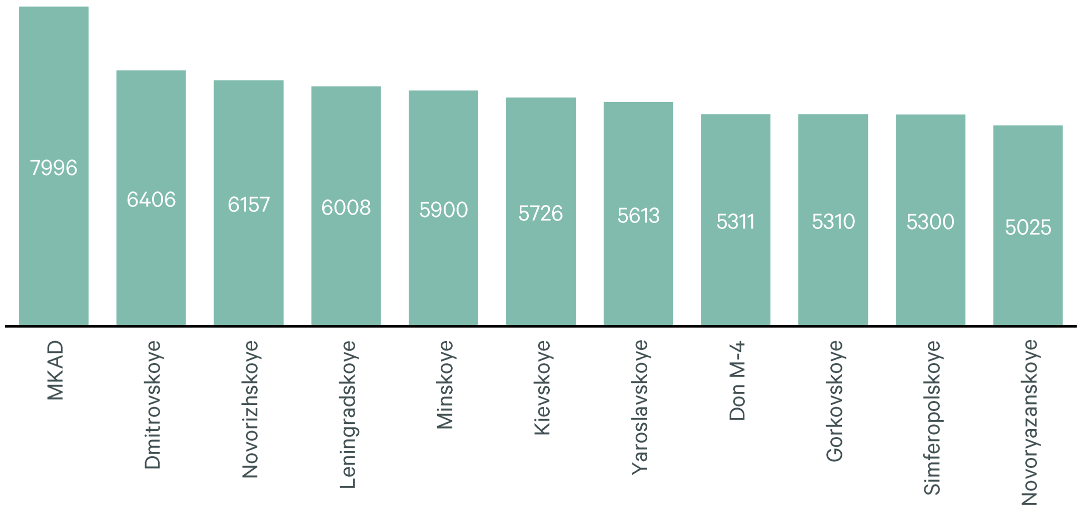
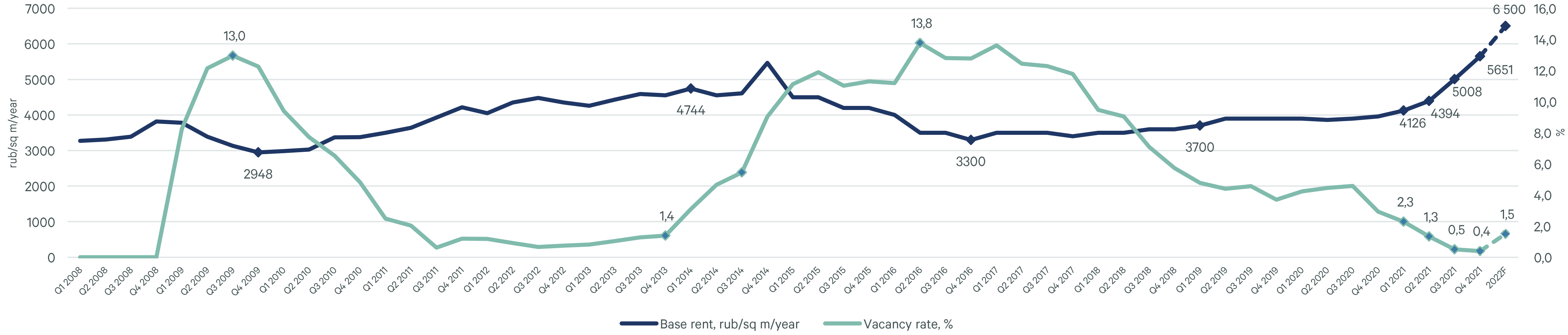


FIGURE 9: Rental rates and vacancy rate



Methodology

The report was based on data on warehouse complexes which met the following criteria:

- Location: Moscow region and area of "new Moscow" (TiNAO, Skolkovo, Rublevo-Arkhangelskoye);
- Quality: class A warehouse buildings;
- Object type: warehouse complexes as part of logistics parks, separate warehouse buildings, separate warehouse buildings on production site's areas.

Warehouse buildings within other types of real estate (offices, shopping centers, plants, etc.) were not accounted in the review.

Main terms and concepts:

Total stock represents the total completed existing space at the survey period. Total stock should include all types of buildings (i.e. both available and owner-occupied).

New supply represents the total net new space that has reached completion at the survey period and ready for occupation or has already been occupied.

Take-up represents the total net floor space which was leased or purchased by tenants and owner-occupiers during the survey period.

Renewal transactions, renegotiation deals, investment purchase and sale transactions, sale-and-leaseback transactions, general contract deals are not taken into account.

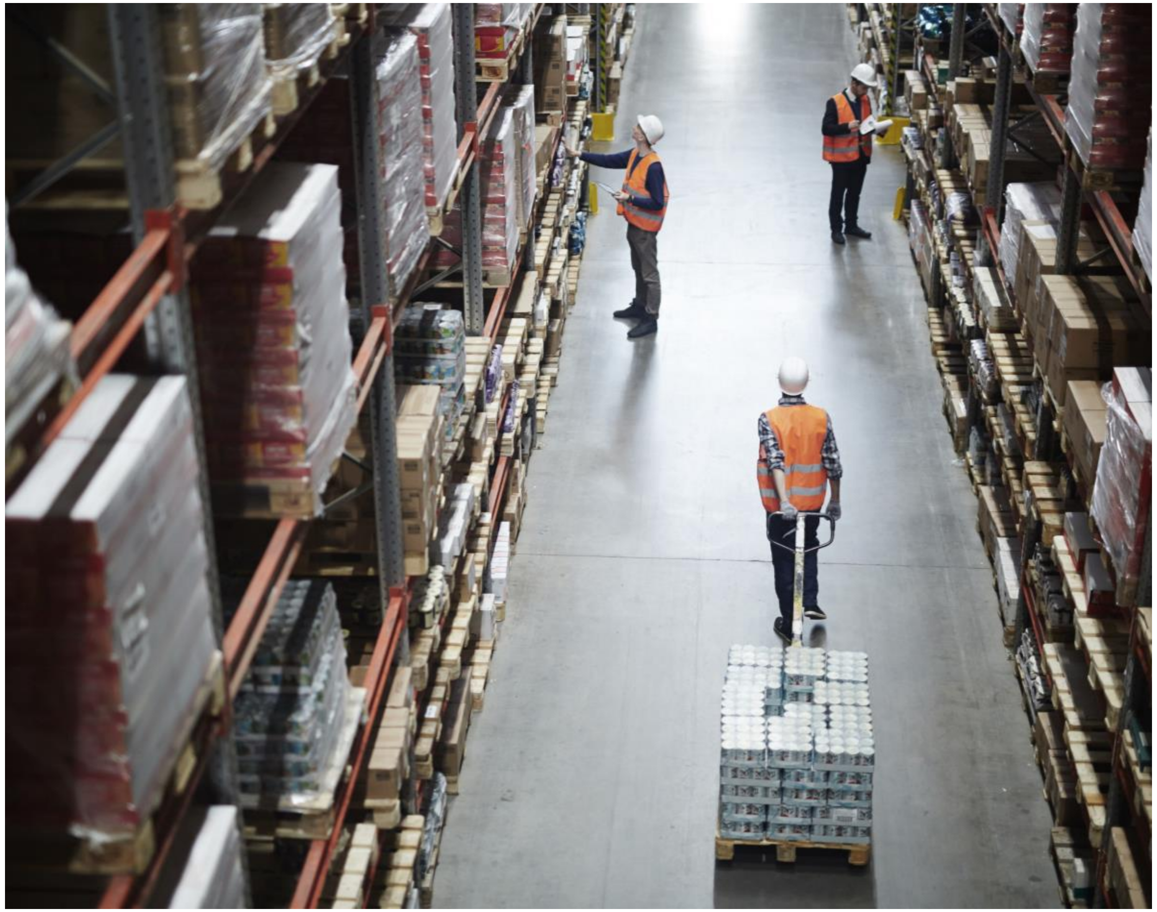
Vacant space represents the total net rentable floor space in existing properties, which is physically vacant and being actively marketed on the warehouse market at the survey period. Vacant sublease space, available space in buildings under construction are not taken into account.

Vacancy rate – the percentage of vacant space to the total stock on the following market or sub-market (highway).

Net absorption shows the change in occupied stock from one quarter to another.

Rental rate – the weighted average rental rate was calculated with the weight (area) of current offers on the market or sub-market (highway), excluding VAT, operating expenses and utilities.

Data from previous reports cannot be used for comparison, due to possible changes in methodology. Please contact CBRE Research Department for getting retrospective information.



Contacts

Anton Alyabyev
Senior Director,
Head of Industrial & Logistics
Advisory & Transaction Services,
Owner Services
+7 495 258 3990
anton.alyabyev@cbre.com

Vasiliy Grigoriev
Director,
Research
Advisory & Transaction Services
+7 495 258 3990
vasiliy.grigoriev@cbre.com

Evgenia Radko
Analyst,
Research
Advisory & Transaction Services
+7 495 258 3990
evgenia.radko@cbre.com