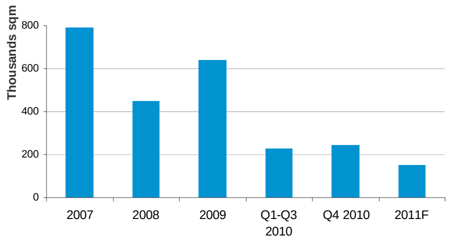
MOSCOW | RUSSIA

RESEARCH & FORECAST REPORT

Warehouse Sector

Chart 1. NEW SUPPLY OF CLASS A WAREHOUSE SPACE



Source: Colliers International

In Q3 2010, an increase in demand compared to the first half of the year was observed in the warehouse segment. Together with modest volumes of construction of new warehouse facilities in the current year, this led to a sharp drop in vacancy rates, from 11.7% at the end of H1 2010 to 7% as of the end of Q3 2010. This, in turn, affected the trend in rental rates, which, after a lengthy stagnation at the $100/sqm/year level for Class A warehouse properties and $90/sqm/year for Class B warehouse facilities, increased to $110 and $95/sqm/year, respectively.

The announced volume of high-quality warehouse properties to be commissioned next year is considerably lower than in 2010. Thus, the average annual growth rate for high-quality warehouse space in the Moscow Region in the current and the following year is approximately half that of the previous three years. This will have an effect of preserving the trend of the continuing decrease in vacancy rates and increase in rental rates. In addition, this may lead to a shortage of supply of high-quality warehouse space ready for tenant move-in by the end of 2011.

SUPPLY

In Q1–Q3 2010, approximately 230,000 sqm of Class A warehouse space were commissioned in the Moscow Region. The most significant property commissioned in Q3 2010 was Phase II of PNK-Chekhov warehouse facility, with a total area of 100,000 sqm.

Average annual growth rate for high-quality warehouse space in the Moscow Region in 2010–2011 is 1.5 to 2.5 times lower than in the previous three years.

Table 1. MAJOR CLASS A WAREHOUSE PROPERTIES IN THE MOSCOW REGION PLANNED TO BE COMMISSIONED IN Q4 2010

Property	Developer	Location	Phase, area, sqm
Aparinki	VVV Company	Kashirskoe Sh., 4 km from the MKAD	61,000
PNK-Chekhov	PNK Group	Simferopolskoe Sh., 50 km from the MKAD	Phase II, 60,000
Krekshino Logistics Park	RosEvroDevelopment	Kievskoe Sh., 24 km from the MKAD	Phase IV, 23,000
Industrial Park Istra	Espro Development / Raven	Novorizhskoe Sh., 40 km from the MKAD	Phase V, 20,000

Source: Colliers International

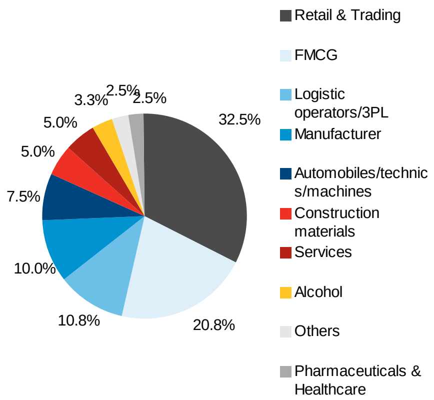
During the past year, the warehouse space vacancy rate declined from 18% to 7%.

Thus, by the end of Q3 2010, the total supply of Class A warehouse space in the Moscow Region amounted to about 4.93 mln sqm. By the end of 2010, about 240,000 sqm of high-quality warehouse space is expected to be commissioned. However, commissioning of some of the space could be postponed until the next year.

At present, about 150,000 sqm of Class A warehouse space has been announced for commissioning in 2011. Thus, by the end of 2011, supply in the Moscow Region's warehouse market will increase by almost 400,000 sqm.

As a result, the total amount of Class A warehouse space to be put into operation in 2010–2011 is approximately 630,000 sqm. This means that the average annual growth rate for high-quality warehouse space in the Moscow Region in the current and the following year is 1.5 to 2.5 times smaller than in the previous three years. By comparison, 790,000 sqm of Class A warehouse space were commissioned in 2007, 450,000 sqm in 2008, and 640,000 in 2009.

Diagram 1. BREAKDOWN OF DEMAND BY TENANT PROFILE



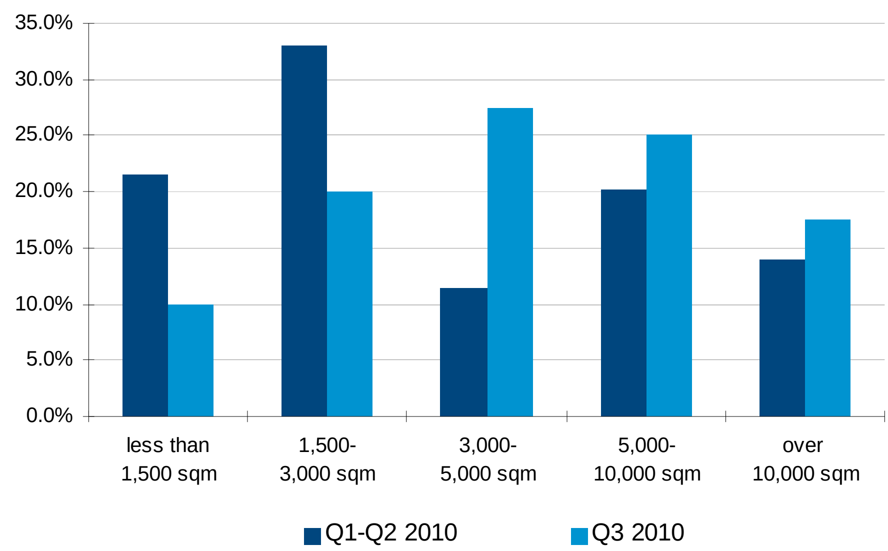
Source: Colliers International

DEMAND

In Q3 2010, the trend of increasing demand in the warehouse segment strengthened compared to the first half of the year. Thus, if during H1 2010, warehouse premises with an area of up to 3,000 sqm dominated in the structure of demand, then in Q3 2010, the demand shifted toward premises with an area of over 3,000 sqm. Their share in the total number of requests amounted to approximately 70%.

Retail operators and companies operating in the FMCG segment continued to dominate in the demand structure. They accounted for over 50% of requests in Q3 2010. Higher activity of logistics operators should be noted. Their share in the overall demand increased to almost 11% in the end of Q3 2010, slightly exceeding the level of demand on the part of industrial companies.

CHART 2. BREAKDOWN OF DEMAND BY REQUESTED AREA



Source: Colliers International

If during H1 2010, warehouse premises with an area of up to 3,000 sqm dominated in the structure of demand, then in Q3 2010, the demand shifted toward premises with an area of over 3,000 sqm.

Their share in the total number of requests amounted to about 70%.

Table 2. MAJOR LEASE TRANSACTIONS IN Q3 2010, MOSCOW REGION

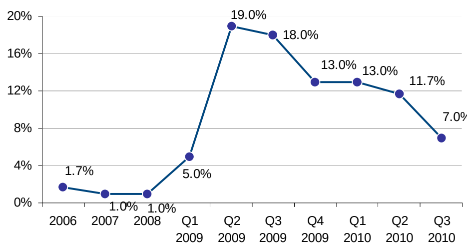
Tenant	Property	Location	Leased area, sqm
General Motors	Tomilino TLC	Novoryazanskoe Sh., 6 km from the MKAD	16,728
FixPrice	Krekshino Logistics Park	Kievskoe Sh., 24 km from the MKAD	12,429
TNT Express	Troitse-Lykovo warehouse complex	Moscow	10,885

Source: Colliers International

One should note the increased demand in the regional markets of warehouse facilities in Q3 2010. This manifested itself in several major lease transactions for warehouse space in excess of 15,000 sqm. The most significant of them are characteristic for St Petersburg, Novosibirsk, Yekaterinburg, and Rostov-on-Don.

VACANCY RATES

Chart 3. VACANCY RATES



Source: Colliers International

Higher demand in the warehouse segment that became more prominent in Q3 2010, together with modest construction volumes of new warehouse facilities characteristic of the current year, led to a sharp decrease in vacancy rates. For example, if at the end of H1 2010, vacancy rates in the warehouse market of the Moscow Region were at the 11.7% level, then, as of the end of the third quarter, this indicator amounted to 7%. Overall, during the past year, the vacancy rates for warehouse space declined from 18% to 7%.

RENTAL RATES

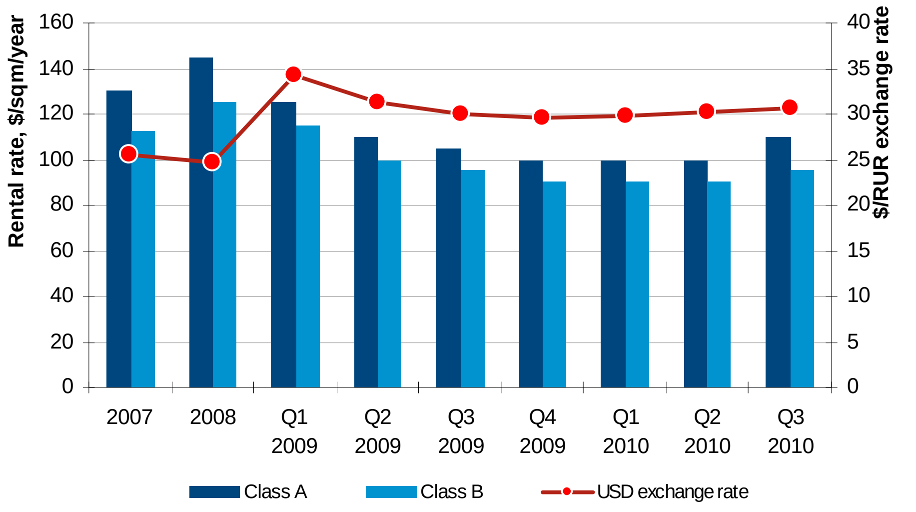
Significant reduction in the vacancy rates in Q3 2010 affected rental rates. After a lengthy stagnation at the $100/sqm/year level for Class A warehouse properties segment, by the end of the third quarter, this indicator has increased, amounting, on average, to $110/sqm/year. For Class B warehouse facilities, the asking rental rates amounted to $95/sqm/year.

Table 3. MAJOR LEASE TRANSACTIONS IN THE REGIONS IN Q3 2010

Tenant	Property	City	Leased area, sqm
Dixi-Petersburg	Logopark St Petersburg	St Petersburg	34,000
X5 Retail Group	Pyshma Logistics Park	Yekaterinburg	24,118
Confidential	Logopark St Petersburg	St Petersburg	11,173
Confidential	Logopark Rostov-on-Don	Rostov-on-Don	9,583
Kinetika	Pyshma Logistics Park	Yekaterinburg	8,400

Source: Colliers International

Chart 4. CHANGES IN RENTAL RATES*



Source: Colliers International

* excluding VAT, operating costs and utilities

TRENDS AND FORECASTS

According to estimates by Colliers International, vacancy rates will continue to decrease and rental rates to grow in the warehouse market until the end of 2010 and later in 2011. This is caused by higher demand for warehouse space in the environment of lower volumes of new construction in the current and the following year. As a result, the share of vacant warehouse space will be considerably lower not only in the operating warehouse facilities, but also in recently commissioned properties, where vacancy rates are rather high at present. This, in turn, will lead to a shift in demand to the warehouse facilities under construction.

Taking into account modest volumes of new warehouse facilities announced for commissioning during the next year, it can be projected that there will be a shortage of supply of high-quality warehouse space ready for tenant move-in by the end of 2011. Nonetheless, the increase in demand for land plots for warehouse construction in the Moscow Region that was observed in Q3 2010 should be noted. Because of this, we expect that new projects will be announced next year.

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