



Industrial real estate Outlook 2008

«The difficulty lies, not in the new ideas, but in escaping from the old ones...»

John Maynard Keynes

Satisfied demand for new industrial premises appears to be lower than it could have been. Developers due to some objective reasons limit the construction making the deferred demand grow. In other words, artificial demand restriction is being formed. The question is: shouldn't those regulating the market attempt to soften the rules of the game and expand the supply?

Main events

By the end of 2007 "Eurasia Logistics" had commissioned over 630 000 sq m of industrial space in Moscow and Ekaterinburg.

According to the plans announced the company is to construct 28 industrial parks by 2011 (including 4 in Ukraine and 4 in Turkey) with the total space of over 9 mln sq m which will be united over the brand name of GREENGATE.

The first phase of the industrial complex "ILP-Podolsk" with a total area of 100 000 sq m has been commissioned by «International Logistic Partnership» – it is the company's second scheme in the Moscow region. The object is to be commissioned in full in the third quarter of 2008.

In 2007 the British fund Raven Russia Limited announced its participation in new Moscow region projects: it is to invest into industrial premises construction in Lobnya (shared with Turkish developer EGL Holdings) and a warehouse complex at Kashirskoe highway (shared with the Russian company RDI Group) with the total space of over 150 000 sq m. Also by the middle of 2009 together with the construction company Felix Raven Russia plans to construct a Class A logistic complex with the total area of 109 000 sq m on Simferopolskoe highway in the city of Klimovsk.

Tendencies

The Moscow region industrial market saw the appearance of new practice in 2007: tenants subletting space to third parties. Developers of Class A industrial complexes tend to lease space in large blocks. Thus some companies rent space exceeding their needs and sublet the surplus. Logistic operators also offer "their own" space for rent since not all of them succeed in quickly building up an effective business and winning the confidence of potential customers.

Significant growth of new space has given rise to a tendency of Class A dominating the modern industrial supply. At the same time Class B supply has also been enlarged but with only a few new projects of small space.

Supply of land in the industrial category within 30 km from the MKAD sufficiently dropped leading to a sharp increase in the price of land plots. The price of one hectare of land rose on average 20-40% (depending on direction) in comparison with 2006.



Roman Bourtsev,
Partner, Director of
Warehouse, Industrial and
Land
Knight Frank

«2008 will see the appearance of the new tendency – sufficient demand growth for small premises. However, not all of potential tenants will be willing to turn to logistic operators»



Viacheslav Kholopov,
Associate director
Warehouse, Industrial and
Land
Knight Frank

«The cost difference for Class A and B warehouse construction is insignificant. Due to this developers more and more often decide upon Class A»

Forecast

In 2008 construction of 2 000 000 sq m of industrial space is being planned. However, from previous years' experience, a figure of 1 120 000 sq m appears more realistic being based on the following objects' characteristics:

Industrial development	Total space, m ²
ILC Severnoye Domodedovo - 2 phase	300 000
Logistic park Kryekshino	135 000
TLC Tomilino	120 000
"Ghelamco - 1 phase	120 000
FM Logistic – Stupino	120 000
Trilogy Park Tomilino	100 000
Logistic park Istra - 2 phase	90 000
ILP-Podolsk - 2 phase	80 000
Logistic park SouthGate - 1 phase	70 000
EGL Holdings	55 000
Industrial park Domodedovo	50 000

Source: Knight Frank Research, 2008

A threat of economic recession in America and Western Europe in 2008 will test Russian economy for durability. Western investors and banks' activity is likely to fall. Companies that have been planning to extend their business or start production in Russia may postpone their plans.

Such a situation could lead to a fall in activity on the Moscow region industrial real estate market: developers will leave their plans partly unrealized, new premises will be rented either by the companies already bound with lease commitments on warehouse developments or by the companies urgently requiring space. The rest of companies will replenish the deferred demand.