

# Strong Demand Continues for Warehouse and Industrial Space

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The South Gate Industrial Park is already home to major manufacturers.

Radius Group's expansion of the South Gate Industrial Park in the Moscow region confirms demand for high-quality warehouse and production space remains high.

With an 8.4 billion ruble (\$248 million) 10-year loan from state-controlled Sberbank, Radius Group plans to build an additional 220,000 square meters of warehouse and light manufacturing space at the industrial park 30 kilometers south of Moscow, the company announced Monday.

More than half of the constructed space will be taken up by four complexes, built-to-suit for the clients of the industrial park.

The industrial real estate sector is attractive for developers as demand for high-quality production and warehouse facilities remains strong and so are the projected returns on

investment, industry analysts said.

“Investments into industrial and warehouse real estate in Russia amounted to \$1.3 billion in 2013, which beats the records set in the previous year by three times,” said Valentin Gavrilov, the head of Russian market research division at CBRE.

Good quality projects, offered for sale, will quickly find customers, he said, and the demand is likely to stay high in 2014.

“The number of closed deals will only be limited by the availability of high-quality property offered for sale,” Gavrilov said.

The total capacity of South Gate is 650,000 square meters, which Radius Group is gradually developing for its tenants. More than 180,000 square meters have been commissioned and put into operation so far for such international majors as General Motors, John Deere, Decathlon, Hartmann, Kimberly-Clark and Volvo Trucks.

Radius believes that other regions will eventually see similar projects. “It is only a matter of time as the Russian regions are developing quickly as evidenced by the continued regional growth of the major retail chains,” said Chris Van Riet, Radius Group managing director.

Besides the development at South Gate, there are several similar projects in the works around Moscow.

PNK Group is due to construct an industrial complex for Volkswagen in PNK Chekhov-2, 50 kilometers south of Moscow. Raven Russia will build a multi-temperature warehouse, located in Eastern Industrial Park, 44 kilometers east of Moscow, for retailer Dixy.

However, the ongoing construction will not be enough to satisfy existing demand, which may result in growth of rental prices, real estate analysts said.

According to a recent report by Colliers International, the deficit in the supply of quality industrial space will stimulate growth of rental rates up to \$140 per square meter and may lead to a change in demand for space located further from the Moscow Ring Road, or MKAD.

Currently, 65 percent of available industrial premises are located 15 to 30 kilometers from the MKAD, the report said. Vacant industrial property is mainly concentrated east and south of Moscow, which accounts for nearly a third of all available space.

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