

# LOGISTICS AND WAREHOUSE MARKET IN SAINT PETERSBURG 2014

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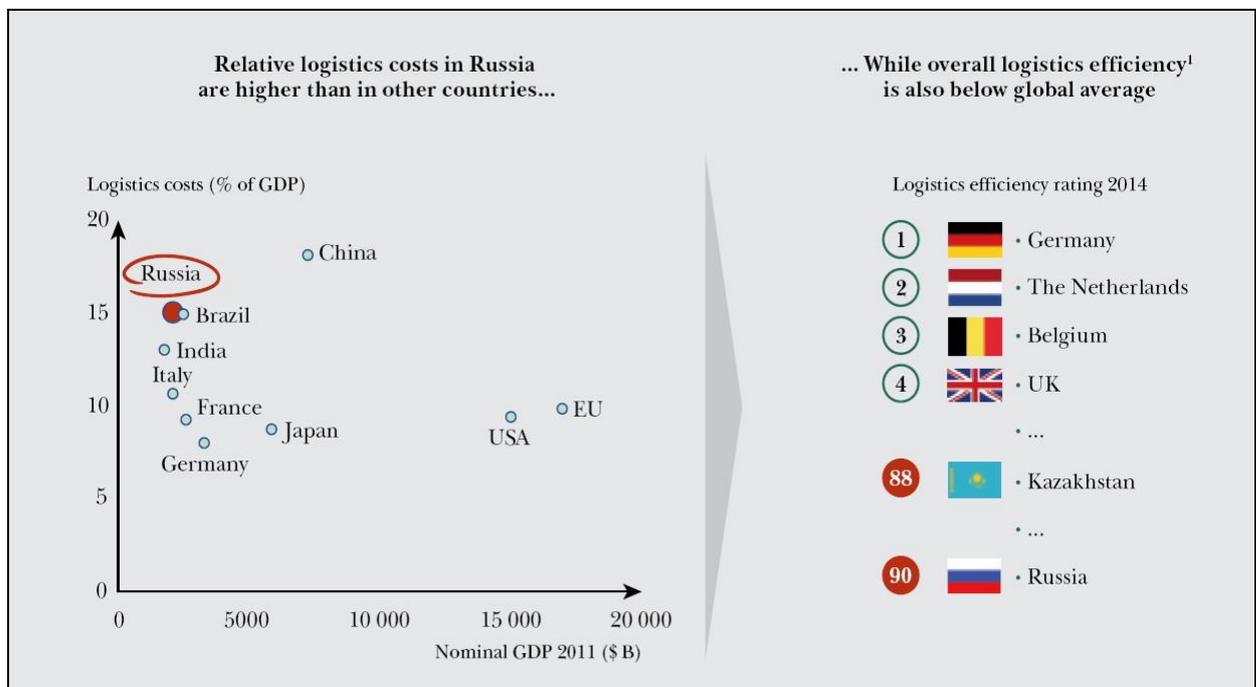
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## Market overview: key features, problems and development trends

The Russian transport and logistics market employs approximately 3800 companies that offer transport and freight forwarding services (companies registered in Russia including their subsidiaries): 2800 shipping companies and 1000 freight forwarders.

The level of logistics spending in Russia is one of the highest in the world. Cumulative internal and external shipping and logistic costs in Russia amount to 20% of the country's GDP, against China's 15% and 7-8% across Europe. The difference between Russian and global indicators can be partly accounted for the size of the country and its huge distances, however low efficiency of its transport and logistic system is still important. According to the World Bank<sup>1</sup>, in 2014, Russia ranked 90th out of 160 countries by level of development of the logistics system, sandwiched between Sri Lanka and Uruguay. Many other countries with vast territories showed a much better performance: the United States placed 9th in the rating, Canada landed 12th, Australia 16th, China 28th, Brazil 65th.

**Figure 1. Logistics efficiency benchmarking**



Russia's inefficient transport and logistic system is one of the key factors hindering the development of the national economy. So, Russia should reduce its transport and logistic costs to the world's average.

Here are a few benefits that the country will gain once the problem is fixed:

- 11% of GDP, it would save up to 180 billion US dollars per annum. For example, Russia's annual investments into infrastructure total 45 billion US dollars.

<sup>1</sup> The World Bank: "Connecting to Compete 2014. Trade Logistics in the Global Economy. The Logistics Performance Index and Its Indicators."

- Development of the transport and logistic system will not only help optimize costs, but also deflate company's working capital.

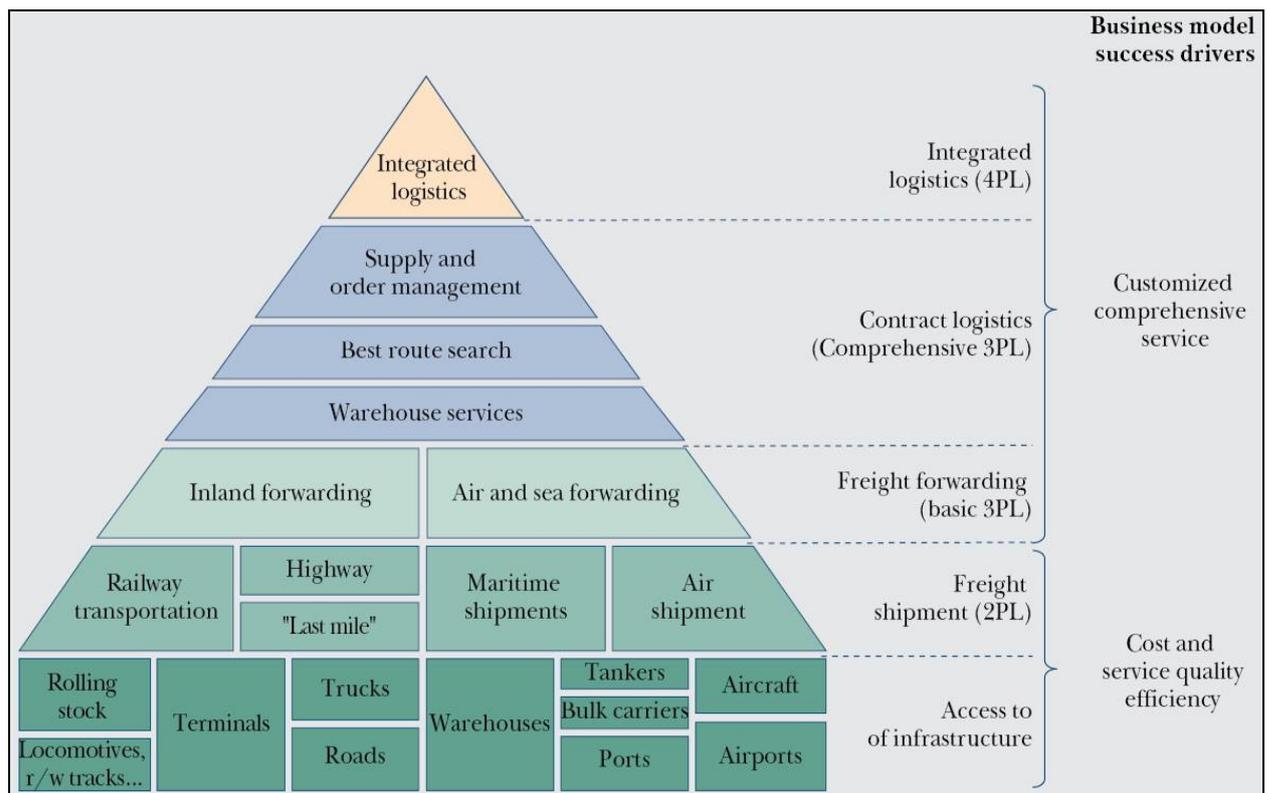
For many years, Russian companies had little concern about logistics efficiency. Six years ago, during the macroeconomic rise, shippers were mainly focused on business development and growth. That meant that their logistics services were primarily concerned with delivering cargoes, i.e., ensuring production ran on time and in full.

But the financial crisis in 2009 resulted in stagnation and cost saving including transport and logistic costs. So today many Russian companies try to improve logistics efficiency and optimize logistic costs.

The Russian transport and logistics market consists of five segments:

- Assets and infrastructure
- Cargo shipping (2PL services)
- Freight forwarding (3PL services)
- Contracted logistics (comprehensive 3PL services)
- Integrated logistics (4PL services)

**Figure 2. Transport and Logistics Market Structure** <sup>2</sup>



The Russian transport and logistics market is characterized by 4 main features:

1. According to the Boston Consulting Group, the share of outsourced transport and logistic services in Russia is only 20%, while the global average is 40-50%. The market volume is relatively low and can expand significantly under certain conditions.

<sup>2</sup> The Boston Consulting Group. [Logistics in Russia: New Ways to Tap Potential](#). p. 9

2. The services aimed at outsourced providers are limited to inbound and outbound logistics, while globally there is an increase in outsourced internal logistics and inventory management. Of course, even globally the share of outsourced internal logistics and inventory management is still rather low (about 12-14%), however this segment has a significant growth potential.
3. Compared to other countries, Russia has a higher share of basic transportation services and a lower share of 3PL/4PL services. This can be explained by both a high share of commodity cargoes and a lack of supply from 3PL/4PL logistic companies.
4. The Russian market is dominated by the integrated transport and logistic service model, while in the majority of developed countries (especially in the United States) players tend to focus on specific parts of the pyramid. A typical example of a Russian transport and logistics company is Russian Railways (OAO RZD [www.rzd.ru](http://www.rzd.ru)). The company manages and invests in railway infrastructure, has a big rolling stock and provides basic transportation and 3PL-services through affiliated and subsidiary companies.

Over the last 3 years, Russia's transport and logistics market has been growing more than 19% p.a., with the freight forwarding segment growing the fastest. Over the next 10 years, the Russian transport and logistics market is expected to grow by 15% p.a.

There are five main problems that suspend the development of Russia's transport and logistics market:

- Low quality of basic transport services
- Underdeveloped infrastructure partly due to lack of investments
- Lack of high-quality logistic infrastructure, namely terminals and warehouses
- Customs
- Legal barriers at the border

To resolve these issues the government should continue to improve the regulatory framework, establish a barrier-free environment, encourage private investments in infrastructure projects and create a favourable business climate to booster partnerships and consolidate the market.

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## Warehouse Market in Saint-Petersburg

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The availability of modern storage facilities has improved significantly due to increasing demand from retailers. New storage facilities and logistics terminals were built in Moscow and St. Petersburg in the last few years. These facilities are equipped with modern technologies and IT systems. They are connected to main highways; some have a good connection to railway or ports.

2013 was a very fruitful year for many warehouse developers and managers. The total storage area that was commissioned in 2013 reached 303 thousand m<sup>2</sup>. Most of warehouse space was booked in advance under pre-lease contracts. So, the warehouse market is gradually recovering from stagnation faced over the past years.

According to Jones Lang LaSalle ([www.jll.ru](http://www.jll.ru)), the total high-end storage area in Saint-Petersburg reaches 2,5 million m<sup>2</sup>: the total speculative area is approximately 1,5 million m<sup>2</sup>, the total build-to-suit area is 1 million m<sup>2</sup>. Experts of Jones Lang LaSalle expect that the total storage area that will be commissioned by the end of 2014 will reach 377 thousand m<sup>2</sup>.

Most of new storage facilities are concentrated in the southern part of the city: Shushary, Gorelovo, Rybatskoe, near the Moskovskoe shosse. Other developing areas include: Utkina Zavod, Parnas, Bugry, Pargolovo (see the map of warehouses below).

It is expected that a number of new modern storage facilities will be launched in Saint-Petersburg in 2014.

**Table 1. Warehouses to be commissioned in 2014.**

Name	Location	Class	Area, m <sup>2</sup>	Developer
PNK KAD	Shushary, Sofiyskaya ul. – ring road	A	93 000	PNK Group <a href="http://www.pnkgroup.ru">www.pnkgroup.ru</a>
Armada Park	Shushary, Moskovskoe shosse	A	76 000	Adamant <a href="http://www.adamant.ru">www.adamant.ru</a>
Osinovaya Rosha - 3	Pargolovo, Vyborgskoe shosse	A	50 000	Sterh <a href="http://sterh-corp.ru">http://sterh-corp.ru</a>
Logistics Terminal Troitsky	Obukhovskoi Oborony pr. 295	A	43 000	Resolute Asset Management <a href="http://resoluteam.com">http://resoluteam.com</a>
STK	Bugry	B	27 000	Invest-Bugry <a href="http://spbcomplex.ru">http://spbcomplex.ru</a>
Ladoga	Vsevolozhsk	B	8 400	Agrotrade <a href="http://www.baltstroypb.ru">www.baltstroypb.ru</a>
Murino –3	Murino	B	7 000	PromStroyKapital
Konnaya Lahta	Konnaya Lahta	A	5 500	No data

Source: Knight Frank Research, Astera

One of the largest storage facilities that will be launched in 2014 is “Armada Park”. The total storage area of the facility is 76 thousand m<sup>2</sup>, 70 thousand m<sup>2</sup> is a speculative space.

**Table 2. Warehouse KPIs as of 3Q 2013**

KPI	Figure
Total Supply	1, 09 million m <sup>2</sup>
New Supply	18 500 m <sup>2</sup>
Rented Warehouse Space	122 000 m <sup>2</sup>
Vacancy Rate	0%
Rental Fee, Class A	\$ 125-130 m <sup>2</sup> per annum*
Rental Fee, Class B	\$ 100-120 m <sup>2</sup> per annum*

\* Exclusive of VAT and maintenance costs

Source: Colliers International

The vast majority of tenants occupying warehouse space are large retailers, distributors or logistics companies. Today, Saint-Petersburg has approximately 40 high-end storage facilities (see the map of warehouses below).

The low vacancy rate in high-class storage facilities will remain which is supported by the fact that the majority of space in new warehouses is already rented under pre-lease contracts. An increase in rental rates is rather expected which is caused by a lack of supply on the warehouse market. The built-to-suit segment will keep developing in the coming years.

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