

In Fight For Passengers, Railroads Invest In Stations

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Russian Railways has sought out its first outside investors to modernize the infrastructure of its 353 stations across the country, in an effort to keep passengers on its tracks and fend off rising competition from air carriers.

Gaztekhleasing, a subsidiary of state gas giant Gazprom, and Canadian company Trinity Development set out plans to invest more than \$8 billion in train stations and transport hubs at the Next Station international conference held last week.

The announcement came just days after Aeroflot, the country's biggest airline, said it planned to launch a low-cost airline called Dobrolyot starting next year, with several destinations from Moscow, including St. Petersburg, Samara and Yekaterinburg.

Fares will be 40 percent lower than their current rate, Aeroflot said, making prices competitive with the cost of train tickets.

But more comfortable stations and quicker interchange time between different modes of transport in cities would serve as an added value for train service, the CEOs of European railroad companies said at the conference.

In a burst of activity, Trinity Development is to start commercial development in and around Moscow's Kursky, Paveletsky and Vykhino stations, as well as at the main train station in Perm, a regional center west of the Ural mountains.

Gaztekhleasing will finance the building of 10 transport interchange hubs based at Moscow metro stations.

The reconstruction of train stations and hub development is part of a larger long-term investment plan by RZhD Rail Stations Development, a subsidiary of state-owned Russian Railways, to spend \$15.5 billion on the creation of modern transportation nodes around the country.

"This large investment program calls for joint efforts by Russian Railways, financial institutions, rail operators and local authorities ... to give passenger infrastructure a completely different look and feel," said Sergei Abramov, chairman of the board of RZhD Rail Stations Development.

The plan envisions the construction of 255 transport hubs over the next 8 years, which will offer easy access to different means of transport in Moscow and the surrounding region. By 2030, the goal is to modernize all key train stations across the country.

Travel times, however — in which airlines have huge added value — are not likely to see such a revolution. Aside from a small number of high speed lines between major cities, trains on the majority of routes will continue to crawl.

According to Abramov, the investment model for stations is to build up transport infrastructure first — with either the company's own or attracted funds — and then offer the area in and around the hubs to private investors for further development.

Investor interest in both transport and commercial infrastructure projects is high, he said.

"It is hard to make money on similar projects in Europe," Abramov said. "Russia offers more opportunities."

Besides Gaztekhleasing and Trinity Development, other large European transportation companies are eyeing Russian market, he said. Also, money from Asian pension funds may be channeled into development projects at train stations across the country.

Such projects would bring dividends for both sides, experts said.

"Retail development in and around the stations will make them more comfortable for passengers. Considering the number of people that pass through them, especially at the largest Moscow stations, it is an effective revenue generator for investors," said Anton Korotaev, head of retail consulting at Jones Lang La Salle Russia & CIS.

The most promising businesses around stations, he said, would be shops offering basic

consumer goods, some services and restaurants.

This insight is borne out in the market. Rosinter, which operates restaurant chains such as Il Patio and Planet Sushi, already runs 45 restaurants and cafes at eight Moscow transportation hubs. It plans to open 13 more in the next two years at major train stations in the capital.

The station modernization program shows that the government has finally come up with a clear vision for the sector and recognizes that railroad infrastructure is vital for the economy, rail experts said.

"The railroad has a very high added value in terms of national development and international exchange. The mobility of people and goods everywhere in the world is directly connected to GDP," said Jean-Pierre Loubinoux, the head of International Union of Railways.

"There is a necessity for a state long term vision and as I understand some of it is now appearing. We see the blessing for the Moscow to Kazan high speed line, the open door for new investments to develop the network, the refurbishment of the stations. We see new rolling stock coming, the links with the airports appearing. These are all positive signs," he said.

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