

Russia's Economic Slump Forces Logistics Firms Into the Regions

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Correction appended.

As demand for new warehouse space collapses in Moscow amid Russia's close-to-zero economic growth, logistic firms are flocking to the regions in a bid to keep up profits.

According to a recent report by real estate consultancy Jones Lang LaSalle, Moscow's logistics industry has been particularly hard hit by Russia's economic slump. In the first nine months of this year warehouse use was almost 40 percent lower than in the same period last year, the report said.

JLL does not expect the situation to improve by year's end as Russia's struggling economy has

yet to show signs of recovery.

The new trend in the industry is to flock to Russia's regions instead, said Vladimir Serebryakov, director for business development at the Russian subsidiary of French group FM Logistic.

"Most of the biggest logistics companies have announced Russia's regions as being part of their expansion plans, including ours," Serebryakov said.

Large multinational companies like FM Logistic have also grown on the strength of their superior resources and expertise, Serebryakov said, noting that as the market worsened some small companies had been forced to exit.

STS Logistics, another large company, has also been expanding to the regions together with its clients. Last year it started providing complex logistic services for X5 retail group in the Volga region, for French retailer Auchan in Novosibirsk and for German retailer's Metro Cash & Carry stores in the Rostov region.

Large firms may even stand to reap large rewards. FM Logistic last week reported 50 percent increase in turnover, which for the 2013-14 financial year ended in March grew to 310 million euros (\$390 million). Warehouse space under the company's operation has increased by 30 percent.

"We expect further turnover growth of 15 percent by the end of this fiscal year," said Christophe Menivar, head of FM Logistic Russia.

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If slow economic growth continues, logistics companies may also benefit from small and mid-sized firms choosing to outsource their storage and logistics rather than rent their own warehouse space, said Pyotr Zaritsky, regional director and head of the industrial and warehouse department at JLL Russia & CIS.

Correction: An earlier version of this article referred to an international logistics company named FM Logistics. The company's real name is FM Logistic.

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