Moscow, Russia – Market Snapshot

This market snapshot is the fourth in a series of articles that HVS will be producing every month on a series of key markets. In writing these articles we aim to combine the market expertise of HVS with STR Global data for each key market. Our analysis for this market is based on a sample of more than 9,000 rooms, as provided by STR Global. We consider that in today's challenging environment a regular update is more vital than ever in helping to assess the changing market conditions and determine the best strategy for each hotel.

Highlights

- Russia's strong economic growth in recent years has helped Moscow to attract business demand, which resulted in a compound annual growth in tourist arrivals of approximately 13% from 2006 to 2008;
- As result of the global economic slowdown, the overall trading performance in the Russian capital has shown weaker year-to-August results compared to previous years, with a year-to-August 2009 occupancy decrease of 13% on 2008, and average rate decreases of 20% and 34% in roubles and euro, respectively. The average rate decrease in euro was further impacted by the devaluation of the Russian rouble against the euro;
- Moscow remains the country's main city for hotel development. According to the Moscow Department for Hotel Coordination, in 2008 there were an estimated 247 hotels with approximately 79,400 beds. New supply in the city is expected to increase by over 7,000 branded hotel rooms in the next three to four years, most of which will be in the upscale segment, further emphasising the need for quality hotels in the midscale and budget segments.

Cristina Balekjian, Market Intelligence Analyst

Saurabh Chawla, Associate Director

HVS – LONDON OFFICE

7-10 Chandos Street
London W1G 9DQ
UK
Tel: +44 20 7878 7700
Fax: +44 20 7878 7799

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DEMAND

- Moscow is one the largest city economies in Europe and its prime industries include chemical, metallurgy and energy production;
- Owing to a significant proportion of Russia's wealth and development being concentrated in Moscow, and because of its visitor attractions, such as the Kremlin and Red Square, the city manages to attract a large quantity of both domestic and international business and leisure travellers, recording approximately 4 million visitors in 2008;
- Total visitation to Moscow grew at an annual compound rate of approximately 12% over the past decade, according to figures provided by the Committee for Foreign Economic Relations of Moscow City;
- According to Moscow's Committee for Tourism, total tourism arrivals for the first half of 2009 have shown a double-digit decline of 19% to just over 1.5 million visitors, as a result of the economic crisis which started to affect Russia during the last quarter of 2008;
- Key source markets, according to tourism officials, include Germany (with nearly 300,000 visitors in 2008), the USA (with just over 150,000) and the UK (with approximately 144,000);
- Dwindling oil prices and a drop in demand for metals due to global economic conditions have affected the Russian economy, and thus impacted demand from both domestic and international business travellers.

Seasonality

Chart 1 shows the seasonality of hotel occupancy in Moscow for 2007, 2008 and year-to-August 2009 for the overall hotel market.

Chart 2 shows the 12 month moving average of hotel occupancy, average rate and RevPAR in Moscow from January 2008 to August 2009

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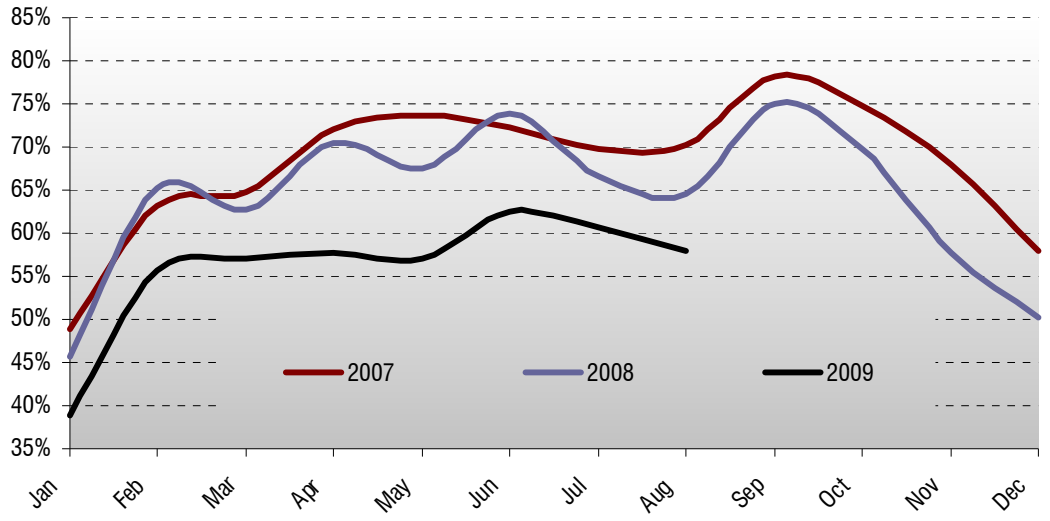
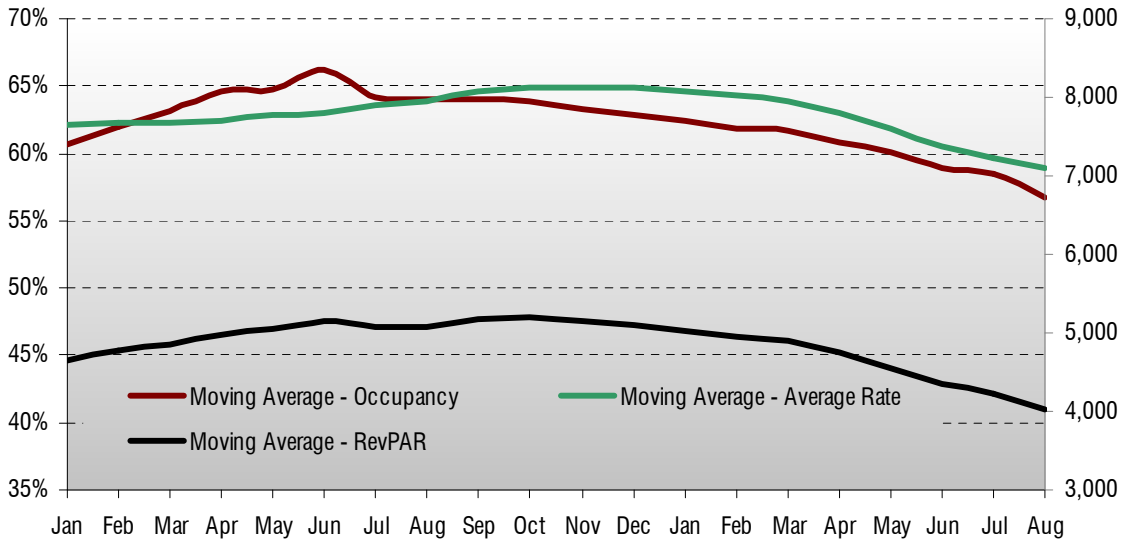
Chart 1 Seasonality – Monthly Occupancy 2007, 2008 and Year-to-August 2009



Source: STR Global

Chart 2 12-Month Moving Averages – Occupancy, Average Rate and RevPAR January 2008 – August 2009 (Rb)



Source: STR Global

Moscow is predominantly a business destination, and, as such, a lower proportion of leisure business is generated. Leisure demand is greatest at weekends and during the summer months and it is mainly concentrated around the city's cultural and historic attractions, such as the Kremlin, Red Square, theatres, museums and opera houses. Since 2003, Russia has

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shown good signs of recovery after the economic crisis of 1998 and the global economic slowdown of 2001 and 2002, when international companies scaled down their travel expenses. Until 2008, this was reflected by an increase in business travellers visiting the city for meetings, conference and events. So far, 2009 has seen a decrease in visitation because of economic slowdown, decreasing oil prices and falling demand in the metallurgic industry, and this has consequently impacted business travel to the city and hotel occupancy levels.

Traditionally, the low season in Moscow is the months of December and January, owing to New Year celebrations in Western Europe and Russia, and May, July and August, when business and conference visitors typically take holidays. September and October are peak months in Moscow as business activities in the city resume after the summer months. It will be interesting to note how hotels perform this autumn as that will be an indication of whether the hotel market has bottomed out or not in Russia?

As shown in Chart 3, the economic slowdown in 2009 has accentuated the drop in demand during the traditionally low-season months such as January and February, and from April to June, with April showing the steepest decline with a drop of 18%. Year-to-August 2009 occupancy decreased by 13 percentage points on the same period in 2008. We expect occupancy to continue this downward trend until the end of the year and we expect 2010 to register occupancy levels similar to that of 2009.

HOTEL PERFORMANCE

The analysis in this market snapshot is based on a sample of mostly branded hotels within the Moscow hotel market. The sample includes 9,125 rooms. Charts 3 and 4 show the year-to-August hotel performance for the hotel market in Moscow from 2007 to 2009 in Russian roubles and euro.

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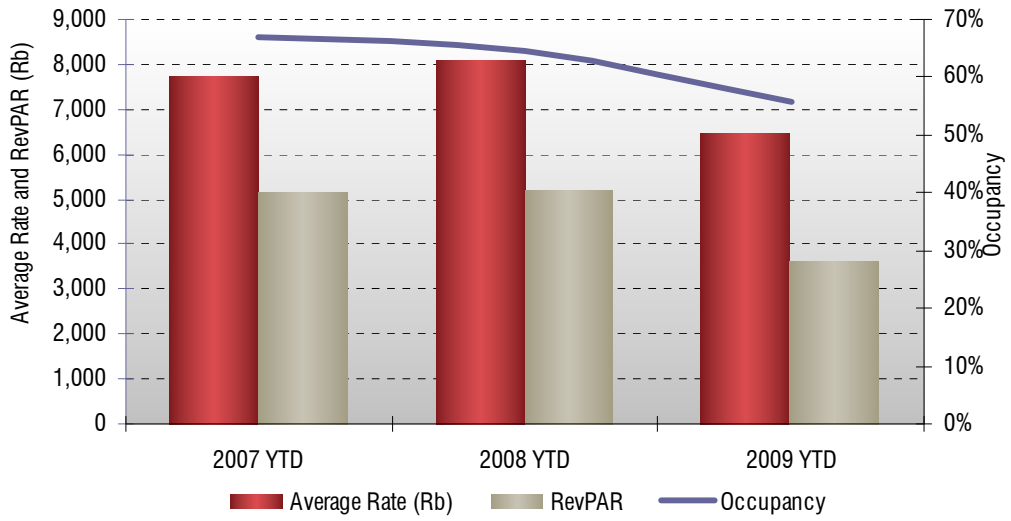
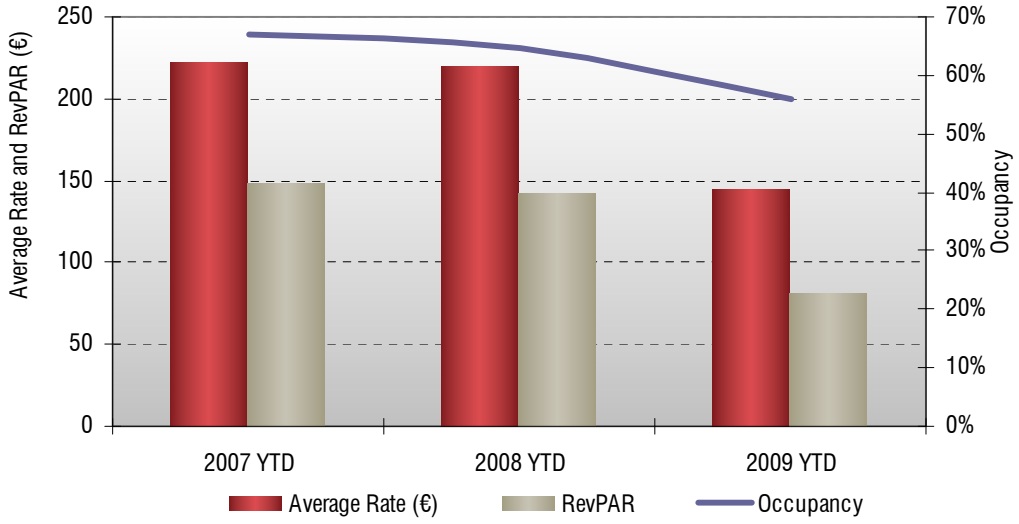
Chart 3 Year-to-August Hotel Performance in Moscow 2007-09 (Rb)



Source: STR Global

Chart 4 Year-to-August Hotel Performance in Moscow 2007-09 (€)



Source: STR Global

Year-to-August average occupancy declined from 67% in 2007 to 65% in 2008 and 56%in 2009. Moscow, like many other markets worldwide, saw hotel performance peak in 2007. The following year saw a slight drop in terms of occupancy, due partly to the addition of new hotels in the market, such as the 275-room Hilton Leningradskaya and the 117-room Park Inn Sadu, and the initial impact of the global economic crisis on Russia, which started to affect the aggregate hotel occupancy in the

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fourth quarter of 2008. Occupancy continued to drop in 2009 as a result of many factors which affected the Russian economy, including lower oil prices, decreased levels of oil production and a decrease in demand for the country's metals, which consequently has adversely impacted the country's most prominent industries.

The significant imbalance between the strong demand for hotel accommodation and the shortage of hotel supply is clearly reflected in the growth of overall market average rates in recent years. Average rate growth has slowed in 2009, but despite the impact of the dwindling economy and weakening rouble, the market was still able to produce a growth in average rate in rouble and euro in 2008 of 5% and 1%, respectively.

Meanwhile, rates have already fallen and are expected to continue to drop in 2009, as the global financial and economic crisis takes hold in Russia. Average rate decreases are the result of most of the luxury and upscale hotels lowering their rates to attract guests. Year-to-August figures show that average rates in euro have decreased by 34% to €145, from €220 in 2008, and average rates in roubles have dropped by 20%. Average rates in euro have also been affected by the significant devaluation of the rouble this year; in numerical terms this devaluation has wiped off approximately €32 from the marketwide average rate. However, the year-to-August 2009 marketwide average rate is still relatively high compared to other European cities, with only central Paris and Geneva registering higher rates than Moscow.

As a consequence, and as shown in Charts 3 and 4, year-to-August 2009 saw a substantial drop in RevPAR. Year-to-August 2007 and 2008 both represent strong years before the 'credit crunch' took its toll. However, year-to-August 2009 represents the 'post-Lehman' period, which has affected Moscow extensively, like many other global cities. This has resulted in a drop in RevPAR of 31% in roubles and a mighty 43% in euro.

SUPPLY

Moscow is currently undersupplied in terms of quality hotel rooms in all categories, although the city has a healthy pipeline of hotel projects within the upscale and luxury categories. Quality hotels in the budget and midscale segments, on the other hand, are lacking and the outlook for projects within these segments looks slim; thus, there is opportunity for the entry of international mid-market and budget brands into the market. We understand that the local government has recognised the need for better-quality hotel rooms in the city and we understand that is currently encouraging investment for the development of new hotel projects, as part of its master plan for the hotel industry.

New Supply

Table 1 highlights the most relevant new openings and future developments.

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Table 1 Future Supply – Moscow

Proposed Property	Category	Number of Rooms	Opening Date	Location
Radisson Royal Hotel	5-star	507	2009	"Seven Sisters"
Renaissance Moscow Monarch Centre Hotel	5-star	366	2010	Leningradsky Prospect
Grand Hyatt Moscow Residences & Spa	5-star	368	2010	Moscow-City
InterContinental Moscow Tverskaya	5-star	203	2010	Tverskaya
Lotte Hotel Moscow	5-star	304	2010	Novinskiy Boulevard
Four Seasons Moskva	5-star	185	2011	Kremlin Square
Kempinski Hotel Nikolskaya	5-star	200	2011	Lubyanka Square
Kempinski Hotel Beriozki	5-star	200	2011	Povedniki (Outer Ring, Moscow)
Mandarin Oriental Moscow	5-star	237	2011	Tverskaya Street
Raffles Moscow	5-star	130	2011	Kitay-Gorod
Sofitel Moskva City	5-star	290	2011	Moscow-City
Shangri-La Moscow	5-star	400	2012	Park Huaming Business Centre
Holiday Inn Ryazansky	4-star	240	2010	Ryazansky
Scandic Khimki	4-star	300	2010	Leningradskoye Sh.
Radisson SAS Riverside Hotel	4-star	150	2010	Volokolamskaya
Radisson SAS Belorruskaya Hotel	4-star	264	2010	Jamskoggo Polja
Courtyard by Marriott Moscow Paveletskaya	4-star	170	2010	Paveletskaya
Radisson SAS Olympisky Hotel	4-star	362	2011	Olympisky Prospect
Novotel Moskva City	4-star	350	2011	Moscow-City
Mercure Arbat	3-star	110	2011	Smolenskaya Square
Novotel Gostiny Dvor	4-star	180	2012	Varvarka street
Ibis Leningradsky	3-star	310	2012	Leningradsky Prospect
Novotel Volga	4-star	270	2013	Dokuchaev Lane
Mercure Suchevsky Val	3-star	260	2014	Suschevsky val street
Holiday Inn Crocus City	4-star	1,000	2014	Crocus City
Total		**7,356**		

Source: HVS Research

We comment as follows on the new supply in Moscow.

- Due to reopen in December, the former Hotel Ukraina is currently under renovation and reconstruction to become the Radisson Royal Hotel. The hotel will have 507 rooms and 38 serviced apartments, and it is set to become Rezidor's new flagship property in Moscow. The hotel is part of a historic building in the city centre, which is one of the famous 'Seven Sisters' buildings;
- Rezidor will continue its expansion in the city by opening another three Radisson properties in the next couple of years: the Radisson Riverside Hotel (2010), the Radisson Belorruskaya Hotel (2010) and the Radisson Olympisky Hotel (2011), which will add a further 776 rooms to the market by the end of 2011;
- In September, InterContinental Hotels Group (IHG) announced the opening of the 203-room InterContinental Moscow Tverskaya, which is scheduled for completion in 2010. The hotel will be the centrepiece of a 64,000 m² retail and office development at the site of the former Minsk Hotel. The opening of this hotel will reinforce IHG's development strategy in the country; the company currently has

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thirteen properties in the pipeline, including the 1,000-room Holiday Inn Crocus City, which is expected to open in 2014;

- The city is also set to see a great influx of new luxury hotels with the entrance of prominent brands such as Shangri-La and Mandarin Oriental. We expect to see more than 3,000 rooms added to the five-star category. The Mandarin Oriental is a 250-room 'upside-down' hotel currently being constructed in a historic building in Moscow's Tverskaya Road. It will offer a variety of restaurants and bars, two ballrooms, a spa and 6,000 m^2 of luxury retail outlets. This hotel is expected to open in 2011. Shangri-La Hotels and Resorts has signed an agreement with China Huaming International Investment Corporation for the management of its Moscow property; this hotel is scheduled to open in 2012 and will comprise 400 rooms, Chinese and Russian restaurants, a wide range of meeting and function rooms and recreational facilities. The hotel is to be located in the Park Huaming Business Centre;
- In addition, Four Seasons is also expected to extend its presence in the Russian capital. The first project is the Four Seasons Moskva, formerly the Hotel Moskva, on Kremlin Square, which is considered to be the best location in the city. However, our research indicates that because of the worldwide economic crisis the construction of this project has temporarily stopped and the hotel may not open until 2011. Once opened, the hotel will have 185 rooms and 96 residences. We understand that Four Seasons is also planning to develop the Four Seasons Sofiyskaya, which is envisaged to be an 80-suite hotel on the Sofyiskaya embankment, in the vicinity of the British ambassador's residence. This project is still in its early stages and the hotel is expected to open around 2013;
- Hyatt is currently developing what is considered to be the tallest building in the city. The Grand Hyatt Moscow Residences & Spa will include 368 rooms and suites and eighteen one-bedroom and two-bedroom apartments. The apartments will be rented to guests staying for at least one month or longer. Facilities will also include a 1,400 m^2 spa, a swimming pool, a health and fitness centre, a restaurant and bar offering Japanese and French cuisine, a coffee-bar and a champagne bar;
- Marriott is also enhancing its presence in the city with the Renaissance Moscow Monarch Centre Hotel, which is expected to open in February 2010, and the 170-room Courtyard by Marriott Moscow Paveletskaya, which is also due to open in 2010. The 366-room Renaissance Moscow Monarch Centre Hotel will be part of a mixed-use complex, comprising offices and a shopping centre, at the intersection of Moscow's Third Ring Road and Leningradskiy Prospect. In addition, a management contract has been signed for a second Courtyard by Marriott hotel in Moscow. Like the Renaissance,

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this hotel will be part of a mixed-use compound with offices and a two-level underground parking garage, near Paveletskaya Railway Station. Facilities will include an all-day dining restaurant and bar, a fitness centre and 247 m^2 of meeting space;

- Accor's strong commitment to the market is reflected by a strong pipeline of just over 1,700 rooms. The upcoming years (until 2014) will see the hotel operator introduce four of its brands to the city including one Sofitel, three Novotels, two Mercures and two Ibis hotels including the recently opened 147-room Ibis Moscow Paveletskaya at the heart of Moscow's business district;

- Finally, Kempinski will add 400 rooms to the market in 2011 with the opening of two new hotels: the Kempinski Hotel Nikolskaya and the Kempinski Hotel Beriozki. The Nikolskaya is currently being constructed in a complex of historic buildings and will comprise 200 rooms, a number of restaurants, conference facilities, a fitness centre, an indoor swimming pool and designer boutiques. The Beriozki will be a resort destination, about 11 km from Moscow city centre, including 50 Marina apartments and 40 villas in addition to the hotel's 200 rooms and suites. Additionally, it will offer extensive spa facilities with indoor and outdoor pools, a conference centre with seminar rooms, a restaurant and bar and a specially designed market square.

CONCLUSION

Moscow continues to be a business destination with approximately 80% of hotel demand being generated by this segment. Business generated by the oil and metal industries was affected by the global financial crisis towards the end of 2008 and into the 2009, leading to a drop in business travel to the capital and a downward effect on hotel demand in the city.

In recent years, the strengthening of the country's economy has managed to attract interest from international investors across a number of industries. As a result, overall visitation has increased over the past ten years, with the number of arrivals in 2008 amounting to double that of 2002. Moscow remains underdeveloped as an international tourist destination; however, recent trends in tourist visitation to the Russian Federation reflect positive growth in the long term. The establishment of the Moscow Tourism Development Programme shows to some extent the government's commitment to the promotion of tourism. Moscow City Government has forecast a tourist flow of ten million annually by 2010, including five million foreign visitors. However, visa regulations and the current economic climate are likely to slow this development, even though the weakening Russian rouble is an advantage for foreigners.

Due to Moscow's high real estate costs, the current hotel capacity of the city is quite scarce. However, the city is now seeing the emergence of more international brands and offers further opportunity for investment in the hotel sector, across all categories. Although at present there are

relatively few internationally branded hotels compared to major cities like London and Paris, the outlook for new projects is positive. As most of the future supply will be concentrated in the upscale and luxury categories, we consider the prospect for hotels in lower categories to be promising as the demand for cheaper accommodation increases to satisfy the needs of an increasing amount of price-sensitive visitors to the city.

The hotel market in Moscow, like many other cities, has suffered a significant drop in RevPAR so far this year. Although this may ring alarm bells for some, the city's year-to-August average rate is still relatively high when compared with other main European cities; this, combined with low payroll and energy costs, puts Moscow hotels in a far better position than most of its European counterparts.

We consider Moscow to be a growing market despite the current difficult trading times from which we expect it to recover gradually, owing to its diverse leisure and business demand generators and investment opportunities. However, 2009 will continue to be a challenging year for this market, as it will be for most markets across the world.

About the Authors

Cristina Balekjian is a Market Intelligence Analyst with HVS's London office. Cristina holds a BSc (Hons) in International Hospitality and Tourism Management from the University of Surrey. She worked in a number of operational roles in the hospitality industry before joining HVS in 2007, where she has worked on a number of assignments in Europe, the Middle East and Africa.

Saurabh Chawla is an Associate Director with HVS's London office. He joined HVS in 2006 after seven years' operational and managerial experience in the hospitality industry. Saurabh holds an MBA from IMHI (ESSEC Business School – France), and degrees in Hotel Management and a Bachelor of Commerce. Since joining HVS he has conducted numerous valuations, feasibility studies and consulting assignments across Europe, the Middle East and Africa. Saurabh is responsible for HVS's consulting and valuation work in Russia, other CIS countries and the rest of Eastern Europe

For further information, please contact:

Saurabh Chawla – Associate Director

Address: 7-10 Chandos Street
Cavendish Square
London, W1G 9DQ
+44 (207) 8787-708
+44 (207) 8787-799 Fax

Email: schawla@hvs.com

Or visit our website on www.hvs.com

Konstanze Auernheimer – Director of Marketing

Address: Blue Fin Building
110 Southwark Street
London SE1 0TA
Main Phone +44 (0)207 922 1930
Fax +44 (0)207 922 1931

Email: KAuernheimer@strglobal.com

Or visit the website www.strglobal.com

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