



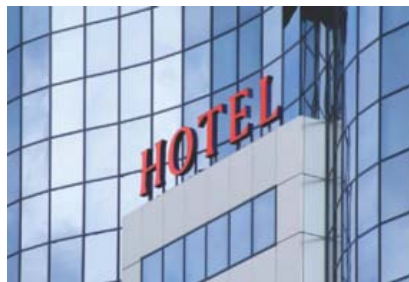
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HOTELS IN RUSSIA, THE CIS AND GEORGIA TRENDS & OPPORTUNITIES

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Introduction

The scope of this publication is to assess current trends and future opportunities for the hotel industry in Russia, the CIS and Georgia. This publication briefly discusses the tourism industry and economy overview of Russia, the CIS and Georgia, and looks at the

In this issue:

- Hotel markets exhibiting RevPAR growth
- Hotel stock forecasted to increase by 70%
- Hotel compensation trends

yearend results of hotels' operating performances across the region. This publication is released to complement our existing Hotel Valuation Index which covers hotel value trends in the same markets across the region.

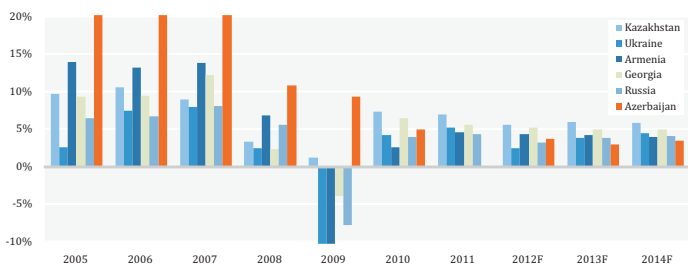
Using HVS's extensive database of hotel operating results enhanced by

the continued support of most of the major hotel companies we analyze the performance of branded hotels in twelve major markets of Russia, the CIS and Georgia.

This is the first edition of HVS's Trends and Opportunities – Russia, the CIS and Georgia. Even so, we are in a position to present data from 2007, which enables us to review the effects of the global economic crisis on hotel performance in the region.

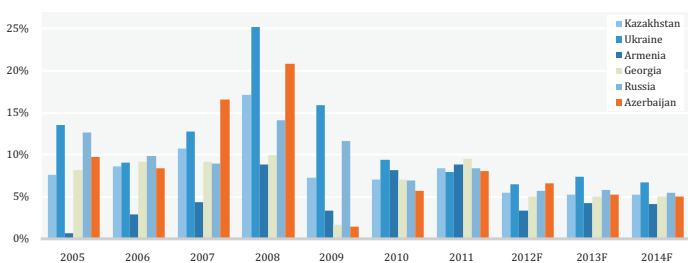
Local Economies' Overview

Table 1: Historical and Forecast GDP Growth



Source: Economist Intelligence Unit, IMF

Table 2: Historical and Forecast Inflation



Source: Economist Intelligence Unit, World Bank, IMF

The hotel industry is greatly sensitive to economic cycles; an upturn or downturn in the domestic and/or global economy has a significant bearing on this industry's performance and investment outlook at any given time. We therefore introduce this study with a quick review of the main macroeconomic developments that have taken place in our subject market – Russia, the CIS and Georgia – over the last few years. Most of the CIS countries showed significant growth in the mid 2000s, mainly due to their economies' close link to the energy sector. Supported by booming oil prices and high demand from industrialized nations, GDP growth in the region was above world-average in the years prior to the world economic crisis of 2008/09.

The global economic slowdown severely impacted GDP growth in Russia, the CIS and Georgia. Of the six CIS countries covered in this report, only Kazakhstan and Azerbaijan showed positive GDP growth in 2009, whereas Ukraine and Armenia exhibited the largest declines of 14.8% and 15.2% respectively. Even Russia's economy, which is the largest in the CIS (and part of BRIC), registered a 7.8% decline in GDP growth. The years 2010 and 2011 saw the region gradually recover. Kazakhstan and Georgia registered the highest GDP growth in 2010 and 2011. Azerbaijan, on the other hand, went from being the leader in GDP growth to showing almost no change in 2011 (0.1%). It is important to note that once again Russia is not the leader in GDP growth. Out of the six countries covered in this report, Russia has shown the second-worst results in GDP growth in the past two years.

Despite all the countries having shown significant progress in their recovery from the world economic crisis, the forecasts of GDP growth by both EIU and IMF are moderate in the short to medium term. Most of the countries are forecasted to grow their GDP by approximately 3-5% annually. Kazakhstan and Georgia should continue to dominate the region in GDP growth, while Azerbaijan is forecasted to remain at the bottom of the table. Nonetheless these growth rates are still higher than Western Europe (1.5-2%), but lower than China and India (7-9%) in the short to medium term.

One of the main worries for the CIS countries has been high and unstable levels of inflation. High GDP growth has often been accompanied by rising inflation. In 2008 a record was set, with all the countries in the region except Armenia exhibiting double-digit inflation. From 2008 all the countries covered were able to lower their inflation to single-digit rates; however, inflation in 2011 still ranged from 8% to 9.5% for the region as a whole. While EIU and IMF have forecasted a reduction in these countries' inflation levels to 5-5.5% in the short to medium term (with Ukraine as the only exception at around 7%), questions have to be raised as to whether or not such a quick reduction is possible.

Russia will continue to remain the most attractive and prominent country in the CIS. Russia has been ranked fifth in global foreign direct investments (FDI) in 2010 and is expected to remain among the top five attractive destinations for international investors during 2010-12, according to a report on world investment prospects titled, 'World Investment Prospects Survey 2010-2012' by the United Nations Conference on Trade and Development (UNCTAD).

Despite perceived instability and a certain economic turmoil Russia, the CIS and Georgia continue to remain attractive investment prospects. Overall interest in the economies of these countries will be mirrored in hotel development in the region.

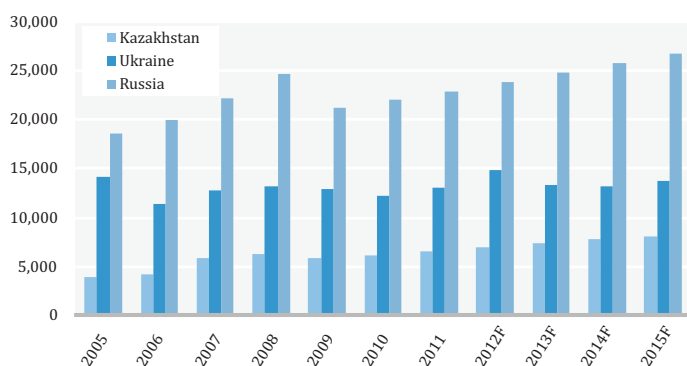
Tourist Trends

Despite infrequent and expensive air travel to some parts of the region, as well as time-consuming visa procedures (depending on the country), international arrivals to Russia, the CIS and Georgia grew at a compound annual growth rate of 3% from 2005 to 2010 and are forecast to continue to grow at a similar rate in the future. Russia, Ukraine and Kazakhstan received the largest share of travellers; their smaller neighbours Georgia and Azerbaijan

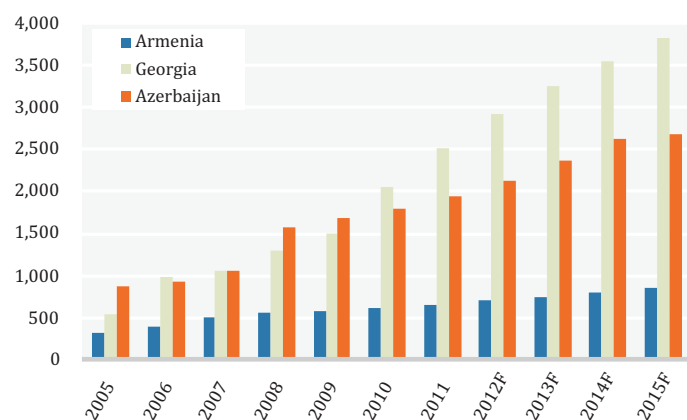
recorded around 1.5 million arrivals in 2010 and Armenia less than 600,000. Russia recorded the biggest decline in arrivals in 2009, followed by Kazakhstan and Ukraine, whereas Georgia, Armenia and Azerbaijan fared better, both in absolute numbers and percentage terms.

The outlook for the region is favourable, with a compound annual growth of roughly 5% forecast by the Euromonitor Group. Particularly good growth is forecast for Georgia, albeit from a small base. Ukraine is forecasted to exhibit the second-largest growth in international arrivals in 2012 followed by a decline in 2013—an anticipated development attributable to the additional tourist flows expected to be generated by EURO 2012. It is interesting to note that Russia, which will host the Winter Olympics in 2014, is not forecasted to exhibit such a spike in international tourist arrivals. As Russia already has the largest base of tourist arrivals and continues to remain the region's top destination (almost double the arrivals of second-place Ukraine), additional tourist flow from an event such as the Olympics will not impact overall travel trends as much.

Table 3: Historical and Forecast International Arrivals (000s)



Source: Euromonitor



Despite being attractive destinations, Russia, the CIS and Georgia remain somewhat difficult places for international travel. Complicated visa procedures, language barriers, and expensive travel to and within these countries limit the tourist potential of the region.

It is important to note that the World Travel and Tourism Council does not publish any data on Georgia. We have thus omitted Georgia from the above tables.

Table 4: Contribution of Tourism and Travel to GDP

	Percentage of GDP	Rank		Growth in 2012	Growth by 2022	
		By % contribution	By absolute contribution		Rank*	Rank*
Armenia	8.0%	104	135	-0.4%	146	1.5%
Azerbaijan	6.7%	119	82	7.3%	21	7.5%
Kazakhstan	5.0%	150	59	5.5%	46	5.4%
Russia	5.9%	137	13	4.6%	66	3.8%
Ukraine	7.4%	112	57	2.6%	99	3.9%
World average	14.0%			2.5%		4.1%

* WTTC ranks for 181 countries

Source: World Travel & Tourism Council

Table 5: Sources of Spending in the Tourism Industry

	Domestic vs Foreign		Leisure vs Business	
	Domestic	Foreign	Leisure	Business
Armenia	25%	75%	68%	32%
Azerbaijan	66%	34%	70%	30%
Kazakhstan	71%	29%	87%	13%
Russia	77%	23%	82%	18%
Ukraine	47%	53%	95%	5%

Source: World Travel & Tourism Council

As can be seen from Tables 4 and 5, the region's Total Travel & Tourism contribution to GDP is at 5-8%, whereas the world average is 14%. As mentioned earlier, many of the economies in the CIS are heavily dependent on the oil and manufacturing industries, thus their low tourism contribution to GDP when compared to the rest of the world. Out of 181 countries surveyed by the WTTC Armenia is the highest ranked at 104 of the countries covered in this report; Russia, for example, is 137. Absolute contribution to GDP, on the other hand exhibits far better rankings, with all the countries in the table (except for Armenia) remaining in the top half of the 181 countries surveyed. Such overall trends further support the fact that while tourism industry is developing in the CIS, its contribution to the overall economy of each individual country is still fairly insignificant.

When analysing tourism's growth potential for each country, we can see that while 2012 prospects are optimistic, long term growth in the region is limited. Armenia, Russia and Ukraine all rank below the 100th place in the overall ranking for long term growth potential. Kazakhstan is ranked at 40. Azerbaijan, at number five, is not only the leader in the CIS, but is definitely one of the hottest prospects in the world when it comes to long term growth potential.

Tourist spending is another important aspect to consider. In Russia, Azerbaijan and Kazakhstan most of the tourist spending is by the domestic traveller (65-77%), while in Armenia (which has the lowest international arrivals) 75% of total tourist spending originates from the foreign traveller. Ukraine is almost evenly split with 47% to 53% in domestic versus foreign spending. When we examined leisure versus business spending (Table 5) we noticed that in all the five countries the larger part of tourist spending is on leisure (above 68%).

It is important for the countries' authorities to recognise and understand the patterns in the tourism industry, especially when policies and development plans are formulated.

Industry Performance

In 2011 hotel markets across Russia, the CIS and Georgia continued their recovery in occupancy, which most of them exhibited in 2010. Yekaterinburg (28%), Tbilisi (23%), Baku (16%), Kazan (13%), Samara (12%) and Almaty (11%) observed a double-digit increase

in occupancy levels. Of these six markets, however, only Kazan, Baku and Tbilisi saw an increase in supply in 2011. Baku, in fact, was expected to see much larger supply growth; delays in construction have now allowed this market to recover some of its occupancy losses from 2009/10. Such strong increases in occupancy can be attributed to both a low base of the previous year, as well as to the economies' steady recovery from the global slowdown. For example, Almaty, despite an occupancy increase of 10.5% in 2011, displayed the second largest absolute decline over the past five years (-10.4%). Moscow (2%) has shown the lowest

Table 6: Key Operating Characteristics by Major City – Occupancy

	OCCUPANCY					12-Month* Growth	Compounded Growth
	2007	2008	2009	2010	2011		
Moscow	65.4%	65.0%	62.6%	67.1%	68.4%	1.9%	1.1%
St. Petersburg	64.4%	60.2%	44.4%	52.7%	55.8%	5.9%	-3.5%
Yekaterinburg	55.4%	55.5%	31.0%	30.0%	38.4%	28.0%	-8.8%
Rostov	59.7%	57.8%	53.8%	56.7%	60.3%	6.3%	0.3%
Samara	56.8%	52.7%	36.3%	44.5%	49.6%	11.5%	-3.3%
Kazan	41.8%	49.3%	49.1%	45.0%	51.0%	13.3%	5.1%
Kiev	64.5%	63.6%	46.6%	47.5%	51.7%	8.8%	-5.4%
Baku	64.4%	59.6%	46.6%	43.8%	51.0%	16.4%	-5.7%
Astana	58.0%	49.3%	40.6%	44.1%	47.4%	7.5%	-4.9%
Almaty	72.0%	60.0%	50.0%	42.0%	46.4%	10.5%	-10.4%
Tbilisi	75.5%	70.5%	46.4%	50.1%	61.6%	23.0%	-5.0%
Yerevan	48.3%	45.9%	49.9%	49.4%	51.6%	4.5%	1.7%

* Growth in 2011 (in absolute terms) expressed as percentage of the figure for 2010

Source:HVS Research

Table 7: Key Operating Characteristics by Major City – Average Rate (EUR)

	AVERAGE ROOM RATE					12-Month* Growth	Compounded Growth
	2007	2008	2009	2010	2011		
Moscow	254	266	170	161	171	6.2%	-9.4%
St. Petersburg	119	136	108	94	102	8.5%	-3.8%
Yekaterinburg	70	75	97	97	105	8.2%	10.7%
Rostov	61	72	55	56	60	7.1%	-0.4%
Samara	99	102	80	81	85	4.9%	-3.7%
Kazan	91	88	85	71	73	2.8%	-5.4%
Kiev	198	195	157	151	149	-1.3%	-6.9%
Baku	165	158	171	155	134	-13.6%	-5.1%
Astana	170	180	197	193	203	5.2%	4.5%
Almaty	270	290	220	218	218	0.0%	-5.2%
Tbilisi	124	127	126	115	140	21.7%	3.1%
Yerevan	105	95	75	78	82	5.1%	-6.0%

* Growth in 2011 (in absolute terms) expressed as percentage of the figure for 2010

Source:HVS Research

Table 8: Key Operating Characteristics by Major City – RevPAR (EUR)

REVPAR							
	2007	2008	2009	2010	2011	12-Month* Growth	Compounded Growth
Moscow	166	173	106	108	117	8.3%	-8.4%
St. Petersburg	77	82	48	50	57	14.9%	-7.2%
Yekaterinburg	39	42	30	29	40	38.6%	1.0%
Rostov	36	42	30	32	36	13.9%	-0.2%
Samara	56	54	29	36	42	17.0%	-6.9%
Kazan	38	43	42	32	37	16.5%	-0.5%
Kiev	128	124	73	72	77	7.4%	-11.9%
Baku	106	94	80	68	68	0.6%	-10.5%
Astana	99	89	80	85	96	13.1%	-0.6%
Almaty	194	174	110	92	101	10.5%	-15.1%
Tbilisi	94	90	58	58	86	49.7%	-2.0%
Yerevan	51	44	37	39	42	9.8%	-4.4%

* Growth in 2011 (in absolute terms) expressed as percentage of the figure for 2010

Source:HVS Research

Table 9: Key Operating Characteristics by Major City – Average Rate (Local Currency)

AVERAGE ROOM RATE (LOCAL CURRENCY)							
	2007	2008	2009	2010	2011	12-Month* Growth	Compounded Growth
Moscow	8,890	9,709	7,548	6,488	7,047	8.6%	-5.6%
St. Petersburg	4,165	4,964	4,795	3,788	4,203	11.0%	0.2%
Yekaterinburg	2,450	2,738	4,307	3,909	4,327	10.7%	15.3%
Rostov	2,135	2,628	2,442	2,257	2,473	9.6%	3.7%
Samara	3,465	3,723	3,552	3,264	3,503	7.3%	0.3%
Kazan	3,185	3,212	3,774	2,861	3,008	5.1%	-1.4%
Kiev	1,426	2,126	1,774	1,590	1,669	5.0%	4.0%
Baku	203	177	197	166	150	-9.6%	-7.3%
Astana	29,240	30,348	41,370	37,755	41,574	10.1%	9.2%
Almaty	46,440	48,894	46,200	42,645	44,646	4.7%	-1.0%
Tbilisi	317	295	305	266	243	-8.4%	-6.4%
Yerevan	46,284	40,983	40,418	36,878	31,083	-15.7%	-9.5%

* Growth in 2011 (in absolute terms) expressed as percentage of the figure for 2010

Source:HVS Research

Table 10: Key Operating Characteristics by Major City – RevPAR (Local Currency)

	REVPAR (LOCAL CURRENCY)					12-Month* Compounded	
	2007	2008	2009	2010	2011	Growth	Growth
Moscow	5,814	6,311	4,725	4,354	4,820	10.7%	-4.6%
St. Petersburg	2,682	2,988	2,129	1,996	2,346	17.5%	-3.3%
Yekaterinburg	1,357	1,519	1,335	1,173	1,662	41.7%	5.2%
Rostov	1,275	1,519	1,314	1,280	1,491	16.5%	4.0%
Samara	1,968	1,962	1,289	1,453	1,737	19.6%	-3.1%
Kazan	1,331	1,584	1,853	1,288	1,534	19.2%	3.6%
Kiev	920	1,352	827	755	863	14.2%	-1.6%
Baku	131	105	92	73	77	5.3%	-12.5%
Astana	16,959	14,962	16,796	16,650	19,706	18.4%	3.8%
Almaty	33,437	29,336	23,100	17,911	20,716	15.7%	-11.3%
Tbilisi	240	208	141	133	150	12.6%	-11.1%
Yerevan	22,355	18,811	20,168	18,218	16,039	-12.0%	-8.0%

* Growth in 2011 (in absolute terms) expressed as percentage of the figure for 2010

Source: HVS Research

increase among all the cities; however, it also had the largest base in 2010, meaning that even a 2% increase amounts to a significant increase in room nights sold. Furthermore, Moscow has been one of the most stable markets (in terms of occupancy) in the past five years, second only to Rostov, exhibiting a 1.1% CAGR in occupancy, as opposed to Rostov with a compounded occupancy increase of 0.3%. In addition to Moscow and Rostov, only Kazan (5%) and Yerevan (2%) demonstrated a positive CAGR over the past five years.

In terms of average rates (in local currency), all excepting three markets showed positive increases from 2010, with St. Petersburg (11%), Yekaterinburg (11%) and Astana (10%) demonstrating double-digit growth. Yerevan (-16%), Baku (-10%) and Tbilisi (-8%) were the three markets to lose out on rates in 2011. When seen in euros, Baku (-14%) and Kiev (-1.3%) were the only markets to show a drop in average rate in 2011. Georgia and Armenia exhibited significant strengthening of their respective local currencies with respect to the Euro in 2011, with currency RevPAR growth (in local currency) in 2011 was sensational. All markets except one – Baku – exhibited not only positive but double-digit growth. Yekaterinburg led the way with an almost 42% increase in RevPAR in local currency, while Moscow exhibited the lowest growth at almost 11%. Yerevan is the only market to have demonstrated a decline in RevPAR in local currency (12%). In terms of euros, all the markets showed positive growth: Yekaterinburg, the leader in RevPAR, had an almost 39% increase. Both Baku and Kiev, which recorded 5.3% and 14.2% increase in local currency respectively, demonstrated the lowest increases in euros (0.6% and 7.4%) due to the depreciation of their local currencies. To further stress the importance of currency exchange, we look at the CAGR of RevPAR over the past five years. While in terms of local currency only eight markets exhibited a decline, in

euro terms it was all but one (Yekaterinburg). Fluctuations in the state of local economies affect hotel performance twofold: through changes in hotel operating results (occupancy and average daily rate) and currency exchange rates. RevPAR growth should be read carefully as poor operating performance from 2009 weakened the base for growth, thus even a slight increase in absolute figures leads to a significant percentage change.

Hotel Supply

The last decade can be characterised by increased development of new hotels in Russia, the CIS and Georgia. Despite real progress in the early- and mid-2000s, hotel development lost considerable pace in the past three years mainly due to the global slowdown. Many projects have been either cancelled or put on hold since 2008, while most of the development that took place in 2010 and 2011 consisted of unfinished hotels from before the crisis.

Hotel supply in 2011 in the region only increased by approximately 6% (Table 11), with almost 60% of that increase due to new developments in Moscow and St. Petersburg. Nonetheless, forecasted increase in supply in the above-mentioned twelve markets, along with Sochi, is approximately 70%. Moscow continues to attract investors and is forecasted to expand its hotel market by over 7,000 hotel rooms over the next five years, which accounts for 35% of the total supply in the thirteen markets. Due to the EURO 2012 and 2014 Winter Olympic Games, Kiev and Sochi are forecasted to increase their supply by 2,300 and 3,800 hotel rooms respectively, which rank these cities as second and third, both in absolute increase in supply and in percentage terms. Room supply in Rostov, which currently has the lowest base of quality hotel rooms, is forecasted to increase by 1,200 rooms in the next five years. Such a large pipeline ranks it at first place in percentage

Table 11: Distribution of Existing and Proposed Branded Hotel Rooms by Major City

	Existing Supply 2010	Existing Supply 2011	Proposed Supply	Rank	Percentage of Total	Increase over Five Years	Rank
Moscow	12,400	13,000	7,200	1	35%	55%	9
St. Petersburg	6,470	6,800	1,700	4	8%	25%	13
Yekaterinburg	800	800	500	9	2%	63%	7
Rostov	100	100	1,200	6	6%	1200%	1
Samara	670	670	400	11	2%	60%	8
Kazan	630	780	330	12	2%	42%	10
Sochi	800	800	3,800	2	18%	475%	2
Kiev	1,600	1,800	2,300	3	11%	128%	3
Baku	1,200	1,350	1,500	5	7%	111%	4
Astana	700	700	200	13	1%	29%	12
Almaty	1,400	1,400	550	8	3%	39%	11
Tbilisi	630	830	700	7	3%	84%	6
Yerevan	450	450	450	10	2%	100%	5
Total	27,850	29,480	20,830			71%	

Source: HVS Research

increase and sixth in absolute terms. It is important to note that the large percentage increases are mainly due to a combination of aggressive expansion and low existing base of quality hotel accommodation.

It is important to note that the increase in hotel room supply by 3,800 in Sochi consists of the city of Sochi and Krasnaya Polyana. Imeretinskaya Valley is forecasted to have more than 12,000 guest rooms for the Olympic Games. Since most of this stock will be converted into residential projects for sale in the post-Olympic period and the exact remaining hotel supply is unknown, we decided not to include Imeretinskaya Valley into our forecasts of future hotel supply.

Tables 12 and 13 summarise the distribution of hotel rooms by brand. It is important to note that while this publication concentrates on twelve main markets in Russia, the CIS and Georgia, the two tables (12 and 13) address the total supply of these brands in the greater region.

At the moment Rezidor's presence in the region significantly outweighs all the other brands and accounts for almost 30% of the entire hotel room supply presented in Table 12. IHG and Marriott account for 18% and 15% respectively of the total hotel room supply. If we turn our attention to the proposed supply, we see that Rezidor remains the leader in the region with almost quarter of all announced new hotel development. Accor and Hilton, whose current supply together accounts for less than 10% of the total, have aggressive expansion programs in place. They occupy second and third place respectively and account for 20% and 14% of total new supply.

Table 12: Distribution of Existing Branded Hotel Rooms by Hotel Operator

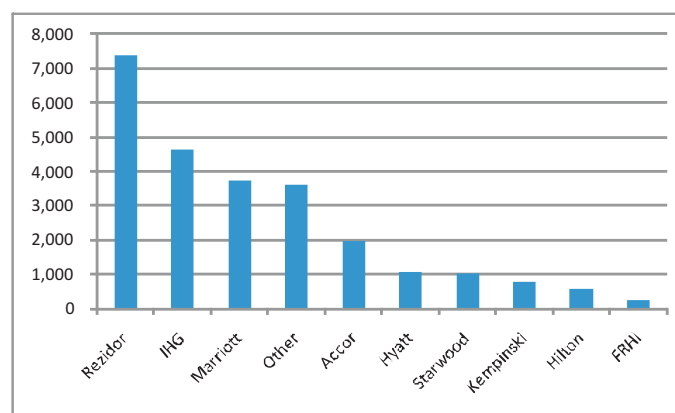
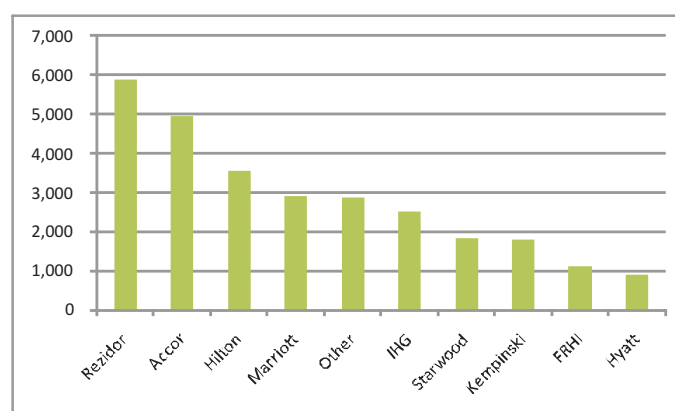


Table 13: Distribution of Proposed Branded Hotel Rooms by Hotel Operator



Despite certain setbacks in hotel development, many markets are now again becoming attractive for investors. Such interest is mirrored in the increased announced supply in Russia, the CIS and Georgia.

Future Trends

Our analysis of the hotel markets of Russia, the CIS and Georgia leads us to believe that while some markets have shown signs of improvement since the downturn of 2008/09, others are still struggling to recover. Furthermore many of the studied hotel markets have significant new supply in the short to medium term. Even though we anticipate that in the medium to long term most markets' demand will match or outgrow the supply, certain markets are bound to experience pressure on operating performance in the short and even medium term.

As local economies become more stable so should the exchange rates. Thus if hotels are reporting their operating performance in Euro terms, additional losses due to currency exchange should be minimised.

It is important to focus on Sochi separately as the market is going through some drastic changes due to the 2014 Olympic Games. Over 15,000 rooms are being prepared for the Games, most of which will be sold as residential projects later on. Imeretinskaya Valley will experience enormous oversupply of both hotel rooms and residential projects, as by itself the valley is not a major attraction for visitors. Krasnaya Polyana, even though is a ski resort, will heavily depend on the success of destination management by the local authorities. We anticipate that hotels in Imeretinskaya Valley and Krasnaya Polyana will experience pressure on operating performance in the medium term.

Currently there are few investors in the region that can be characterised as institutional. As hotel markets in Russia, the CIS and Georgia continue to grow and mature we should start seeing more institutional investors. Maturing of hotels markets is usually accompanied by increased activity in hotel transactions. Thus, as the number of hotels increases, investors will have a choice between developing a new property or acquiring an existing one. Even though investor interest is increasing it is important to understand that factors like oversupply, bureaucracy and delays in hotel development will deter some of the potential investment in existing and proposed assets.

Opportunities

When the hotel industry started to grow in the early 1990s most of the new development was in the Upscale and Luxury segments. These segments have historically been of most interest to investors and as a result we now see a lack of hotels in the Midmarket and Budget segments. Increased business travel (both international and domestic) along with a larger middle class have generated a greater awareness of western style accommodation. As such many existing hotels in the Midmarket and budget segments, which are inherited from the Soviet era (and are ageing and under-par in service), are no longer acceptable to the traveller. Many secondary cities are severely undersupplied with quality hotel accommodation, but might not be able to support luxury and/or upscale developments. According to HVS, a key opportunity for hotel development in the region is in the Midmarket and Budget segments.

As we mentioned at the beginning of this publication, tourism and travel statistics for the region clearly show that most of the spending is generated by the leisure segment. As international and domestic travel becomes more affordable and local authorities increase tourism awareness in their respective regions, the demand for leisure products (such as resorts) should increase. Many locations that could potentially become excellent resort destinations are currently underdeveloped and undersupplied. It is important to note that even though we consider resort development a potential opportunity, it is closely tied to both local governments' efforts to increase tourism awareness and the cost of travel to the region.

Additional Factors - Compensation Trends

Human capital has always been an important part of the hotel industry. As the number of hotels continues to grow, the required manpower to service them will increase exponentially. With supply expected to grow by approximately 70% in the next few years, hiring, training, structuring attractive and motivating compensation packages, and development of personnel will become key to the success of hotel operations.

HVS Executive Search has been tracking compensation practices in the hotel industry in Russia and the CIS for five years now. Each year we collect data and publish the statistically reliable tool that allows hoteliers to benchmark their highest Expense, FOT, to other hotels in the market. We present to you a summary of the analysis part of the 2011 Russia & CIS Hotel Compensation Report. A total of 38 hotels in the region took part in this year's survey.

Portrait of a Russian Hotelier

In the 1990s, a common practice for hotels opening in Russia was to hire expatriates into all management positions – General Manager and Department Heads, and sometimes much farther down the ladder. Their international expertise was supplemented with the local knowledge of Russian assistants. Expats got paid more, commanded many additional benefits and perks, and were

Table 14: Hiring Trends – Expatriate vs. Local

Position	Moscow		Regions	
	Expat	Local	Expat	Local
General Manager	29%	71%	42%	58%
Director Human Resources	7%	93%	0%	100%
Director Rooms	0%	100%	0%	100%
Dir. Sales & Marketing	0%	100%	25%	100%
Director Food & Beverage	21%	79%	33%	67%
Chief Engineer	7%	93%	0%	100%
Executive Housekeeper	7%	93%	0%	100%
Executive Chef	19%	81%	20%	80%
Director Purchasing	0%	100%	0%	100%
Chief Accountant	0%	100%	0%	100%
Front Office Manager	0%	100%	0%	100%
Director Finance	33%	67%	0%	100%

considered gurus in running a successful hotel operation. Recent years, however, have seen a steady decline in the number of expatriates in the senior-most positions.

This year's survey showed that for the first time since we started tracking these numbers, more and more management positions are being localised (Table 14). This is an encouraging sign that the quantity and quality of home grown talent is increasing and that expensive expatriate hires are on the wane.

Historical Trends

MOSCOW

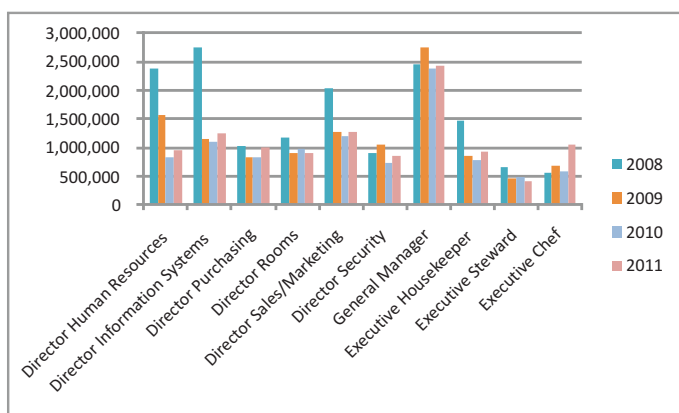
We liked the fact that 2011 was the first full fiscal year after the influence of the World Economic Crisis on our region has passed, and ran our analysis with that in mind. All figures are presented in rubles in gross annual values.

On average, there was a steady and sizeable decline in all **executive committee** positions' compensation from 2008 to 2010, after which it started growing again. This decline stemmed from the anti-crisis measures that hotels took, which included not only cutting salaries, but also replacing the higher paid employees (expats) with lower paid (locals) (Table 15).

The largest decline in salaries showed between 2008 and 2009, signaling the "fight or flight" effect of the first signs of weakening economies. However, the GM salaries, at par with Dir. Rooms, Dir. Purchasing and Dir. Security, held steady throughout the crisis years, showing the fact that such operational management positions are considered a part of the fixed costs of operating a hotel property and that owners/management companies are less sensitive to the size of their remuneration.

We would have expected to see a rise in the pay packages of DOSMs throughout the four years depicted, due to the weak economies, but numbers tell a different story. Likely the incentive part of their packages increased during the downturn years, while they were being "paid to perform".

Table 15: Compensation Trends in Moscow – Executive Committee



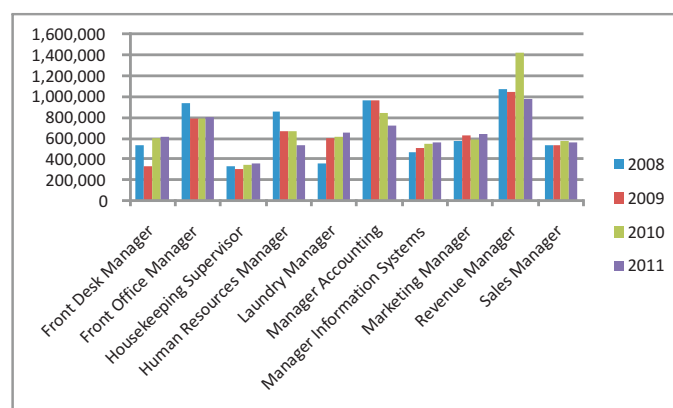
Analysis of the **mid-management** positions' historical base salary trends reads differently (Table 16).

Almost all mid-management jobs, after a drop from 2008 to 2009, increased base salaries steadily. We contribute this to the growing

consciousness of the hotels' top management and owners, and the increasing recognition of the importance of mid-management positions (and the retention and growth of people in these jobs) for the future bench strength of hotels and hotel companies.

There have been a couple of positions which steadily declined throughout these four years, and this shows that the short-term mentality still prevails: HR Managers have gotten gradually lower salaries, which probably shows replacement of higher-qualified (and higher-paid) people, who are capable of doing trainings and strategically advising the companies' heads on operational issues, with administrative people who are just "paper-pushers". The lowering salaries of the Revenue Managers, although counterintuitive, considering the circumstances of the crisis and the apparent need to manage the revenues of the hotels even closer, show that even in a relatively sophisticated (among the other Russia & CIS market participants) market of Moscow, Revenue Management as a discipline is still considered a luxury, which, along with live flowers and amenities in guest rooms, is taking a first hit.

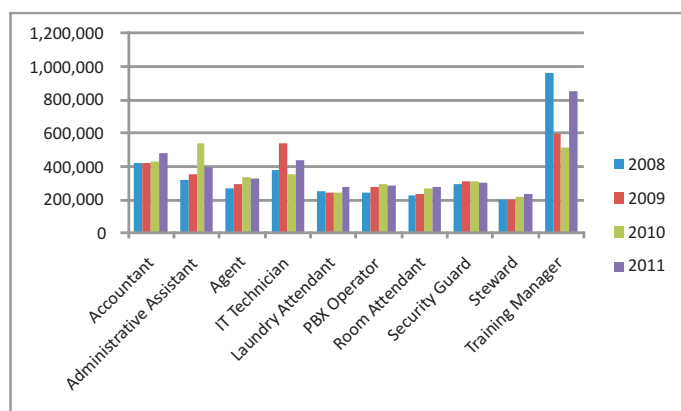
Table 16: Compensation Trends in Moscow – Middle Management



Line positions showed no apparent signs of lowering compensation in the crisis years, with some gaining a few percent and some losing, which we attribute to inflation adjustments and natural variations occurring due to entering and dropping out of the participating hotels (Table 17).

This tells us that even though line positions constitute a bigger part of any hotel's labor cost, owners and managers continue to be sensitive to the fact that low-skilled labor is harder to find, attract and retain in the realities of the Russia & CIS markets, and take extra care to not to lose their staff by unnecessary cost-cutting panic caused by external circumstances. This trend also shows the lack of "Ego Factor" (salaries driven by personalities in the specific positions) influencing line jobs, as compared to the management positions starting from Executive Committee and up.

Table 17: Compensation Trends in Moscow – Line Positions



by comparison with the regional cities, where salaries are on average 25% lower than in St. Petersburg.

Management positions' analysis loudly spells that salaries are personality driven. There is no clear pattern in comparing Moscow to St. Petersburg, or Regions to St. Petersburg. We believe that the only true diversifier is the person who occupies the position – their background, whether they are a local or an expat, how much experience they have, what kind of hotels they have worked for, and where their base of hire is (Moscovites may be more costly to hire than people from the regional markets). The only additional apparent trend for the Regional markets is that all management salaries are lower, but the differences vary hugely, with some positions only 23% apart, and some over 300%.

ST. PETERSBURG

In the St. Petersburg market we were able to compare five years of historical data for some positions, as we have been tracking this market longer than the rest of the region.

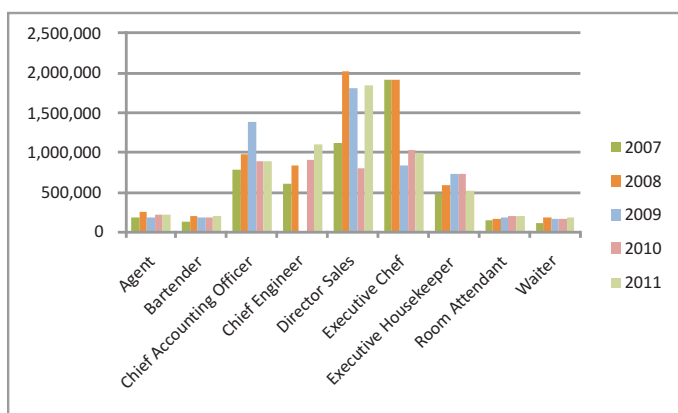
The level of compensation of the line positions has been very steady throughout the course of the years, showing some growth, which looks like inflation adjustments (Table 18).

At the same time, management's packages have displayed more volatility; most of them declined somewhat starting in 2008, with some regaining a certain amount of that loss and climbing back up in 2011. We attribute this to the general weakening of the international economy, and the subsequent strengthening performance of properties starting in 2010, and the regained assurance of the owners and managers for the future.

Table 19: Comparison of Compensation Trends: St. Petersburg vs. Moscow vs. Regional Cities

2011 Line Positions	St. Petersburg	Comparisons	
		StP vs Moscow	StP vs Regions
Room Attendant	8,195,000	29.35%	-42.54%
Waiter	180,000	31.32%	-24.74%
Cook	243,000	22.01%	-21.70%
Agent	217,800	32.78%	-6.76%
Bartender	203,028	29.36%	-33.98%
Management Positions			
Chief Accountant	889,800	19.40%	-62.15%
Chief Engineer	1,104,000	-6.00%	-166.67%
Director Sales/Marketing	1,843,200	-45.75%	-328.65%
Executive Chef	996,000	6.04%	-23.19%
Executive Housekeeper	513,600	44.05%	-65.89%

Table 18: Compensation Trends in St. Petersburg



Conclusions

In today's highly competitive market the only diversifier and determining factor for success is the people working for you.

One can no longer plan to save money by hiring a local in place of an expatriate; neither can one assume that the locally managed hotel pays lesser salaries than an international competitor next door. To assume that Russians will not relocate for the next career step would also be a bit naive. It's no longer true that everyone wants to work in Moscow or St. Petersburg. The market is maturing fast, and companies need to be aware of the Trends and Opportunities so that they don't miss out on the possible business gains.

Ego Factor

We conducted a comparative analysis to see how compensation practices in the St. Petersburg market differ from Moscow and the rest of the region. Table 6 has been built using 50th percentile data points for annual base salary in the respective markets and positions.

There is great power in numbers. We can clearly see that in line jobs staff is paid on average 30 percent higher in Moscow compared to St. Petersburg. We believe that this reflects merely a cost of living adjustment; this hypothesis is further strengthened

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About HVS

HVS is the world's leading consulting and services organisation focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year and clients include virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 31 offices staffed by more than 300 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit www.hvs.com.

With offices in London since 1990 and Moscow since 2007, HVS serves clients with interests in the UK; Europe, the Middle East and Africa (EMEA); Russia; and the CIS. We have appraised almost 4,000 hotels or projects in 50 countries in all major markets within the EMEA region for leading hotel companies, hotel owners and developers, investment groups and banks. Known as one of the foremost providers of hotel valuations and feasibility studies, and for our ability, experience and relationships throughout Europe, HVS is on the valuation panels of numerous top international banks which finance hotels and portfolios.

About the Authors



Tatiana Veller is the Managing Director of HVS in Russia, delivering various types of strategic consulting for all facets of the hospitality industry in Russia, Georgia, CIS and Baltics. In addition to

Tatiana's HR Consulting background with leading firms in the US, she possesses extensive operations experience with top companies in the Hospitality and Food Service industries in Russia and the US, along with a Bachelor's degree in Hotel and Restaurant Management from the Russian Academy of Economics n.a. Plekhanov and a US MBA in International Management. This gives Tatiana a unique understanding of the industry and the strategies that drive performance.



Alexey Korobkin joined HVS in 2010. Originally with a degree in Economics and Finance, Alexey has also obtained an MBA in Hotel and Tourism Management from one of

Switzerland's top hotel universities. Alexey has held positions in various hotels across Europe, US and Russia. He has been involved in multiple feasibility and valuation studies for HVS. Since January 2011, Alexey has been based in Moscow, where he has completed feasibility and valuation studies in Russia and Ukraine.



Galina Kuzmina is an associate with HVS Executive Search Moscow. She started her work in hospitality industry by joining one of the best 5* hotels in Moscow - Swissotel Krasnye Holmy. Around the same time

she graduated from The College of Tourism and Hotel Management in Cyprus. During her studies she had a chance to work in the famous resort in Cyprus - a 5-star Alion Beach Hotel. Upon her return to Moscow she joined the team of Baltschug Kempinski Hotel as an Administrative Assistant at F&B department. In August 2010 Galina joined HVS Executive Search Moscow as an Office Manager with a mission to support Managing Director and Consultants in their daily activities.