



OVERVIEW

H1 2011

HOTEL REAL ESTATE MARKET

Moscow

Knight Frank

EXECUTIVE SUMMARY

- Room stock in the capital increased by 2.5% in H1 2011: four hotels with 770 rooms were opened.
- Average occupancy at Moscow hotels during the first six months of the year remained unchanged compared with the same period last year (y-o-y).
- Further improvement of operating indicators for Moscow hotels were observed in H1 2011: average room rate (ARR) at 4-5★ hotels had increased to nearly \$250 by the end of 2Q 2011.

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HOTEL REAL ESTATE MARKET. MOSCOW



Anton Melnikov
Associate Director,
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«The results of first half of 2011 have proved our expectations concerning Moscow hotel key performance indicators improvement. Average revenue per available room (RevPar) at 4-5★ hotels increased by almost 9%, while at 3★ hotels the indicator was 15% higher than in H1 2010. Positive dynamics of commercial terms has led to growth of investment activity in the hotel segment: construction of earlier postponed projects began, a number of new hotels were announced».

Key events

- There were a number of hotel transactions in the first six months of 2011:

Hals-Development (former Sistema-Hals) completed purchase of the Hotel Peking (3★, 135 rooms, 5/1 B. Sadovaya St). The building will be used for a new 5★ hotel.

Owners of the Radisson Royal hotel acquired the Soyuz hotel (3★, 115 rooms, 12 Universitetsky Ave) and plan to carry out reconstruction.

Capital Partners sold the Ritz-Carlton hotel (5★, 334 rooms, 3 Tverskaya St). Details have not been made public but deal value is estimated at around \$600 mln.

- Moscow city hall plans to sell a number of hotel properties as part of its programme to reduce the city's budget deficit through asset sales. Hotel assets to be offered are the National hotel, the Radisson SAS Slavyanskaya hotel, 49% of the company Dekmos (owner of the Moskva hotel), 30% of the Hilton Leningradskaya hotel, and some others.
- The Moscow Tourism Committee has been reorganised as the Tourism and Hotel Committee and will now be responsible for coordination of operations by hotels in the capital as well as general issues of tourism.

Main indicators		Trend
Total number of hotels in operation*	158	↑
Total number of rooms in operating hotels	30,800	↑
Main hotel openings (number of hotels / number of rooms)	4 / 770	
Main hotel openings scheduled by the end of 2011 (number of hotels / number of rooms)	5 / 1,060	
Average room rate at 5★ hotels	\$ 325	↑
Average room rate at 4★ hotels	\$ 195	↑
Average room rate at 3★ hotels	\$ 108	↑
Average occupancy at 5★ hotels	52,4%	=
Average occupancy at 4★ hotels	65,7%	=
Average occupancy at 3★ hotels	56,4%	↑

*Moscow hotels 3-5★
Source: Knight Frank Research, 2011





Supply

Four hotels with 770 rooms were opened for business in the first half of 2011, and three of them are operating under international brands: the Crowne Plaza Club, Radisson Blu Belorusskaya and Ramada Moscow Domodedovo* (see Table). The fourth hotel, the Aminevskaya is the first opening by the company Mospromstroy in its programme to create a chain of economy-class hotels in Moscow by conversion of former hostels. The Russian hotel company, Azimuth Hotels, plans to open its first Moscow presence (3★, 144 rooms) by the end of the year. Increased activity by Russian hotel operators is a quite good sign for the national market.

New supply is dominated by 4★ hotels, which account for over 50% of new supply, while 3★ and 5★ hotels account for 30% and 20% of new supply, respectively.

The current economic climate makes hotel owners more attentive to customer needs, and dominance of business travel in overall demand for hotel accommodation in Moscow makes it logical to position new hotels in office districts, as is common practice in London, Paris and other international business centres. Location of hotels, opened in the first half of 2011, confirm this trend. The club section of the Crowne Plaza hotel (5★, 149 rooms) is located on the territory of the World Trade Centre and immediately adjacent to the new business district, Moscow City. The fifth Moscow hotel of Rezidor Group - the Radisson Blu Belorusskaya (4★, 264 rooms) was opened in the rapidly developing Belorussky business district.

The Ramada Moscow Domodedovo hotel (4★, 134 rooms)*, which opened in February adjacent to Domodedovo Airport, is the first Moscow property under the Ramada brand by Wyndham Hotels. Hotels at Moscow airports have shown consistently strong operating results in recent years, and are therefore a particularly attractive niche for hotel operators and developers. A new hotel complex is scheduled for opening this year at Vnukovo Airport (4★, 443 rooms), another air transport hub just outside Moscow.

Demand

The state of the hotel and tourist business in Moscow has recently become a hot topic and steps to improve the situation are being discussed. Proposals include a campaign to improve the city's image abroad and creation of a navigation system on city streets, which would be understandable to foreign tourists. However, the main obstacles to development of tourism have still not been addressed. For example, complication of Russian visa procedures in Germany and Spain caused reduction in the number of visitors from these countries by 15% in the first half of 2011. We estimate the total number of foreign visitors to Moscow in H1 2011

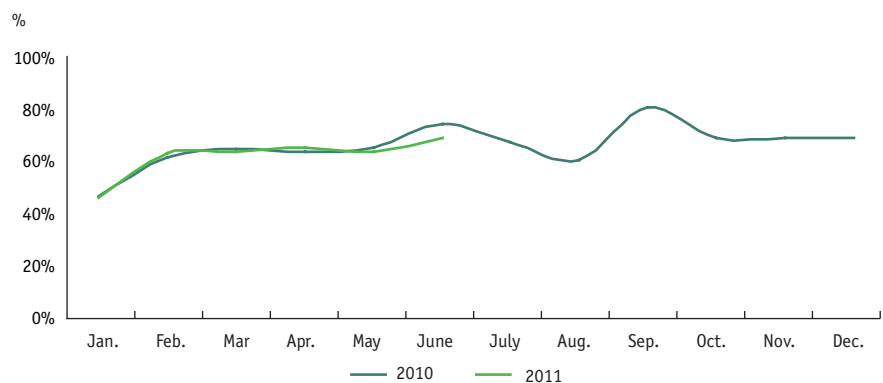
Main hotel openings in H1 2011

Hotel	Address	Category	Rooms
Q1			
Crowne Plaza Club	12 Krasnopresnenskaya Emb	5★	149
Ramada Moscow Domodedovo*	5 km from Domodedovo Airport	4★	134
Q2			
Radisson Blu Belorusskaya	26 Third Yamskogo Polya St	4★	264
Aminevskaya	5 Aminevskoye Hwy	3★	223

* We include this hotel in the Moscow market although it is located in Moscow Region (outside the city), because it caters mainly for transit passengers at Domodedovo Airport, which serves Moscow.

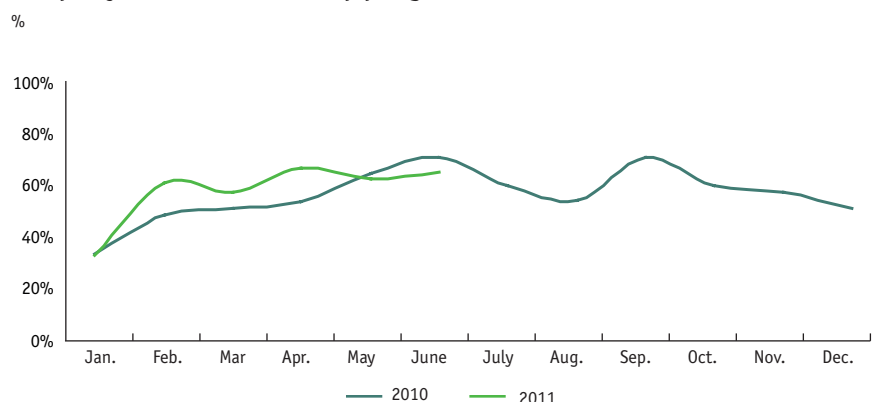
Source: Knight Frank Research, 2011

Occupancy at 5★ and 4★ hotels in H1 2011 was almost unchanged from levels in 2010



Source: Knight Frank Research, 2011

Occupancy at 3★ hotels was 3.5 p.p. higher in H1 2011 than in H1 2010



Source: Knight Frank Research, 2011

at about 1.9 million, which is nearly unchanged y o y. Rates of growth in domestic tourist flow are also modest (about +1% in 2010). The level of demand for accommodation in Moscow has therefore increased insignificant. Growth of occupancy levels in Moscow hotels has also been held back by high rates of new supply since the start of 2010, particularly in the upper price segment.

Occupancy at 4★ and 5★ hotels in the first half of 2011 was roughly equal to 2010. Occupancy at 3★ hotels, which dipped significantly in 2008-2010 due to reduction of the number of travellers, who usually prefer economy hotels to stay in, saw gradual recovery in the first six months of 2011: growth in the period was 3.5 percentage points (p.p.) compared with the same period last year (y-o-y).

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Commercial terms

As we had expected, price stabilisation last year was followed by growth of average room rates (ARR) at hotels in all segments in the first half of 2011. The rate of growth accelerated through the six month period: the change year on year in the first quarter was 2-4%, but rose to 17-20% (depending on class) in the second quarter. Average growth of ARR in the first half of the year, expressed in US\$, was almost the same for all hotel classes (10%) in comparison with the H1 2010. Daily room rates in 5★ establishments were about \$325 and levels in 4★ and 3★ hotels were \$195 and \$108, respectively.

However, the 10% ARR growth at Moscow hotels reflects the trend elsewhere in Europe, and was to be expected after fall of rates by nearly half in 2008-2009.

Growth of room rates and constant occupancy levels led to increase of revenue per available room (RevPar) at Moscow hotels in 1H 2011. The indicator achieved level of \$100 across the market. Double-digit growth of room rates and occupancy recovery at 3★ hotels gave an increase of revenue per available room (RevPar) by more than 16%.

As for Moscow hotel market situation compared with other European cities, the Russian capital remained in fifth place by ARR and RevPar in H1 2011, as in 2010, but rapid growth of room rates in Moscow make it highly probable that the city will regain leading positions in the near future.

Outlook

Room stock in Moscow should add a further 1,000 rooms by the end of the year. New openings will include two brands, which are new to both: Moscow and Russia:

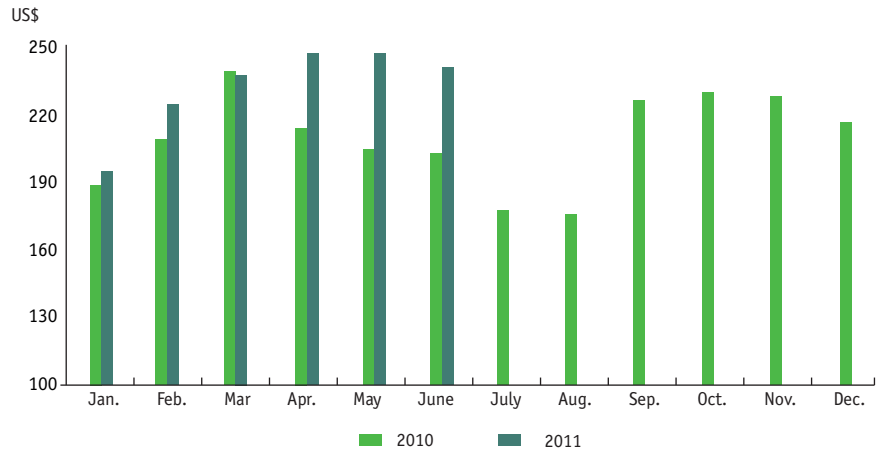
- Opening of the Hotel Intercontinental Moscow Tverskaya (5★, 203 rooms), scheduled in the autumn, promises to be a landmark event.
- Opening of the Mercure Arbat (4★, 103 rooms) is expected in the immediate future.

Another important event is inclusion of the Vega hotel (3★, 967 rooms) in the Best Western hotel association*.

If all scheduled openings occur as planned, room numbers in the capital will increase by 1,800 in 2011, representing a larger increase than in 2010.

* Vega became an official member of the Best Western association in July 2011 and now operates as the Best Western Vega Hotel & Convention Center.

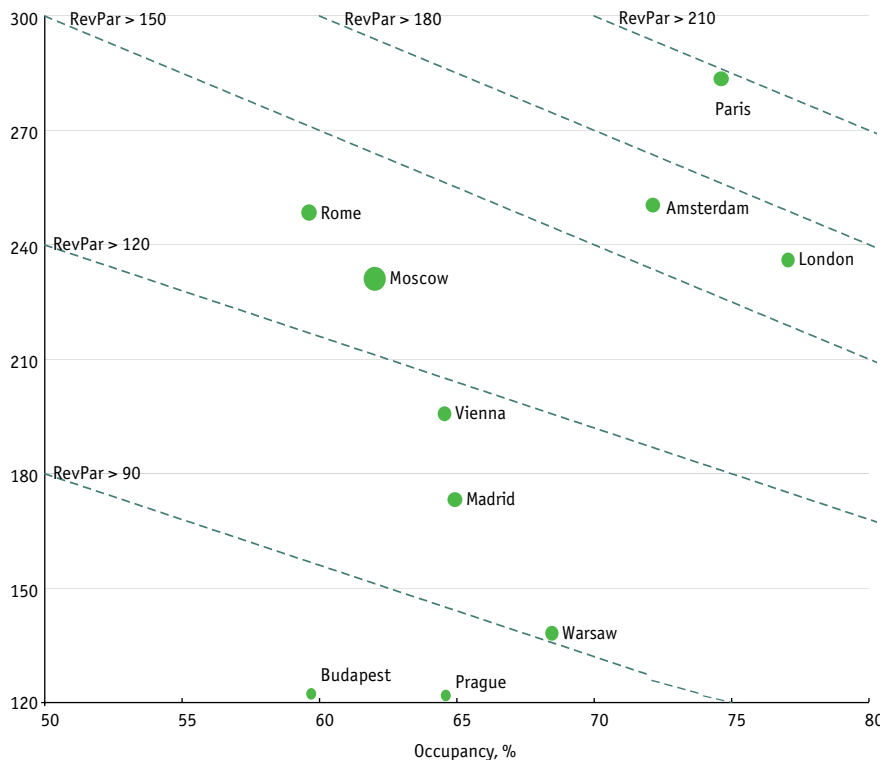
ARR at 4-5★ hotels in Moscow rose from the start of the year and high growth rates were achieved by mid-spring



Source: Knight Frank Research, 2011

Moscow currently ranks between outright leaders and all other European capital cities by main operating indicators for hotels

Average Room Rate (ARR), US\$



Source: Knight Frank Research, 2011

However, we see likelihood of slowdown in new supply in the medium term, due to the limited

number of new projects announced in 2008-2009. The initiative by Moscow mayor to limit



construction of office and shopping centres in the city centre represents an opportunity for the hotel segment, but actual developments depend on further regulation by the city authorities and additional measures to encourage hotel construction.

There is nothing to suggest that occupancy levels of Moscow hotels will improve significantly in the foreseeable future. New supply, which is expected on the market during this and next year, will prevent occupancy rising above current levels assuming modest growth of tourist flow, although we expect the positive trend in occupancy at 3★ hotels to continue during the rest of 2011.

In these circumstances room rates remain the only means of controlling financial yields from hotel business. Results in the first six months make us expect 8-12% growth of ARR in the full year.

Short glossary of terms

Rack Rate — Standard price per room without any discounts.

ARR (Average Room Rate) — Average price per room for a specified period (day, month, year).

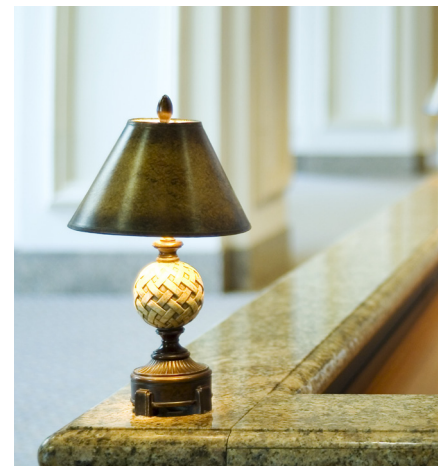
Calculated as the result of dividing total hotel revenue from room sales by the number of rooms sold in the respective time period.

Occupancy – Share of rooms sold as percentage of the total number of available rooms for a specified period of time (day, month, year).

RevPAR (Revenue Per Available Room) — Average revenue per room in a specified period of time (day, month, year). Calculated as the result of dividing total hotel revenue from room sales by the number of available rooms in the respective time period. The indicator is mathematically equivalent to the product of average room rate and occupancy.

Main hotel openings scheduled in 2H 2011			
Name	Address	Class	Rooms
Q3			
Intercontinental Moscow Tverskaya	22 Tverskaya St	5★	203
Mercure Arbat	6 Smolenskaya Sq	4★	103
Azimuth Hotel Moscow	9 Novodanilovskaya Emb	3★	144
Q4			
Hotel complex	Vnukovo Airport	3-4★	443
Courtyard Paveletskaya	8/4 Kozhevnichevskaya St	4★	170

Source: Knight Frank Research, 2011



OVERVIEW



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