



OVERVIEW



Q3 2011

HOTEL REAL ESTATE MARKET

Moscow

Knight Frank

EXECUTIVE SUMMARY

- Total hotel supply increased by 770 rooms since the beginning of 2011 thanks to opening of four hotels in the first half of the year. New hotel openings, which had been scheduled for Q3 2011, were postponed.
- The number of international branded hotel rooms in Moscow reached 10,000 after the Vega hotel (3★, 967) joined the Best Western chain.
- There was almost no change in occupancy at 3-5★ hotels in Q3 2011 compared with the same period of 2010.
- The positive trend in operating indicators of Moscow hotels continued in Q3 2011.

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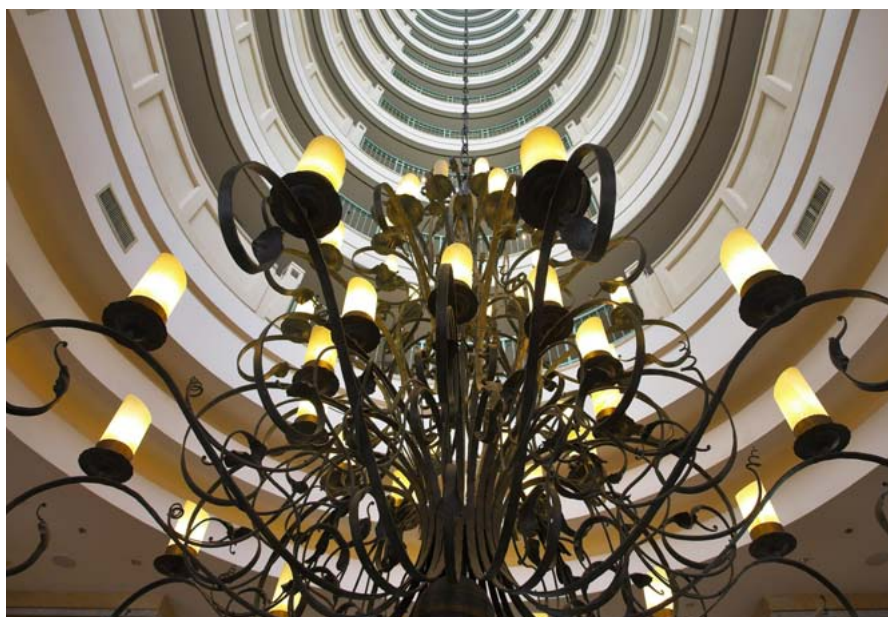
“Large share of business tourism in the overall demand for accommodation in the Russian capital meant that occupancy levels at Moscow hotels fell during the summer period, when business activity is less intense. The indicator stood at 60% during July and August. By contrast, demand for accommodation in European cities with rose to 70-75% in the summer months. Relatively low occupancy levels in Moscow are largely due to modest tourist flow to the city. At the same time, such occupancy is compensated by high room rates and quite often this is a deliberate policy of hotel operators and owners. As a result relatively high revenue per available room (RevPar) is achieved with low maintenance burden to the hotel rooms.”

Main indicators*		Trend
Number of functioning hotels	158	⊖
Number of rooms in functioning hotels	30,800	⊖
Main hotel openings scheduled before the end of 2011 (number of hotels / number of rooms)	2/373	
Average room rate at 5 ★ hotels	\$290	↑
Average room rate at 4 ★ hotels	\$192	↑
Average room rate at 3 ★ hotels	\$118	↑
Average occupancy at 5 ★ hotels	61%	↑
Average occupancy at 4 ★ hotels	64%	↓
Average occupancy at 3 ★ hotels	67%	⊖

Source: Knight Frank Research, 2011

Key events

- At the start of June the president of Binbank commercial bank, Mikhail Shishkhanov, bought 49% of shares in Dekmos company, which was previously owned by Gostinichnaya Kompaniya. Dekmos is carrying out reconstruction of the Moskva hotel.
- Moscow city hall decided to sell Gostinichnaya Kompaniya, which owns eleven 2-3 ★ hotels with a total of 4,000 rooms. The asset will be valued prior to being auctioned.
- The state nuclear energy corporation, Rosatom, sold the Baikal hotel for 426.5 mln rubles at the end of July 2011 as part of its programme of portfolio restructuring and disposal of non-core assets.
- It was reported at the start of September 2011 that the Moscow Architecture Committee has designed a new scheme for creation of hotels in Moscow. The plan is to provide a specific number of hotels in each of the city's administrative territories.



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Supply

Several hotel openings scheduled for Q3 2011 were postponed until the end of the year. However, the number of rooms at hotels operating under international brands increased by 10% and approached 10,000. The increase was due to the Vega hotel (3★, 967 rooms) becoming part of the Best Western hotel association in July this year. The Vega is the biggest hotel in Moscow operating under the international brand.

Transfer of existing hotels to international management without significant reconstruction is a positive but rare occurrence on the Moscow hotel market. There was a similar case in 2010 when the Sheremetyevo-2 hotel (3★, 251 rooms) came under the Park Inn brand of the hotel operator, Rezidor.

The total number of rooms at Moscow hotels increased by 770 or 2.5% in nine months of 2011. The growth was only half of that achieved in the same period of 2010.

Demand

Business travellers are the main source of demand for hotel accommodation in Moscow, so the occupancy level at hotels in the Russian capital invariably declines during the summer, when business activity slackens. Seasonal deviation from average levels during the summer months may be as great as 8-10 p.p. (percentage points). Hotels in the 4★ category are most affected, while 3★ and 5★ establishments are less subject to seasonal factors.

There was a 3.8 p.p. upturn in occupancy at 5★ hotels in Q3 of 2011 compared with the same period last year, which may be explained by holding of congresses in Moscow by various political parties ahead of the elections. However, overall occupancy at the city's hotels did not change significantly.

Moscow underperforms other European capitals by levels of hotel occupancy. Average occupancy at 4-5★ hotels in Moscow during nine months of 2011 was a little over 60%, compared with more than 70% in major European cities during the same period.

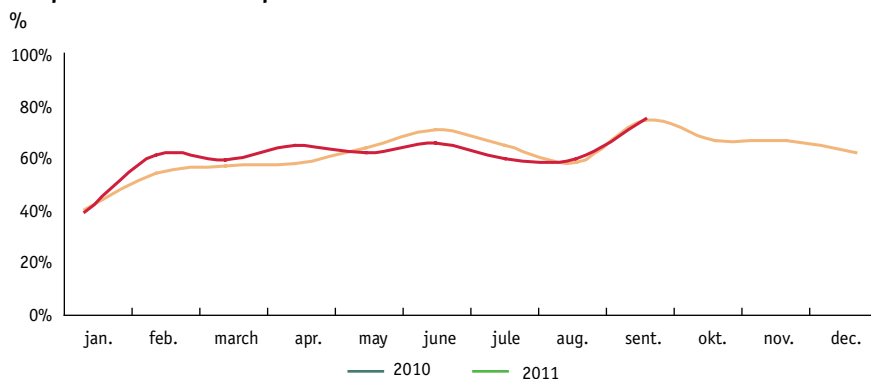
Commercial terms

The positive trend in operating indicators for Moscow hotels continued through the third quarter when ARR (Average Rate Room) at 3-5★ hotels rose by more than 10% in US\$ compared with the same period of 2010, bringing the price of accommodation at 3★ and 4★ hotels to \$118 and \$192, respectively. Five-star hotels were least affected, experiencing growth of room rates by less than 2% in US\$ and a slight

Main hotel openings in the first nine months of 2011

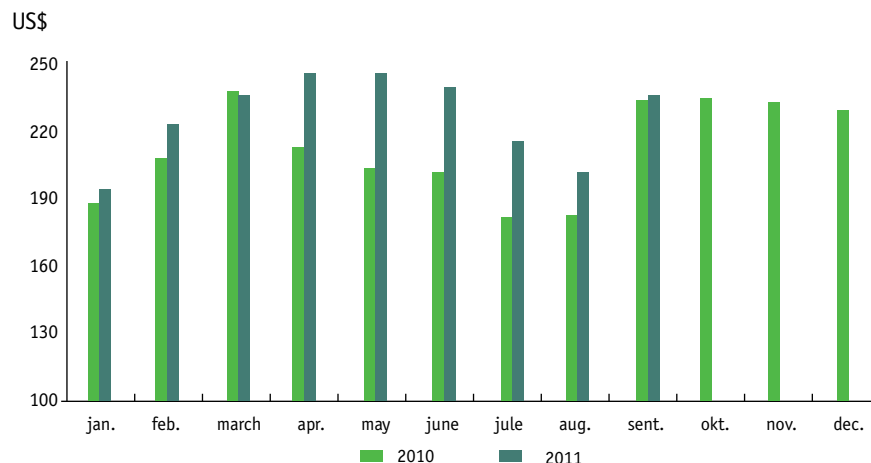
Hotel	Address	Category	Rooms
Q1			
Crowne Plaza Club	12 Krasnopresnenskaya Emb	5★	149
Ramada Moscow Domodedovo*	Domodedovo Airport, 5th km	4★	134
Q2			
Radisson Blu Belorusskaya Hotel	26, 3rd Yamskogo Polya St	4★	264
Aminevskaya	5 Aminevskoye Hwy	3★	223
Q3			
No major openings			
Source: Knight Frank Research, 2011			
* 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.			

Occupancy at 3-5★ hotels in Moscow was almost unchanged in nine months of 2011 compared with the same period of 2010



Source: Knight Frank Research, 2011

Q3 2011 brought some slowdown in rates of ARR growth at 4-5★ hotels in Moscow



Source: Knight Frank Research, 2011

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decline in ruble terms.

Steady level of occupancy and growth of ARR ensured increase of profitability at hotels in all categories. RevPar (revenue per available room) grew by 10% on average across the market in comparison with the same period of 2010.

There was no major change in operating results of Moscow hotels relative to hotels in other European capitals during the third quarter: the Russian capital remained in fifth place by room rates and revenue per available room.

Forecast

Schedules for opening of new hotels have been adjusted. Only two openings out of five, which were scheduled for H2 2011, are now expected to occur by the end of the year.

- The Courtyard by Marriot Moscow Paveletskaya (4★, 170 rooms).
- The Intercontinental Moscow Tverskaya (5★, 203 rooms), which will be the first hotel in Russia under the Intercontinental brand. The hotel will be part of the Summit multi-use complex.

The hotel operator Accor has postponed opening of Mercure Arbat (4★, 106 rooms), which will be the first hotel in Moscow under the Mercure brand, until February 2012. The first Moscow hotel of Azimuth group and a new hotel complex at Vnukovo airport will also come into operation later than had been scheduled.

Increase of supply in the whole of 2011 will therefore be in excess of 1100 rooms which is a fairly high figure for the Moscow market, although less than in 2010.

We expect continuation of the positive trend in operating results of Moscow hotels in coming months, but rates of improvement may be somewhat slower.

Short glossary of terms

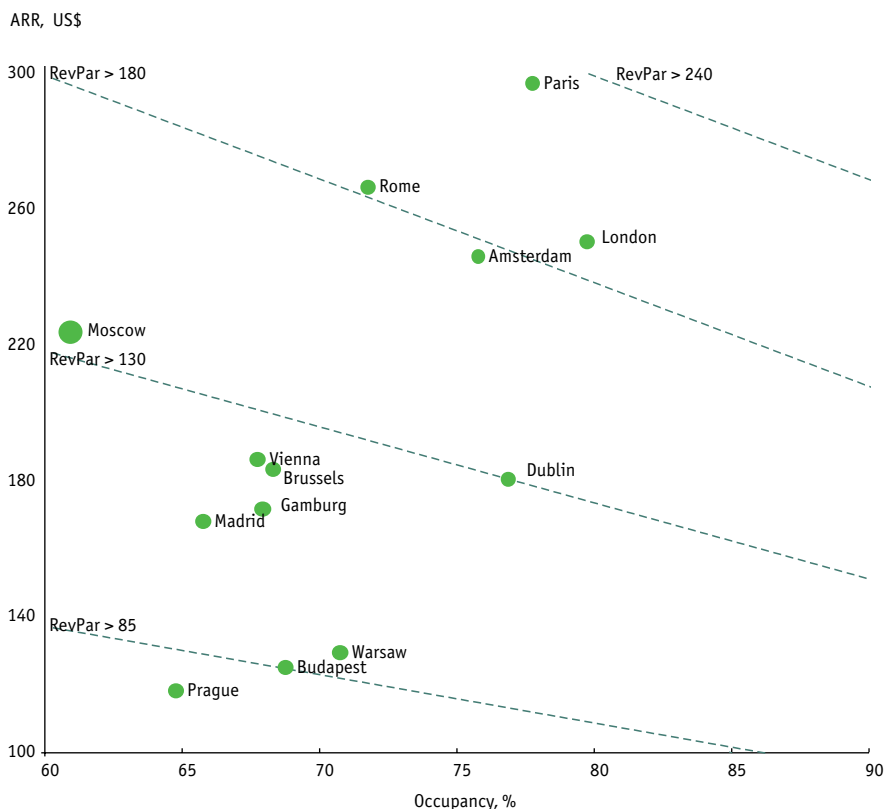
Rack Rate — Standard price per room without any discounts.

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

Moscow is well established among the top-5 in Europe by commercial indicators of its hotels, but is behind other cities by occupancy level



Source: Knight Frank Research, 2011

Main hotel openings scheduled before the end of 2011

Name	Address	Category	Rooms
Intercontinental Moscow Tverskaya	22 Tverskaya St	5★	203
Courtyard by Marriot Moscow Paveletskaya	8/4 Kozhevnickeskaya St	4★	170

Source: Knight Frank Research, 2011



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