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Hotel Sector Thriving Despite Economic Slowdown

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Report Highlights:

The devaluation of the Russian ruble in 2015 has had a positive impact on hotels in Russia. Foreign visitors have benefited from the ruble depreciation and domestic travel has served as a main driver of growth in the industry. In the first three quarters of 2015, Russia experienced double-digit growth in hotel occupancy and in Revenue per Available Room. The current geopolitical situation has led to a decrease in tourists from Europe and the United States but the tourist flow from Asia, particularly from China, has been growing.

General Information: Executive Summary

The devaluation of the Russian ruble in 2015 has had a positive impact on hotels in Russia. Foreign visitors have benefited from the ruble depreciation and domestic travel has served as a main driver of growth in the industry. In the first three quarters of 2015, Russia experienced double-digit growth in hotel occupancy (+16.5 percent to 69.7 percent) and Revenue per Available Room (RevPAR) (+27.9 percent to 3,574.12 Russian rubles). Average Daily Rates (ADR) in the country was up 9.8 percent to 5,128.55 rubles. In addition, Sochi, a holiday destination, reported increases of 25 percent in occupancy and 40.9 percent in ADR. During the first nine months of 2015, 13 new hotels operating under international brands opened in Russia.

A difficult economic situation and an unfavorable exchange rate in Russia since autumn 2014 have brought in other types of tourists – domestic businessmen and wealthy Russian leisure travelers. The current geopolitical situation has led to a decrease in tourists from Europe, particularly from France, German, UK, and from the United States. At the same time, the tourist flow from Asia, with China on the first place, is gradually growing. The number of tourists from Finland has also increased, especially to the nearby city of Saint Petersburg.

Due to the devaluation of the ruble, travel to Russia becomes more affordable for foreign tourists. In 2014 -2015, the volume of outbound tourism also decreased due to the rising cost of traveling abroad, and Russians started to travel inside the country developing domestic tourism. These factors will have a positive effect on Russian hotel market in the next year. According to RosTourism, the results of 2014 showed a 40-percent increase in domestic tourism. The overall number of foreign tourists visiting Russia increased 16 percent in the first six months of 2015. Data from Russia's Federal State Statistics Service shows that the volume of the Russian hotel services market grew by 8.3 percent in 2014 to 175.7 billion rubles (\$4.5 billion), with average hotel occupancy at 50-60 percent in the regions and 70 percent in Moscow and St. Petersburg.

Table 1. Russia: Hotel Industry Sales, 2010-2014

	2010	2011	2012	2013	2014
Billion Rubles	112.8	125.5	141	162.3	175.7
Growth Year on Year, %		11.3	12.3	15.1	8.3
Average exchange rates by years	30.36	29.35	31.07	31.82	39.34
Number of hotels in Russia	7,866	8,406	9,316	9,869	10,714

Source: Federal State Statistics Service

Moscow and St Petersburg alone account for around 25 percent of the country's hotel capacity. While the high-end sector is close to saturation, there is a strong demand for mid-level hotel rooms. The highest level of unfulfilled demand is for quality three star and economy hotels.

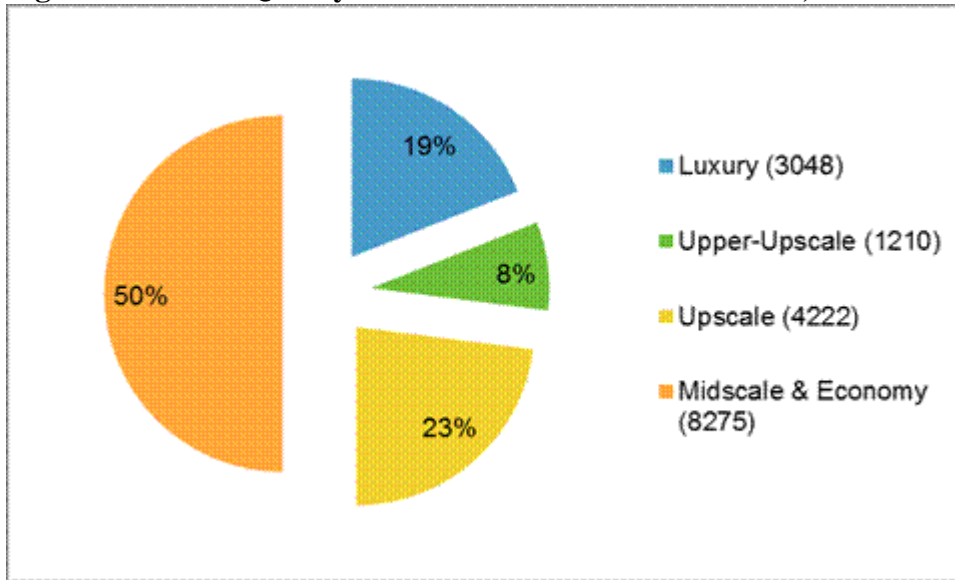
Moscow Hotel Market

268 hotels were operating in Moscow in March 2015. As recorded by Cushman & Wakefield

Hospitality and Tourism department (C&W) in Q1 2015, Moscow quality room supply amounted to 15,600 units and its stock share is not more than 33 percent of the whole city's hotel market supply.

With the opening of 5 new hotels in 2015 of total rooms count to 1,117, distribution of quality supply by classes will be the following: 50 percent rooms will take Midscale and Economy hotels, 23 percent will comprise supply of Upscale segment hotels, 19 percent - Luxury hotels band 8 percent - hotels of Upper-Upscale segment. Thus, we see that Moscow hotel market is developing towards increase of Economy and Midscale supply.

Figure 1. Russia: Quality Moscow Hotel Market Structure, 2015



Source: Cushman & Wakefield Hospitality and Tourism

As the result of ruble devaluation in December 2014 - February 2015 the decrease of Moscow quality hotel average price in Q1 2015 amounted to 43 percent relative to Q1 2014 price - from \$172 per night to \$98. However, ruble prices had a slight growth in Q1 2015 - +2.4 percent in average to Q1 2014.

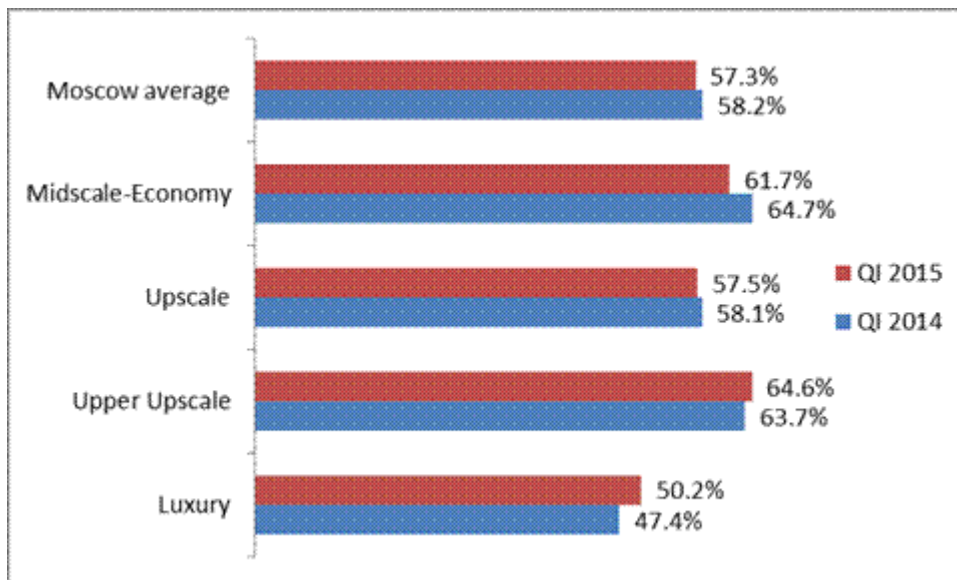
Table 2. Russia: Moscow Hotels Average Daily Rates (ADR)

	QI 2014 in USD	QI 2014 in Rubles	QI 2015 in USD	QI 2015 in Rubles
Luxury	329	11,496	191	11,950
Upper Upscale	233	8,160	124	7,781
Upscale	175	6,126	97	6,089
Midscale-Economy	129	4,505	73	4,566
Moscow average	172	6,012	98	6,153

Source: STR Global, Cushman & Wakefield Hospitality and Tourism

Slow recovery of hotel occupancy in Moscow, which emerged in December 2014, became more noticeable in Q1 2015.

Figure 2. Russia: Quality Moscow Hotel Occupancy



Source: STR Global, Cushman & Wakefield Hospitality and Tourism

Prices for accommodation in ruble equivalent has also started their growth in Q1 2015 as a consequence of compensation against significant inflation level reached 11.4 percent in 2014.

Table 3. Russia: Moscow Hotels Revenue per Available Room (RevPAR)

	Q1 2014 in USD	Q1 2014 in Rubles	Q1 2015 in USD	Q1 2015 in Rubles
Luxury	156	5,444	96	5,997
Upper Upscale	149	5,201	80	5,026
Upscale	102	3,562	56	3,499
Midscale-Economy	83	2,916	45	2,816
Moscow average	100	3,499	56	3,528

Source: STR Global, Cushman & Wakefield Hospitality and Tourism

This summer Moscow hosted much more tourists from Russia than usual. Due to the devaluation of the ruble travel to Russia have become more affordable for foreign tourists. As a result the hotel market of the capital recorded extremely high operating performance growth in most segments. Moscow quality hotel occupancy reached 74 percent in summer of 2015. Moscow ADR was \$118.6 and RevPAR was \$85.4 in June-August of 2015.

According to Jones Lang LaSalle Inc., Moscow luxury hotels in September have registered the highest occupancy since 2007 (85 percent). Average daily rate of 14,732 rubles in this segment for nine months of 2015 has been at record high since 2008. This allowed for very solid revenue per available room gain of 18 percent compared to YTD number last year. Foreign visitors have benefited from the ruble depreciation and domestic travel has served as a main driver of growth in the industry.

Saint Petersburg Hotel Market

As of the end of 2014, the St. Petersburg hotel market had 139 hotels with approximately 19,800 rooms,

excluding mini-hotels, and hostels. In September 2015 St. Petersburg has been named the best tourist destination in Europe by World Travel Awards. Statistics from the Federal Tourism Agency showed that the number of tourists visiting Russia's Northern capital has increased by almost 60 percent in the first quarter of the year compared with the same period in 2014. Tourists from European countries, Turkey, China and India visited Russia's cultural capital St Petersburg. About 23,500 Chinese tourists came to Russia in the first three months of this year, according to the Russian travel association "World Without Borders".

According to Jones Lang LaSalle Inc., hotel occupancy for nine months of 2015 rose by 20 percent compared to last year, resulting in 7 out of 10 rooms being sold every night of the year so far. All segments except luxury attracted the unseen number of guests, registering occupancies of over 80 percent (and in some cases over 90 percent in the Upscale segment). Boosted by an 8 percent ADR gain in the same period (albeit mainly driven by the Luxury segment), across segments hotels were able to register a very solid increase in RevPAR of 28 percent or 900 rubles. Currently, seven hotels totaling over 1,200 rooms are under construction in St. Petersburg. This volume is expected for delivery by the end of 2016, unless the opening dates are not be postponed.

Table 4. Russia: St. Petersburg Hotels Scheduled for Opening in 2015-2016

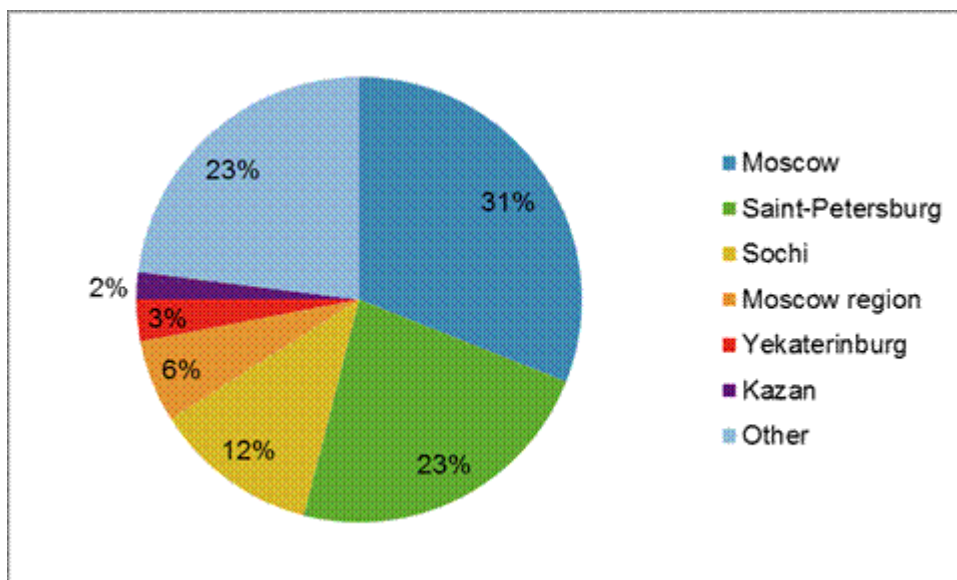
	Name	# of rooms	Class	Date of opening
1	Aston	160	4*	2015
2	Hilton	234	5*	2015
3	Hampton by Hilton	207	-	2015
4	Confidential	235	4*	2015
5	Holiday Inn	129	4*	2016
6	Jumeirah	74	5*	2016
7	Morskaya Stolitsa	200	3*	2016
Total:		1,239		

Source: STR Global

International Hotel Brands in Russia

According to the Ernst & Young (EY), in October 2015 there were 152 hotels under international brands with the total room stock of 34,466 operating in 38 Russian cities and towns. More than a half of the existing rooms supply is concentrated in Moscow and St. Petersburg (54%), followed by Sochi (12%), the Moscow Region (6%), Ekaterinburg (3%) and other locations.

Figure 3. Russia: Room Supply with International Brands in Russian Regions, 2015



Source: Ernst & Young

Now 23 international hotel chains have operated or franchised in Russia. The largest International hotel chains are presented in the table below.

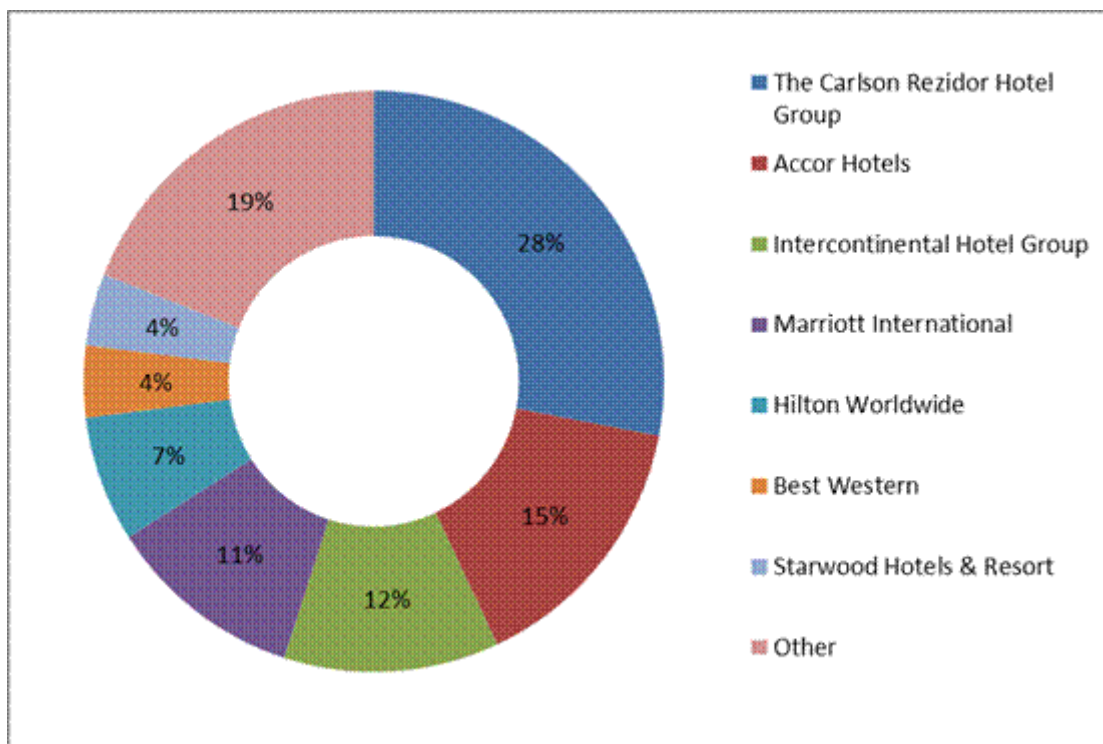
Table 5. Russia: International Hotel Operators, October 2015

Operator	Existing		Planned by 2020		Total by 2020	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Accor Hotels	27	5,116	47	8,744	74	13,860
Hilton Worldwide	14	2,405	24	4,617	38	7,022
The Carlson Rezidor Hotel Group	34	9,524	4	886	38	10,410
InterContinental Hotels Group	16	4,164	12	3,276	28	7,440
Marriott International	16	3,844	8	1,732	24	5,576
Starwood Hotels & Resorts	7	1,434	8	1,651	15	3,085
Hyatt Hotels Corporation	3	700	5	1,218	8	1,918
Wyndham Hotel Group	3	446	5	760	8	1,206
Best Western	6	1,477	1	125	7	1,602
FRHI Hotels & Resorts	2	436	2	365	4	801
Other	24	4,920	2	76	26	4,996
Total:	152	34,466	118	23,450	270	57,916

Source: Hotel operator's data, Ernst & Young

The biggest market share - 66 percent - is divided between The Carlson Rezidor Hotel Group, Accor Hotels, InterContinental Hotels Group and Marriott International. During the first nine months of 2015 the Russian hotel market was supplemented by 13 new hotels operating under international brands.

Figure 4. Russia: International Hotel Operators Share in 2015



Source: Hotel operator's data, EY analysis

Russian Hotel Brands

In addition to international chains, Russian hotel operators increase their presence both in Russia and abroad. National hotel brands have a significantly smaller proportion of the market than those under international management. At the moment the share of the hotels under international brands (152 hotels) is almost 2.5 times higher than the share of the hotels under Russian management (73 hotels). The largest Russian hotel chains are presented in the table below.

Table 6. Russian Hotel Operators in Regional and International Markets, October 2015

Hotel chain name	Number of hotels in Russia / abroad	Cities of presence in Russia	Countries of presence
Azimut Hotels	14 / 9	Moscow, St. Petersburg, Vladivostok, Murmansk, Ufa, Voronezh, Novosibirsk, Nizhny Novgorod, Kostroma, Astrakhan, Adler/Sochi	Germany, Austria
Amaks Hotels & Resorts	21 / 4	Perm, Vladimir, Kazan, Ufa, Belgorod, Rostov-on-Don, Tambov, Voronezh, Valday, Azov, Novgorod Veliky, Kurgan, Krasnoyarsk, Novy Urengoy, Staraya Russa, Yokshar-Ola, Tolyatti, Izhevsk, Omsk, Ust-Kachka, Essentuki	Belarus
Heliopark Hotels & Resorts	10 / 2	Moscow, Moscow region, Kaliningrad, Nebug, Penza, Sochi, Suzdal	Germany, Switzerland
Intourist Hotel Group	5 / 3	Moscow, Petrozavodsk, Lipetsk region, Gorno-Altaysk	The Czech Republic, Italy, Namibia
Cronwell Hotels & Resorts	10 / 3	St. Petersburg, Hanti-Mansiysk, Uray, Balabanovo	Greece
Korston Hotels	3 / -	Moscow, Kazan, Serpukhov	-
Alliance Hotel Management	4 / -	Moscow, Obninsk, Saransk, Abakan, Tuapse	-
Soyuz Marins Grupp	6 / -	Nizhny Novgorod, Sochi, Yalta, Ekaterinburg, Novosibirsk, Rostov-on-Don	-
Total:	73 / 21		

Source: hotel operators' data, EY analysis

There are usually two restaurants in four-star hotels and three restaurants in five-star hotels. According to industry sources, tourists often eat breakfast and dinner in their hotel, but they eat lunch in the city.

In an attempt to attract more of the tourist industry, hotels are offering special catering services for different events. On average, room rentals account for 70 percent of hotel income, services account for 10 percent, and food and beverages account for 20 percent.

Luxury hotels represent the best opportunity for selling American products to hotels. Other sub-categories usually have very limited foodservice offerings. Hotel restaurants operate like other restaurants and purchase items through distributors. American meat, fish, wine, spirits, and fruit are some of the better prospects for this segment. It is planned that by 2020 the number of hotels under international management will increase by 118 new properties (23,450 rooms). Thus, if by 2020 all announced hotels open, the number of hotels under international management in Russia will amount to 270 hotels (57,916 rooms) located in 54 towns and cities.

Hotel projects usually have a four to five-year development cycle, so international hotel operators are building hotels before upcoming events in the Russian regional centers. The following events are planned for the near future: the Wushu FINA World Championships in Kazan on autumn 2017 and the 2018 FIFA World Cup. Matches are to be held in 11 cities, including Moscow, St. Petersburg, Kaliningrad, Kazan, Yaroslavl, Nizhny Novgorod, Samara, Saransk, Rostov-on-Don, Volgograd, and Sochi. 2017 Wushu World Championship competitions will be held in facilities built for 2013 Summer

Universiade, also hosted by Kazan. 10,000 hotel beds, including hotels with western brands, are available in Kazan now. Currently the World Cup 2018 host cities are represented by 106 branded hotels. It is planned that by 2018 the number of hotels will increase by 61 new properties (12,977 rooms).