

DEVELOPING HOTELS ACROSS RUSSIA AND BEYOND

A Cushman & Wakefield Hospitality Publication



OCTOBER 2012



DEVELOPING HOTELS ACROSS RUSSIA AND BEYOND



OUR EXPERIENCE

Armenia

Yerevan**

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Belarus

Minsk**

Bulgaria

Balchik

Kazakhstan

Almaty**

Mongolia

Ulaanbaatar**

Ukraine

Alushta*

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Yalta

Zaporozhye*

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Anapa

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Belgorod**

Cheboksary*

Chelyabinsk

Gelendzhik

Irkutsk**

Izhevsk*

Kaliningrad*

Kazan**

Khabarovsk**

Krasnodar**

Krasnoyarsk*

Lipetsk*

Moscow

Nizhniy Novgorod**

Nizhniy Tagil

Novokuznetsk**

Novorossiysk

Novosibirsk*

Saint Petersburg

Samara

Sochi

Tuapse

Togliatti**

Tyumen*

Ufa**

Ulan-Ude**

Voronezh*

Yaroslavl*

Yekaterinburg

OUR SERVICES

Development Consultancy

- Feasibility Studies
- Market Research
- Resort Planning

Operator Selection / Branding

Commercial Negotiations

Valuations

Asset Management

Investment Services

Operational Reviews

Project Management

** Projects covered in the brochure

* Team experience

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“ Moscow is consistently reported in international media as ‘the most expensive hotel market’ and depending on which report you read they refer to either ‘in Europe’ or ‘in the world’. It is clear that Moscow remains a hot city for hotel investors, developers and operators. The slow and steady pipeline (a result of the crisis and general development difficulties) allows the existing hotels to feel limited effects of new rooms opening year by year.

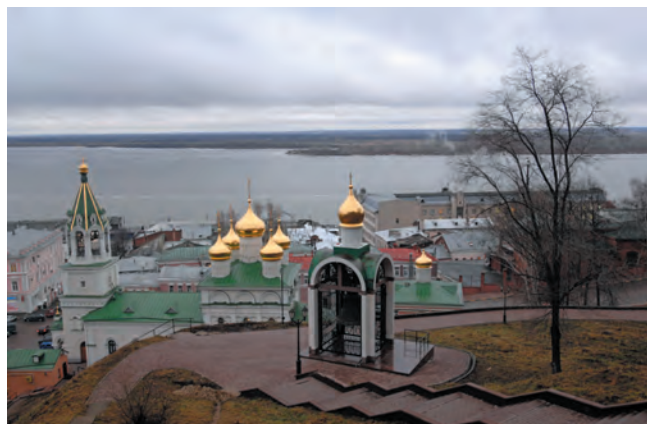
It is though a different picture in the regions where one or two new hotels in a city can make a significant difference to the market dynamics. Over 80% of our feasibility work is outside of Moscow and in the last 12 months since this conference we have again been on the road across Russia and beyond.

The following is a selection of some of those city reports from the past 12 months. I hope it provides a snap-shot of regional activity. ”

David Jenkins

Partner, Head of Hospitality, Russia & CIS, Cushman & Wakefield

NIZHNY NOVGOROD, RUSSIA



CITY COMMENTARY

Nizhny Novgorod is the fifth largest city in Russia with the population of circa 1.3 million people. The city is situated approximately 440 km northeast of Moscow (1 hour by air).

The city is the economical and cultural centre of the Volgo-Vyatskiy Economic Region and also the Administrative centre of Nizhegorodskaya Oblast.

The city transport infrastructure includes an international airport - Strigino, passenger and cargo river ports on the Volga River and a large railway junction.

The airport passenger turnover in 2011 was 460,300 people (23% more than in 2010). The airport is ranked number 33 in the rating of all Russian airports.

There is excellent rail connectivity with Moscow by the Sapsan speed train which takes only just under 4 hours.

ECONOMIC TRENDS

In 2011, the GRP of Nizhegorodskaya oblast was around USD 24 billion, a 10% growth compared to 2010. Nizhny Novgorod was developed historically as one of the leading industrial and scientific centres of Russia. The mostly developed businesses are: machinery construction and metal processing, food industry, ferrous and non-ferrous metallurgy, medicine, light, and woodworking industries.

HOTEL MARKET OUTLOOK

There are approximately 60 hotels in Nizhny Novgorod with over 3,000 daily available rooms. The hotel supply in the city can be divided into two main groups:

Soviet –type hotels represented by such hotels as Hotel Tsentralnaya, Oktyabrskaya, Nizhegorodskaya and Grand Hotel Oka and **modern business focused hotels** such as Alexandrovsky Sad, Nikola House, Volna, Ibis and Grand Hotel Oka (Oka Premium building).

Currently the city has only one international hotel - the Ibis hotel that opened in 2010.

Average daily rates in the key hotels in the city vary from RUR 2,000 to RUR 4,000. The Alexandrovsky Sad is the leader on the market in terms of occupancy and rate. Typical occupancy range is 45-55%.

There is significant interest in the city from investors and operators with at least 3 branded hotels in the immediate pipeline. This will increase the branded room-stock from 220 today up to approximately 800 in the next 3 years.

The main challenge with the hotel market in Nizhny Novgorod is the proximity of the city to Moscow. Travellers from the capital can easily make single day business trips or at most an overnight stay. This puts pressure on hotels mid-week but does not enable them to yield through the week. In general the average length of stay in the city is approximately 1.4 nights.

KEY HOTELS IN NIZHNY NOVGOROD

CURRENT SUPPLY

HOTEL	NUMBER OF KEYS
Tsentralnaya	450
Oktyabrskaya	80
Grand Hotel Oka	420
Alexandrovsky Sad	49
Volna	198
Ibis	220



The existing market is relatively small and sensitive to a new supply addition. The city has a potential to develop, but it should focus on developing the MICE segment as well as business tourism. Older local hotels have already, or are looking at, renovation programmes in order to maintain competitiveness and enhance the product.

KAZAN, REPUBLIC OF TATARSTAN



CITY COMMENTARY

Kazan is the capital of Republic of Tatarstan and is home to 1.16 million people. Situated approximately 818 km from Moscow, Kazan is one of the key financial centers in regional Russia and headquarters of several of Russia's top 500 companies (TAIF, Tatenergo, Kazanorgsintez, Ak Bars Bank etc). Kazan's historical centre is included on the list of UNESCO World Heritage Cities.

ECONOMIC TRENDS

Kazan is the leading city in the Volga economic region and is the third largest banking capital in Russia. In 2011, the gross regional product (GRP) of the Republic of Tatarstan was estimated at USD 41.7 billion which is 25% higher than in 2010.

Kazan is an important commercial hub with a concentration of oil and gas industries as well as mechanical engineering, chemical, light and food industries.

In 2011 the International Airport of Kazan handled nearly 1.23 million people – a ranking of 15 amongst all Russian airports. Currently the airport is under reconstruction which will help increase its capacity up to a planned 2.5 million passengers per annum.

HOTEL MARKET OUTLOOK

Hotel development in Kazan substantially increased as a result of the city's Millennium celebrations in 2005. Officially in the beginning of 2012 there were 74 hotels operating in the city with 4,400 available rooms. Of this room stock we would say that 1,400 are of an international standard.

KEY HOTELS IN KAZAN

There are three types of hotels in Kazan: **Soviet-type hotels** built in 60s-70s, **modern business focused, local** hotels built in recent years (2004-2010) and **international branded hotels**. The local hotels of quality include Korston, Shalyapin Palace, Grand Hotel Kazan, Suleiman Palace Hotel and the Riviera Hotel. In 2009 Accor opened the first branded hotel in Kazan with their Ibis brand. In 2010 Rezidor opened their Park Inn hotel and in February 2011 Marriott opened their Courtyard with views to the Kremlin.

In addition to the high existing supply there is a strong development pipeline in Kazan. Several new international hotels are expected to open in the coming 2-4 years.

Occupancy in the city ranges from 55% to 65% across the board with little in the way of weekend business. Market leaders in occupancy are Shalyapin Palace, Riviera and Ibis – demonstrating price sensitivity for the majority of the demand. Average rates fell dramatically since 2008 and now range from RUR 2,000 up to RUR 4,000. We expect a small growth in RevPar through 2012, but it will be more driven by occupancy rather than ADR.

Business demand accounts for more than 80% of the guest mix. There is strong demand from sport also. Hotels will benefit from demand during the Summer Universiada in 2013, the Aquatics World Championship in 2015 and FIFA World Cup in 2018.

MICE demand is on the increase as Kazan regularly hosts various local and foreign exhibitions, trade and economic events.

CURRENT SUPPLY

HOTEL	NUMBER OF KEYS
Ibis	155
Park Inn	151
Courtyard by Marriott	150
Korston	202
Shalyapin Palace	123
Grand Hotel Kazan	215
Suleiman Palace Hotel	90
Riviera Hotel	210
Mirage	109



Kazan is one of the most mature regional markets in terms of hotel supply, with already 3 internationally branded hotels on top of several quality local hotels. As such it is a highly competitive and fairly transparent market. The challenge now is to grow rate that dropped during the crisis and as a consequence of high supply.

KRASNODAR, RUSSIA



CITY COMMENTARY

Krasnodar is an Administrative centre of Kuban region with the population of circa 746,000 people. The city is situated approximately 1,300km from Moscow (2 hours by plane from Moscow).

The city occupies an advantageous economic and geographic position in the South of Russia utilizing the transport highways connecting the centre of the country and overseas states with the southern sea ports of Russia - Novorossiysk, Tuapse, Eisk, Temruk and Sochi. There is an international airport in the city and the federal highway 'DON' (A4) passes through the city as well.

ECONOMIC TRENDS

In 2011 GRP of Krasnodarsky kray totalled USD 43 billion, which shows 5% growth compared to 2010. The main industries that form the economic image of the city of Krasnodar are the following: food industry, machine-building industry, light industry, metal working industry, furniture-making industry, electronic and instrument making industry.

In 2011 Krasnodar International airport handled nearly 2.4 million people, which showed a decent increase of 20% over 2010. The airport is ranked number 7 amongst all Russian airports.

HOTEL MARKET OUTLOOK

As at the end of 2011, Krasnodar had a total of 89 lodging facilities (including hotels and mini-hotels). The total room count was estimated at approximately 3,200 daily available rooms. The number of hotels nearly doubled for the last five years with the majority of business focused hotels been built in between 2005-2011. However, Krasnodar hotel market is mainly presented by small mini hotels with the room count less than 50 rooms.

KEY HOTELS IN KRASNODAR

With the total room count of 3,200 rooms only 1,200 rooms can be categorized as quality rooms relevant to international standards. Amongst these rooms all segments are covered with the majority of room stock to be in economy and midscale segments. The upscale segment in the city is presented by newly opened Rimar as well as Aton and Red Royal with a relatively small room count. Having undergone the full renovation Intourist has all chances to strengthen its positions in the midscale segment. Economy segment is the most wide in the city with the key economy hotels bringing approximately 700 rooms to the market. However, economy room stock in the city is the most outdated being represented by the Soviet type hotels (Moskva, Kavkaz, Tourist, etc.).

According to our estimates quality hotel market in the city reached occupancy levels between 50% on the lower end and 65% at the top end with an ADR of circa 2,300 - 4,200 RUR. We do see the signs of recovery in the market and expect a small growth in RevPAR through 2012, but it will be more driven by occupancy rather than ADR.

The Krasnodar market stimulates high interest among developers and hotel operators. The first international hotel – Hilton Garden Inn (160-keys) will be opened in winter 2013. Moreover there are three more hotel projects which are currently under design stage and will appear on the market in the next 3-4 years.

Business demand in Krasnodar accounts for more than 80% of the guest mix and is mainly generated via Moscow, Saint Petersburg, Yekaterinburg, Ufa, Kaliningrad and other major Russian cities – with Moscow providing more than half of all visitors. MICE demand is slowly picking up in Krasnodar and with the recent acquisition of Krasnodar Expo by the ITE Group we believe that the number of conferences and events will be increasing.

CURRENT SUPPLY

HOTEL	NUMBER OF KEYS
Rimar	69
Red Royal	40
Intourist	244
Forum	118
Platan Yuzhniy	82



Krasnodar is an attractive market and within few years we are expecting an opening of several international hotels in the market mainly positioned in the midscale segment.

TOGLIATTI, RUSSIA



CITY COMMENTARY

Togliatti is a highly-developed industrial city located on the left bank of the river Volga 90 km to the north-west of Samara, the administrative centre of the Samara Region.

Togliatti is situated 1,000 km to the south-east of Moscow and can be reached by plane within 1.5 hours (served by Kurumoch International Airport located between Togliatti and Samara). Its population is estimated at around 722 thousand people.

ECONOMIC TRENDS

In 2011 GRP of the Samara Region totalled USD 24.5 billion, which shows 6.3% growth compared to 2010. The main drivers for the local economy are the automotive and petro-chemical industries.

Togliatti is home to Russia’s largest car maker, JSC AvtoVAZ, which produces over 20% of cars for the Russian market or, in absolute figures, every fourth car in Russia is produced in Togliatti. The life of Togliatti is highly dependent on the giant factories located here, especially AvtoVAZ.

In 2011 Kurumoch International airport handled nearly 1.74 million passengers, which is 10.8% more than in 2010. The airport is ranked number nine amongst all Russian airports and is to undergo a significant renovation and upgrade by 2014.

HOTEL MARKET OUTLOOK

By the end of 2010 there were officially 13 hotels operating in Togliatti (a rather low 563 daily available rooms). The number of hotels has been more or less stable over the recent years

KEY HOTELS IN TOGLIATTI

Togliatti hotel market can be divided into 4 groups: hotels, related to city core companies, **Soviet hotels**, **modern business focused hotels** and **private mini hotels**. The first segment is represented by Azot hotel, Yubileinaya and VAZinterservis. They have typical ‘Soviet-era’ facilities and service structures and target demand, generated by their head companies, however, top-end guests are already moving to modern hotels in search of better quality of service and accommodation. Soviet hotels include Zvezda Zhiguley and Volga hotel opened back in 1968. These hotels are becoming less and less competitive as the new players are opening up and mainly attract low-end business and overflow of demand in case all better hotels are fully booked. Vega hotel is the newest addition to the market and is considered to be the best hotel in the city. The fourth group has appeared due to the lack of quality accommodation in larger hotels and includes Park Hotel and Emerald. Currently there are no internationally branded hotels in the city, unlike the nearby Samara where there are two international hotel players – Holiday Inn Samara with 177 keys and Renaissance Samara with 196 keys.

The hotel market in Togliatti is dominated by business travelers. Corporate segment accounts for more than 85% of the total demand. The majority of business tourists are Russians, however, foreigners working in the major plants account for 30-40% of the top-end market. In general demand is very price sensitive.

Growth will be tightly linked to future development of AvtoVAZ. Currently the maximum achievable annual occupancy is about 60%. Larger hotels run at lower occupancies. The majority of hotels offer quite outdated rooms and very limited facilities, thus they cannot reach high rates. Newly built hotels such as Vega impose the highest rates on the market – up to 3,500-4,000 roubles.

CURRENT SUPPLY	
HOTEL	NUMBER OF KEYS
Azot	50
Yubileinaya	192
VAZinterservis	23
Zvezda Zhiguley	150
Volga	74
Vega	125
Park Hotel	45
Emerald	21



The hotel market of Togliatti could definitely support one quality hotel of midscale positioning with modern purpose built meeting & conference space. Location, of course, will be of utmost importance and even more so than in many regional cities. All business activity in the city is concentrated not in the Central District as many would expect but in the Avtozavodsky District.

BELGOROD, RUSSIA



CITY COMMENTARY

Belgorod is the administrative, economic, cultural and scientific centre of the Belgorod Region situated in the Central Chernozem Region. The city is located 695 km from Moscow (about 1.5 hours by plane) and 40 km from the Ukrainian border with Kharkov. Currently the population of Belgorod is estimated at about 357.7 thousand.

ECONOMIC TRENDS

In 2011 the GRP of the Belgorod Region totalled USD 15 billion USD which is almost a 20% increase over 2010. Main areas of the local economy are agriculture, construction materials production, machinery, metallurgy, food, light and chemical industries. Belgorod region is believed to hold approximately 40% of all discovered reserves of iron ore in Russia.

In 2011 the international airport of Belgorod handled about 94 thousand passengers. Currently the airport is under reconstruction which will help to increase its capacity from the current 100 passengers per hour up to 450, attract new carriers and provide a wider destination network.

HOTEL MARKET OUTLOOK

By the end of 2011 the total number of officially registered lodging facilities in Belgorod was 16 with the total room stock of 635.

KEY HOTELS IN BELGOROD

Like in many other smaller regional cities the Belgorod hotel market is dominated by **Soviet-era hotels**, some of which have recently undergone renovation. There are also several **newly-built mini-hotels** targeting the top end of the corporate demand and appealing to foreigners. The Belgorod hotel sits at the top end of the market and is considered to be the market leader in terms of operational performance. AMAKS Congress Hotel with the largest room stock in the city targets price-sensitive corporate clients, limited tourists and the sports segment.

The occupancy over the key hotels runs from 40% on the lower end up to 55% on the top end of the scale. The upcoming expansion of the airport will help to drive more occupancy in the city. Average daily rates in the key hotels in the city are about RUR 3,000.

Corporate business guests make up more than 80% of all demand in Belgorod. This business demand is mainly generated via Moscow, which is the source of approximately 75% of all visitors. The proximity to Moscow and the flight schedules means that guests can typically conduct business in one day – sometimes even without the need for an overnight. The average length of stay is 1.5 nights.

There are currently several hotel projects in the city with different realization probability. It is clear that the Belgorod hotel market is very narrow in terms of occupancy and rate. The city can certainly take one branded property in the upper economy / mid-scale segment though there will be limited chances to boost rate and achieve high occupancy.

CURRENT SUPPLY

HOTEL	NUMBER OF KEYS
Belgorod	102
Bely Gorod	37
AMAKS Congress Hotel	271
Europa Park Hotel	55
Belogorie	41



The existing market can take 1 internationally branded hotel but with a few projects in the pipeline there is a risk of oversupply. We expect a gradual market growth in next several years aided by the new airport opening but nothing significant.

UFA, REPUBLIC OF BASHKORTOSTAN



CITY COMMENTARY

Ufa is the capital of Republic of Bashkortostan, a sovereign democratic republic within the Russian Federation. The city is located on the bank of the Belaya River about 1,200 km to the east of Moscow and can be reached by plane within 2 hours. The population of Ufa is estimated at around 1.075 million.

ECONOMIC TRENDS

In 2011 the GRP of Republic of Bashkortostan was approximately 32 billion USD, a more than 10% growth compared to 2010. Ufa is a major industrial city and important logistic center. The main drivers for the economy of Ufa are the petro-chemical, chemical and automotive industries. 50% of industrial production of Bashkortostan is produced by Ufa enterprises. Local production is exported to 55 countries.

In 2011 Ufa International airport handled nearly 1.65 million passengers, which is 13% more than in 2010. The airport is ranked number 11 amongst all Russian airports and is to undergo a significant renovation and upgrade in the nearest future.

HOTEL MARKET OUTLOOK

At present there are officially 33 hotels operating in Ufa offering 2,307 daily available rooms. The number of hotels has been more or less stable over the recent years.

KEY HOTELS IN UFA

Ufa has always attracted the attention of international hotel operators however there are still no internationally branded hotels on the market but with at least 3 new hotels confirmed in the pipeline. The city, given the size and the strength of the economy, is far behind many others in the country in terms of hotel development. This has been good for the existing hotels but is a picture that is likely to change in the next 3-5 years.

The market is currently dominated by Soviet-era hotels, some of which have recently undergone renovation and modernisation to become midscale business hotels. There are 2 hotels in Ufa operated by Russia hotel operators: Azimut and AMAKS.

Annual occupancy of Ufa hotels varies within 50-65% depending on the hotel, ADR is in the range of 2,500-4,000 rubles with Bashkortostan Hotel the leader on the market in terms of operational performance.

Ufa hotel market is dominated by business travelers. The majority of them are Russians with foreigners accounting for less than 20% of guests. There is also limited MICE demand but this segment is underdeveloped due to lack of infrastructure on the local market.

CURRENT SUPPLY	
HOTEL	NUMBER OF KEYS
Azimut	185
President Hotel	144
Bashkortostan	130
Amaks	187
Ufa Astoria	105
Tan	127



At least 3 internationally branded hotels are likely to appear on Ufa market within 3-5 years leading to initial strong price competition.

NOVOKUZNetsk, RUSSIA



CITY COMMENTARY

Novokuznetsk is a heavily industrial city and is located in the heart of the Kuzbass region. It is the administrative center of the Novokuznetsky District of the Kemerovo Region and is the largest town in the region. It is situated approximately 3,120 km from Moscow and can be reached by plane within 4 hours. Its population is estimated at around 564 thousand.

ECONOMIC TRENDS

In 2011 the GRP of the Kemerovo Region was approximately USD 25 billion, a more than 5% increase over 2010 results. The leading economic sector of Novokuznetsk is industrial production, which accounts for 70% of enterprise turnover and 43% of all direct investments into the city. The main drivers for the local economy are metallurgy, mining operations (especially coal mining) and metal spare parts production.

Novokuznetsk is one of the key Russian coal mining and metallurgic leaders. The life of the town totally depends on the giant factories located there. According to the long term development programme of Novokuznetsk, there are plans to invest RUR 128 billion in metallurgic and coal industries, RUR 11 billion into the power industry and machinery production, RUR 5 billion into the service industry and RUR 27 billion into public transportation and road infrastructure by 2025.

In 2011 Novokuznetsk airport Spichenkovo handled nearly 132,000 thousand passengers, which is 4.4% more than in 2010. Around 90% of passenger turnover comes from the daily Moscow flights.

HOTEL MARKET OUTLOOK

By the end of 2011, there were officially 13 lodging facilities (excluding mini-hotels) in the city with only 534 daily available rooms.

KEY HOTELS IN NOVOKUZNetsk

The present hotel supply in Novokuznetsk can be divided in 3 groups: **Soviet-era hotels**, **modern business focused hotels** and **private mini hotels**. The first group is represented by the biggest hotel in the city Novokuznetskaya with 160 keys. The second group includes recently built or refurbished hotels such as Lotus, Pallada, Aba and Gostiny Dvor. They are centrally located, managed by the owners and target segments from lower midmarket to upscale. The third group includes mini hotels with the room count up to 20 rooms targeting mainly local price-sensitive demand. Currently the city has no international hotels, the only confirmed branded project is Park Inn with 158 keys due to open in 2014.

The hotel market in Novokuznetsk is narrow due to the size of the city, location in the region, lack of any hub-status, relatively low business activity and inconvenient air connection. There is room for one branded upper economy or mid-market property in the mid-term.

Occupancy levels vary between 40% on the lower end and 60% at the top end. Average daily rates in the key hotels in the city vary from RUR 2,000 to RUR 3,000 in the higher range. Lotus hotel is the leader on the market in terms of occupancy and rate.

Corporate segment accounts for more than 85% of the total demand with Moscow providing approximately 80% of all visitors. The share of foreign visitors is about 8-10% and the overwhelming majority of them come from the CIS countries for projects relating to the plants, mines and factories. The average length of stay for business travellers due to the distance from Moscow is almost 3 nights.

CURRENT SUPPLY

HOTEL	NUMBER OF KEYS
Novokuznetskaya	160
Lotus	41
Gostiniy Dvor	19



Such cities with strong industry can support a small international hotel that would become the key hotel in the city from opening. Rates are highly sensitive but demand is regular and constant.

KHABAROVSK, RUSSIA



CITY COMMENTARY

Khabarovsk is the administrative, industrial and cultural center of the Khabarovsk Krai with an estimated population of 578,000. The city is situated approximately 8,500 km from Moscow (8 hours by plane) and is only 8 km from the Chinese border.

Khabarovsk has a positive transport and geographic location, sitting at the intersection of a number of nationwide and international airlines, rail, road and river routes.

ECONOMIC TRENDS

In 2011 the GRP of Khabarovsk Krai totalled approximately USD 10.7 billion, which was a 4% growth compared to 2010. Khabarovsk Krai accounts for the majority of all steel and petrochemical production, machinery and timber produced in the Far East of Russia.

Located on the Amur River, Khabarovsk is the largest river port of the Far East area. The economy is based on power and timber industries, petrochemical production, metallurgy, machinery and food production.

The world famous Trans-Siberian and Baikal-Amursky railways pass through Khabarovsk connecting it with other parts of the country. In 2011 the city airport served over 1.59 million passengers which was the highest result since 1993 and places it at number 13 in the ranking of all Russian airports in terms of passenger turnover.

HOTEL MARKET OUTLOOK

By the end of 2011 there were officially 31 lodging facilities (excluding mini-hotels) operating in Khabarovsk (1,698 daily available rooms).

KEY HOTELS IN Khabarovsk

The hotel supply in Khabarovsk can be divided into three main groups: **Soviet –type hotels** represented by such hotels as Intourist, Tourist and Tsentralnaya; **modern business focused hotels** such as Parus, Khabarovsk City, Olympic and Versal (2nd building) and **private mini hotels** with the room count up to 30 rooms of different quality (Sapporo and Royal among them). The hotels of the first group offer the largest room count in the city (over 100 rooms each) and target price-sensitive corporate clients, limited tourists and the sports segment. Modern business focused hotels have the room count of 45-100 units and are targeting more the top end of the corporate and administrative demand.

Official average occupancy in the city is 65% with some of the better performing hotels able to achieve 70%. Due to expensive flights and distance from other major Russian cities the average length of stay is 3 nights, helping to push up achievable occupancy.

Average daily rates in the key hotels in the city vary from RUR 1,500 to RUR 1,800 in the economy and lower mid-market segment and are about RUR 3,000 in the higher range. The top end of the market can achieve around RUR 5,000.

As the recognized administrative, financial and business centre of the Russian Far East, Khabarovsk is a busy hotel market and one that easily absorb several new branded hotels.

There are currently several hotel projects in the city with different realization probability. We could expect several new branded hotels opening in the coming 3-5 years adding about 300 to 400 new rooms in prime locations.

CURRENT SUPPLY	
HOTEL	NUMBER OF KEYS
Intourist	238
Tourist	190
Amur	100
Tsentralnaya	112
Parus	82
Khabarovsk City	44
Versal	160



The lack of international hotels make the city very attractive for hotel operators and without any doubts those who are able to open first in the city will benefit from initial presence and market penetration – though we do believe the city can support 2 or 3 new branded hotels at various segments.

ULAANBAATAR, MONGOLIA



CITY COMMENTARY

Ulaanbaatar is the capital of Mongolia with a population of 1.2 million. The city accounts for approximately half of the country's total population and is a rapidly developing industrial and economic centre. The city is located 4,630 km from Moscow (about 6 hours by air).

ECONOMIC TRENDS

Mongolia is a country in early stages of economic development. The economic potential of the country is significant, as has been widely reported, mainly due to vast deposits of raw materials. GDP growth accelerated to an unprecedented 17.3 percent in 2011 totaling USD 8.6 billion in 2011. From 2015 and onwards GDP growth is projected at 14% annually. There are 2 main reasons for such economic growth: growth from a low base and the boom of mining industry development.

Mining is the main pillar of the Mongolian economy contributing about 30% of annual national GDP. Uranium, coal and copper are the key raw materials driving the mining business that has successfully attracted significant international investment. The two leading mining projects Oyutolgoi (copper) and Tavantolgoi (coal) attracted investments in the amount of approximately USD10 billion.

The number of international arrivals to Mongolia was stable in 2010 and 2011 – around 457,000 visitors annually.

TOURISM

Mongolia has a great tourism potential offering a tremendously rich history, diversity and uncharted space to explore. Due to the underdeveloped infrastructure and consequently high prices tour to Mongolia appeals only to a limited number of wealthy tourists. The key feeding markets are China, Russia, South Korea, Japan, USA, Germany and Britain.

Key tourist attractions are located outside the capital city, hence the leisure guests stay 2 nights on average in Ulaanbaatar hotels: 1 night on their way in, another night – on the way out. The most successful setup in terms of hotel assets is a combination of city centre hotel and a partner countryside resort property operating together to optimize the revenue. The market already witnesses such “duplex” developments.

HOTEL MARKET OUTLOOK

According to the information provided by the Mongolian National Tourism Organization there are approximately 360 lodging facilities in the city. The same organization listed 63 hotels (from 6 to 200 rooms) in Ulaanbaatar.

KEY HOTELS IN ULAANBAATAR

The hotel supply in Ulaanbaatar can be characterized as follows: **Soviet-type hotels** with largest room counts in the city (over 100 rooms) with typical Soviet-era facilities and service structures including Ulaanbaatar Hotel, Bayangol and Chinggis Khan; International branded hotels such as Kempinski (102 keys) and Ramada (128) being currently the only **branded hotels** in the city; **private mini hotels** with room counts of up to 60 rooms of different quality.

The hotel development pipeline looks robust. In the coming 3-5 years the market expects up to 5 international hotel openings. In addition, an independent hotel, Blue Sky, has recently opened on the main city square.

The city-wide occupancy currently sits around the 60% to 65% mark. The more successful hotels that manage to attract the summer tourist business are able to reach up to 70%. Despite such strong occupancy, average rate is quite disappointing if compared to other regional capitals. This is partly down to a tendency for local hotels to benchmark against the Chinese market rather than the Russian market.

Corporate and leisure demand equally contribute approximately 47-49% of demand. MICE and other demand is at embryonic stage and yet to be developed.

CURRENT SUPPLY

HOTEL	NUMBER OF KEYS
Kempinski	102
Ramada	128
Chinggis Khan	196
Ulaanbaatar Hotel	104
Bayangol	215



Demand is growing annually and supply is about to boom. The trend is currently towards upscale hotel developments and the market will need to start yielding rate otherwise those coming in at the mid-market will struggle to achieve any kind of decent ADR. Hotel managers need to start looking towards the west for price inspiration and not east.

LAKE BAIKAL, RUSSIA



REGION COMMENTARY

Lake Baikal lies on the territory of 2 Federal entities – Irkutsk Region and Republic of Buryatia. The western part of the lake together with the Olkhon Isle is part of the Irkutsk Region while eastern part of the lake with its northern tip belongs to Buryatia, stretching from Vydrino in the south to Cape Elokhn in the north. In general, approximately 40% of the lake territory lies on the territory of the Irkutsk Region with 60% within Buryatia.

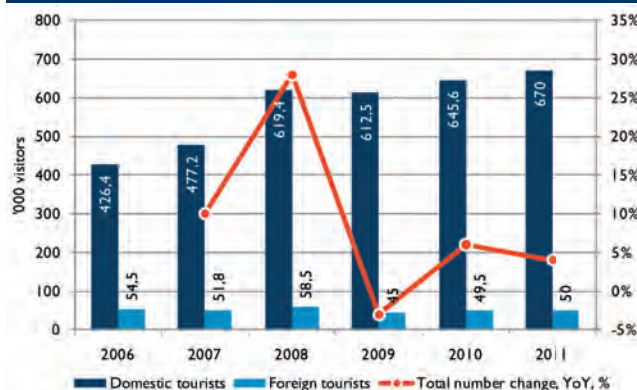
As of 2011, Irkutsk Region received almost a 30% higher tourist flow than Buryatia*. Irkutsk, historically, has been perceived as the gateway to Baikal, even though the majority of the territory and some of the most beautiful sights are located within Buryatia. The difference in arrival numbers has lessened year by year. The figure was almost 3 times as much in 2006, coming down to only 30% difference in 2011.

Inbound tourism started developing in Irkutsk already during the Soviet period. Ulan-Ude though was a ‘closed’ city until 1988. The popularity of Buryatia has been growing at a faster pace recently due to an increase of active promotion of the region by local authorities and significant state and private investment into the region. Currently, the largest ongoing tourist investment project in the territory of Buryatia is the Special Economic Zone for Tourism and Recreation ‘Baikal Haven’ that was established in February 2007. It occupies a combined area of over 3,600 hectares and includes 5 land plots. This development should be completed by 2025.

SEASONALITY PATTERN AT BAIKAL

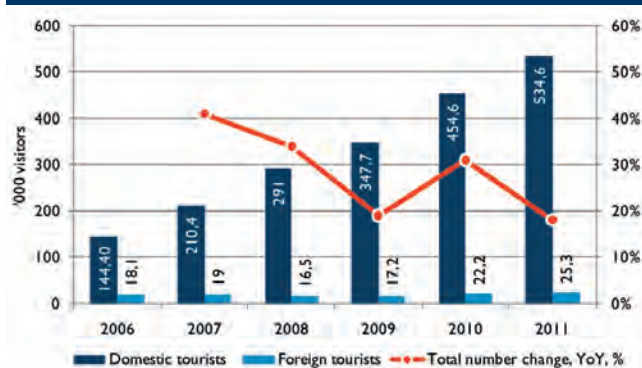
31/12 - 10/01	Winter high season
10/01 - 15/04	Low season
15/04 - 15/05	Very low season
15/05 - 15/06	Shoulder season
15/06 - 15/08	Summer high season
15/08 - 15/10	Shoulder season
15/10 - 30/11	Very low season
01/12 - 31/12	Winter low season

NUMBER OF TOURISTS ARRIVALS TO IRKUTSK REGION



Source: Irkutskstat, Cushman & Wakefield

NUMBER OF TOURISTS ARRIVALS TO REPUBLIC OF BURYATIA



Source: Buryatstat, Cushman & Wakefield

HOTEL MARKET OUTLOOK

Both Irkutsk and Ulan-Ude hotel markets are aided by summer leisure tourism. Hotels in these cities manage to post 50-55% annual occupancies, out of which approximately 40% of the overall demand is generated by tourists during the high season.

Irkutsk and Ulan-Ude hotels do not compete with complexes on the lake itself. For tourists these cities are usually a one-night stopover destination before moving to the lake itself or on the way back.

Tourist accommodation infrastructure is extremely limited at Baikal itself, especially on the eastern shore. The offering includes;

- Several private hotel complexes. Usually these are log cottages and the choice of the infrastructure is usually limited to a restaurant and banya with a small swimming pool. These complexes are overpriced with rates of 4,500-6,000 rubles for standard type accommodation and do not offer value for money. During summer season and peak New Year holidays these complexes are often fully booked but this is mostly due to their limited size and existing demand far overcoming the minimal supply. Such complexes are located mostly in already exploited places (for instance, Listvyanka settlement

features a high number of hotels/other means of accommodation, is rather busy and has preserved little real natural beauty) and the length of stay is usually 2-3 nights. The downside of such complexes is that they do not offer developed infrastructure and one can only view the lake – there is little on offer to actually do there;

- There are also yurts or camping sites organised, especially in the area of Olkhon and Maloe More. They are of basic quality and offer only on-site amenities. They are demanded mainly by Russian tourists, more or less familiar with the concept that originated during the Soviet times. These complexes are, of course, seasonal. They usually charge 800 rubles per person;
- Baikal also features a number of sanatoria and guest houses located mainly in the eastern and southern part of the lake: Arshan, Sayany, Energetic, Goryachinsk, etc. They are mainly Soviet type institutions offering a wide range of medical services, pool, sauna, fitness center, outdoor sport facilities, entertainment (café, disco, cinema, library, billiards), etc. The prices vary from 1,500 rubles for basic accommodation to 4,000 rubles for deluxe rooms. Full board costs an extra 550-700 rubles, complex medical services – 500-600 rubles per person per day. These sanatoria often belong to labour unions that provide their employees with packages to these institutions as part of the social programme.

** It should be noted that the figures revealed inflate total visitation numbers to Baikal due to double counting of the same tourist. Given the natural beauty of the lake, and the vast territory and high cost of the trip, tourists tend to see as much as possible during their stay at the lake. For instance, when they first arrive in Irkutsk they are counted by Irkutsk statistical authorities and after arriving in Buryatia they are counted by the local authorities.*



As a world recognised unique natural beauty, Baikal certainly has strong touristic development potential.

There are though certain challenges and obstacles that the investor needs to aware of;

- Baikal is a highly seasonal market with a very short summer season and even shorter swimming season. It is not a destination for those seeking sun and sea tourism. The high season itself is only approximately 60 days, with the other 305 days – having limited, local or no business at all.
- In order to extend the season, hotels need diversified infrastructure in the form of swimming pools, spa/wellness component, recreational and sports infrastructure. This, of course, incurs higher construction costs and lengthy payback periods.
- Baikal has strong potential to develop more active tourism rather than traditional sightseeing or sun & sea tourism. Altay is currently the most developed in this respect, but certainly Baikal has much to offer in terms of active holidays.
- Flights to the region are extremely expensive, roads are often of poor quality and the local tourism infrastructure is almost non-existent. Any private hotel or leisure developments will need to go hand in hand with infrastructural developments and need to be viewed as long-term investments.

ALMATY, KAZAKHSTAN



CITY COMMENTARY

Almaty is the largest city in Kazakhstan with the population of 1.4 million. The city is the former capital of Kazakhstan, prior to this role moving to Astana in 1997.

The city is located 3,150 km from Moscow (about 4.5 hours by air).

Tourism in Almaty is developing gradually, in part due to the world famous Chimbulak Ski Resort that attracts thousands of local and foreign tourists annually.

Medeo is another key attraction - the outdoor speed skating ice rink which is located in the mountain valley in the outskirts of Almaty.

ECONOMIC TRENDS

Almaty generates approximately 20% of Kazakhstan’s annual gross domestic product (GDP). It is the economic and financial centre of the country with the main focus on the financial sector. Almaty is home to the Kazakhstan Stock Exchange and all major banks.

Almaty International airport has an established network between South-Eastern Asia and Europe. Although Almaty is no longer the capital of Kazakhstan, the passenger flow is the highest among all Kazakhstan cities with an estimated 3.6 million passenger flow in 2011 – 19% growth compared to 2010.

HOTEL MARKET OUTLOOK

As of the end of 2011 the city had a total of 119 hotels (approximately 5,000 daily available bed places). Since 2005 the number of hotels in the city increased significantly from 42 hotels up to 119 hotels.

KEY HOTELS IN ALMATY

The current hotel supply has four **upscale hotels** with 990 rooms – Intercontinental, Rixos, Royal Tulip and Rahat Palace (former Hyatt Regency). There is currently only one **branded midmarket hotel** – Holiday Inn with 227-keys.

The main portion of the room stock in the city is **Soviet-type hotels** built in between 1970-1980. Among these hotels are Hotel Kazakhstan, Premier Alatau, Dostyk and Otar International. Some have undergone light renovation but the majority are still in very poor condition.

The occupancy in the key hotels in the city has dropped through the crisis and as a consequence of new hotels opening. The range today is 50-60%. As occupancy has dropped, so have average rates. With new hotels in the pipeline we see little evidence of any significant rate increase soon. The upscale market in the city is still very tight and future openings within the top segment will increase this competition further.

Many new projects are rumoured, therefore we expect a few branded hotels to be opened within several years.

CURRENT SUPPLY	
HOTEL	NUMBER OF KEYS
InterContinental	277
Rixos	260
Royal Tulip	166
Rahat Palace	285
Holiday Inn	227
Hotel Kazakhstan	299
Hotel Astana	114



Development opportunities clearly lie now in the midscale and branded economy segments with competition tightening in the upper segments.

YEREVAN, ARMENIA



CITY COMMENTARY

Yerevan, the capital of Armenia, is the administrative, cultural and industrial centre of the country. The city has a population of 1.1 million and is situated approximately 1,830 km from Moscow (2 hours 40 minutes by plane).

ECONOMIC TRENDS

Yerevan's weight in the GDP of Armenia is about 52%. In 2011 the GDP of Armenia totalled USD10 billion, a 4.6% growth compared to 2010.

Yerevan is the financial hub of the country and home for the Armenian Central Bank and Armenian Stock Exchange. International banks such as HSBC and EBRD have their representative offices there. It is also home to industrial and international plants such as Nairit chemical and rubber plant, ArmRosGazProm and RusalArmenal.

In 2011 after a 3 year construction period, a new passenger terminal was opened in Zvartnots International airport. In 2011 the airport served 1.6 million passengers, which is more or less the same number as in 2010 and about 7% more than the pre-crisis level. It is a fully modern and up to date facility.

HOTEL MARKET OUTLOOK

By the end of 2011 there were 46 hotels in Yerevan with 1,851 daily available rooms – an average of only 40 rooms per hotel. There are three international branded hotels currently operating in Yerevan – Marriott, Golden Tulip and Best Western Congress Hotel. Other hotels are locally managed in the midscale and economy segments.

KEY HOTELS IN YEREVAN

In general the hotel supply in Yerevan can be divided into two main groups: Upscale and Midscale **hotels of international level** represented by such hotels as Marriott, Golden Tulip, Best Western Congress Hotel, Golden Palace Hotel, Metropol and Europe hotel and **local Soviet-type hotels** such as Shirak, Aviatrans, etc.

These hotels of the first group were built in the period of 2003-2005 and are, by now, quite well stabilized within an immature market. The majority of the hotels are located in downtown Yerevan. The second group of hotels are all locally managed and mainly focused on cheaper corporate and leisure demand.

Annual occupancy across the top hotels in town ranges from 50% at the lower end up to almost 70% at the top end with ADR of approximately 150 USD for the top tier and about 90 USD for hotels in the economy segment. The Yerevan hotel market is dominated by business travellers, then leisure groups, with barely any MICE business for now. Tourists are mainly visiting Armenia in the period of April to October (shoulder / mid season), which helps to improve occupancy in the summer months when business slackens off. There is a significant interest from diaspora.

There are a number of branded hotel development projects in the pipeline from luxury down to the economy. Confirmed openings include a Ramada for 150 keys. In addition we expect to see a further 3 branded hotels open within the next 5 years.

CURRENT SUPPLY

HOTEL	NUMBER OF KEYS
Marriott	226
Golden Tulip	104
Best Western Congress Hotel	126
Golden Palace Hotel	66
Europe	44
Metropol	100
Ani Plaza	239



New properties will bring some additional quality to the market in all segments but with the current hotels unable to yield ADR there is certain to be continued price sensitivity with the addition of new stock in the mid-market.

MINSK, BELARUS



CITY COMMENTARY

Minsk, the capital of Belarus, is the administrative and industrial heart of the country. The city has a population of approximately 1.8 million and is situated about 680 km from Moscow (1 hour 30 minutes by plane).

ECONOMIC TRENDS

Minsk is the major industrial centre of Belarus with a number of large factories and plants. Key amongst them are the Minsk Tractor Plant, Minsk Automobile Plant and Minsk Refrigerator Plant.

The international airport has yet to be modernized, though plans have been discussed, and in 2011 it served 1.4 million people (11% growth compared to 2010). Future redevelopment certainly hinges on attracting investment and will aid in the growth of arrivals to the city.

Since the late 1990s the city has seen a wave of development involving improvements in transport and infrastructure. This considerable development in the city is partly a consequence of Minsk winning the bid to host the World Ice Hockey Championship in 2014. The city administration is paying a lot of attention in improving the city's road infrastructure, modernizing sport facilities and building infrastructure for the sportsmen. Taking into consideration the relatively small size of the private sector in Belarus, most development has so far been financed by the government.

HOTEL MARKET OUTLOOK

By the end of 2011 approximately 28 hotels were officially operating in Minsk (approximately 3,100 daily available rooms).

KEY HOTELS IN MINSK

The hotel supply in Minsk can be divided into two main groups: Upscale and Midscale **hotels of international level** represented by such hotels as Crowne Plaza, Europe, Minsk and Victoria and **local Soviet-type hotels** such as Planeta, Orbita and Ubileyanaya.

The hotels of the first group were either fully renovated or constructed in the period of 2007-2008. They are all located downtown and are already stable operations. The second group of hotels are all locally managed and mainly focused on price sensitive local corporate demand. The occupancy across the main city hotels is in the range of 60-67%. The city is typified by very high room demand mid-week with a lack of quality accommodation to satisfy the growing demand. The lack of any significant new room supply has enabled hotels to charge rate premiums. Crowne Plaza is today the only branded hotel in the city and is operated as a franchise. Demand is typically corporate with Russia a key driver. There is a slowly developing MICE segment, a degree of weekend and summer group leisure business and more sport demand as facilities improve across the city.

Many new hotel projects have been announced over the years but many have had either financial or political challenges. With many hotels in state and city ownership, new investors need to be able to work closely with the various administrative bodies to receive all permissions.

There are now a few new hotels likely to realistically open in the next 2-5 years – from all segments, bringing much needed new quality supply to the city and inevitably a degree of price competition now missing.

CURRENT SUPPLY	
HOTEL	NUMBER OF KEYS
Crowne Plaza	115
Europe	67
Minsk	252
Victoria	169



Minsk is a promising and attractive city for hotel operators, developers and investors. However, secure relations with the city and the Presidential Administration are crucial for private investors to be able to develop hotel projects in a timely manner. We do believe though that the city will see significant new supply (3-6 new hotels) in the nearest years.

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