



Hotel Real Estate Market Overview

St.Petersburg, Q1 2010



Hotel Real Estate Market

Table 1. Main indicators of hotel real estate market, Q1 2010

Main indicators	5*	4*	3*
Volume of new supply in Q1 2010, rooms	0	0	90
Estimated commissioning in 2010, rooms	100-300	700-900	300-500
Average daily rate (ADR), standard room, Q1 2010, rubles/day	9 000	5 000	3 500

Source: GVA Sawyer's research

It should be noted that some new projects were announced in Q1 2010. The Finnish company Holiday Club Resorts Oy, developing a chain of health resorts and spa-centers, is planning to open around five properties in St. Petersburg and Leningrad region. SRV Group is planning to build a mixed-use complex in Krasnogvardeysky district; a 625 keys hotel is planned according to the project.

The main problem is search of an investor for projects. However, financial indicators of hotel projects are much more attractive than projects in other commercial real estate segments, thus hotel projects are more attractive for investments.

Supply

According to the results of Q1 2010, there are 69 quality hotels (3*-5*) in St. Petersburg having the total room stock of 13,9k rooms.

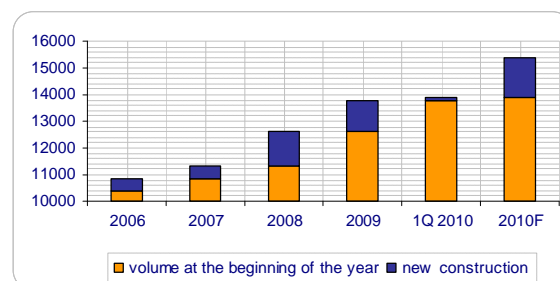
Only two 3* hotels were commissioned in the last quarter, having the total room stock of 90 rooms, namely the hotel on the embankment of Pryazhka river (ZAO «Management company «ABA») and the hotel complex on Stremyannaya Street (OOO «Viktoria»).

According to the informational-analytical project *hotelstat.ru* there are over 700 hotels in St. Petersburg with the total room stock of over 27 000 rooms, if all types of accommodation in the city are taken into account (including holiday hotels, sanatoriums, mini-hotels and official city hotels).

One of the indicators, characterizing the maturity level of hospitality market, is the supply of hotel rooms per 1000 residents. According to the European standards this indicator should amount to 9-11 rooms. St. Petersburg's indicator is 6 rooms per 1000 residents.

If compared to the European market, the hotel market of St. Petersburg as well as the whole Russia continues to attract foreign market players.

Picture 1. Dynamics of quality hotel market (3-4-5*), room stock

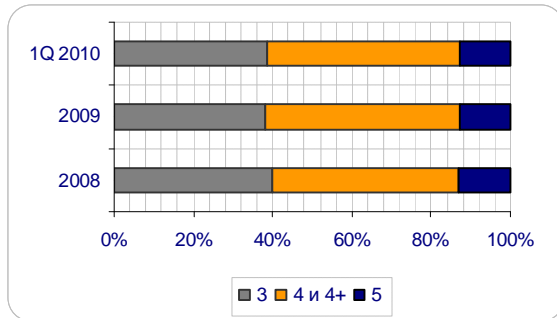


Source: GVA Sawyer

Analysis of the new projects announced for commissioning in 2010 shows that the volume of quality room stock may increase by 2.3k hotel rooms. However, according to GVA Sawyer's forecast commissioning in 2010 shall amount to around 1.5k quality hotel rooms.

The 4* hotels prevail in the structure of quality room stock in Q1 2010 (49%); high-end 5* hotels are less represented (13%), and 3* hotels constitute 38%.

Picture 2. Structure of quality room stock, Q1 2010.



Source: GVA Sawyer

Demand

According to the Investment Committee 4.8 million tourists visited St. Petersburg in 2009, including 2.3 million foreign tourists (in 2008 – 2.4 million foreign tourists). The total number of tourists increased due to development of internal tourism if compared to the previous year.

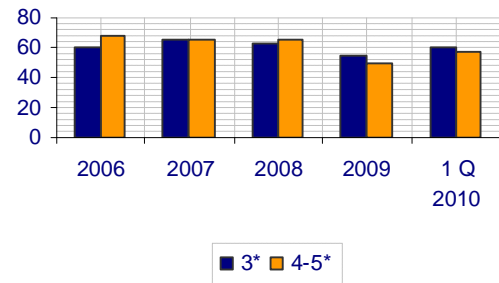
St. Petersburg’s hotel market is now characterized with sharp seasonality as well as in the pre-crisis period: many hotels are almost fully booked in high season while occupancy rate does not exceed 40-50% in low season.

As of Q1 2010, the hotel occupancy rate has increased by 18-20% if compared to the same period last year. According to the results of Q1 2010 the occupancy rate is around 58-60%.

The majority of tourists coming in Q1 – are individual tourists, and the main flow of group

bookings – both tourist and corporate – falls on the high season (May-August).

Picture 3. Occupancy rate 3*-5*.



Source: GVA Sawyer

Financial terms

The main factor, having influence on pricing in the hotel real estate market, is market seasonality. However, crisis is now affecting pricing more than any other factor in the current market situation.

There was an increase in accommodation costs of 3* hotels and a decrease in 4-5* hotels, if it is compared in rubles.

The accommodation costs of 4-5* hotels were most overrated in the pre-crisis period. In 2010, according to GVA Sawyer's estimates due to the current economic situation and as a result decrease in purchasing capacity there will be further reduction and adjustment of prices first of all among overrated properties, but it shall not be so significant as in the previous periods.

Chart 2. Average daily rate in St. Petersburg's hotels, in Q1 2008-2010, rubles/day (Rack rates)


Average daily rate, rubles/day	4-5*	3*
Q1 2008	7 103-12 592	3639
Q1 2009	5 370-14 325	3090
Q1 2010	5 000- 9 000	3500

Source: GVA Sawyer



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