



Hotel Real Estate Market

Moscow 1 Q 2010



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Table 1. Main indicators of hotel real estate market

Source: GVA Sawyer's research

Main indicators	High end category (4-5*)	Medium category (3*)
Number of rooms	8 050	9 730
Commissioned in 2009, rooms	250	0
Average occupancy rate, %	62	65
Average daily rate (ADR ¹), \$/day	360	240

Main trends

- Growing activity in demand for hotel services in the segment of business and professional tourism;
- International operators' growing interest in the hotel segment;
- Increase in room costs and hotel occupancy rate.

Supply

According to the results of Q1 2010 the quality supply in the Moscow hotel market, formed by 3-5* hotels, constitutes 44% of the room stock (17.8k rooms).

Commissioning rates of new supply are still behind the announced volumes. The most significant properties commissioned in Q1 2010 are: "Garden Ring" (4*, 86 keys), "Akvamarin" (4*, 160 keys).

The world financial crisis has affected the reduction of major indicators of the hotel market: ADR, occupancy rate and consequently the average annual earning yield indicator RevPAR (revenue per average room).

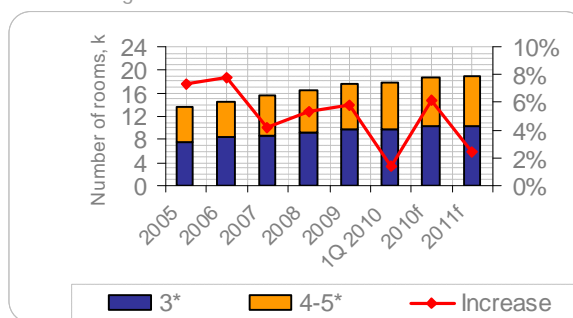
¹ ADR - indicator of the average room rate; calculated as daily income from the sold rooms divided by the number of sold rooms.

However Q1 2010 gives a moderate optimism: ADR and RevPAR are showing growth according to the quarter results if compared to the end 2009. In comparison with the European market, the Moscow hotel market demonstrates higher earning yield and continues to attract foreign investors and operators.

According to GVA Sawyer's estimates around 2,4k rooms shall be commissioned during 2010-2011, thus the total volume of quality room stock shall be 20k rooms by 2012.

Currently, distribution geography of quality supply is uneven, the Central Administrative District prevails (47% of supply volume).

Chart 1. Dynamics of commissioning of quality hotel real estate during 2005-2009.

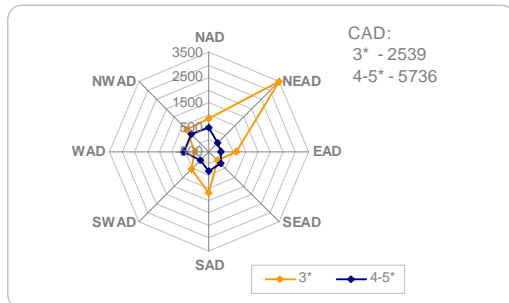


Source: GVA Sawyer's research

It has been noted that location of hotels in the announced projects is moving outside the Third Ring Road, which shall result in expansion of hotel location geography as the projects shall be realized. Considering the current commissioning rates and forecasts of their reduction, this will happen not earlier than 2012 – 2013.

It should be noted that hotel operators' interest in hotel management remains high. Some international hotel operators have announced their plans for chains' expansion in Russia. For example, Hilton is planning to open 70 hotels in Russia in 2018; Starwood is planning to open a number of hotels under the new brand Sheraton.

Chart 2. Distribution of quality supply by Moscow districts, Q1 2010.



Source: GVA Sawyer's research

Demand

According to data of the Frontier Service of the Federal Security Service of the Russian Federation the tourist flow of Moscow was 3,7 million people in 2009, which is 10% less than in 2008.

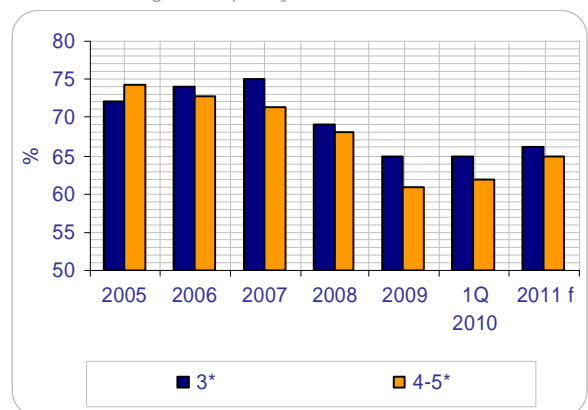
According to the Moscow Tourism Committee's forecast the tourist flow in 2010 shall grow to the level of 2008 (4,1 million of tourists came to Moscow in that year).

According to the results of Q1 2010 three Moscow international airports registered a growth in the passenger traffic flow if compared to the same period last year.

As a result of Q1 2010 the occupancy rate in 3* hotels was around 65% and remained at the level of the end 2009; in 4-5* hotels - 62% (grew by 1 % if compared to the end 2009). The occupancy rate grew by approximately 15% if compared to the same period of 2009. The market experts note that the share of business tourists in the demand structure has grown considerably.

According to GVA Sawyer's estimates there will be a growth of tourist flow during 2010-2011 if compared to 2009, and the occupancy rate shall increase by around 2-4% if compared to the indicators of the analyzed period.

Chart 3. Average occupancy rate 3*, 4-5*



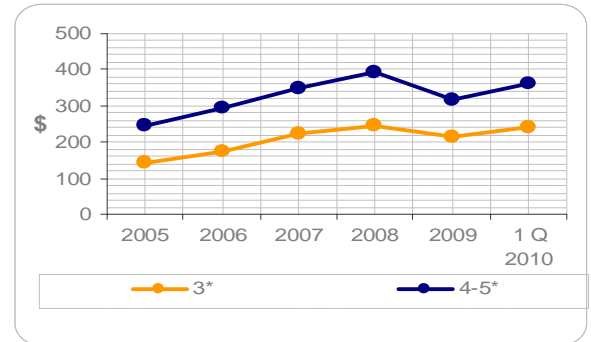
Source: GVA Sawyer's research

Cost of accommodation

ADR in the segments of 3* and 4-5* has remained at a high level. According to *hotel.info* Moscow holds the second place after New-York by the level of daily room rate in the world. ADR was \$360 in 4-5* hotels and \$240 in 3* hotels.

The room rate has grown by around 13-14% if compared to the end of 2009. This increase is due first of all to the growth in demand from business tourists.

Chart 4. Average daily rate, \$/day




Source: GVA Sawyer's research



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A faint, light blue globe is visible in the background of the text, showing the outlines of continents and latitude/longitude lines.

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GVA Sawyer

Россия, 109240 Москва,
Николаямская улица 13, стр. 17
Дом на Берниковской набережной

тел.: +7 (495) 797-4401, факс: +7 (495) 797-4400
e-mail: info@gvasawyer.com
www.gvasawyer.ru

GVA Sawyer

Russia 109240 Moscow
Nikoloyamskaya Ul. 13, Str. 17
Bemikovskaya Embankment House

tel.: +7 (495) 797-4401 fax: +7 (495) 797-4400
e-mail: info@gvasawyer.com
www.gvasawyer.com