

A large, semi-transparent blue rectangular box containing the title text. The background of the entire page is a high-angle photograph of a grand, multi-story hotel atrium. The atrium features a black and white checkered floor, ornate white columns, and a balcony with a decorative railing. A large, ornate chandelier hangs from the ceiling. The text is centered within the blue box.

St. Petersburg Hotel Real Estate Market Review 2015

Supply – Structure and Dynamics

At the beginning of 2015 the quality hotel stock in St. Petersburg, formed by 3-5* hotels¹, amounted to 17,500 rooms.

- 2015 construction – no hotels were opened;
- 2014 construction – 502 rooms in 3-4* hotels;
- 2013 construction – 368 rooms in 5* hotels;
- 2012 construction – 210 rooms in 3-5* hotels;
- Total construction for 2010-2012 – 2 072 rooms.

Chart 1.1. The largest hotels opened in 2013-2014

Source: GVA Sawyer

Name	Category	Address	Opening year	Capacity
<p>Four Seasons Hotel Lion Palace</p> 	5*	Voznesensky pr., 1	2013	177
<p>The Hermitage Hotel</p> 	5*	Ul. Pravdy, 10	2013	170
<p>INDIGO St. Petersburg</p> 	4*	Ul. Chaikovskogo, 17	2014	119

¹ Hereinafter the quality stock is 3-5*hotels' stock.

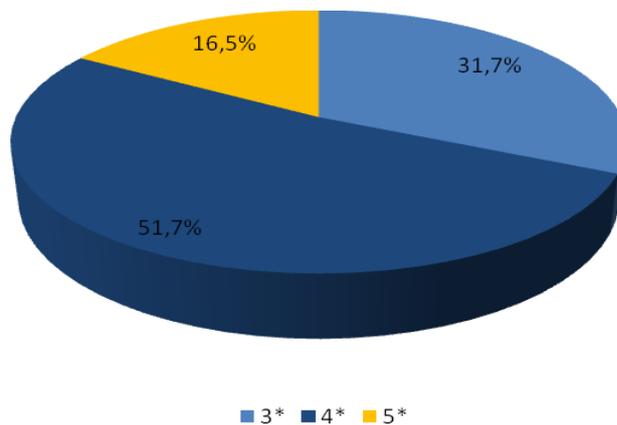
Name	Category	Address	Opening year	Capacity
 <p>Park Inn Pulkovo</p>	4*	Pulkovo Airport New terminal	2014	200

The structure of the current supply did not change significantly in 2015.

At the beginning of 2016 4* hotels have the largest share in total quality stock– 51.3%. 5* hotels have 16.6% and 3* hotels have 32,1%.

Diagram 1.1. Structure of hotel capacity in St. Petersburg, January 2016.

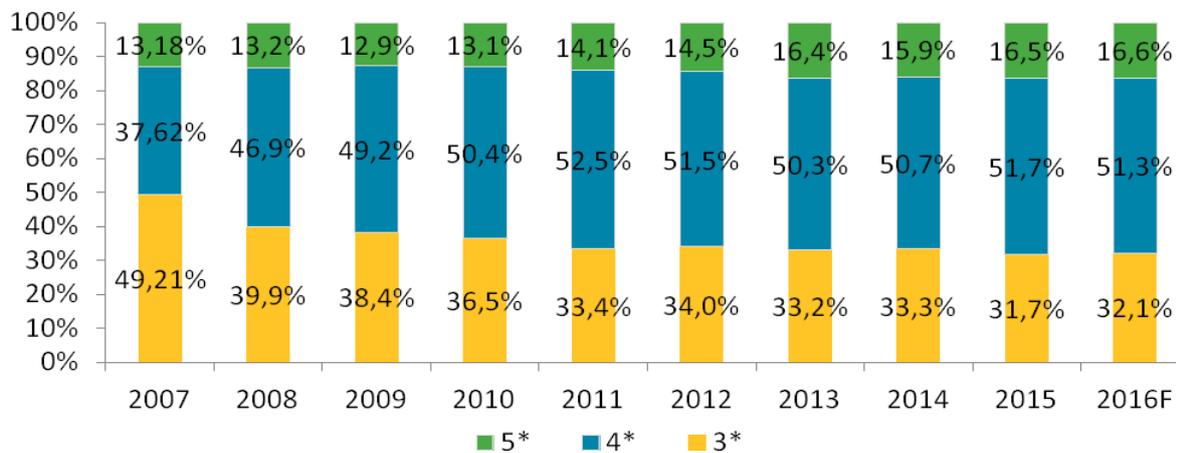
Source: GVA Sawyer



The diagram below demonstrates the dynamics of quality hotel stock structure in St. Petersburg and includes the forecast till the end of 2016.

Diagram 1.2. Dynamics of supply structure in 2007-2016

Source: GVA Sawyer

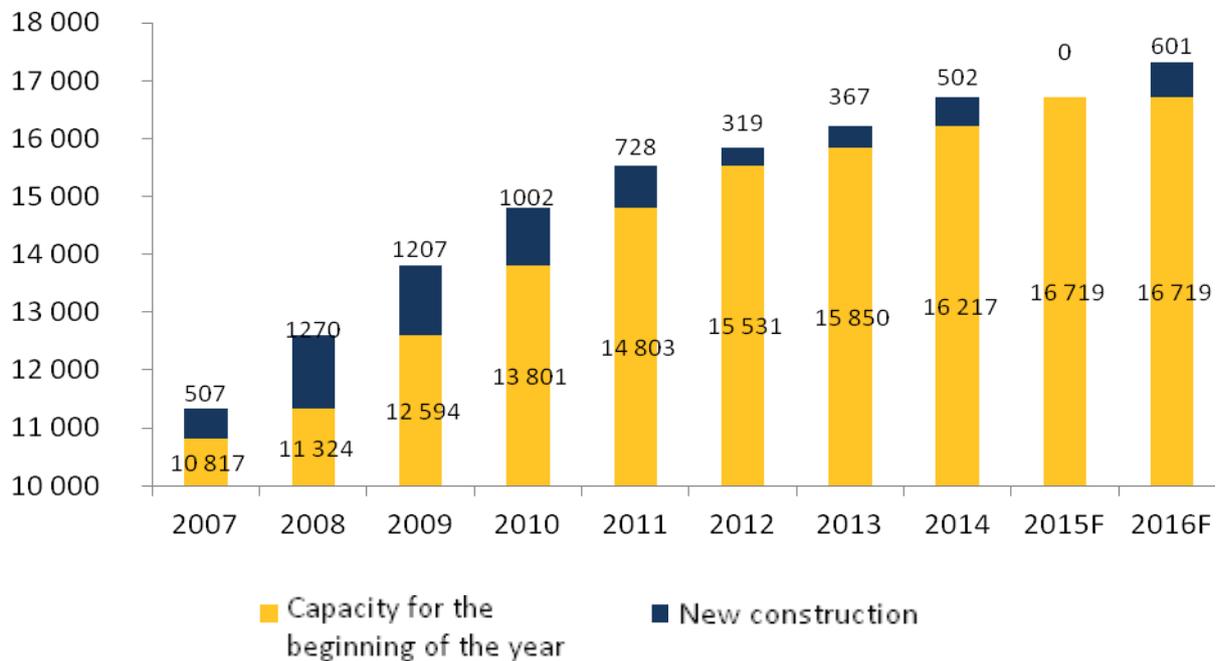


On the whole the supply structure shows the tendency towards stabilization in 4* segment and a slight growth in 5* segment.

Forecasts for the hotel real estate supply

Diagram 1.1. Capacity dynamics in 2007-2014, forecast for 2015-2016

Source: GVA Sawyer



The data above show that in 2012 hotel construction slowed down. It is accounted for by the fact that the work on the objects commissioned that year started in 2008-2009, that is in the height of the world economic and financial crisis and, consequently, in the period of general business slowdown.

From 2012 onwards the annual gain in quality hotel stock was stable and amounted to 300-350 rooms.

It was planned to deliver more than 800 rooms in 2015, but the terms of most projects were put off (2016-2017) due to unstable economic and political situation in the country.

In 2015 St. Petersburg did not see any hotels opened. The opening of Aston 3* on ul. Professora Ivanshitseva was postponed till 2016.

Taking into account that two Hilton hotels are claimed to be opened on Pulkovskoe shosse in 2016, GVA Sawyer experts estimate the total new commission as 601 rooms. In spite of the terms extension, most of the already claimed projects will nevertheless be opened in 2017-2018.

Since the beginning of 2014 several international hotel operators have announced their middle-term plans to enlarge their hotel groups in St. Petersburg. Among them there are such large market players as Lotte Group, who bought the project of Isakievskaya Assambleya apart-hotel in 2014, Elite World Hotels, planning to build two hotels in St. Petersburg – on Pirogovskaya Naberezhnaya and on Ploshchad Konstitutsii, and Hilton, planning to open two hotels within the international exhibition complex Expoforum in 2016.

Chart 1.2. Largest upcoming hotel projects

Source: GVA Sawyer

Project/ hotel name	Category	Address	Implementation term	Capacity
Aston	3*	ul. Professora Ivanshetseva, 4	2016	160
Hampton by Hilton	4*	Pulkovskoe shosse	2016	207
Hilton	4*	Pulkovskoe shosse	2016	234
Lotte Plaza	5*	Pereulok Antonenko, 2	2017-2018	85
Jumeirah	5*	ul. Malaya Morskaya	2017-2018	75
Elite World Hotels	4*	Ploshchad Konstitutsii	2017-2018	500
		Pirogovskaya naberezhnaya, 7	2017-2018	220

Therefore, providing that all the projects are opened in time, in 2016 the total hotel capacity in St. Petersburg will exceed 17,000 rooms, with the new commission of 600 rooms.

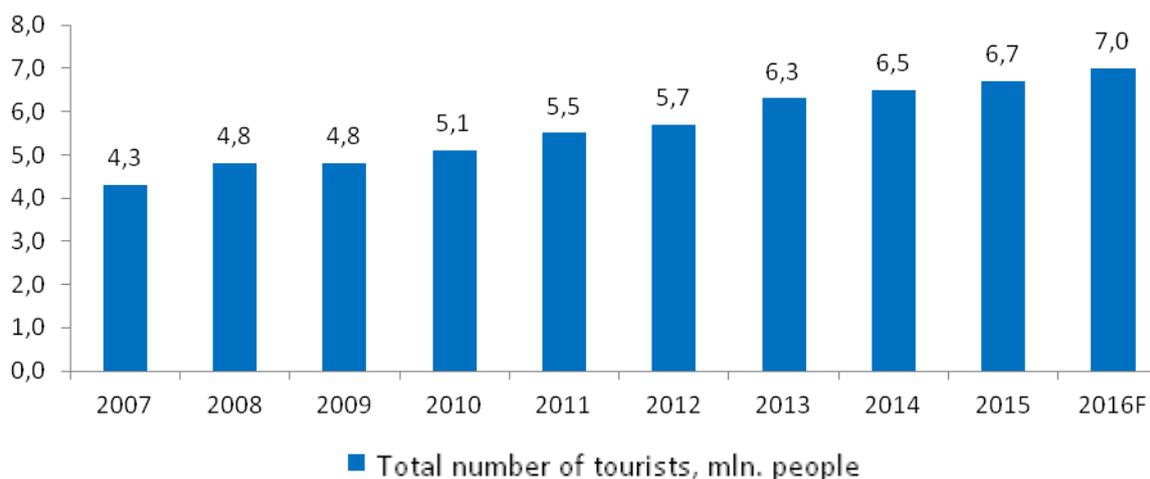
Structure of the existing demand

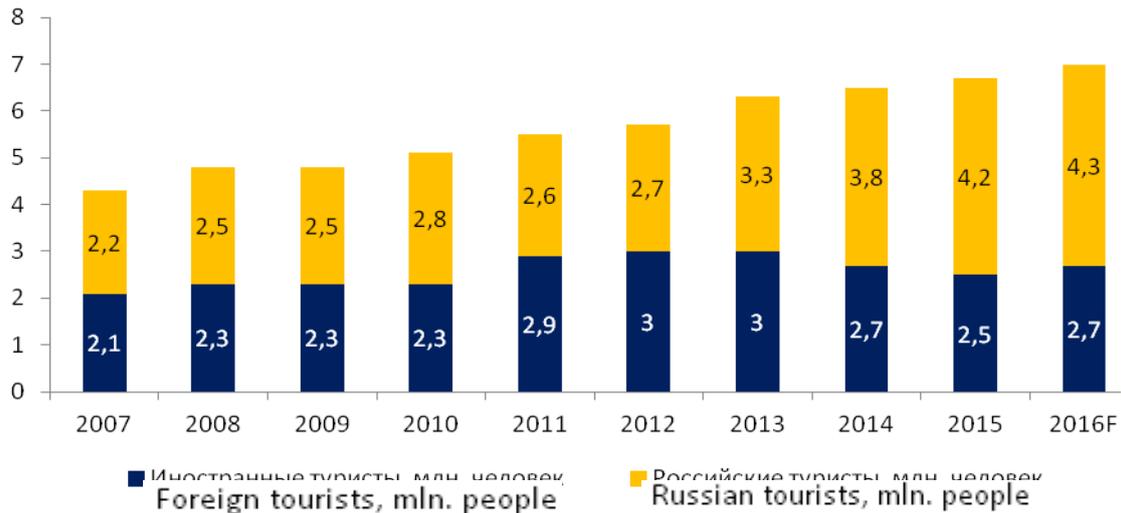
According to the Committee on Investments and Strategic Projects, 6.3 mln tourists visited St. Petersburg in 2014, and among them – 2.7 mln foreign tourists. In 2015 the tourist flow increased by 200,000 people and reached 6.7 mln.

The decrease in the number of foreign visitors by 7.7% was compensated by 10% increase in internal tourist inflow. The diagram below shows general dynamics.

Diagram 1.4. Number of tourists in 2007-2016, mln. people

Source: St. Petersburg Government Committee on Investments and Strategic Projects





Noteworthy is that in 2015 the number of Chinese tourists in St. Petersburg increased remarkably. According to St. Petersburg Tourism Committee, only in the first half of 2015 the number of Chinese tourists was 2.5 as high as in 2014. Apparently, it can be attributed to the agreement on visa-free group trips concluded between China and Russia.

Occupancy

The change of demand structure in the hotel market, namely the increase of internal tourism share, triggered the change of occupancy rate within classes and price segments. Thus, as a result of ruble decline, the high-price hotels became more affordable to foreigner tourists.

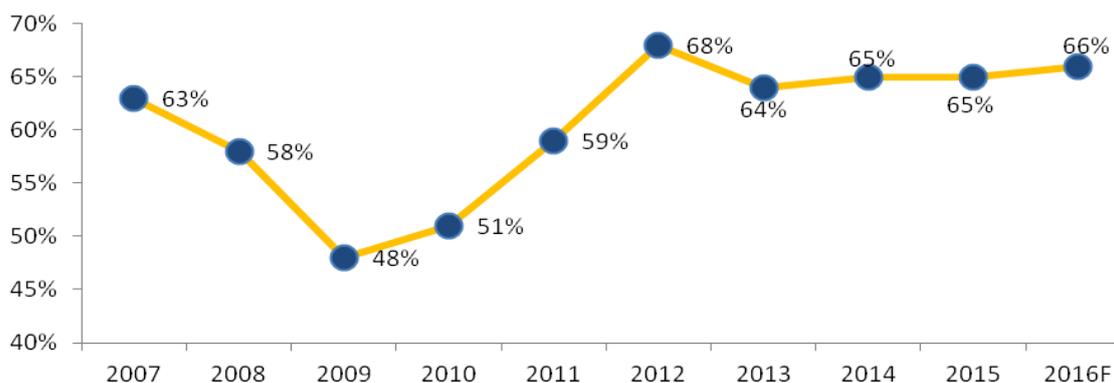
The increase in internal tourism, mainly recreational, led to the growing demand for 3* hotels, non-conventional accommodation types (mini-hotels, guest houses, apartments) and hostels. In 2015 most of the hotels showed the increase in occupancy rate within 10%.

In 2015 there were no significant changes in occupancy rates year-on-year, which is accounted for by more or less the same number of visitors, first of all, and by the stable high level of demand in May-June – the peak of tourist season (recreational tourism) and the period of St. Petersburg International Economic Forum (business tourism).

The average occupancy rate for St.Petersburg hotels during the year was 60-65%, and for international operators' hotels it stood at 70-75%. In peak season the occupancy in the most popular ones may even reach 95-100%.

Diagram 1.5. Average annual occupancy dynamics of 3-5* hotels

Source: GVA Sawyer



Financial conditions

While the occupancy rate in 2015 was close to the last year's one, the ADR (Average Daily Rate) increased by 6% and stood at 6,800 rubles market average.

For 5* hotels the ADR was 10,650 ruble, 9% higher than the last year.

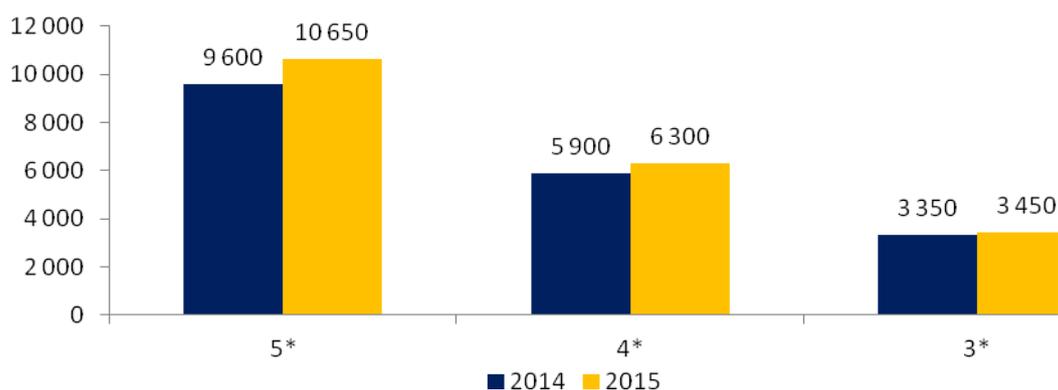
For 4* hotels the ADR was 6,300 ruble, 7% higher than the last year.

3* hotels showed the smallest increase – 3% only year-on-year.

It is important to note that the increase in the ADR in 2015 was lower than the annual inflation level of 12.9%.

Diagram 1.6. ADR Dynamics in 2014-2015 in 3-5* hotels

Source: GVA Sawyer

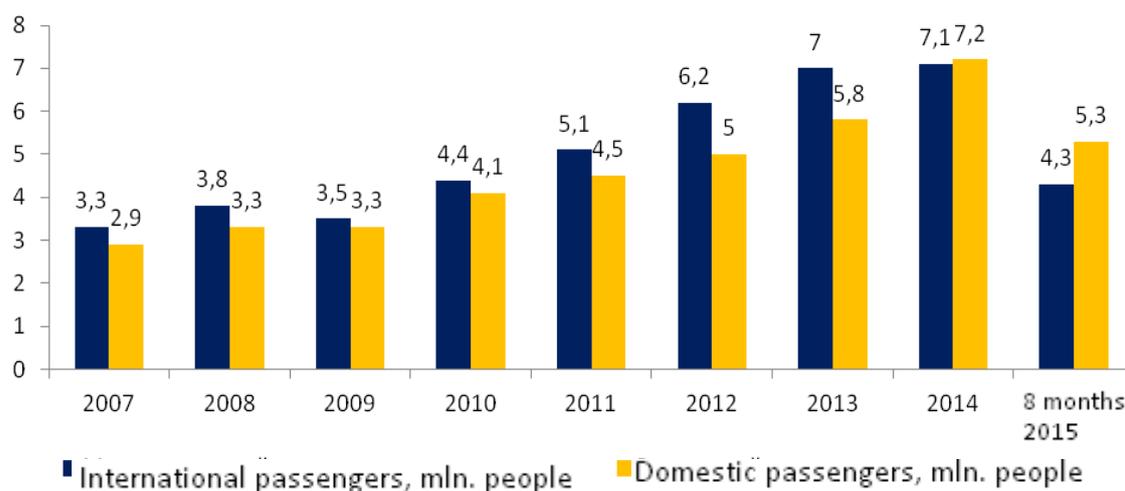


Forecasts and dynamics of demand for hotel services

The approved Development program for St. Petersburg as a tourist centre for 2011-2016 anticipated the growth of total tourist flow up to 8.1 millions in 2016. First of all, the increase is to be ensured by Chinese group tourists and Russian tourists. However, according to GVA Sawyer, the number of visitor in 2016 will not exceed 2015 level and will stand at 7-7.2 millions. According to the Committee on Investment and Strategic Projects the dynamics of passenger flows is more balanced now, than in 2012-2013, as the share of domestic tourism has increased.

Diagram 1.7. Passenger traffic dynamics in Pulkovo airport

Source: GVA Sawyer



As the diagram above demonstrates, construction of a new Pulkovo terminal significantly increased its traffic capacity.

Even in the current unstable economic and political situation St. Petersburg is still the second city in Russia by the level of business activity. A lot of tourists will invariably come to St.

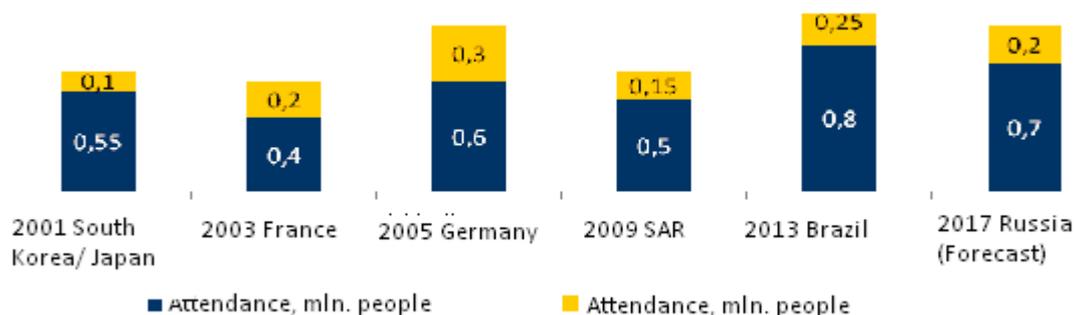
Petersburg (7-7.2 million people a year) in 2016, which will keep the demand on hotel services high, especially for tourist type hotels (3-4*).

A significant increase in the number of tourists is rightly expected in 2017-2018 when the FIFA Confederations Cup and the FIFA World Cup are held. However, the occupancy rise will be just a short-term one – for the period of the sport events.

The diagram below reflects the statistics on the attendance at previous tournaments.

Diagram 1.8. Dynamics of the Confederations Cup attendance

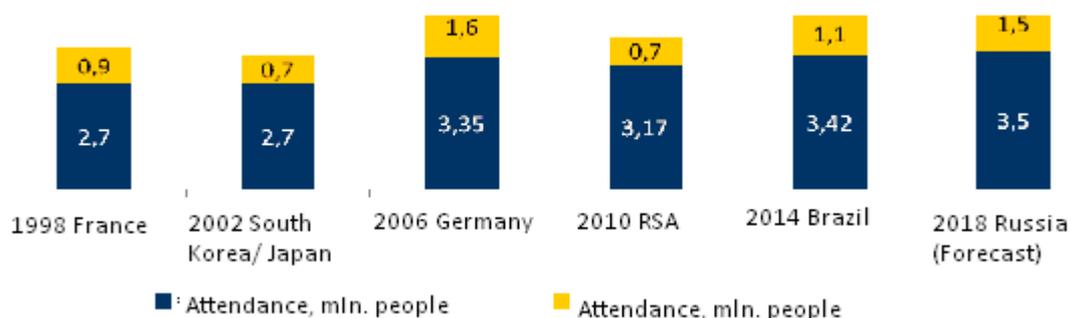
Source: GVA Sawyer



The diagram shows that the Confederations Cups usually attract 0.1-0.3 million tourists on average. According to GVA Sawyer's forecasts, 0.3-0.5 million people will visit Russia over the period of the Confederations Cup 2017. More than 50% of them will be internal tourists, as the Russians are highly interested in football, but of yet Russia has not held any large international football tournaments. Several group stage matches and the final will take place in St. Petersburg, thus on the tournament days an increase of 0.1 million tourists may be expected.

Diagram 1.9. Dynamics of the World Cup attendance

Source: GVA Sawyer



The diagram demonstrates that on average 0.7-1.5 million tourists visit the FIFA World Cup. According to the Russian Football Union's forecast, around 1.5 million tourists will visit Russia over the tournament period.

St. Petersburg will hold some group stage matches, a round of 16, a semifinal and a third-place match. We estimate that St. Petersburg will be visited by 0.15-0.2 million tourists over the tournament days, although it is obvious that the hotel occupation upsurge will be very short.