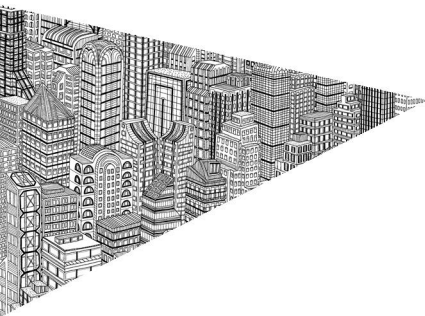


# International hotel chains in Russia - 2014



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## Foreword

Investment in hotels in Russia is becoming more attractive every year, driven by limited supply of quality lodging facilities, low overall competition, gradually improving business climate and growing domestic and foreign travel volumes. One of the recent trends is the growth of hotel investment activity in regional cities of Russia - mainly attributable to the large-scale international events to be held in the coming years:

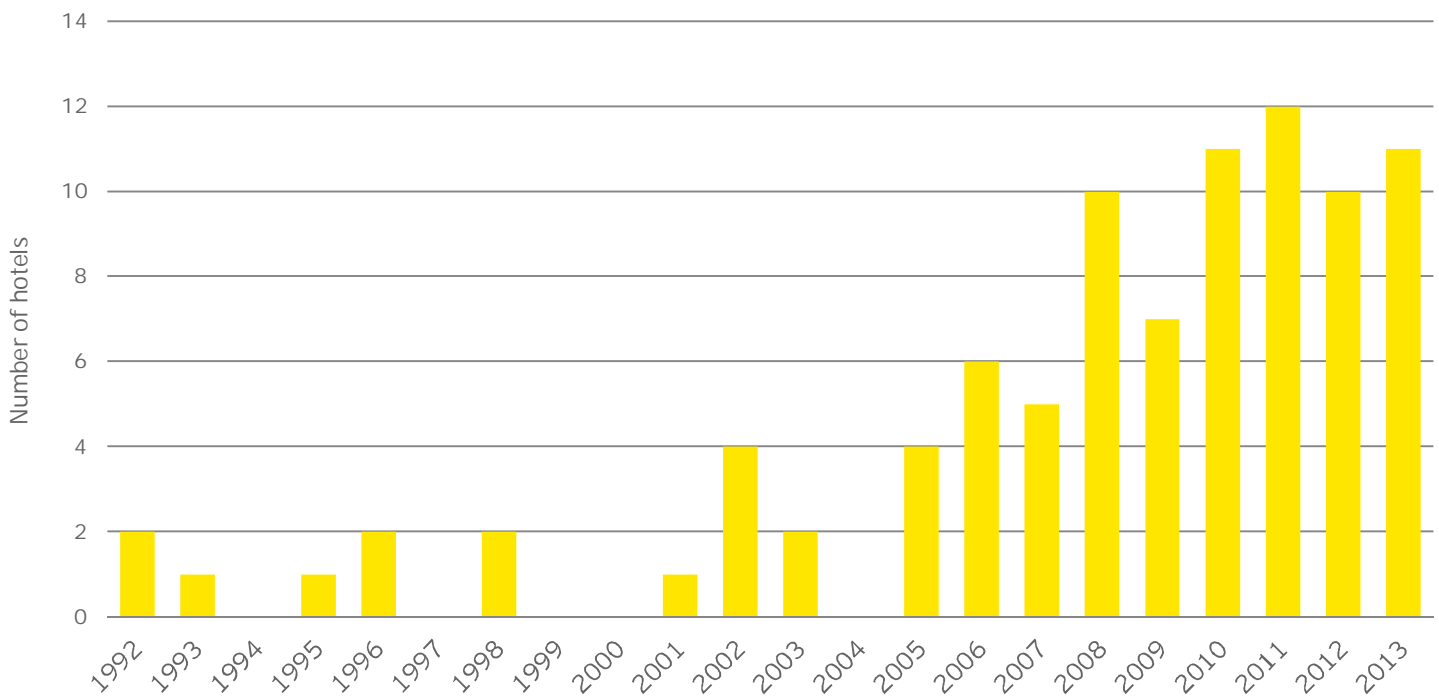
- ▶ UPEC Summit in Vladivostok in 2013
- ▶ World Summer University sport games in Kazan in 2013
- ▶ Winter Olympic Games in Sochi in 2014
- ▶ Race Formula-1 in Sochi in 2014
- ▶ FIFA World Cup in Russia in 2018

## International hotel chains in Russia: yesterday, today, tomorrow

International hotel operators made entrance to Russia in 1990-s with the opening of Radisson Slavyanskaya Hotel, Renaissance Olympic Hotel and Baltshug Kempinski - all in Moscow. These were followed by other upscale and upper upscale Moscow and (later) St Petersburg hotels, then development continued in major industrial cities with multimillion population, and eventually in towns and cities with the population of over 500 thousand inhabitants and developed economies. Currently international hotel brands may be found in smaller towns with the population of less than 500 thousand people.

According to the annual EY market research of the international hotel brands presence in Russia, in October 2013 there were 100 hotels under international management with the total room stock of 24 823 keys operating in the region.

Opening dynamics of new hotels under international management, p.a.  
(as of October 2013)



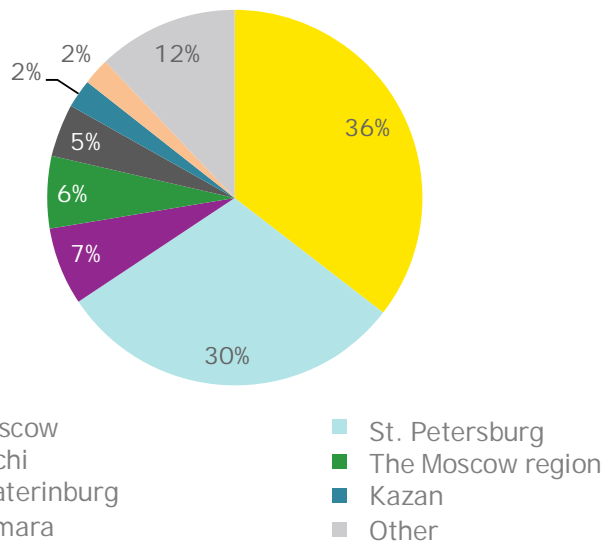
Source: hotel operators data, EY analysis

More than half of the existing rooms supply is concentrated in Moscow and St. Petersburg (66%), followed by Sochi (7%), the Moscow Region (6%), Ekaterinburg (5%) and other (23 in total) locations.

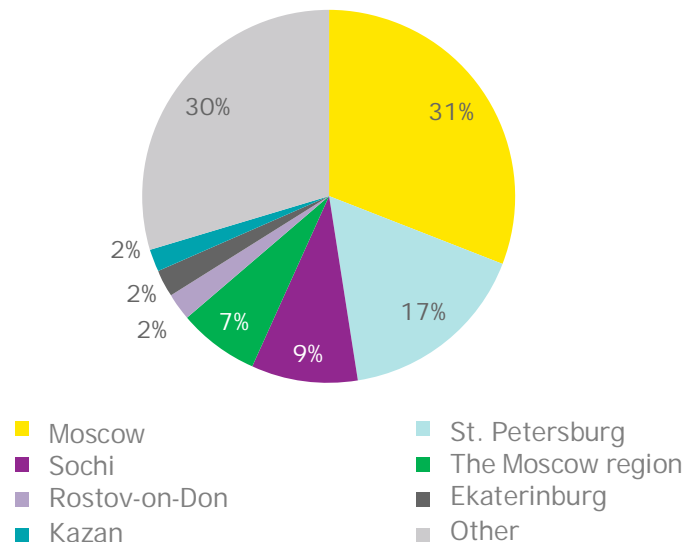
It is planned that by 2017 the number of hotels under international management will increase by 157 new properties (32,002 rooms). Thus, if all the announced hotels open, by 2017 the number of hotels under international management in Russia will amount to 257 hotels (56,825 rooms) located in more than 50 towns and cities.

In this case, by 2017 the share of Moscow and St. Petersburg will decrease to 48% due to the growth of branded hotel supply in Sochi (9%) and opening of first branded hotels in such locations as Anapa, Belgorod, Ivanovo, Kaluga, Krasnoyarsk, Kemerovo, Khabarovsk, Kirov, Lipetsk, Naberezhnye Chelny, Nizhnekamsk, Nizhny Tagil, Novokoznetzk, Pereslavl-Zalesky, Petrozavodsk, Rostov-on-Don, Ryazan, Toliatti, Tomsk, Tyumen, Ufa, Ulianovsk, Vladimir, Volgograd, Zavidovo.

Share of existing rooms supply under international brands, by location - Russia (as of October 2013)



Share of future rooms supply under international brands, by location - Russia (including existing rooms supply)

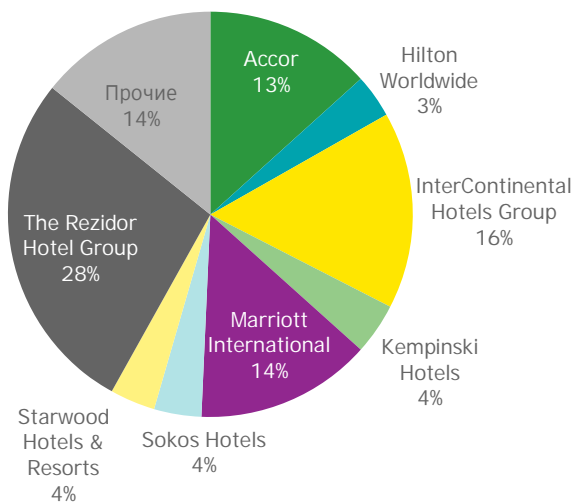


Source: hotel operators data, EY analysis

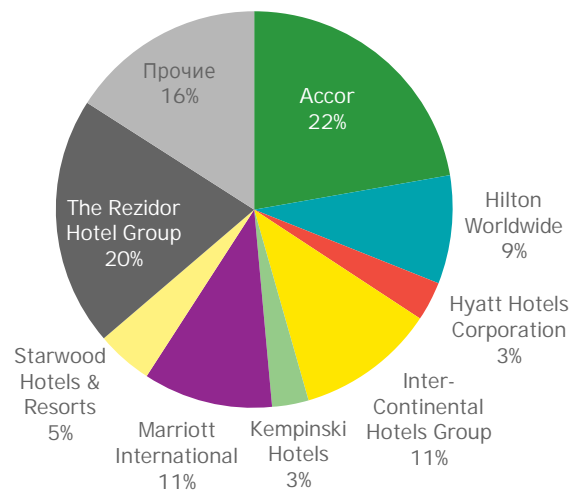
The total branded room stock available in Russia as of October 2013 (i.e. 100 hotels, or 24,823 keys, in 23 locations) is operated or franchised by 20 international hotel chains currently presented in the region.

The biggest market share (71%) is divided between The Rezidor Hotel Group, InterContinental Hotels Group, Marriott International and Accor. The graphs below demonstrate the actual and projected footprint of hotel operating companies in Russia.

Share of hotel operators – distribution of existing room supply, Russia (as of October 2013)



Share of hotel operators – distribution of future rooms supply by 2017, Russia (including existing rooms supply)



Source: hotel operators data, EY analysis

## New hotels: 2013 - 2014

In January – October 2013 the Russian hotel market was supplemented by 11 new hotels operating under international brands. According to the information EY compiled from hotel operators and open sources, 23 more hotels are to be commissioned till the end of 2013.

We believe however that some projects' opening may be postponed till 2014. More than half of the hotels announced to open till the end of 2013 (namely, 13 properties) are located in Sochi, for the upcoming Olympic Games in February 2014.

The tables below list hotels that already opened in Jan-Oct 2013 and hotels to be commissioned by the end of 2013 (may be postponed till 2014).

### Hotels under international management opened in Russia in Jan-Oct 2013

| Operator                              | Hotel name                                    | Number of rooms | City           |
|---------------------------------------|---|-----------------|----------------|
| Accor                                 | Ibis Kaliningrad                              | 167             | Kaliningrad    |
|                                       | Mercure Rosa Khutor Hotel                     | 153             | Sochi          |
|                                       | Novotel Moscow City                           | 362             | Moscow         |
| Four Seasons Hotels and Resorts       | Four Seasons Hotel Lion Palace St. Petersburg | 177             | St. Petersburg |
| Golden Tulip Hotels, Suites & Resorts | Golden Tulip Rosa Khutor                      | 162             | Sochi          |
| Hilton Worldwide                      | Hampton by Hilton Voronezh                    | 140             | Voronezh       |
|                                       | Hilton Garden Inn Krasnodar                   | 163             | Krasnodar      |
| Kempinski Hotels                      | Kempinski Hotel Nikolskaya                    | 211             | Moscow         |
| Starwood Hotels & Resorts             | Sheraton Moscow Sheremetyevo Airport          | 342             | Moscow         |
| The Rezidor Hotel Group               | Radisson Rosa Khutor                          | 181             | Sochi          |
| Wyndham Hotel Group                   | Ramada Kazan                                  | 157             | Kazan          |
| Total:                                |   | 2 215           |                |

Source: hotel operators data, EY analysis

Hotels under international management planned to open till the end of 2013  
(may be postponed till 2014)

| Operator                              | Hotel name                            | Number of rooms | City               |
|---------------------------------------|---------------------------------------|-----------------|--------------------|
| Accor                                 | Aparthotel Adagio Moscow Paveletskaya | 94              | Moscow             |
|                                       | Ibis Moscow Centre Bakhrushina        | 190             | Moscow             |
|                                       | Mercure Moscow Paveletskaya           | 149             | Moscow             |
|                                       | Mercure Rosa Khutor Lower Base        | 151             | Sochi              |
|                                       | Mercure Sochi Centre                  | 200             | Sochi              |
|                                       | Pullman Sochi Centre                  | 150             | Sochi              |
| Capella Hotel Group                   | Solis Suites, Sochi                   | 52              | Sochi              |
|                                       | The Solis Hotel, Sochi                | 120             | Sochi              |
| Fairmont Raffles Hotels International | Swissotel Kamelia Sochi               | 209             | Sochi              |
|                                       | Swissotel Sochi Krasnaya Polyana      | 167             | Sochi              |
| Golden Tulip Hotels, Suites & Resorts | Tulip Inn Omega Sochi                 | 324             | Sochi              |
| Hilton Worldwide                      | Hilton Garden Inn Moscow New Riga     | 162             | Moscow             |
|                                       | Hilton Garden Inn Ulyanovsk           | 175             | Ulyanovsk          |
| Hyatt Hotels Corporation              | Hyatt Regency Sochi                   | 198             | Sochi              |
| Marriott International                | Courtyard by Marriott Sochi Plaza     | 345             | Sochi              |
|                                       | Marriott Krasnaya Polyana             | 398             | Sochi              |
|                                       | Moscow Marriott Novy Arbat Hotel      | 230             | Moscow             |
| The Rezidor Hotel Group               | Park Inn Petrozavodsk                 | 180             | Petrozavodsk       |
|                                       | Park Inn Sochi City Centre            | 160             | Sochi              |
|                                       | Park Inn Yaroslavl                    | 167             | Yaroslavl          |
|                                       | Radisson Blu Spa Resort Sochi         | 508             | Sochi              |
| Wyndham Hotel Group                   | Days Hotel Pereslavl-Zalessky         | 150             | Pereslavl-Zalessky |
|                                       | Ramada Hotel Pereslavl-Zalessky       | 200             | Pereslavl-Zalessky |
| Total:                                |                                       | 4 679           |                    |

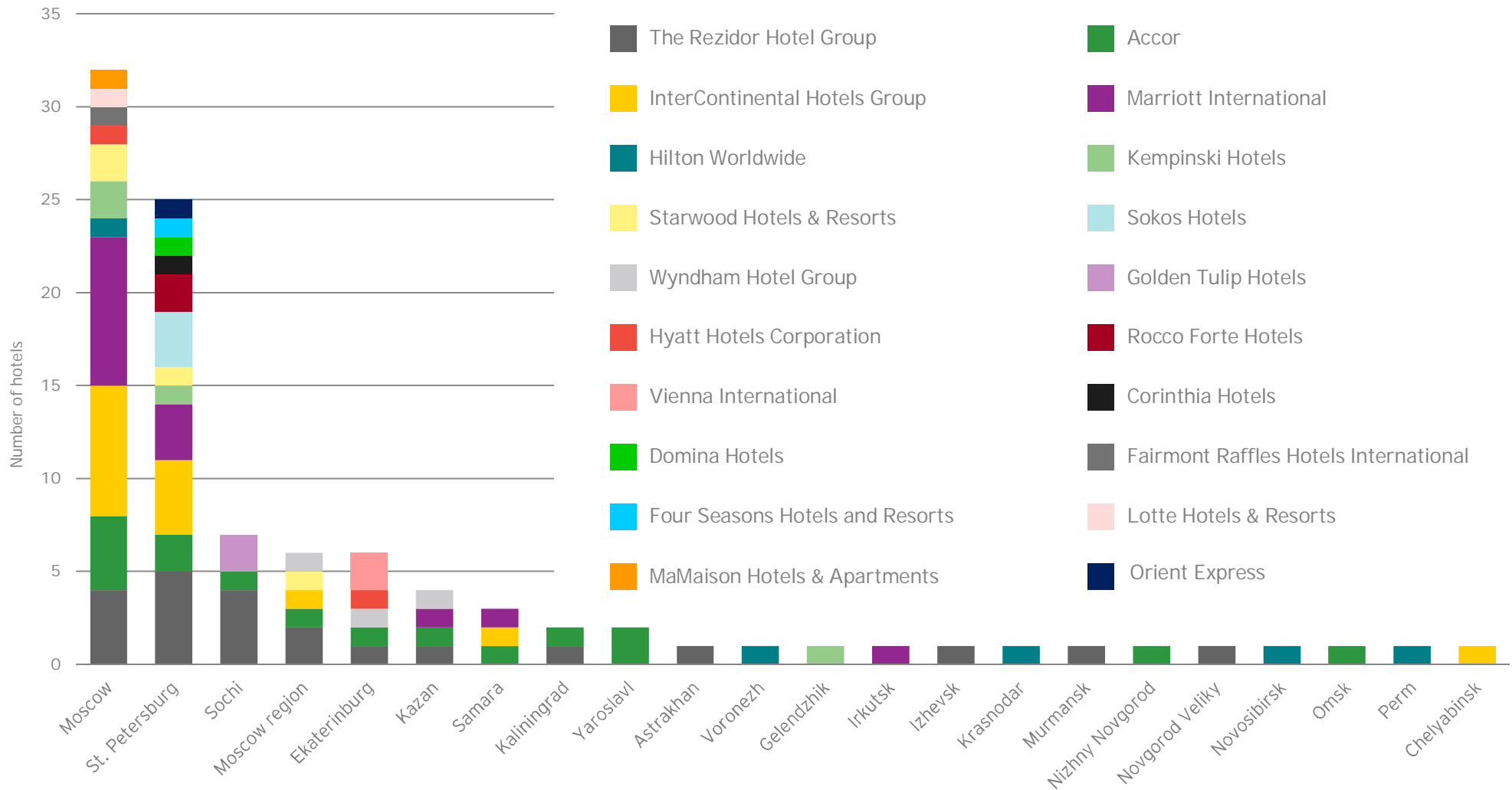
Source: hotel operators data, EY analysis

## Geography of international hotel chains' presence in Russia

Today's Russia remains to be a country of primarily business tourism, with business needs being the main visit purpose both for foreign and Russian tourists. As Moscow and St. Petersburg are the largest business centers of the country, they stay on top of the international hotel chains' 'target destinations' lists.

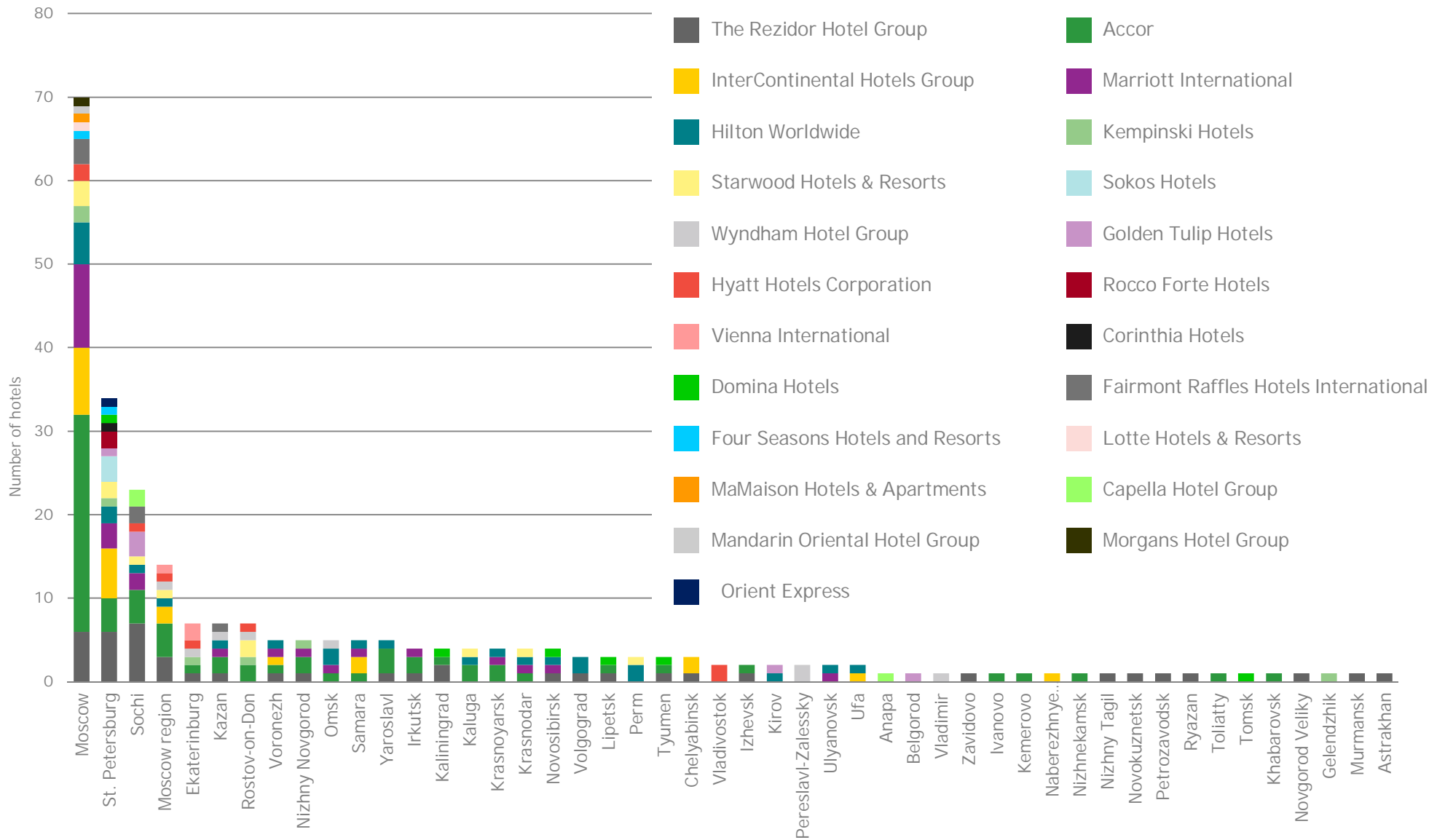
Nowadays, however, due to a number of international-scale events held in Russia and growing business development in regions, the geography of international hotel operators' footprint is enlarging. The diagrams below demonstrate the presence of international hotel chains in Russian cities as of October 2013 and as projected by 2017.

Division of existing hotels under international management by cities in Russia  
(as of October 2013)



Source: hotel operators data, EY analysis

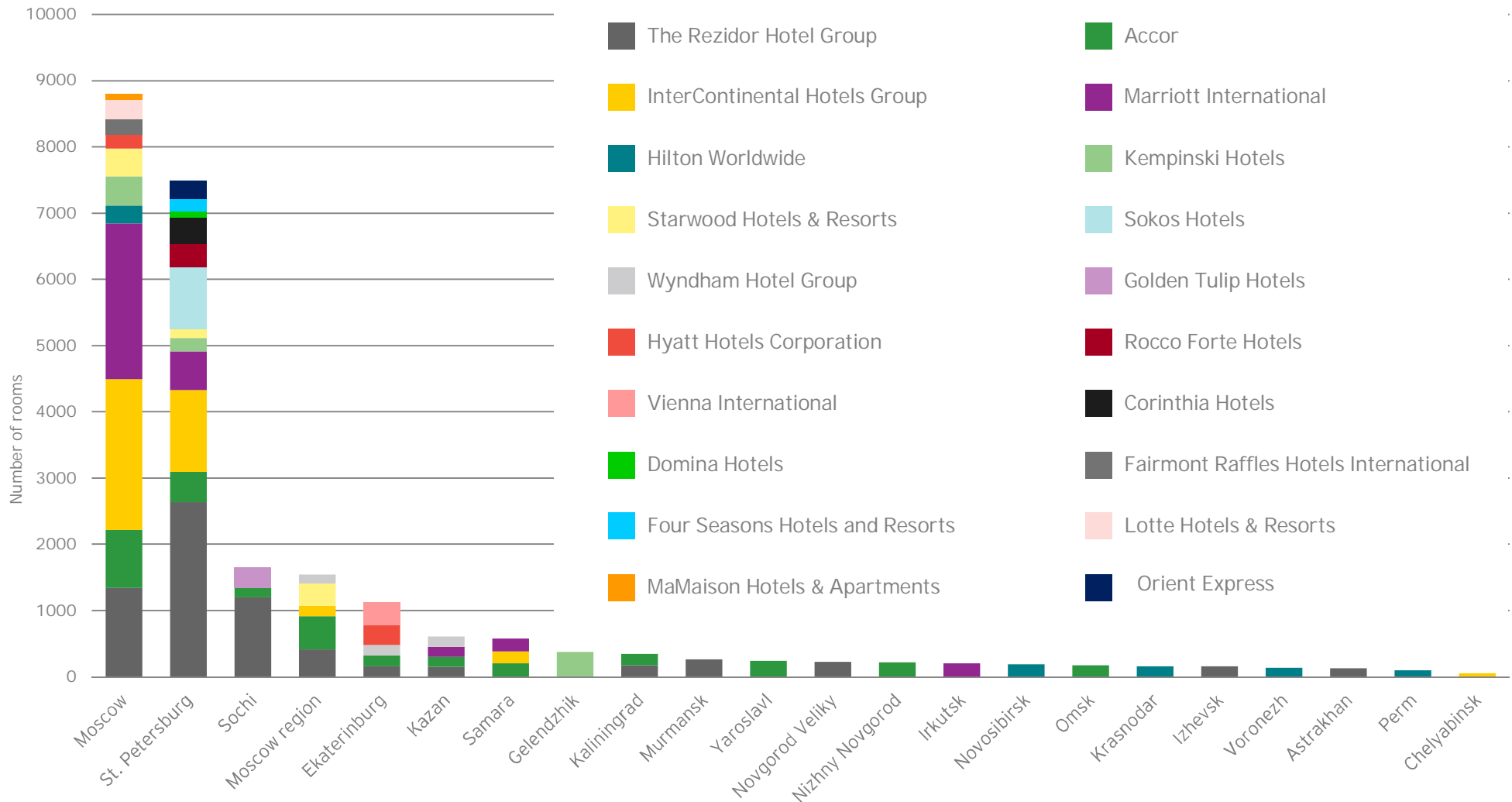
### Division of future hotels under international management by cities in Russia by 2017 (including existing hotels)



Source: hotel operators data, EY analysis

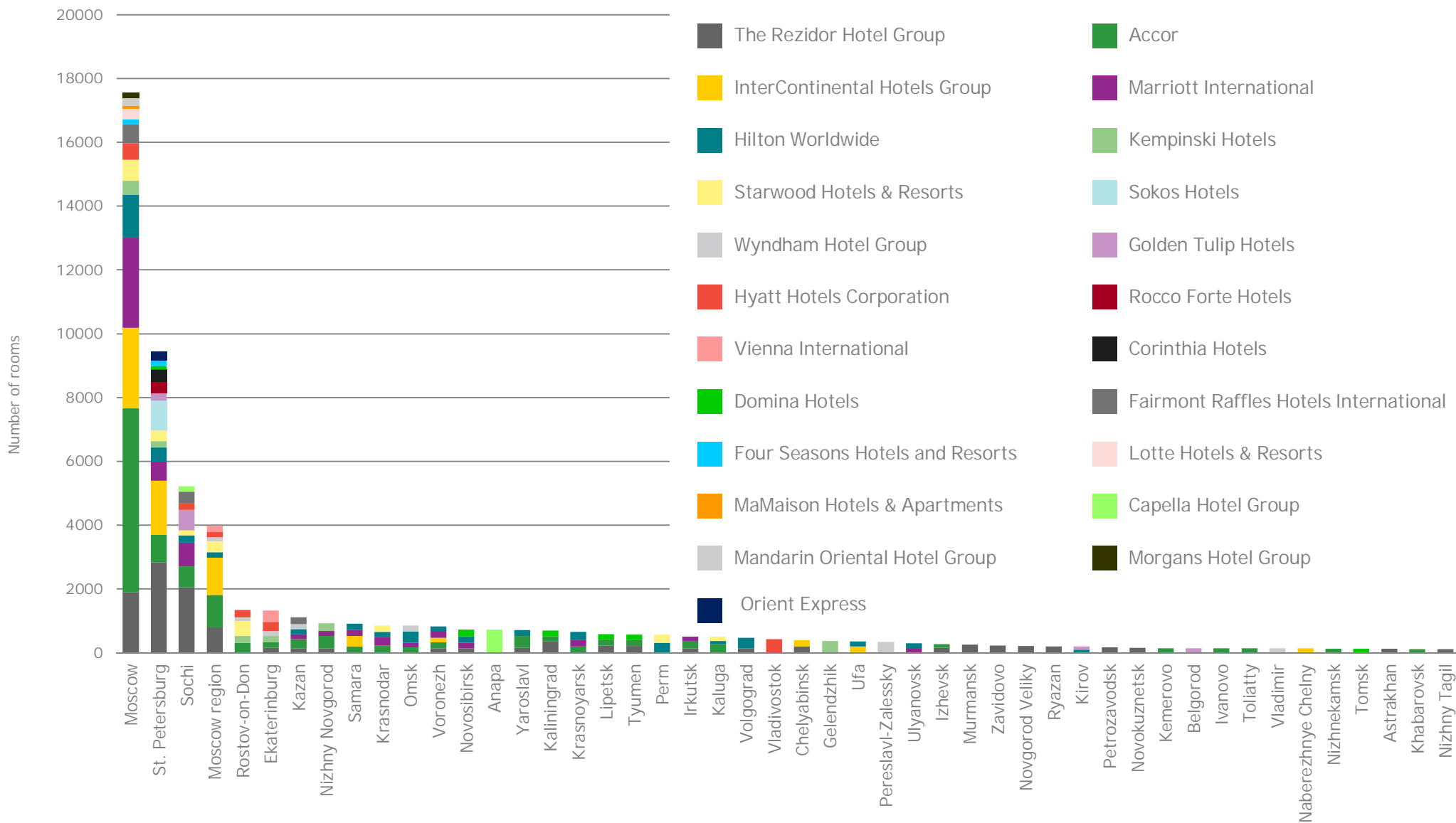


Division of existing rooms supply under international management by cities in Russia  
(as of October 2013)



Source: hotel operators data, EY analysis

Division of future rooms supply under international management by cities in Russia by 2017  
(including existing hotels)



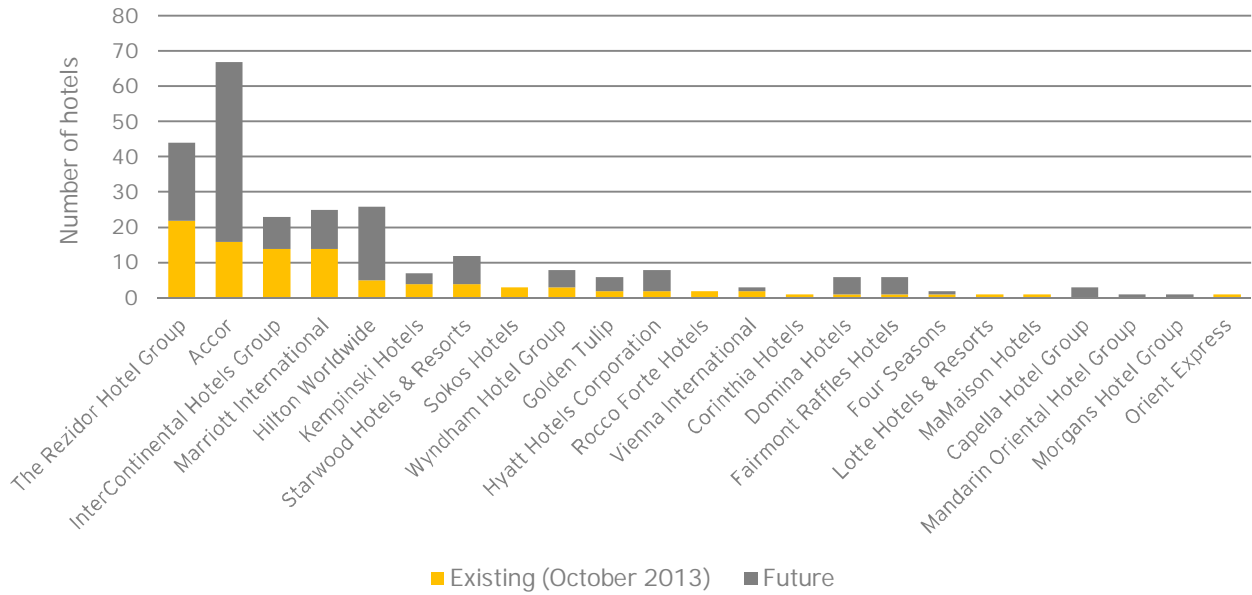
Source: hotel operators data, EY analysis

## Summary of international hotels operators' data - Russia

| Operator                              | Existing<br>(October 2013) |               | Future<br>(by 2017) |               | Total amount by 2017<br>(existing + future) |               |
|---------------------------------------|----------------------------|---------------|---------------------|---------------|---|---------------|
|                                       | Hotels                     | Rooms         | Hotels              | Rooms         | Hotels                                      | Rooms         |
| The Rezidor Hotel Group               | 22                         | 6 871         | 22                  | 4 659         | 44  | 11 530        |
| Accor                                 | 16                         | 3 311         | 51                  | 9 337         | 67  | 12 648        |
| InterContinental Hotels Group         | 14                         | 3 900         | 9                   | 2 537         | 23  | 6 437         |
| Marriott International                | 14                         | 3 494         | 11                  | 2 517         | 25  | 6 011         |
| Hilton Worldwide                      | 5                          | 868           | 21                  | 4 127         | 26  | 4 995         |
| Kempinski Hotels                      | 4                          | 1 017         | 3                   | 665           | 7   | 1 682         |
| Starwood Hotels & Resorts             | 4                          | 897           | 8                   | 1 715         | 12  | 2 612         |
| Wyndham Hotel Group                   | 3                          | 447           | 5                   | 797           | 8   | 1 244         |
| Sokos Hotels                          | 3                          | 927           | -                   | -             | 3   | 927           |
| Golden Tulip Hotels, Suites & Resorts | 2                          | 310           | 4                   | 805           | 6   | 1 115         |
| Hyatt Hotels Corporation              | 2                          | 502           | 6                   | 1 324         | 8   | 1 826         |
| Rocco Forte Hotels                    | 2                          | 361           | -                   | -             | 2   | 361           |
| Vienna International Hotels & Resorts | 2                          | 348           | 1                   | 184           | 3   | 523           |
| Orient Express                        | 1                          | 275           | -                   | -             | 1   | 275           |
| Corinthia Hotels                      | 1                          | 388           | -                   | -             | 1   | 388           |
| Domina Hotels                         | 1                          | 109           | 5                   | 879           | 6   | 988           |
| Fairmont Raffles Hotels International | 1                          | 233           | 5                   | 952           | 6   | 1 185         |
| Four Seasons Hotels and Resorts       | 1                          | 177           | 1                   | 180           | 2   | 357           |
| Lotte Hotels & Resorts                | 1                          | 304           | -                   | -             | 1   | 304           |
| MaMaison Hotels & Apartments          | 1                          | 84            | -                   | -             | 1   | 84            |
| Mandarin Oriental Hotel Group         | -                          | -             | 1                   | 262           | 1   | 262           |
| Capella Hotel Group                   | -                          | -             | 3                   | 902           | 3   | 902           |
| Morgans Hotel Group                   | -                          | -             | 1                   | 160           | 1   | 160           |
| <b>Total:</b>                         | <b>100</b>                 | <b>24 823</b> | <b>157</b>          | <b>32 002</b> | <b>257</b>                                  | <b>56 825</b> |

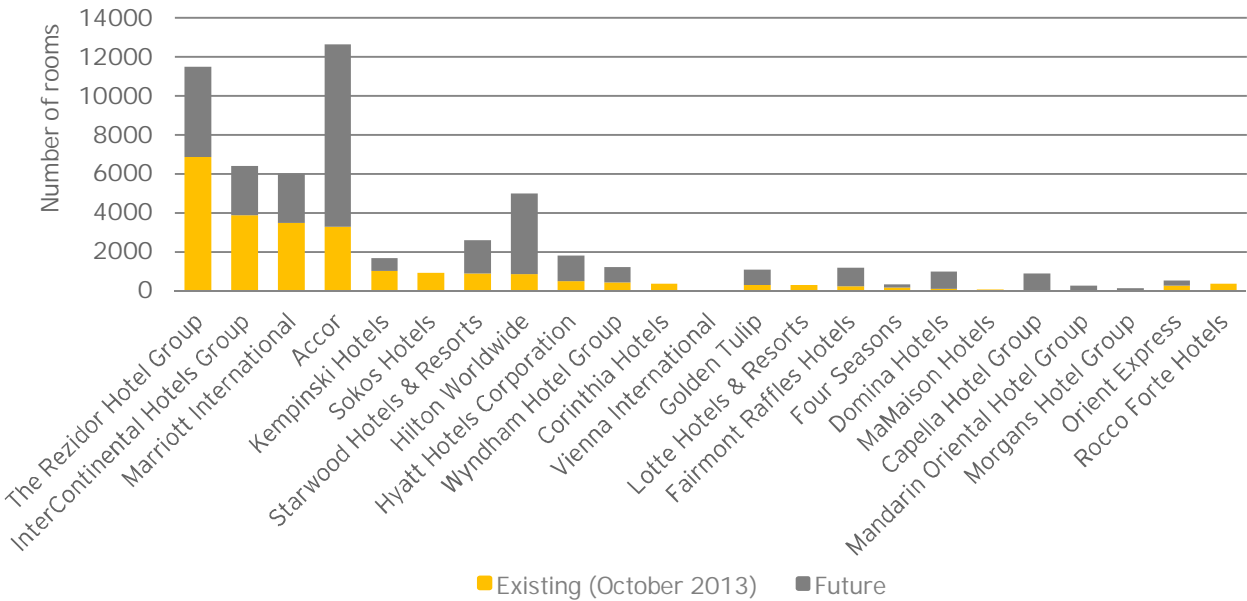
Source: hotel operators data, EY analysis

Distribution of international hotel operators by number of hotels - Russia



Source: hotel operators data, EY analysis

Distribution of international hotel operators by number of rooms - Russia



Source: hotel operators data, EY analysis

## Hotel chain affiliations – main benefits

It is a prevailing opinion among hotel developers and owners – both local and foreign – that a global chain affiliation is an indispensable component of a hotel's success. Moreover, in recent years, banks and other lenders recognize the key role of the management in hotel business by providing more favorable terms to developers with an appropriate chain affiliation. Institutional, financial, and other passive investors, that view hotel assets as attractive investment targets, also typically prefer to “separate bricks from the brains” and purchase managed hotel properties where they do not have to be involved in operations.

As a company with specialized expertise in advising the hospitality industry, we meet hotel market players on a daily basis and observe that many local owners and developers prefer global chain affiliation. It is true not only for tomorrow's owners (seeking hotel concepts and operating projections development), but also for existing hotel owners who admit that they “have squeezed the maximum” from their properties as independent hotels and are now looking for global chains to assist in boosting performance even further.

At the same time, in spite of this demonstrated tendency towards global chain affiliation, thoughtful hotel owners should not underestimate the option of operating their hotels independently. Without advocating for either option and given the focus of this publication, below we share our thoughts on main benefits an owner may expect to get from global hotel chain affiliation.

Major benefits of global hotel chain affiliation

| Benefit                  | Comment   |
|--------------------------|---|
| Recognition              | Recognizable hotel brand is perceived as a quality guarantee  |
| Object status            | International brand allows to raise the object status   |
| Safety                   | Foreign tourists prefer to stay in hotels under well-known international brands in «unsafe» countries   |
| Global booking system    | Opportunity of booking via different electronic channels, search simplicity, booking without intermediaries   |
| Integrated marketing     | Integrated marketing allows brand promotion cost reduce due to the hotel presence on the operator's website, in booking systems, catalogs and brochures   |
| Loyalty programs         | Guests who join chain hotels loyalty program are motivated to choose hotels of this chain due to various benefits and discounts for regular guests  |
| Level of service         | Common service standards, management systems and staff training unification in chain hotels result in a higher level of service than in independent hotels  |
| Stability in crisis time | Chain hotels are more sustainable to crisis for a number of reasons: more stable demand on the part of loyal guests, efficient occupancy management due to the several global reservation systems presence; highly skilled professionals with working experience in the unstable economy conditions |
| Lower costs              | Hotel chains guarantee lower costs consumables, engineering maintenance, advertising and marketing costs due to the large purchases volume and costs distribution for all hotels in the chain   |
| Investor's risk decrease | International brand lowers risks and provides great advantage when selling an object and granting a bank loan   |

Source: EY analysis

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