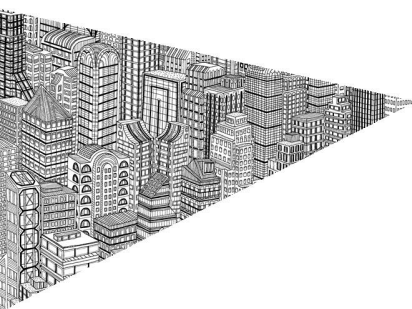


International hotel chains in Russia - 2015



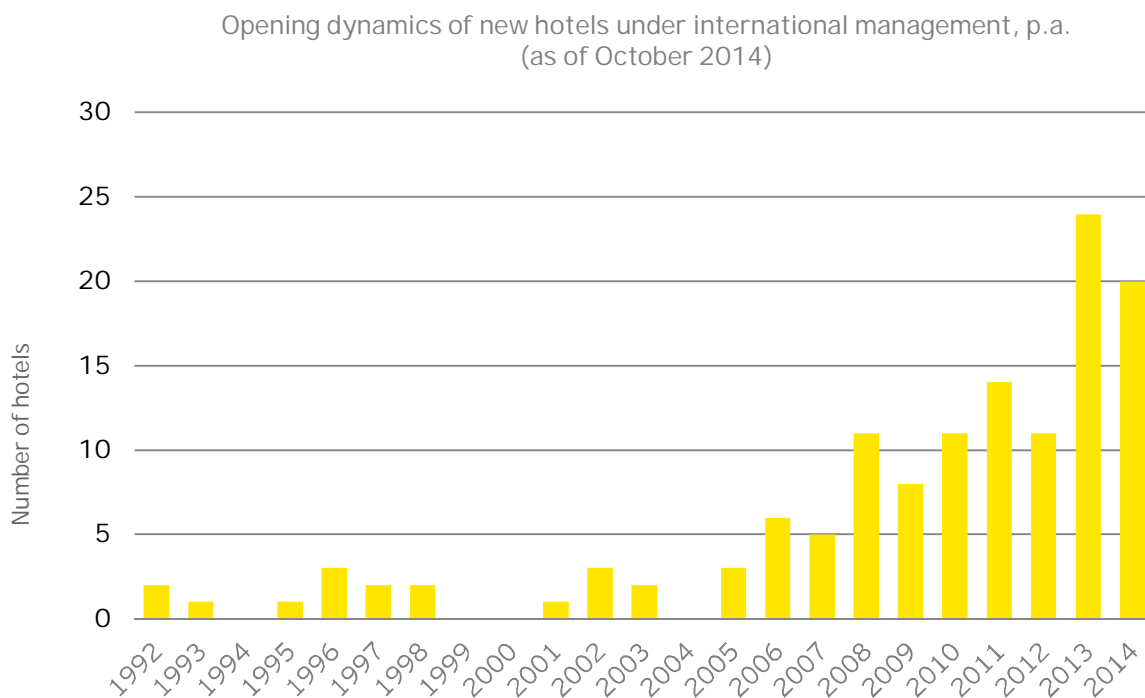
EY

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International hotel chains in Russia

According to the annual EY market research of the international hotel brands presence in Russia, in October 2014 there were 137 hotels under international management with the total room stock of 31 485 keys operating in the region.

Therefore, by the last year 37 new hotels under international management have been opened, while there were 100 hotels with the total room stock of 24 823 keys operating in Russia as of October 2013.



Source: hotel operators data, EY analysis

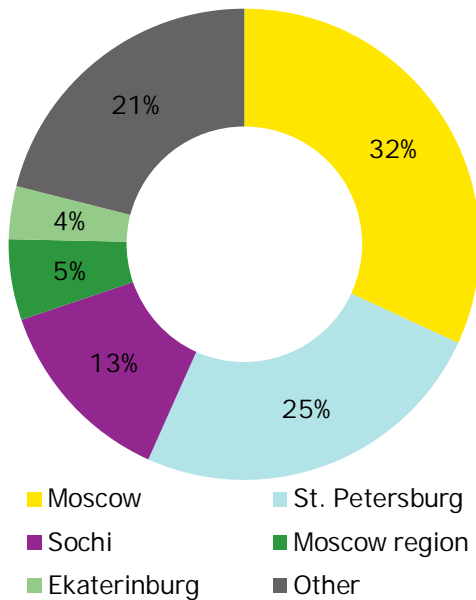
More than half of the existing rooms supply is concentrated in Moscow and St. Petersburg (57%), followed by Sochi (13%), the Moscow Region (5%), Ekaterinburg (4%) and other locations.

It is planned that by 2020 the number of hotels under international management will increase by 147 new properties (30,126 rooms). Thus, if all the announced hotels open, by 2020 the number of hotels under international management in Russia will amount to 284 hotels (61,611 rooms) located in 55 towns and cities.

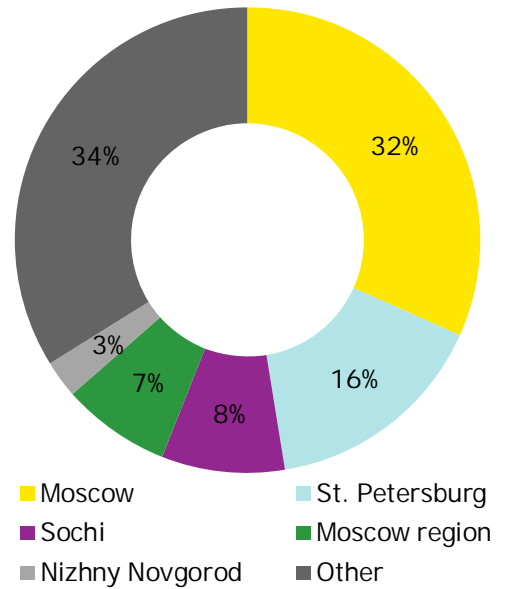
In this case, by 2020 the share of Moscow and St. Petersburg will decrease to 48%, share of Sochi – to 8% due to the growth of branded hotel supply in the Moscow Region (7%) and Nizhny Novgorod (3%).

Moreover, the opening of first branded hotels is planned in such locations as Anapa, Arkhangelsk, Barnaul, Belgorod, Cheboksary, Kemerovo, Khabarovsk, Kirov, Naberezhnye Chelny, Nizhny Tagil, Novokuznetsk, Novorossiysk, Pereslavl-Zalesky, Rostov-on-Don, Saransk, Stavropol, Toliatti, Tomsk, Ufa, Ulyanovsk, Vladivostok, Zelenogradsk.

Share of existing room supply by cities in Russia (October 2014)



Share of future room supply by cities in Russia (including existing room supply)



Source: hotel operators data, EY analysis

Nowadays the geography of the international hotel operators' footprint is enlarging due to a number of international-scale events held in Russia:

- ▶ UPEC Summit in Vladivostok in 2012
- ▶ 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

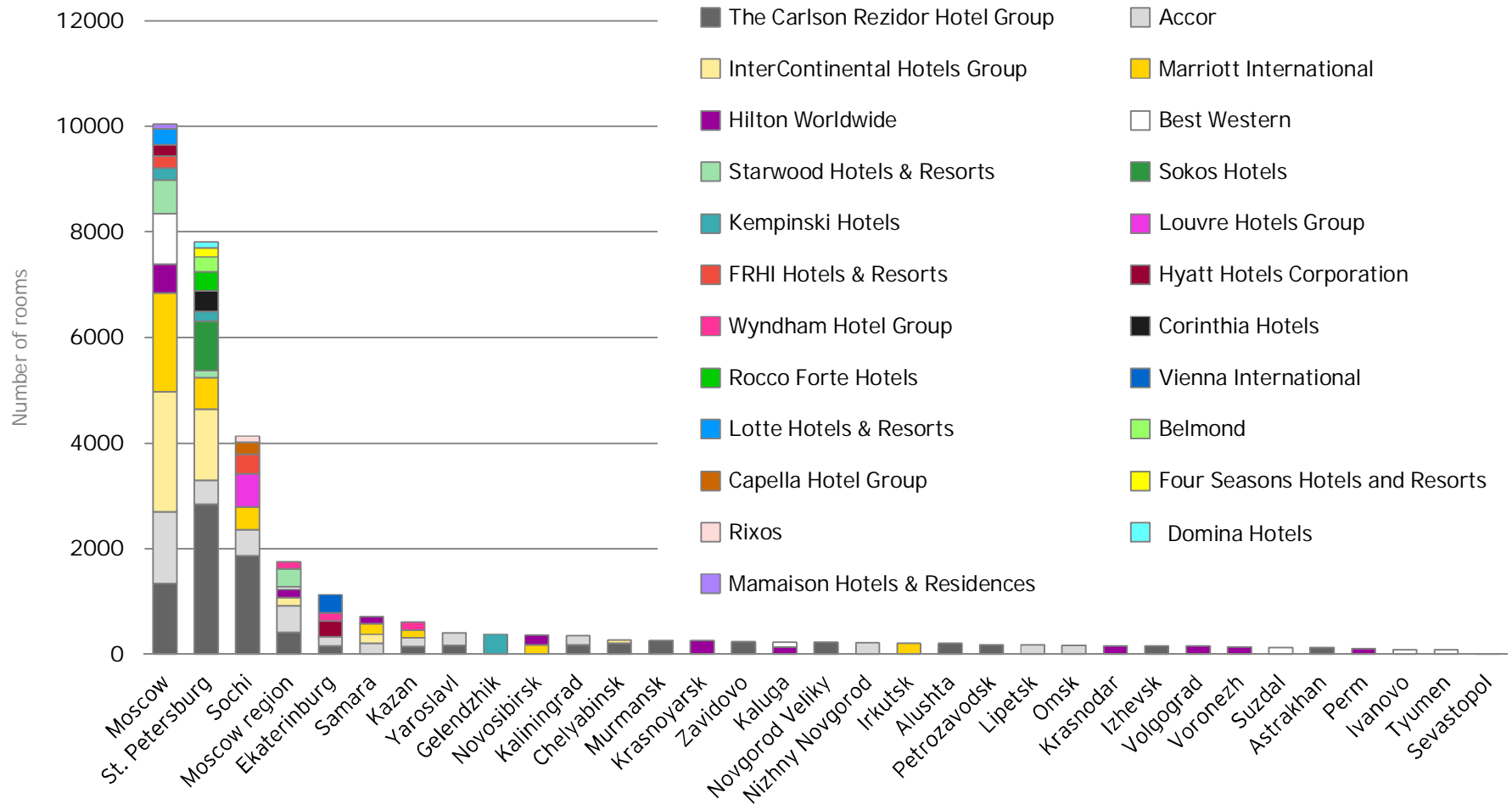
For instance, 18 hotels (3 829 rooms) managed by the international operators entered Sochi market at the period 2012 - 2014, eight of them opened (1 462 rooms) in 2014.

Generally, today the hotels under international brands are located in 33 cities and towns of Russia. By 2020 the international hotel operators' presence is planned already in 55 cities and towns.

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.

The diagram below demonstrates the presence of the international hotel chains in Russia as of October 2014:

Division of existing rooms supply under international management by cities in Russia
(as of October 2014)



Source: hotel operators data, EY analysis

The geography of the international hotel operators' footprint in Russia by 2020

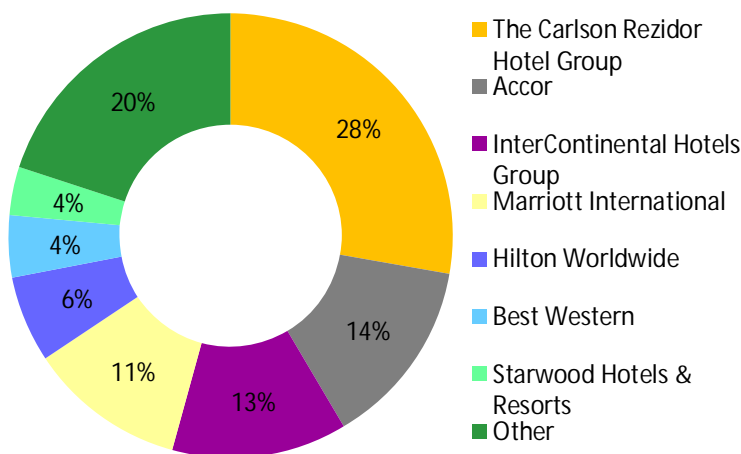


Source: hotel operators data, EY analysis

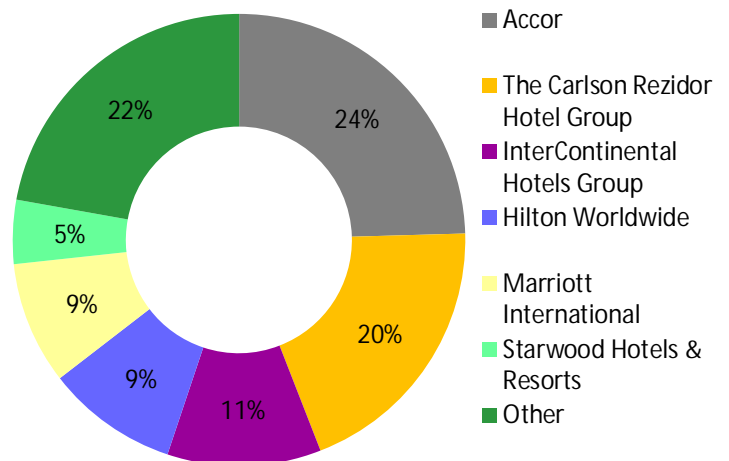
The total branded room stock available in Russia as of October 2014 (i.e. 137 hotels, or 30,126 keys, in 33 locations) is operated or franchised by 23 international hotel chains currently presented in the region.

The biggest market share (66%) is divided between The Carlson Rezidor Hotel Group, Accor, InterContinental Hotels Group and Marriott International. 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 2014)



Share of hotel operators – distribution of future rooms supply by 2020, Russia (including existing rooms supply)



Source: hotel operators data, EY analysis

Russian hotel brands

In addition, the development of the Russian hotel operators and their presence in the international market should be noted. Generally, national hotel brands have significantly smaller proportion in the markets of most countries (except U.S.) than hotels under international management. The similar trend was observed in the Russian market: at the moment the portion of the hotels under international brands (137 hotels) is almost two times higher than the portion of the hotels under national management (72 hotels).

Nevertheless, the Russian hotel operators, borrowing international experience, continue their development, and open new hotels both in the regional market and abroad.

The largest Russian hotel chains are presented in the table below:

Russian hotel operators in the regional and international markets
(as of October 2014)

Hotel chain name	Number of hotels	Russia	World
Azimut Hotels	22	Moscow, St. Petersburg, Sochi, Adler, Astrakhan, Vladivostok, Voronezh, Kostroma, Murmansk, Nizhny Novgorod, Novosibirsk, Samara, Ufa	Germany, Austria
Amaks Hotels & Resorts	15	Moscow region, Kazan, Toliatti, Rostov-on-Don, Voronezh, Vladimir, Belgorod, Tambov, Ufa, Azov, Perm, Valday	Belarus, China
Heliopark Hotels & Resorts	11	Moscow, Moscow region, Kaliningrad, Neftegorsk, Penza, Sochi, Suzdal	Germany
Intourist Hotel Group	11	Moscow, Lipetsk region, Rostov Veliky, Gorno-Altaysk, Crimea, Uglich	The Czech Republic, Italy, Turkey, Namibia
Cronwell Hotels & Resorts	10	St. Petersburg, Hanti-Mansiysk, Uray, Balabanovo	Greece
Korston Hotels	3	Moscow, Kazan, Serpukhov	-
Total:	72		

Source: hotel operators data, EY analysis

New hotels: 2014 – 2015

In January – October 2014 the Russian hotel market was supplemented by 20 new hotels operating under international brands.

According to the information EY compiled from hotel operators and open sources, 13 more hotels are to be commissioned till the end of 2014. We believe however that some projects' opening may be postponed till 2015.

Hotels opened under international management in Russia
in January – October 2014

Operator	Hotel name	Number of rooms	City
Accor	Mercure Lipetsk Center	178	Lipetsk
	Mercure Moscow Baumanskaya	47	Moscow
	Mercure Sochi Centre	200	Sochi
	Pullman Sochi Centre	150	Sochi
Capella Hotel Group	Dolina 960	48	Sochi
FRHI Hotels & Resorts	Swissotel Kamelia Sochi	203	Sochi
	Swissotel Sochi Krasnaya Polyana	166	Sochi
Hilton Worldwide	Hilton Garden Inn Kaluga	134	Kaluga
	Hilton Garden Inn Krasnoyarsk	259	Krasnoyarsk
	DoubleTree by Hilton Moscow Marina	270	Moscow
	Hilton Garden Inn Moscow New Riga	162	Moscow
	Hampton by Hilton Samara	126	Samara
InterContinental Hotels Group	Hotel Indigo St. Petersburg Tchaikovskogo	119	St. Petersburg
Marriott International	Marriott Novosibirsk	175	Novosibirsk
	Sochi Marriott Krasnaya Polyana Hotel	428	Sochi
Rixos	Rixos Krasnaya Polyana Sochi	114	Sochi
The Carlson Rezidor Hotel Group	Radisson Blu Hotel Chelyabinsk	211	Chelyabinsk
	Park Inn Sochi City Centre	153	Sochi
	Park Inn Pulkovo Airport	200	St. Petersburg
	Radisson Resort, Zavidovo	239	Zavidovo
Total:		3 582	

Source: hotel operators data, EY analysis

Hotels under international management planned to open in Russia
by the end of 2014

Operator	Hotel name	Number of rooms	City
Accor	Mercure Rostov-on-Don	89	Rostov-on-Don
	Mercure Voronezh	180	Voronezh
Four Seasons Hotels and Resorts	Four Seasons Hotel Moscow	180	Moscow
Hilton Worldwide	Hilton Garden Inn Kirov	103	Kirov
Hyatt Hotels Corporation	Hyatt Regency Sochi	198	Sochi
InterContinental Hotels Group	Holiday Inn Express Voronezh - Kirova	145	Voronezh
Marriott International	Moscow Marriott Novy Arbat Hotel	230	Moscow
	Courtyard by Marriott Sochi Plaza	345	Sochi
Starwood Hotels & Resorts	Four Points by Sheraton Kaluga	172	Kaluga
The Carlson Rezidor Hotel Group	Radisson Blu Hotel, Moscow Sheremetyevo Airport	379	Moscow region
	Park Inn Volgograd	150	Volgograd
Vienna International	Astrum Hotel Schelkovo	184	Sochi
Wyndham Hotel Group	Days Hotel Pereslavl-Zalessky	150	Pereslavl-Zalessky
Total:		2 505	

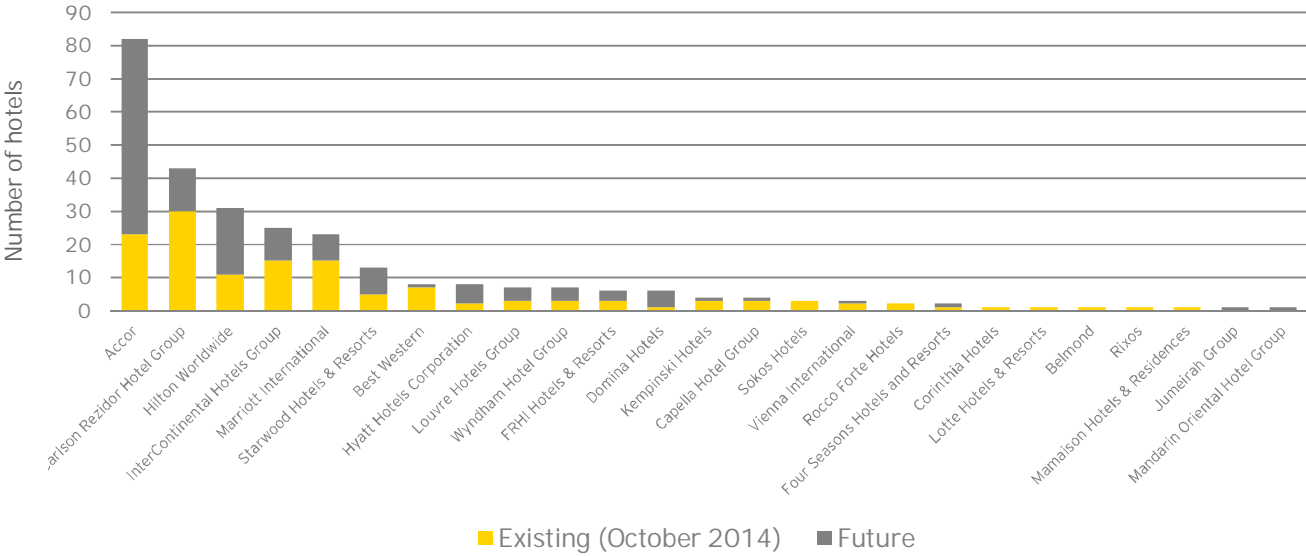
Source: hotel operators data, EY analysis

Summary of international hotels operators' data - Russia

Operator	Existing (October 2014)		Future (by 2020)		Total amount by 2020 (existing + future)	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
The Carlson Rezidor Hotel Group	30	8 735	13	3 324	43	12 059
Accor	23	4 319	59	10 804	82	15 123
InterContinental Hotels Group	15	4 019	10	2 746	25	6 765
Marriott International	15	3 610	8	1 794	23	5 404
Hilton Worldwide	11	1 975	20	3 824	31	5 799
Best Western	7	1 422	1	125	8	1 547
Starwood Hotels & Resorts	5	1 108	8	1 715	13	2 823
Sokos Hotels	3	927	-	-	3	927
Kempinski Hotels	3	806	1	250	4	1 056
Louvre Hotels Group	3	634	4	653	7	1 287
FRHI Hotels & Resorts	3	602	3	576	6	1 178
Wyndham Hotel Group	3	446	4	682	7	1 128
Capella Hotel Group	3	220	1	730	4	950
Hyatt Hotels Corporation	2	502	6	1 324	8	1 826
Rocco Forte Hotels	2	361	-	-	2	361
Vienna International	2	348	1	184	3	532
Corinthia Hotels	1	388	-	-	1	388
Lotte Hotels & Resorts	1	304	-	-	1	304
Belmond	1	275	-	-	1	275
Four Seasons Hotels and Resorts	1	177	1	180	2	357
Rixos	1	114	-	-	1	114
Domina Hotels	1	109	5	879	6	988
Mamaison Hotels & Residences	1	84	-	-	1	84
Jumeirah Group	-	-	1	74	1	74
Mandarin Oriental Hotel Group	-	-	1	262	1	262
Total:	137	31 485	147	30 126	284	61 611

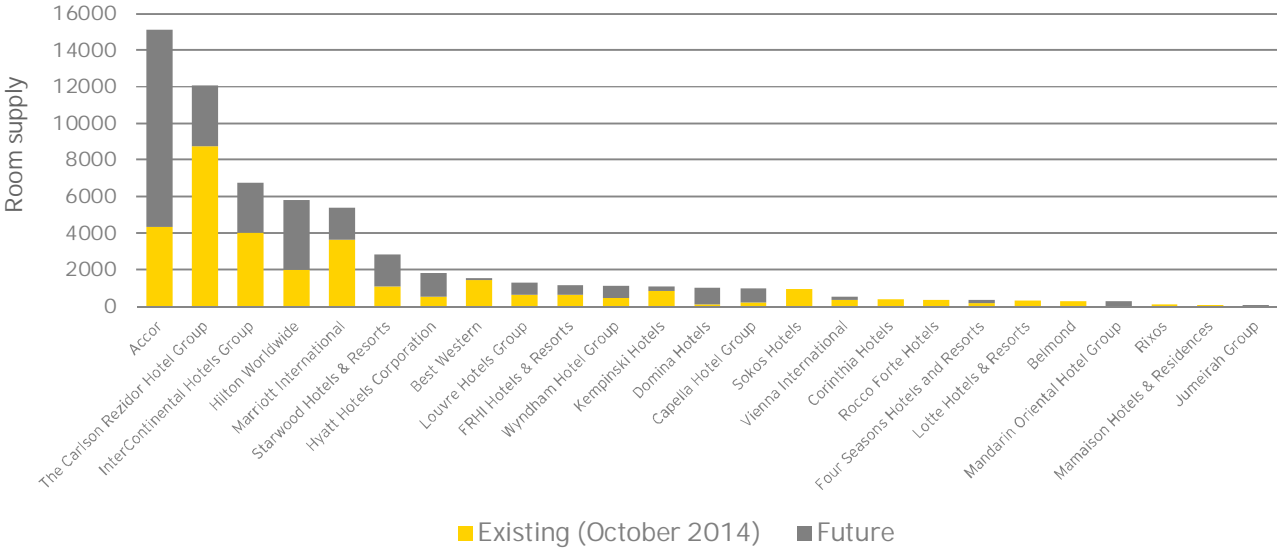
Source: hotel operators data, EY analysis

Distribution of international hotel operators by the number of hotels



Source: hotel operators data, EY analysis

Distribution of international hotel operators by the room supply



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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