



International hotel chains in Russia, the CIS and Georgia

2016

**With an analysis of global
lodging market trends and
how they apply to Russia**

Hospitality & Leisure
Deal Advisory

kpmg.ru



Contents

Evolution of the lodging industry

02



- 04 Trend #1:
The evolution of the traditional hotel product
- 05 Trend #2:
Tailoring supply to specific international requirements
- 06 Trend #3:
The growing number of star ratings mislead hotel guests
- 07 Hybrid solutions for the lodging industry: Hostels and apartments for rent
- 08 Trend #4:
Hostels: A trendy alternative to traditional hotels
- 09 Trend #5:
Apartments for rent

International hotel chains in Russia, the CIS and Georgia

10



- 11 General outlook for the branded hotels market
- 12 International hotel chain ratings
- 14 The branded hotel market in Russia
- 16 The potential of regional cities in Russia
- 18 The branded hotel market in the CIS (excluding Russia) and Georgia



Evolution of the lodging industry



The global lodging industry has been undergoing changes in recent years – and so has the Russian market. New trends can be observed, both for traditional hotels and new market sectors such as hostels and private apartments for rent.

Throughout the world traditional hotels are changing in order to meet the needs of guests:

- The traditional hotel product is evolving to cater for various tourist demands
- The hotel supply is becoming more tailored to meet specific international requirements
- With a changing hotel product and a growing number of star ratings – from state approved to independent ratings on traveller forums – hotel guests are more often getting misled.

Alternative solutions for the lodging industry, offered by hostels and private apartments for rent, are increasing their market share and becoming alternatives for traditional hotels in specific tourist segments. The supply for alternative accommodation is evolving, thus we can observe new global trends for the segments:

- Hostels are becoming more trendy and in-demand and offer an alternative to traditional hotels all over the world

- Private apartments for rent are gaining in popularity and can be viewed as an alternative to economy segment hotels for certain groups of tourists.

The last two trends cited above indicate that demand for lodging is getting more individualised. Hostels and private apartments are making the market more flexible and can easily satisfy changing customer needs.

Trends can be observed in major cities of the world as well as in Russia. Since Moscow represents more than 37% of the branded hotels room stock in Russia, the trends also apply to the Moscow market, both for traditional hotels and for new market sectors such as hostels and private apartments for rent.

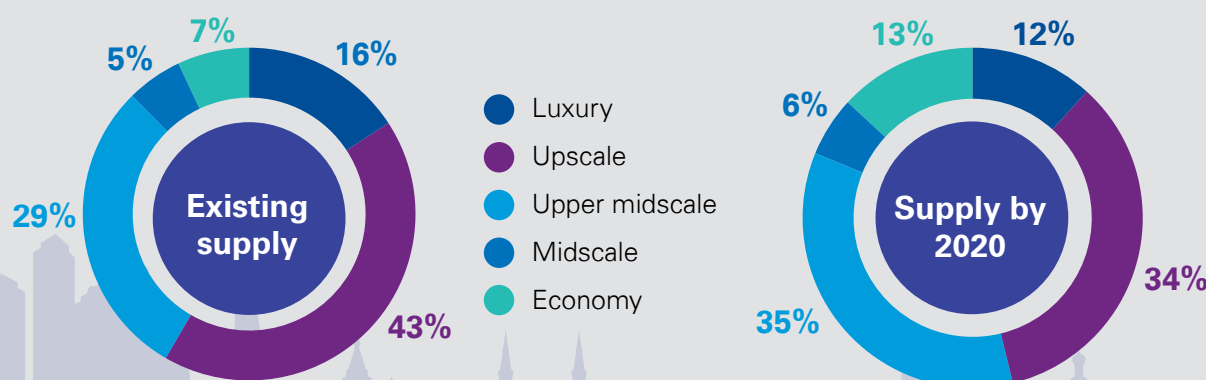
The branded hotel supply is also evolving to meet travellers' needs. The launch in Moscow of the first international budget hotels has been announced, and they will be in operation by 2020 (with the new Ibis Budget among them).

The midscale and upscale segments will retain the largest share of total branded supply (approximately 75% by 2020), M Gallery by AccorHotels will be introduced. The share of luxury hotels will see minor growth.

“The Moscow hotel market has the second-largest pipeline in Europe after London. The majority of newly announced hotels are in the upscale and upper midscale segments, so Moscow finds itself somewhere in the middle between the mature markets of Europe and America, which focus on midscale hotels, and the emerging markets of Asia Pacific and the Middle East, which have a focus on upscale and luxury.

Thomas Emanuel,
STR Global

Evolution of branded hotel supply in Moscow



Note: (a) shares are calculated based on room number
 Source: KPMG analysis



Trend #1: The evolution of the traditional hotel product

In order to meet the demanding expectations of tourists and to perform successfully within an increasingly fierce competitive environment, the traditional hotel product is evolving by offering more high-tech solutions for visitors, a better quality/price ratio, and a greater lifestyle experience.

Smart technologies and mobile services tend to anticipate demand and offer clients something they had never previously tried. Hotel guests throughout the world can now avail themselves of full-room control via smartphones, smartwatches and other devices. For example, a smartphone becomes an electronic key and helps take care of lighting, music and food orders. Recently Hilton Worldwide launched a Digital Key programme allowing check-in, room selection, and room access – all through a smartphone application. Some companies go even further: Starwood Hotels & Resorts has introduced a robot butler for its Aloft guests in California in the US. New technologies help hotels keep pace with clients in terms of mobility, accessibility and flexibility.

Travelling is becoming more about experiencing unique impressions – as a result, lifestyle hotels increasingly seek to offer a distinctive guest experience. This trend is spreading throughout the lodging industry, from designer hotels (first initiated by Missoni and Armani, now being continued by Gucci and others), to the hostel segment (trendy, sophisticated and art hostels seem to offer distinct options for travellers on lower budgets). International chains are also adjusting their requirements to local specifics, seeking to provide a localised guest experience.

For new and existing hotels to succeed, it is imperative to offer a better quality/price ratio. Nowadays luxury hotels are getting even more luxurious, while budget and economy lodgings provide the required minimum, but the quality level is higher.

“A distinctive local experience combined with a character and style reflective of the surroundings are becoming essential aspects for lifestyle and boutique hotels all over the world. For these hotels the quality of the supply is mainly determined by guest demands, thus brands should be more flexible in terms of positioning. Indigo hotel is an interesting case in point: the property in St Petersburg is positioned between upscale and luxury.

Alexey Korobkin
InterContinental Hotels Group



Trend #2: Tailoring supply to specific international requirements

According to World Tourism Organization (UNWTO) statistics for 2014, Russia ranks #9 in top world destinations, with 29.8 million visitors in 2014 and 5.3% growth compared to 2013. Source market statistics for 2014 from the Federal Agency for Tourism revealed a 5-15% decrease in visitor inflow from the US and EU countries and a 10% rise in the number of Chinese tourists. Thus China became the leading source market in terms of tourist visits in Russia, which was in line with global trends identified by the UNWTO, with China remaining the #1 source of tourists throughout the world. At the same time the most significant increase of arrivals to Russia in 2014 was marked for Korean visitors: the total inflow rose by 26%. Thus special attention should be paid to how hospitality services should be catering for the requirements of Chinese and Korean (as well as Asian in general) guests.

The first steps are now being taken to make Russia (and Moscow in particular) a more attractive option for Chinese travellers. By the end of 2015, 17 Moscow hotels were participating in an optional certification system called China Friendly. Participating hotels have a website, navigation tools and a menu translated into Chinese, media and brochures available in Chinese, a China UnionPay terminal, and Chinese-speaking staff. Newly joined hotels get repeat sales and benefit from growth in visitor inflow from China.

A similar programme catering for travellers from Muslim countries – called Halal friendly – was launched in 2014. The programme has various requirements (prescribed by the Halal International Centre for Standardisation and

Certification in Moscow) relating to, for example, food, communal zones, and the availability of prayer rooms.

In the next few years the number of tourists from emerging economies is set to increase, while inflows from the EU and the US are likely to witness a decline due to the geopolitical environment. According to the UNWTO, in 2014 Saudi Arabia, India, Taiwan, the Philippines, Qatar, Thailand and Colombia demonstrated double-digit growth in terms of the expenditure of their tourists abroad. In order to succeed, hotels will need to be able to cater for clients from different cultures.

In addition to source markets, worth mentioning is that the 'over-60' group of tourists is rising in terms of size and purchasing power, hence hotels will need to customise their offering to attract this group of tourists as well.

“ The Hilton Huanying programme was launched in August 2011, with 30 hotels in 13 countries. Hotels were selected in cities Chinese tourists find the most attractive including Tokyo, New York, London, Paris, and Seoul. Today the programme takes in over 110 hotels in 30 countries. This does not currently include any Russian properties but we could work with owners to introduce it in the future.

Vladimir Ilichev,
Hilton Worldwide

Trend #3:

The growing number of star ratings mislead hotel guests



Hotel classification systems and ratings were initially designed to help customers deal with hotel positioning in different countries and locations. However, today ratings work against guests: star classifications can be different in different countries and in some cases do not genuinely reflect the actual quality of an asset. Visitors get confused by the various hotel ratings that exist across the globe, especially on hotel booking platforms.

International hotel chains usually rely on brand standards, which keep guests apprised about what to expect in a certain hotel in a specific location. Besides international brand positioning, local specifics also come into play.

There can be situations where the local positioning of a hotel brand appears higher than the worldwide positioning. This is because local construction norms and standards are higher (or different) from those of the historical markets of these brands, and/or because the existing supply of similar hotels of the same category in a given market is markedly inferior to the brand's (the product lacks renovations, poor design and space organisation, etc.).

Another interesting case can be observed in the hospitality markets of the Middle East and Asia. Due to greater guest expectations, the positioning of major hotels can be higher than across the globe, e.g.

upscale hotels are positioned in such a way that they in fact meet the requirements of luxury hotels.

Russia is currently on the path to adopting an obligatory classification system for hotels and other accommodation types. Until 2010 a voluntary system was in force, and only less than 5% of hotels underwent the procedure (according to Federal Agency for Tourism data).

When Sochi won the right to host the Winter Olympics, changes to the system were adopted and classification became mandatory for properties in Sochi. Currently the procedure is valid only for cities taking part in the Football World Cup 2018, with Moscow being among them.

According to the Moscow Government, there were 215 classified hotels in the city in December 2015, which comprises only 60% of the existing room stock. At the same time, segmentation is getting more fuzzy. For example, new large-scale 3-star hotels in Moscow are closer to 4-star properties in terms of equipment and positioning, owing to higher implementation costs. Also, tourists can get confused by having to consider brand standards, numerous travel ratings (which nowadays have more to do with advertising and less to do with classifications), as well as official ratings.

“Today, hotel ratings are gradually being transformed from an analysis tool to a marketing and PR instrument. The “star” ratings of some hotels on popular travel and booking websites exceed the grades received based on their classifications. This is especially pertinent when ratings are compiled by media or websites that provide promotional services for the travel market and do not give a detailed description of their calculation methodology or an opportunity to review primary materials

Sergey Shpilko
Department for multicultural policy, interregional
cooperation and tourism of Moscow

“Ibis (a Brand of AccorHotels) is positioned as an economy brand throughout the world and is usually viewed as a 3* hotel by tourists in Moscow and Russia. This is because existing properties with a similar rating are ageing and of lower quality. These hotels are mostly Soviet-era buildings in less attractive locations and/or lacking a proper refurbishment programme. As a result, the branded hotel is creating the impression that it has a higher quality and rating

Alexis Feuillat
AccorHotels

Hybrid solutions for the lodging industry: Hostels and apartments for rent



Hostels and apartments for rent first appeared as an alternative to economy segment hotels and primarily used to target backpackers. In recent years both segments have boomed: the number of properties has grown significantly throughout the world, alongside an improved quality of accommodation and services being witnessed. In addition, hostels and private apartments for rent are now providing not only cheaper places to stay, but also a distinctive local experience and a chance

to communicate with people throughout the world; for example, when renting a private apartment, a traveller can enjoy and experience the way of life at a certain location – from buying food to socialising with locals.

Hostels are expanding globally towards catering for groups of students and pupils, while apartments are becoming more popular for families with children, long-term stays, and friends travelling together.

In Russia the alternative accommodation segment is at an initial stage of development and has emerged at popular tourist and recreational locations where traditional hotels were historically lacking. Apartments for rent usually occupied a significant market share in resort areas (Sochi, Gelendzhik, other Black sea resorts), while the first hostels were launched in St Petersburg and Moscow. Both segments still suffer from a lack of regulation and transparency.





Trend #4: Hostels: A trendy alternative to traditional hotels

A hostel is budget-orientated, shared-room accommodation that accepts individual travellers, backpackers, or groups for short-term stays and provides communal areas and facilities. Rapid growth in the supply of new hostels continues to cater for greater numbers of overland and multi-destination travellers all over the world.

Starting out as a cheap type of lodging and similar to budget hotels, hostels have become more and more sophisticated, and now seek to obtain the best locations in cities. A hostel can now be defined as a hybrid hotel product that combines hotel services, informality and the friendliness of a hostel.

The overall quality of hostels has improved across the industry. New styles have developed that focus on more trendy, design-orientated interiors. Thus competition between hostels and mid-scale hotels is sometimes seen, in addition to major competition from a limited-service hotel market. That said, the influence of hostels within the global hotel market is hard to quantify: no internationally operated hostel chains exists.

In Moscow the first hostels were put into operation in the early

2000s, and now their total stock exceeds 2,000 rooms in more than 300 properties. Nevertheless, the share of hostels in the total accommodation supply in Moscow is below the average of top-10 capital cities (4% vs. 27%).

The first law to regulate the hostel market in Russia was adopted at the end of 2014. Since January 2015 all hostels have had to conform with minimum requirements in terms of room space and equipment (four square metres per bed), as well as communal zones (a bathroom for every 15 guests, a living room and a kitchen). The law is rather lenient when it comes to establishing a hostel – they can be located within residential buildings and do not require a separate entrance. Thus the law became the first step in the

process of cleaning up the market and moving towards achieving an acceptable quality of services.

Hostels are predicted to expand significantly due to low opening costs and a lack of economy hotels, especially in the historic centre of Moscow. With an improving quality of stock and services, Moscow hostels are positioned to become a potential alternative to economy-class hotels.

“Today, guests at hostels include not only backpackers, but also tourist groups of children, sports teams, students, and business tourists on limited budgets. In the near future, the difference between two-to-three-star hotels and hostels may become less evident: hostels will offer more hotel-type rooms, while hotels may begin offering rooms for more than 2-3 guests. Moreover, hostels may begin to come within hotel complexes – already a couple of examples can be found in Moscow. We support hostel development projects as standalone buildings and as part of mixed-used complexes or large transport hubs (railway stations / airports) and other commercial objects; however, we believe that hostels operating in residential communities will face certain challenges. In addition, under draft laws currently being discussed, the provision of temporary accommodation services by residential properties will become subject to government regulation.

Sergey Shpilko

Department for multicultural policy,
interregional cooperation and tourism of Moscow

Trend #5: Apartments for rent

More and more people are adopting a new method of travel, by renting homes, or even exchanging visits for free. Private apartments are usually more affordable, offer a local stay experience, and provide independent lodgings, with all the facilities of a home away from home. This type of lodging is getting more popular for travelling families and long-term stays.

Private housing can be found on platforms connecting hosts and travellers, such as AirBnB, Flipkey, HomeAway, VRBO, Roomorama, and Houstrip. In 2014 AirBnB exceeded 800,000 listings worldwide, which means that the website offers more lodging than any global hotel chain.

The operational success of these platforms can be traced to a three-pronged strategy:

- The creation of new sources of supply
- New user behaviours on the demand side
- A strong control system that enables trust to develop between clients and private owners.

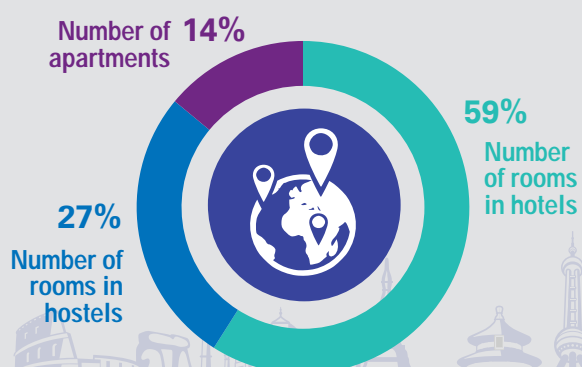
Hotels all over the world are facing competition from private individuals renting out their homes, or rooms to tourists using AirBnB or similar services. Across the top-10 capital cities, the share of apartments for rent has reached 14% of the total accommodation stock. In Moscow the share is much lower – only 4%.

In recent years the issue of taxing accommodation at private apartments has become more pressing, as municipal budgets are receiving less tax and fewer payments as a result of the number of deals being struck between a private host and a guest. In 2014 AirBnB began paying taxes in select US cities, and in 2015 Amsterdam became the first European tax-paying city for the platform.

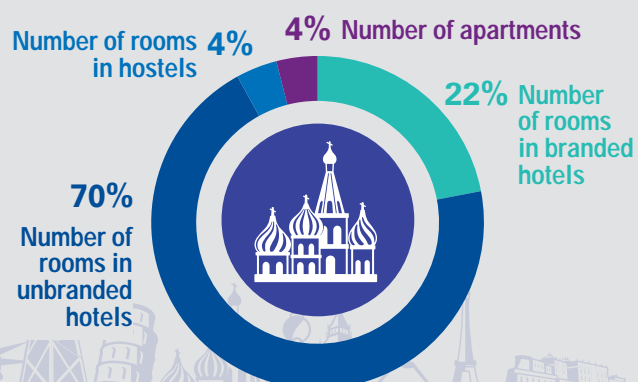
AirBnB entered the Moscow market in the early 2012 and since then more than 300 properties appeared available for rent starting from low-budget shared rooms to high-end lofts and apartments in skyscrapers of Moscow City. There is still no legislation for this lodging type, so the market is spontaneous and booming.

Average share of apartments for rent in total lodging supply

In top 10 capital cities in the world*



In Moscow



* New York, Singapore, London, Paris, Beijing, Sao Paolo, Barcelona, Mexico, Berlin, Copenhagen
Source: KPMG analysis

International hotel chains in Russia, the CIS and Georgia





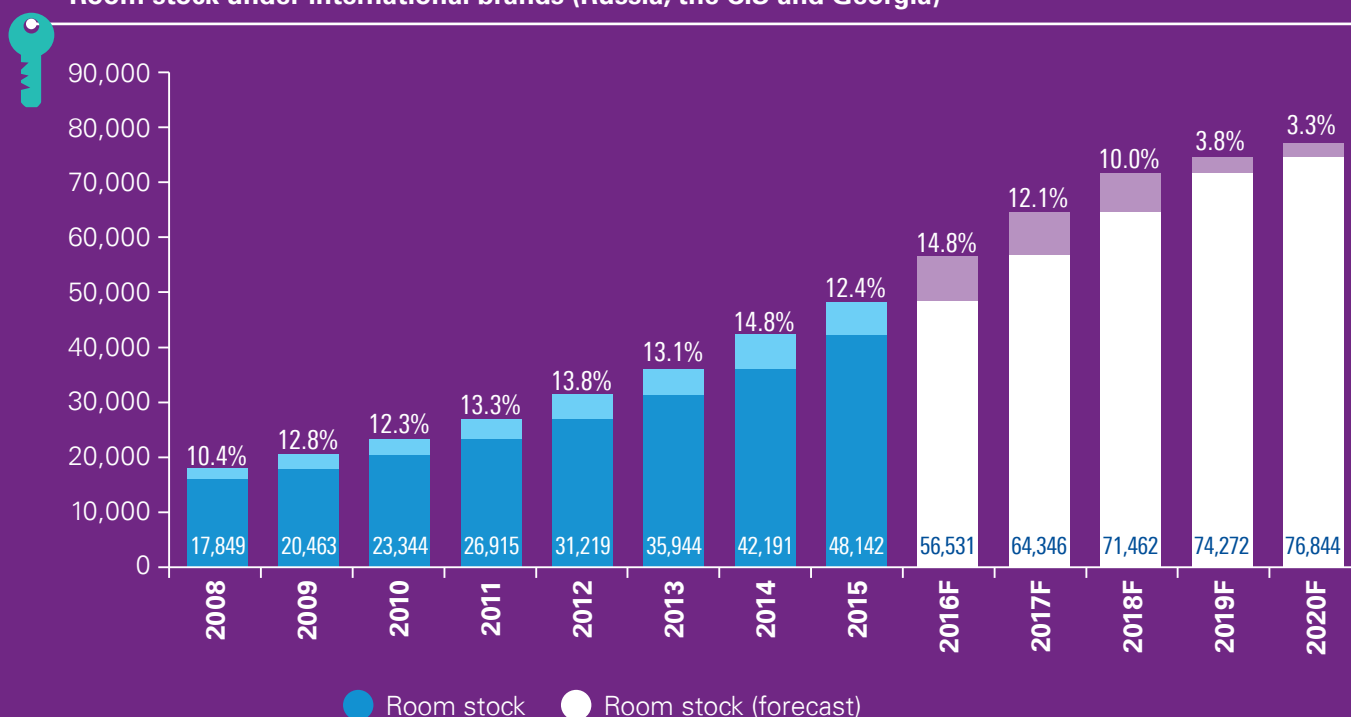
General outlook of branded hotel market

The supply of internationally branded hotels in Russia, the CIS and Georgia grew by 12% in January-December 2015 and comprised 231 hotels offering more than 48,000 rooms. 36 new hotels have entered the market this year, of which 22 were opened in Russia.

The announced pipeline reflects negative trends in the region's macroeconomics as well as issues developers have with raising finance: approximately 20% of future projects have been either postponed or cancelled.

However, it has been announced that over 150 new hotels under international brands will become operational by 2020, which will increase the room stock by around 28,700 rooms.

Room stock under international brands (Russia, the CIS and Georgia)



Source: KPMG analysis

International hotel chain ratings

Carlson Rezidor Hotel Group remains the market leader in the region, with more than 11,000 rooms in 44 hotels (34 in Russia). AccorHotels consolidated its positions by offering 1,500 new rooms in 2015, and takes second place with 33 hotels operating in the region (29 in Russia). According to development plans that have been announced, AccorHotels will become the market leader by 2020: 50 new hotels will join the group's portfolio in the region within five years.

The concentration of hotel chains in Russia and the CIS varies: the Russian market is more concentrated, with 76% of the room stock distributed among the top-five market players: Rezidor, Accor, Marriott, InterContinental and Hilton. In the CIS (excluding Russia) Rezidor and Marriott share a leading position and Accor's share is lower, while groups such as Rixos, Hyatt, Wyndham and Starwood all have large market shares.

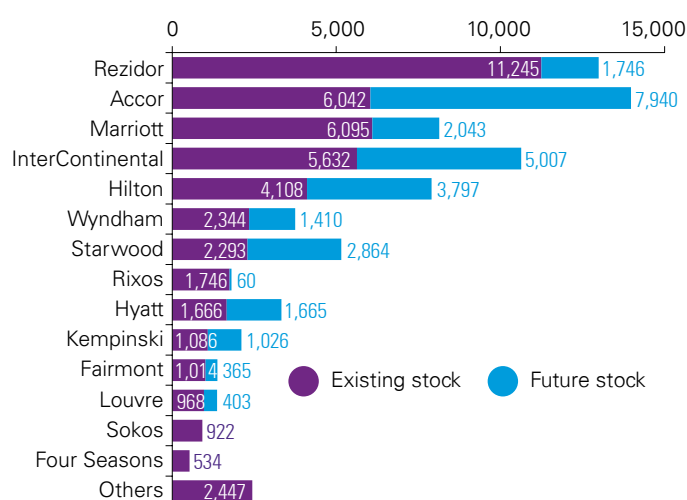
Each country has its leader in terms of branded room stock: Wyndham and Rixos are strong in Azerbaijan, Marriott takes first place in Kazakhstan, and Rezidor has the largest stock in Ukraine.

Against the current backdrop of an unstable economic situation in Russia and the CIS, most market participants are reviewing their pipeline due to difficulties connected with raising finance. At the same time hotel chains are still prepared to enter new markets across the region. In Russia cities with 300,000 inhabitants as well as the Far East region are considered the most attractive. Kazakhstan has traditionally been the focus of international hotel chains in the CIS (excluding Russia), as has Georgia with its booming tourist market. Besides a boost in the hotel pipeline for Belarus can be observed, due to the investment climate upturn the country is experiencing and the development of its gambling industry.

Presence of international hotel chains in Russia, Georgia and the CIS



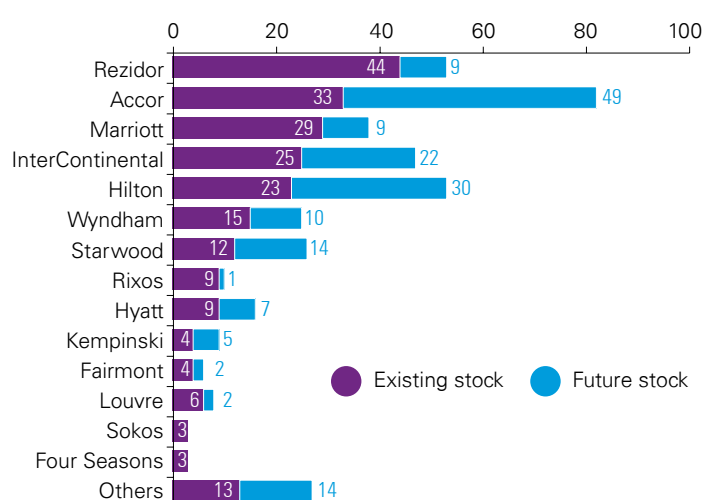
Rooms



Source: KPMG analysis

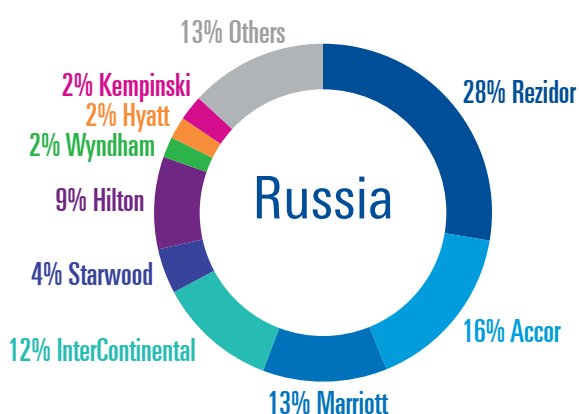


Hotels

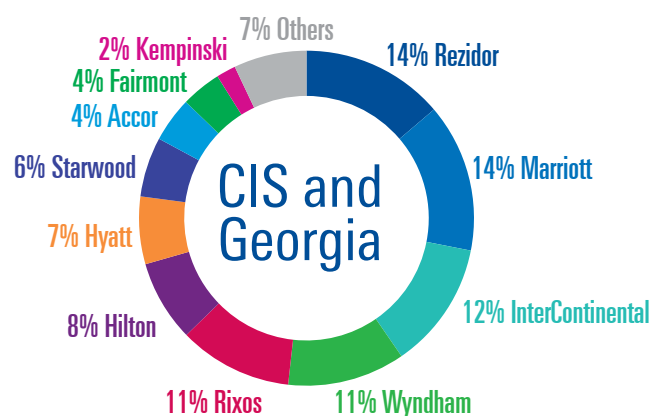


Source: KPMG analysis

Presence of international hotel chains



Source: KPMG analysis



The branded hotel market in Russia

Russia is the largest market of the CIS, with 151 branded hotels offering more than 33,000 rooms. Room supply rose by 11% (3,600 rooms in 22 properties) in 2015. Moscow, St Petersburg and Sochi remain the most developed markets, comprising 70% of all internationally branded hotels in Russia. The supply growth in these cities has slowed: only Moscow was able to boast three new openings for 765 rooms this year, while there were no openings under international brands in St Petersburg and Sochi.

Hotels in Moscow are still feeling the effect of both sanctions imposed by the EU and the US and unstable macroeconomics: tourist inflows from Europe and the US have decreased between 5-15%. Nevertheless this has been to some extent offset by a 6% increase in domestic tourist inflows in 2014 compared to 2013, as well as a growing number of visitors from China.

International chains are retaining their interest in regional cities in Russia, and are proceeding with entering new markets. From interviews with the hotel chains that are taking part in our survey, cities with 300,000-500,000 inhabitants are considered the most attractive for hotel chains. Confirming this trend, the first branded hotels opened in Cheboksary, Nizhny Tagil, Novokuznetsk, Rostov-on-Don, Tyumen and Ulyanovsk in January-December 2015.

The brands selected for newly opened hotels in these locations are chiefly in the midscale (Hilton Garden Inn, Park Inn, Mercure) and economy (Ibis) segments.

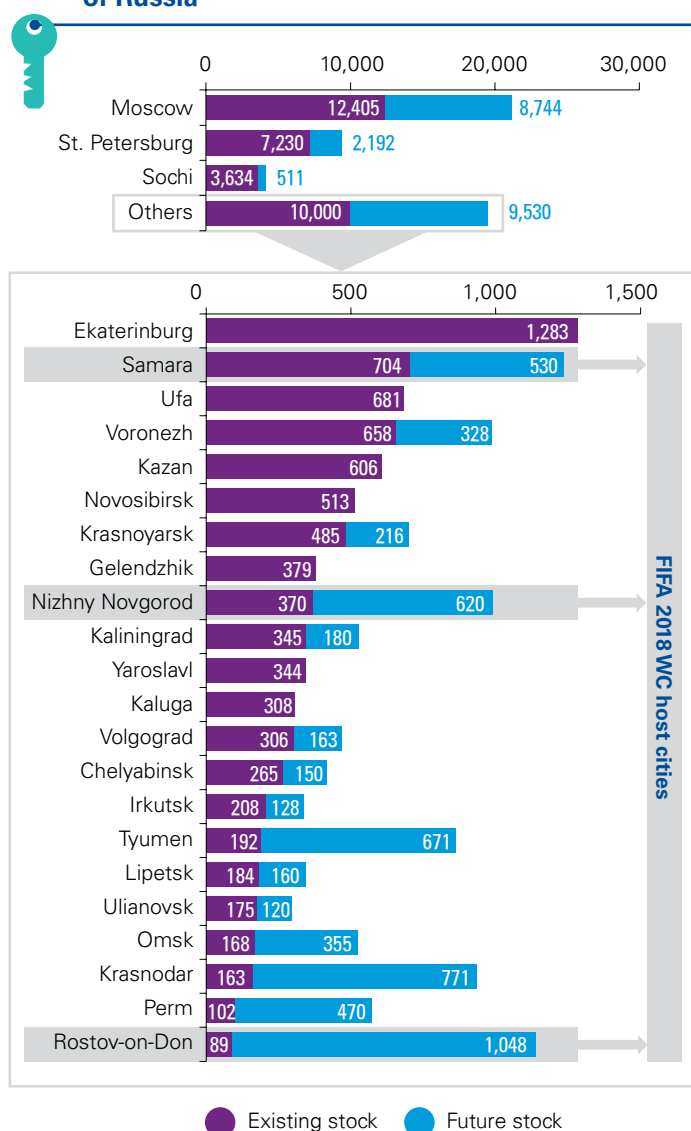
Significant political, social and sports events are real drivers for branded hotel expansion across regional cities of Russia. In 2015 Ufa became the leading city in the country in terms of the launch of new branded hotels: four hotels entered the market to meet the needs of the BRIKS and SCO summits held on 8-10 July 2015. Altogether Hampton by Hilton, Hilton Garden Inn, Sheraton and Holiday Inn added 681 rooms to the hotel supply of the city. Worth mentioning is that prior to 2015 no international hotels existed in Ufa.

The 2018 FIFA World Cup is likely to boost the hotel supply in participating cities: three-to-five new hotels under international brands have been announced to open in Nizhny Novgorod, Rostov-on-Don and Samara.

A significant increase in supply is also expected in Krasnodar and Tyumen (771 rooms in three properties; 671 rooms in 4 properties by 2020, respectively). Both cities are exposed to stable and high tourist inflows which are not yet covered by sufficient branded room supply.

With demand reflected by tourist inflow, as well as existing and future hotel supply, KPMG has investigated which Russian cities with 0.5-1 million inhabitants are the most attractive for the development of branded hotels – see our findings below.

Distribution of branded room supply in cities of Russia



Source: KPMG analysis



The potential of regional cities in Russia

In order to differentiate the regional cities of Russia in terms of their potential for hotel development, we analysed tourist inflows for 2014, the current supply of branded hotel rooms per 1,000 visitors, and the announced pipeline of international hotel chains. Our analysis identified cities where potential for new hotel properties can be observed.

The diagram below demonstrates differences between the cities. The most attractive appear in the top left corner with high and stable tourist inflows, a low current supply of modern hotel rooms, and a low pipeline: Naberezhnie Chelny, Toliatty, Barnaul and Khabarovsk.

Naberezhnie Chelny and **Toliatty** have a stable inflow of business tourists due to the large factories and energy sector companies located there (KAMAZ, Sollers and AvtoVAZ). Currently there are no branded hotels in the cities; Ibis has been announced for Toliatty, and Holiday Inn Express for Naberezhnie Chelny. It is likely that individual hotels will not cover all the demand in these cities and they will hence remain attractive for new market players.

Barnaul and **Khabarovsk** experience growing inflows of tourists from Asia and the Pacific Region, but the main source is China (from 2013 to 2014 the number of foreign visitors to Barnaul from China doubled). Both regions are attractive for recreational tourism, with state programmes for sector development in place (Belokurikha resort, Sibirskaya moneta and Primorie gaming zones), but they still lack a modern infrastructure and hotel supply. The pipeline for 2020 comprises Tulip Inn in Barnaul and Ibis in Khabarovsk. The announced programmes will create demand for hotels, and an additional supply will be needed to absorb it.

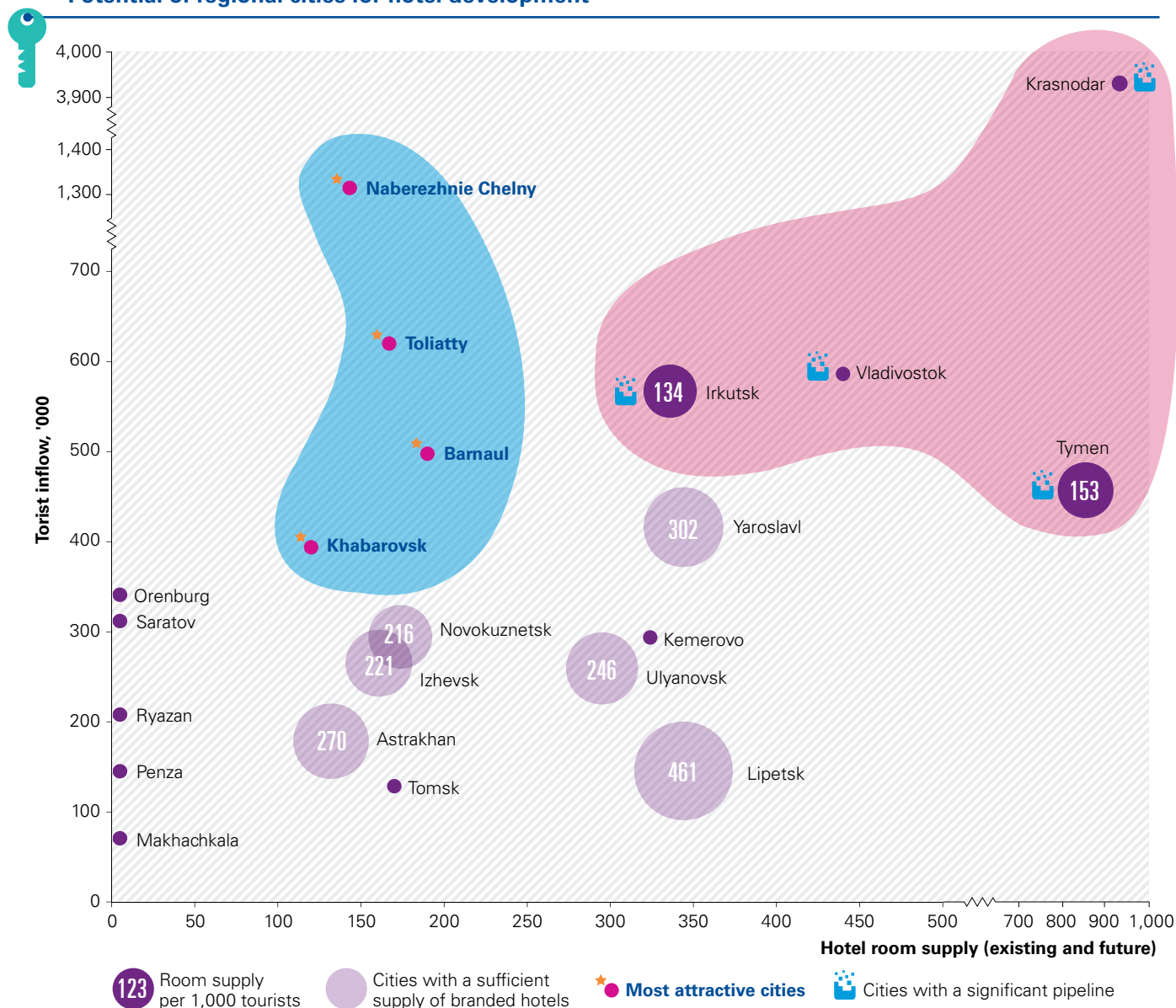
In the top right corner are cities with a high tourist inflow, a low current supply, but a significant pipeline: **Krasnodar, Vladivostok, Irkutsk and Tyumen.**

- Marriott, Four Points by Sheraton and Ibis have been announced in Krasnodar
- DoubleTree by Hilton, Hampton by Hilton, Domina Inn and Ibis comprise the pipeline in Tyumen
- Two Hyatt hotels are at an advanced construction stage in Vladivostok
- Mercure and Ibis are to open in Irkutsk.

If the announced projects are postponed or cancelled it will create an opportunity to enter the market; otherwise, competition could be fierce.

Cities in the central part of the diagram experience moderate visitor inflows and do have a sufficient supply of branded hotel rooms to cover current demand – usually one-to-two hotels in each city (Lipetsk, Yaroslavl, Novokuznetsk, Izhevsk, Astrakhan, and Ulyanovsk). Cities in the bottom left corner have low tourist inflows, thus hotel developers and chains display low interest: there are neither operating branded hotels nor a future pipeline (Ryazan, Penza, Makhachkala, Tomsk). New players willing to enter these markets could be successful if they can secure good locations, understand demand forecasts, and implement a sound marketing strategy.

Potential of regional cities for hotel development



Note: (a) Analysis was conducted for cities with 0.5-1 million inhabitants
 (b) Current supply was measured by room supply in branded hotels per 1,000 incoming tourists
Source: KPMG analysis

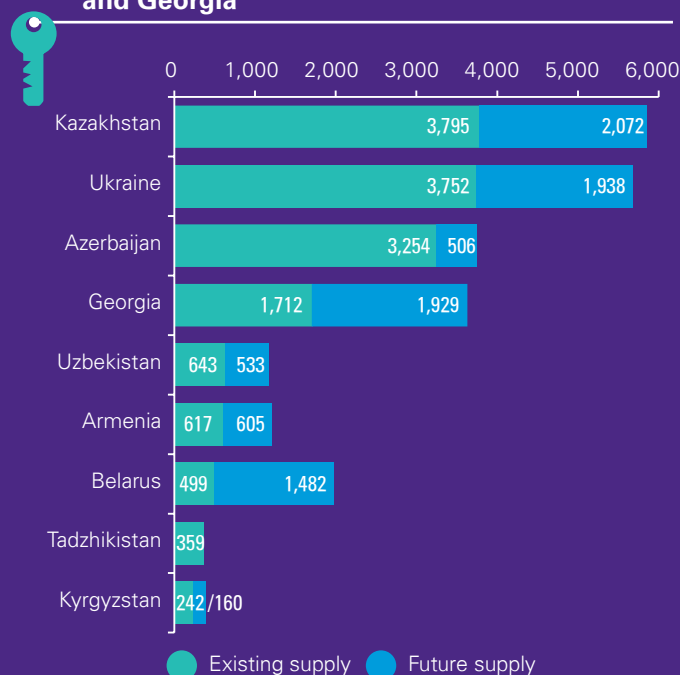
The branded hotel market in the CIS (excluding Russia) and Georgia

Within CIS countries and Georgia Marriott and Rezidor share a leading position, each having a 14% market share measured by room stock. Marriott offers more than 2,100 rooms in 12 hotels and Rezidor has 2,050 rooms in 10 properties. Accor and InterContinental have the largest pipeline across the region: each is going to add more than 1,500 extra rooms by 2020.

CIS countries excluding Russia can be divided into two major hotel market development groups. The first group comprises Kazakhstan, Azerbaijan and Ukraine (and Georgia, a non-CIS country). 84% of the hotel room supply under international brands are located in these four countries, which have a vast supply of branded hotels in both capital cities and regions. A range of brands usually covers all segments – from economy and midscale to luxury – and numerous new projects have been announced in major tourist and business destinations.

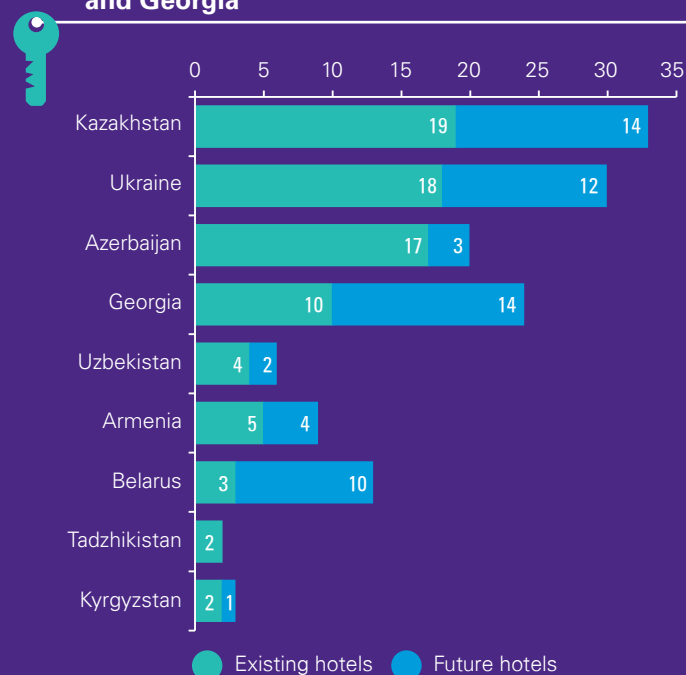
The other group of countries comprises Armenia, Belarus, Kyrgyzstan, Tadjikistan and Uzbekistan. The hotel market in these countries is less developed, with branded hotels usually located in capital cities and positioned primarily in the upper segment. 2015 saw no significant changes in these countries, except for the opening of Wyndham in Tashkent (Uzbekistan), Hyatt Place in Jermuk (Armenia) and Hampton by Hilton in Minsk (Belarus).

Distribution of branded hotel rooms in the CIS and Georgia



Source: KPMG analysis

Distribution of hotel properties in the CIS and Georgia



Source: KPMG analysis



Kazakhstan is the largest economy in Central Asia and remained one of the fastest growing in the CIS before the tenge devaluation in 2015. Tourist inflows rise by 10-15% annually; there were around 3.8 million tourists in 2014. Kazakhstan will host Expo-2017, which will trigger hotel openings across the country and make it more recognisable on the international tourism market. Four new hotels under international brands, with 766 rooms, opened in Kazakhstan in 2015, increasing the room supply by 25%.

At the moment 19 branded hotels are operating (3,800 rooms) and 14 new properties (2,070 rooms) are in the pipeline up to 2020. Marriott and Rixos occupy leading positions in terms of branded room supply. Starwood (currently not present in Kazakhstan) has the largest pipeline up to 2020, with three properties announced (approx. 600 rooms). Along with Starwood, Hyatt and Kempinski plan to enter the market in the next five years.



The **Ukraine** hotel market is going through a difficult period, linked to the current geopolitical and economic environment. Tourist inflows have dropped significantly, thus occupancy rates in Kiev have plunged to 40%. As a result, the western part of the country is considered the most attractive for further hotel sector development: 1.7 million tourists visited Lvov in 2014, after the national currency devaluation made it much less expensive for tourists. Rezidor is the market leader, with more than 800 rooms in four hotels. 12 new projects are in the pipeline, but will likely be postponed due to the current market situation.



Azerbaijan's economy has experienced a slowdown on account of decreasing oil prices, which resulted in manat's devaluation by more than 30% in December 2015. However, the tourism sector still demonstrates significant 10% growth rates, having very substantial visitor inflows from Turkey and Russia. Baku hosted the 1st European Games in June 2015 and will host the European Formula One Grand Prix from 2016 (11,000 visitors are expected for the inaugural event). Rixos and Wyndham have the strongest positions in the country, with more than 900 rooms out of the 3,200 stock. There are 13 branded hotels in Baku, offering 2,600 rooms, while three new properties have been announced under the InterContinental, Kempinski and Staybridge Suites brands.



Georgia has the fastest-growing tourism sector across the region. The sector is the third out of 12 state budget priorities and programmes for 2015 as seen in the state budget. The government supports new development projects and invests in infrastructure, coastline development and a cultural heritage protection programme. Most branded hotels in Georgia are located in Tbilisi and Batumi (nine properties; 1,600 rooms), and in late 2015 the first international brand hotel was opened in Borjomi. The pipeline up to 2020 comprises 14 new hotels, and the total supply is expected to exceed 3,600 rooms.

The remaining five countries of the CIS (Armenia, Belarus, Kyrgyzstan, Tadjikistan and Uzbekistan) account for only 16% of the region's room stock, which comprises 2,360 rooms in 16 properties. Among these countries Armenia and Belarus are worth paying attention to on account of their significant pipeline up until 2020.

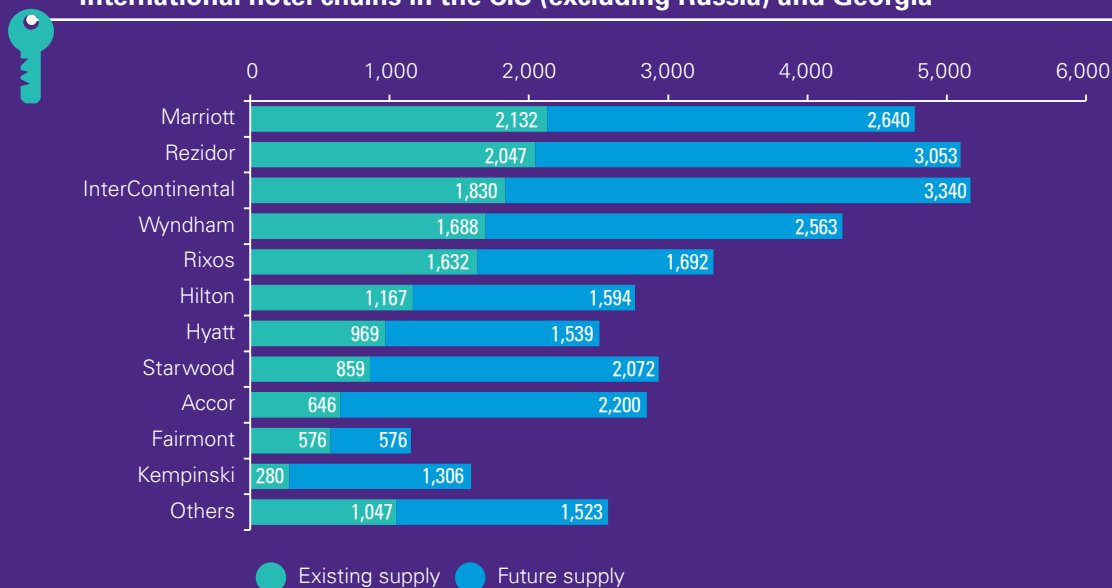


Armenia will host four new hotels, introducing InterContinental, Kempinski, Rezidor and Wyndham. It is interesting to note that if all the announced projects are realised, Armenia will double its branded rooms supply – from 600 in 2015 to approximately 1,200 in 2020.



Belarus has three operating hotels under international brands (Hampton by Hilton, Crowne Plaza and Renaissance) and will increase the stock by 10 new properties by 2020. The room supply will rocket from 500 to 2,000 keys. Accor, Hilton, Rezidor and Wyndham have all announced projects. New hotels will enter the market in Minsk, Brest and Grodno.

International hotel chains in the CIS (excluding Russia) and Georgia



Source: KPMG analysis

Hospitality & Leisure Consulting Services

Implementing hotel construction projects and managing hotel businesses are complex tasks. In addition to finding the correct strategy and position in the market, successful implementation depends on a realistic evaluation of the project's feasibility and careful planning.



Advisory services provided by KPMG for the hospitality and leisure industry

- Hospitality and leisure market analysis
- Analysis of the highest and best use of land plots
- Feasibility analyses in the hospitality and leisure industry
- Business plans for development projects in the hospitality and leisure industry
- Concept development and investment planning for hotel and leisure projects
- Assistance in the raising of finance for hospitality and leisure projects
- Financial model development and review
- Marketing strategy development
- International operator selection and negotiating hotel operating agreements on behalf of clients
- Valuation of existing properties and development projects in the hospitality and leisure industry
- Operational activity and economic feasibility analysis and preparation of optimisation strategies
- "Mystery guest" quality audits
- Financial, legal and tax due diligence
- Financial and tax deal structuring
- Investor searches
- Legal assistance and taxation advisory services

We specialise in the following subsectors:



— Hotel and resort real estate



— Apart-hotels and serviced apartments



— Convention centres



— Fitness centres and spa's



— Ski resorts



— Marinas



— Golf courses



— Theme parks



— Gambling businesses



— Stadiums

Contacts



Sven Osmers
Head of Real Estate Advisory
KPMG in Russia and the CIS
Director
T: +7 (495) 937 44 77
F: +7 (495) 937 44 00
E: svenosmers@kpmg.ru



Svetlana Fonareva
Head of Real Estate Practice
KPMG in Russia and the CIS
Partner
T: +7 (495) 937 44 77
F: +7 (495) 937 44 00
E: sfonareva@kpmg.ru



Olga Fazullina
Hospitality and Leisure
Manager
T: +7 (495) 937 44 77
F: +7 (495) 937 44 00
E: ofazullina@kpmg.ru

www.kpmg.ru



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 JSC "KPMG," a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International Cooperative ("KPMG International").