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# GAIN Report

Global Agricultural Information Network

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## Russian Federation

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### **Growing Hotel Sector Expands Opportunities for US Food**

**Report Categories:**

Agricultural Situation

Agriculture in the News

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**Report Highlights:**

Investment in hotels in Russia has been very attractive in recent years driven by limited supply of quality lodging facilities, low overall competition, gradually improving business climate, and growing domestic and foreign travel volumes. Luxury hotels represent the best opportunity for selling American food products to hotels. Hotel restaurants operate like other restaurants and purchase items through distributors. U.S.-origin meat, fish, wine, spirits, and fruits are some of the better prospects for this segment once market access is restored.

**General Information:**

Investment in hotels in Russia has been very attractive in recent years 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 hotels in regional cities of Russia due mainly attributable to the large-scale international events taking place in Russia such as the UPEC Summit in Vladivostok in 2013, World Summer University sport games in Kazan in 2013, Winter Olympics in Sochi in 2014, Race Formula 1 in Sochi in 2014, and FIFA World Cup in Russia in 2018. Before the recent devaluation of the Russian ruble and news of contracting economic indicators were announced, it was estimated that by 2017, the number of hotels under international management will increase by 157 new operators (32,000 rooms). If true, the number of hotels under international management in Russia will amount to 257 hotels (56,825 rooms) located in more than 50 Russian towns and cities.

According to Russia’s State Statistics Service (Rosstat), Russia had 9,316 functioning hotels able to accommodate 618,000 guests at the beginning of 2013. Almost 7 % (40,058) of hotel rooms are in Moscow, 16% (91,681) are in Russia’s popular Black Sea resort area Sochi, and 4.5% (25,370) are in St. Petersburg.

**Table 1. Russia: Hotel Industry Sales in Russia, 2009-2013**

	2009	2010	2011	2012	2013
Rublesags, billions	98.3	115.6	137.2	161.8	260
Growth Year on Year, %		17.6	18.7	17.9	60.7
Average exchange rates by years	31.72	30.36	29.35	31.07	31.82
Number of hotels in Russia	6,774	7,410	7,866	8,406	9,316

Source: Federal State Statistics Service

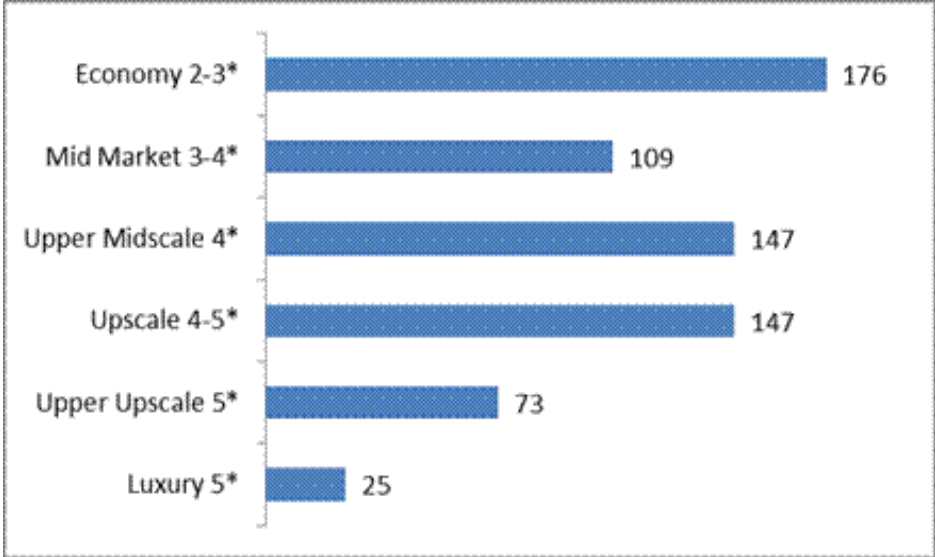
More than 50 new hotels under western brands have been built across Russia in 2014 with many in St. Petersburg and major regional capitals. More than 11,100 rooms will be opened in new international hotels across the Russia by the end of 2014. Hilton Worldwide is the most active on Russian hotel market and has opened more than 3,000 rooms this year.

Market analysts have stated that roughly 28 million foreign tourists visited Russia in 2013 with the vast majority heading for Saint-Petersburg (90 percent of this amount). In 2014, the tourist flow to Russia reduced by 30-50 percent compared to 2013 due mostly to the tensions in the region. As a result, profitability of Moscow Western style hotels in the first 3 quarters of 2014 fell by 18 percent in dollars compared with the same period last year. Profitability of St. Petersburg hotels fell only on 9.5% for the same period due to high tourist interest to the city.

There are usually two restaurants in four-star hotels and three restaurants in five-star hotels. According to industry sources, tourists often eat breakfast and dinner in their hotel, but they eat lunch in the city. In an attempt to attract more of the tourist industry, hotels are offering special catering services for different events. On average, room rentals account for 70 percent of hotel income, services account for 10 percent, and food and beverages account for 20 percent.

Luxury hotels represent the best opportunity for selling American products to hotels. Other sub-categories usually have very limited foodservice offerings. Hotel restaurants operate like other restaurants and purchase items through distributors. American meat, fish, wine, spirits, and fruit are some of the better prospects for this segment.

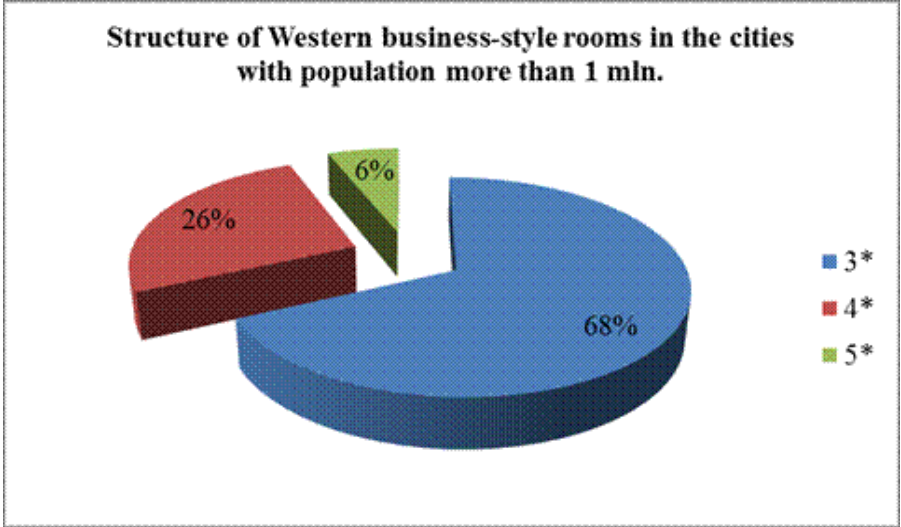
**Figure 1. Russia: Number of Certified Hotels in Russia, 2014**



Source: STR Global

Russia’s hotel industry is facing a room shortage. GVA Sawyer estimates that there are currently only 55,000 Western business-style hotel rooms available. In fact, most existing three, four and five-star hotels in Moscow and St. Petersburg were built during the last decade. As a result, Moscow currently has 20,800 Western business-style hotel rooms, and St. Petersburg has 15,530.

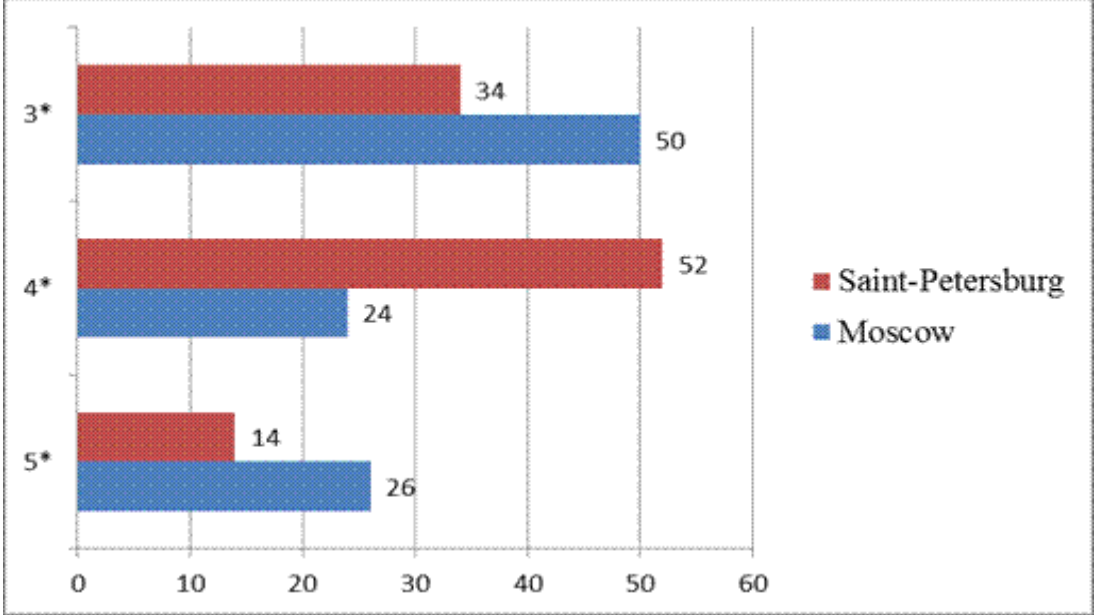
**Figure 2. Russia: Structure of Western Style Rooms**



Source: GVA Sawyer, 2013

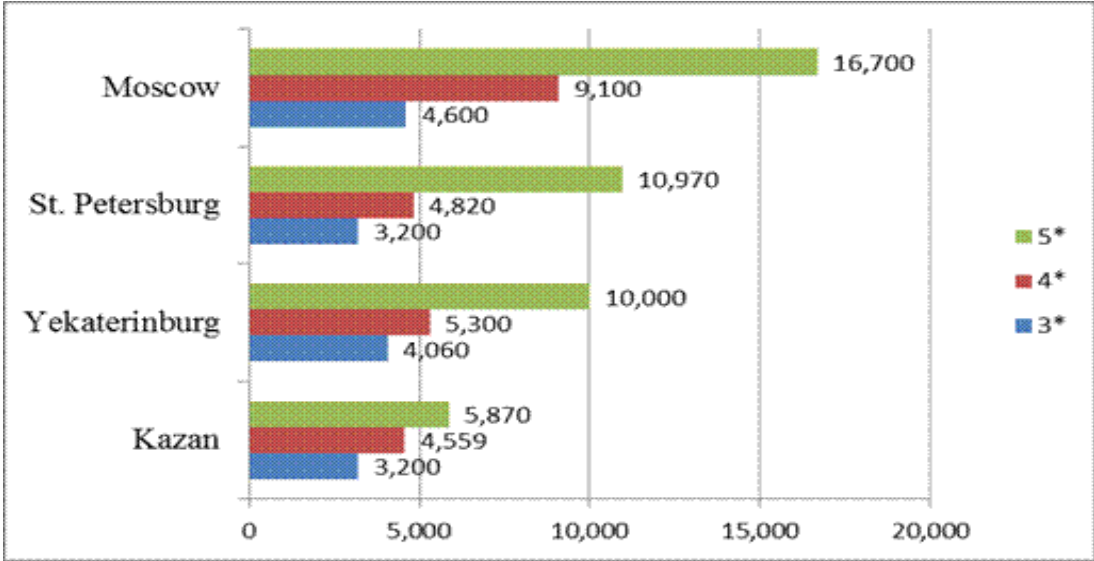
Moscow is one of the largest cities in Europe and remains the country’s main city for hotel development. According to Federal State Statistics Bureau as of the end 2014 about 230 hotels were operating in Moscow with approximately 105,000 rooms, 30 percent of which are 5 and 4 stars hotels.

**Figure 3. Russia: Structure of Western Business-style Rooms in the Mega Cities, %, 2014**



Source: GVA Sawyer, Industry Data, Cushman & Wakefield

**Figure 4. Russia: Cost Per Room Per Night in 2013, Rubles**

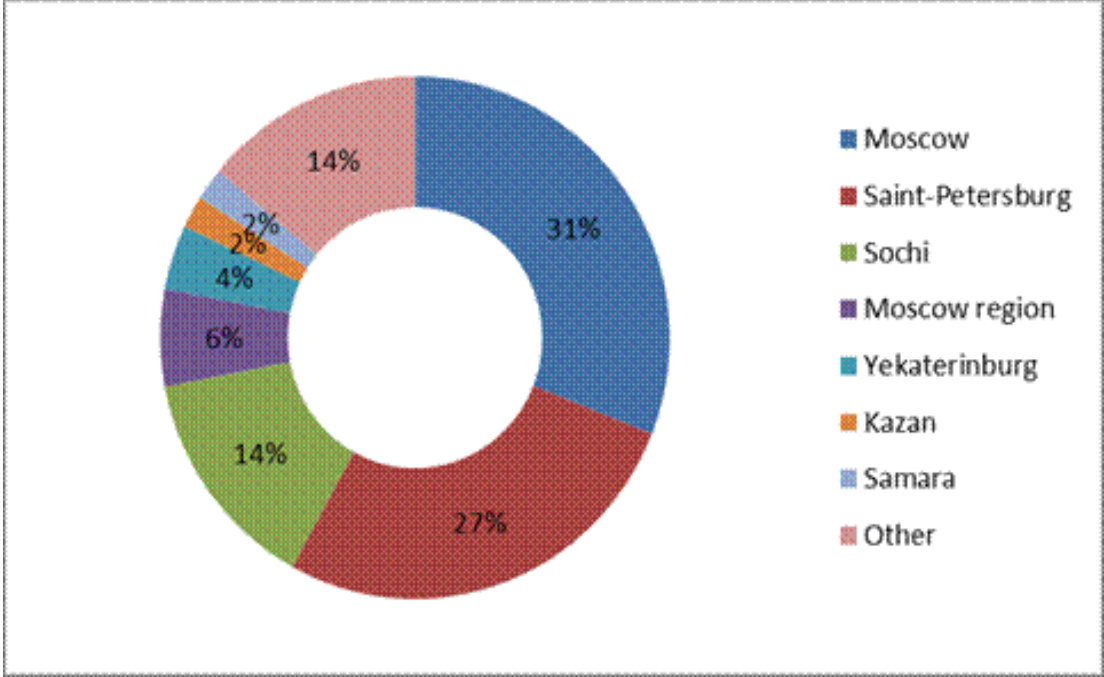


Source: GVA Sawyer

Since 1991 Russia has seen the emergence of more international brands and there remains further opportunity for investment in the hotel sector across all categories. Moscow and St Petersburg alone

account for around 25% of the country’s hotel capacity. While the high-end sector is close to saturation, there is a strong demand for midlevel hotel rooms. The highest level of unfulfilled demand is for quality three star and economy hotels.

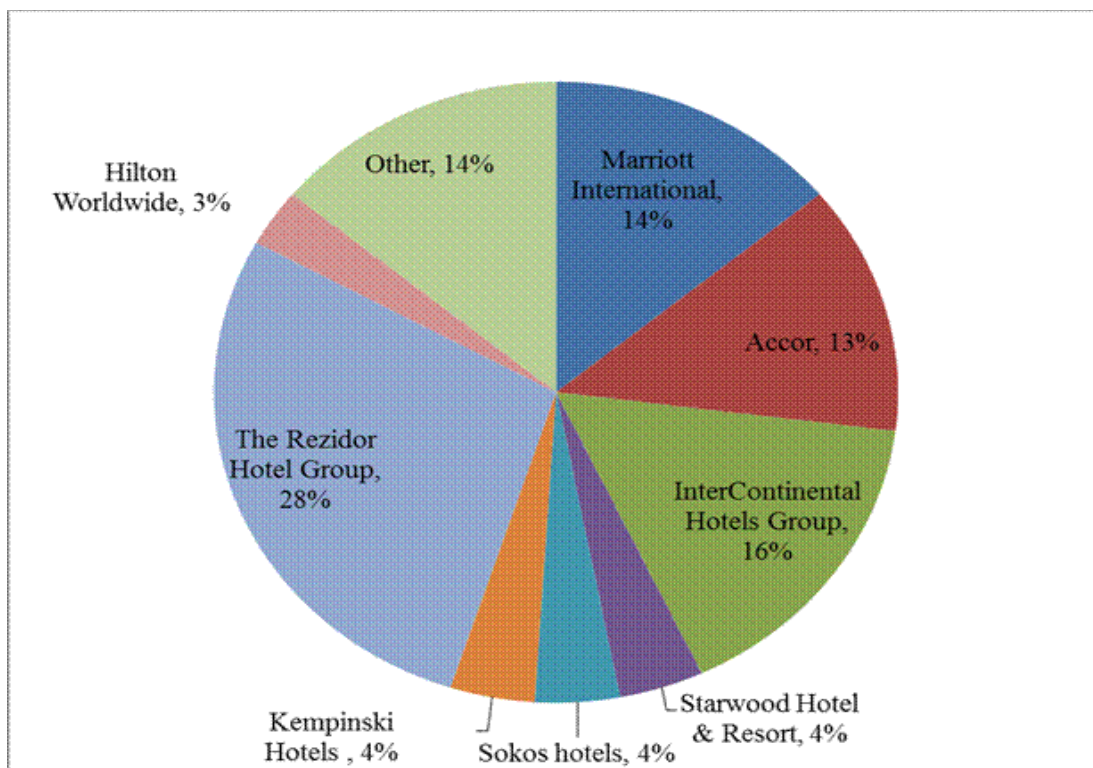
**Figure 5. Russia: Room Supply with International Brands in Russian Regions, June 2014**



Source: Ernst & Young (CIS) B.V.

The regions outside of Moscow and St. Petersburg represent a small fraction of the travel industry, but some areas such as Sochi, Rostov-on-Don and Vladivostok are growing quickly. Yekaterinburg, Novosibirsk, Nizhny Novgorod, Krasnoyarsk, Kaliningrad, and Kazan are other regions where travel and tourism are growing, particularly for business travel. International operators, such as Hilton Worldwide, the Rezidor Hotel Group, Marriott International, and Accor have built two-three new hotels in cities with populations over one million in the last five years. Major hotel chains are opening facilities in the regions. The Rezidor Hotel Group (including Radisson and Park Inn brands) is currently targeting some 35 key cities in Russia with a population of 500,000 and above to further develop its portfolio of hotels and brands.

**Figure 6. Russia: Current Room Supply with International Brands in Russia, 2014**



Source: Ernst & Young (CIS) B.V.

**Table 2. Russia: International Hotel Brands in Russia 2014**

Hotel Operator	Hotel Brands	Locations	First year of operation in Russia	Opening in 2014
Fairmont-Raffles Hotels International	Swissotel	Moscow Kazan Sochi	2005	
Marriott International	Marriott Courtyard Ritz Carlton Renaissance	Moscow Samara St. Petersburg Irkutsk Kazan Krasnodar Krasnoyarsk Novosibirsk Omsk Voronezh	1991	1,009
Hyatt Hotels Corporation	Ararat Park Hyatt Hyatt Regency	Moscow Yekaterinburg Rostov on Don Vladivostok	2002	660
InterContinental Hotels Group	Crown Plaza InterContinental	Moscow Samara	1998	786

	Holiday Inn	Chelyabinsk St. Petersburg Naberezhnye Chelny Samara Voronezh		
Starwood Hotel & Resort	Sheraton	Moscow Kaluga Rostov on Don	1997	479
Best Western International	Art-Hotel 4*	Moscow St.Petersburg	2005	
Kempinski Hotels	Kempinski	Moscow St.Petersburg Gelendzhik	1992	
Accor Group	Novotel Mercure Ibis	Moscow St.Petersburg Yekaterinburg Sochi Nizhniy Novgorod Kaliningrad Kazan Samara Omsk Yaroslavl Lipetsk Rostov on Don Tyumen	1992	871
The Rezidor Hotel Group	Radisson Park Inn	Moscow Sochi St.Petersburg Kaliningrad Rostov on Don Astrakhan Yekaterinburg Izhevsk Kazan Murmansk Velikiy Novgorod Chelyabinsk Lipetsk Nizhniy Novgorod Novokuznetsk Novosibirsk Sochi Volgograd Voronezh	1991	2,251
Small Luxury Hotels of the World	Savoy	Moscow	2003	

Hilton Worldwide	Hilton Hilton Garden Inn Double Tree by Hilton	Moscow Krasnodar Perm Novosibirsk Kaluga Samara Kirov Krasnoyarsk Omsk Perm Sochi St.Petersburg Volgograd Yaroslavl	1997	3,142
Four Seasons Hotels & Resort	Four Seasons	St. Petersburg Moscow	2013	180

**Source:** Industry Data, Ernst & Young (CIS) B.V.

In 2013, 16 hotels managed by international operators were opened in Sochi before the XXII Sochi Winter Olympic Games on February 7-23, 2014, and the XI Winter Para Olympic Games on March 7-16, 2014. In 2013, Four Seasons opened its first Russian hotel, transforming a 19th-century palace apartment building in St. Petersburg. A second Four Seasons Hotel opened near Moscow's Kremlin this October.

City highlighted by green color in the table above show where the hotels have opened in 2014. Hotel projects usually have a four to five-year development cycle, so international hotel operators are building hotels before upcoming events in the Russian regional centers. The following events are planned for the near future: the 16<sup>th</sup> FINA World Championships in Kazan from 24 July to 9 August 2015 and the 2018 FIFA World Cup. Matches are to be held in 11 cities, including Moscow, St. Petersburg, Kaliningrad, Kazan, Yaroslavl, Nizhny Novgorod, Samara, Saransk, Rostov-on-Don, Volgograd, and Sochi. According to the requirements of FIFA World Cup, an increase of the hotel room capacity is needed in selected cities in order to host the World Cup. 2015 World Aquatics Championship competitions will be held in facilities built for 2013 Summer University, also hosted by Kazan. Ten thousand hotel beds, including hotels with western brands, are available in Kazan now.