real estate BLACKWOOD


# COMMERCIAL REAL ESTATE MARKET OVERVIEW

## Q1 2010

## CONTENT

**Summary**

330 thous. sq. m. of office space were commissioned in the office real estate market in Q1 2010. 40% of this space was class A, 60% was class B. Therefore, the overall supply of good quality office space in new and reconstructed class A and B buildings is estimated at 10,4 mln. sq. m. as of the end of Q1 2010.

The absorption rates of quality office space are still lower than the delivery rates of new supply and, considering the vacant office space which came into the market in 2009, the vacancy rates remain quite high.

The main trends of the office market are still influenced by the crisis: several developers amended their plans, put their projects on hold or changed characteristics of their office projects in the pipeline. However, the office real estate market saw the first signs of recovery in Q1 2010.

Price indexes in the office real estate market remained stable throughout Q1 2010. There were some minor fluctuations of rental rates and sale prices in some office centers and business areas.

Blackwood's analysts expect the main trends observed in the market over the last months to remain in force. Despite the market recovery after stagnation in H1 2009, the main market trends are still influenced by the crisis.

As far as the price situation is concerned, it is likely to remain stable in H1 2010, minor fluctuations in some business areas are possible.

30,000 sq. m. of space came into the retail market in 2010 as the Rechnoy retail center was launched in Festivalnaya Street. Therefore, the aggregate area of professional retail centers in Moscow amounted to 4,93 mln. sq. m., the leasable area being 2,6 mln. sq. m. as of the end of Q1 2010. As of April 2010, there were 249 sq. m. of retail space per 1,000 people in Moscow. By the end of 2010, 10 malls are scheduled to open in Moscow with a total area of approx 1,5 mln. sq. m.

*In Q1 2010, demand* on the part of *retail operators continued to recover which resulted in declining vacancy rates and stabilization of rental rates. The rental rates in some shopping centers and retail corridors increased gradually.*

Another important trend was retail turnover growth which began in Q4 2009 and continued in Q1 2010. We can expect that gradual growth of consumer spending will lead to the growth in the retail turnover which will help the retail real estate market to recover.

Two four-star hotels, the Garden Ring and the Aquamarine, were commissioned in Moscow in Q1 2010 adding 243 rooms to the hotel market. Therefore, the number of rooms in four-star hotels today exceeds 7,200. Five hotels operated by international companies are expected to open in Moscow in 2010. Therefore, the hotel market, especially its high-budget segment, will acquire 1,500 rooms in 2010.

Demand for accomodation services stabilized in Q1 2010: occupancy rates in the medium and prime market segments showed some growth and stopped falling in the low-budget segment. Still, the occupancy rates in all the segments of the hotel market remain at an extremely low level.

Accomodation costs continue to decline across all the segments of the hotel market: ADR in the low-budget segment decreased by 28% and by 14% in the upmarket segment. A positive trend was deceleration of this decline which, together with the stabilization of occupancy rates, resulted in the deceleration of decline in RevPAR.

Considering the seasonality factor, the hotel market indexes are expected to grow only in autumn 2010, whilst the occupancy rates, ADR and RevPAR are likely to remain at the level of Q4 2009 – Q1 2010 in Q2 and Q3 2010.

## Supply

330 thous. sq. m. of office space were commissioned in the office real estate market in Q1 2010. 40% of this space was class A, 60% was class B. Therefore, the overall supply of good quality office space in new and reconstructed class A and B buildings is estimated at 10,4 mln. sq. m. as of the end of Q1 2010.

The absorption rates of quality office space are still lower than the delivery rates of new supply and, considering the vacant office space which came into the market in 2009, the vacancy rates remain quite high. Thus, the vacancy rates in class A offices reach 22% and in class B offices – 24-26% as of the end of Q1 2010. Most vacant offices, including new business centers delivered over the last eighteen months, are offered in the shell&core state. Besides, high vacancy rates are observed in office centers located outside of the Third Transport Ring and near MKAD.

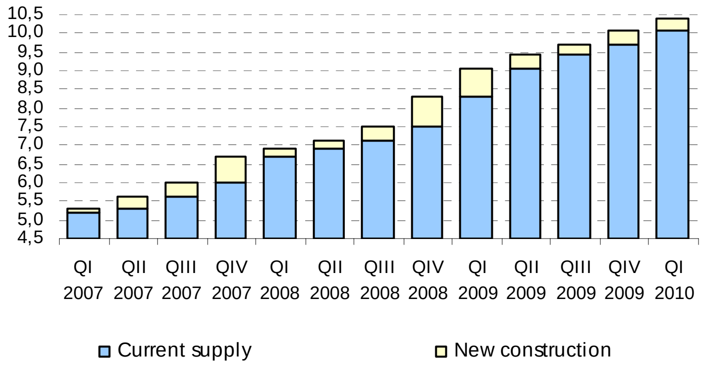
The main trends of the office market are still influenced by the crisis: several developers amended their plans, put their projects on hold or changed characteristics of their office projects in the pipeline. However, the office real estate market saw the first signs of recovery in Q1 2010:

⇒ AFI Development recommenced construction of the business park in Paveletskaya Embankment;

⇒ Forum Properties managed to restructure its $150 million credit with Alfa Bank and thus avoided losing the Hermitage Plaza BC which served as collateral for this credit;

⇒ Three major projects in the Moscow City IBC would be resumed: the first stage of the City Palace complex (the shopping center on the plot №2-3, Snegiri and Inteco companies are investors), the transport terminal with a hotel on the plot №11 (Citer Invest B.V is its investor) and the Eurasia Tower (MCG is its investor);

**Supply volume dynamics, mln. sq. m**




*Source: Blackwood research*

⇒ Mirax Group said that the East Tower in the Federation Complex will measure 97 floors as originally planned (negotiations regarding bank financing are underway).

⇒ MR Group announced its plans to implement residential and office projects with an overall area of approx 2,5 mln. sq. m. in Moscow Region including the first phases of the complexes in the Golovinskoe Highway (A class, the first phase is 130 thous. sq. m.), Skladochnaya Street (B class, the first phase is 69 thous. sq. m.) as well as projects of the Novodanilovsky and Novotikhvinsky Business Centers.

### Major projects announced in Q1 2010 г.

| Developer/ Investor | Name/class | Address | Space, sq. m |
|---|---|---|---|
| MR Group | Multifunctional complex, «A» class | Golovinskoe sh., d. 5 | 1-я очередь, 130 000, офисы 55 000 |
| MR Group | Business centre, «B» class | Skladochnaya ul., vl. 1 | 1-я очередь, 69 000 |
| MR Group | Novodanilovskii, «B» | Novodanilovskaya nab., vl. 6 | 39 740 |
| Race Communications | Country park - 3, «A» | Int. of MKAD and Leningradskogo sh. | 27 800 |
| «Argamant» ( «Tema») | Multifunctional complex | Volokolamskoe sh. | 114 000 (офисы 56 000) |

*Source: Blackwood research*

## Demand

Decrease in demand and changes in structure reflect the negative impact of the crisis: the main demand trends governing the market over the last one year and a half – two years remained valid in Q1 2010.

The incoming requests in Q1 2010 were distributed in the following way: 70% of the requests were for lease and 30% - for purchase of office premises, 10% more than last year.

As far as the demand for lease of office premises in terms of class is concerned, B- and C class offices enjoyed the highest popularity. The share of A class offices rose from 13% in Q1 2009 to 19% in Q1 2010.

As far as the pattern of demand for lease of office premises in terms of size goes, the market saw minor changes: the share of requests for the smallest blocks declined (versus Q1 2009 and Q4 2009). Still, the most sought-after are office blocks measuring 501-1,500 sq. m.

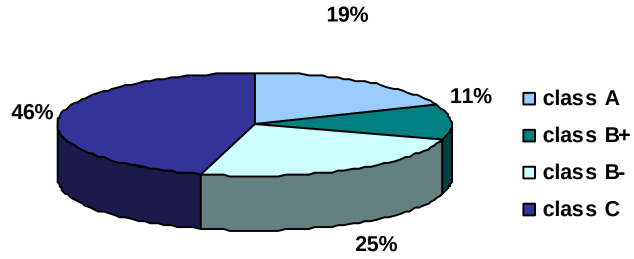
In the pattern of demand for purchase of office space, B-offices are again the most popular but their share dropped 31%. It shows that now people are more interested in quality space as the asking price begins to match expectations of potential buyers.

As far as demand for purchase of quality office premises in terms of size is concerned, the biggest office blocks are, as in 2009, the most sought-after.

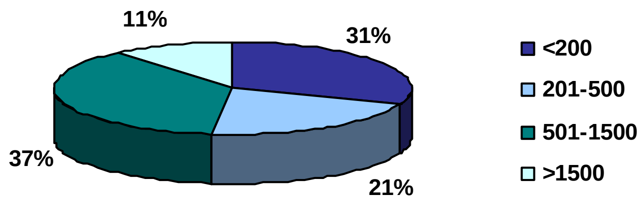
Therefore, we see that the main demand trends in the office real estate market in H2 2009 remain in force in Q1 2010:

- demand for lease and sale of office space is still below the pre-crisis level; the absorption rates don't exceed the delivery rates of new office complexes;
- the average leasable area decreased considerably;
- on average, lease agreements are made for 3-5 years;
- demand for non-investment purchase of office space is growing (main buyers are banks and state corporations).

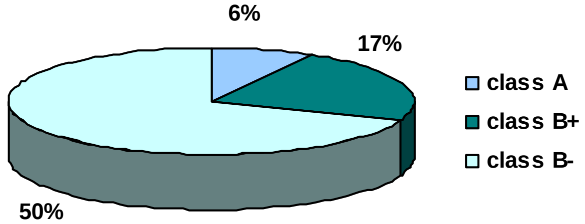
**Office premises demand pattern with breakdown by building class. Rent**



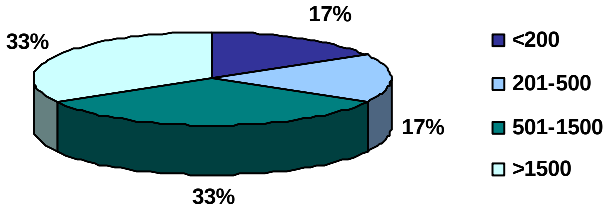

**Office premises demand pattern with breakdown by metric space. Rent**




**Pattern of office premises purchase demand with breakdown by building class**




**Pattern of office premises purchase demand with breakdown by metric space**




*Source: requests to Blackwood in Q1 2010*

## Rental rates and sales prices

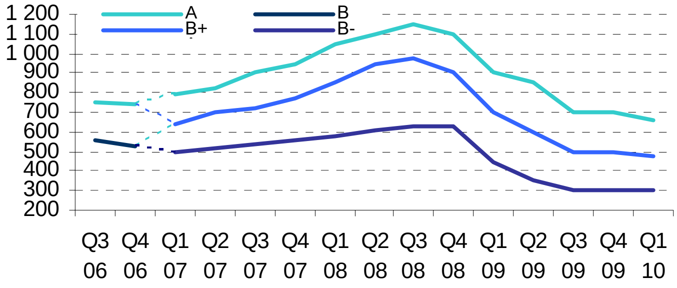
Price indexes in the office real estate market remained stable throughout Q1 2010. There were some minor fluctuations of rental rates and sale prices in some office centers and business areas.

As of the end of Q1 2010, rents for class A offices vary between $450-$800 per sq. m. per year, the average rent in B+ offices varies between $350 and $550 per sq. m. per year and in class B- offices - between $200-$400 per sq. m. per year (exclusive of VAT and OPEX). Operation expenses amounted to $75–$110 per sq. m. per year in class A offices, $50-$90 in class B+ offices and $35-$60 in class B- offices.

As for sales prices, prices of class A offices vary between $3,000 and $9,000 per sq. m., prices of B+ class offices are between $2,500-$7,000 per sq. m. and prices of B- offices are between $1,500-$4,000 per sq. m.

Still, many tenants and buyers try to negotiate for a good price but seeing high demand for quality office space, landlords are reluctant to give discounts and expect the prices to grow soon.

**Office space weighted average rental rates dynamics, $/ sq. m**




*Source: Blackwood research*

Our estimates imply that most transactions in Q1 2010 were made within the following price range:

Lease: class A - $450-$700, class B - $250-$450 per sq. m. per year:

Purchase: class A - $3,000-$5,000, class B - $1,500-$2,500 per sq. m.

## Landmark events and transactions of Q1 2010

**Some transactions made in Q1 2010**

| Buyer/Tenant | Object/class | Space, sq. m | Address | Transaction type |
|---|---|---|---|---|
| Lukoil | «Ulanskii», «B» | 7 200 | Ulanskii per. | building acquisition |
| «Sogaz» | «Volna», «A» | 19 200 | Ak. Saharava prosp., 10 | building acquisition |
| «Progress-kapital» (former shareholders «Lebedyanskii») | Business Centre, «A» class | 8 000 | Sadovnicheskaya ul., 79 | building acquisition |
| «Finam» | Business Centre,«B» class | 7 500 | Nastas'inskii per. | building acquisition |
| Russian invest fund* | Multifunctional complex, «A» class | 3 200 | ul. B.Yakimanka | building acquisition |
| Deutsche Bank | Nord Star Tower, «A» | 7 000 | Begovaya, d. 3 | Lease |
| OOO «Energostrim» | «Alekseevskii dom», «A» | 1 539 | ul. Ostozhenka, 28 | Lease |
| Paolo Conte | «Korpus Knopa», 2 phase, «B+» | 1 504 | Varshavskoe shosse, d. 9, str. 1B | Lease |
| OAO «Severstal'» | «Diagonal' Haus», «A» | 1 709 | Butyrskaya ul. | Lease |
| Hannes Snellman | Etmia, «A» | 508 | ul. Schepkina, 33 | Lease |
| Norton Rose | White Square, «A» | 1 400 | ul. Leskova | Lease |
| Avon | «F'yuzhn_Park», «A» | 4 861 | ul. Usacheva | Lease |
| ZAO «Grinatom» | «Novospasskii dvor», «B» | 4 034 | Derbenevskaya nab. | Lease |
| EMCG (Eurasia Marketing Communication Group) | «Apel'sin» | 2 700 | Stolyarnyi per. | Lease |
| Cosmetics Producer* | Business Centre,«B» class | 900 | Derbenevskaya nab. | Lease |
| Raw materials company * | Business Centre, «A» class | 1 500 | Taganskaya ul. | Lease |

*** - Blackwood transaction**

*Source: Blackwood research*

A lot of sale and lease transactions were signed in the office market in Q1 2010. Still, tenants aim at leasing smaller space for a shorter period of time.

Instead of signing long-term lease agreements, many companies prefer to buy a building for their own purposes. We saw several such deals in Q1 2010, and the average acquired area is considerably bigger than the average leasable area in the long-term lease transactions signed over the same period.

## Landmark events and transactions of Q1 2010 (continuation)

The market saw no classical investment transactions in Q1 2010.

All in all, the office real estate market trends didn't undergo any changes in Q1 2010. Despite some buoyancy in the developer market in spring, some negative trends remain in force.

- *Major banks continue to consolidate pledged office assets.*

⇒ Sberbank acquired two huge assets:

⇒ the Nordstar Tower BC (142 thous. sq. m., owned by DS Development) and

⇒ 50,01% in the Crystal Towers office center (a complex project measuring 168,000 sq. m. near Ul. 1905 goda metro station) owned by Coalco Development;

- *Companies reconsider their development strategies and change concepts of perspective and current projects:*

⇒ the implementation of one of the biggest infrastructure facilities of the Moscow City IBC project - a multifunctional terminal complex on the 11th land plot measuring 228,000 sq. m. is rescheduled from 2011 to late 2015;

⇒ Instead of developing a class A business complex in the territory of fat-yielding plants in the Big City measuring 160,000 sq. m. (Buket Group of Companies is the developer), it was decided to build an apartment complex with a parking lot cutting the office part to 20 thous. sq. m.

## Forecast

Blackwood's analysts expect that the main trends observed in the market over the last months will remain in force. Despite signs of recovery after stagnation in H1 2009, the main market trends are still influenced by the crisis.

As far as prices are concerned, they will remain stable, minor fluctuations of rental rates and sale prices in some business areas are possible.

We don't see any reason for active growth of the rental rates and sale prices: the share of vacant supply remains still extremely high (approx 2 mln. sq. m.) as the office space absorption rates are rather slow.

People will be most interested in the best in class projects, ready to move in, with a carefully elaborated concept, in prime location. These properties will be sold or rented first which will result in the growth of the rents and sale prices in this segment of the supply. In prime areas, the prices of high-quality office premises are already growing.

The share of preliminary agreements for space in office centers under construction will remain minimal.

Shell&core premises located outside of the city center, especially class B- offices, will be the least popular.

600-700 thous. sq. m. of office space will come into the market in 2010.

## Supply

The Rechnoy retail center located in Festivalnaya Street was launched in Q1 2010. Its developer is Capital Group. The total area of the project is 30,000 sq. m. and the retail part amounts to 20,000 sq. m. The anchor tenants include a Perekrestok supermarket, an M.Video household goods and appliances store and a Detsky Mir children's toy store.

Therefore, the aggregate area of professional retail centers in Moscow amounted to 4,93 mln. sq. m., the leasable area being 2,6 mln. sq. m. as of the end of Q1 2010. As of April 2010, there were 249 sq. m. of retail space per 1,000 people in Moscow.

The growth of supply in Q1 2010 was extremely slow in comparison with the corresponding periods of 2008-2009. It is explained by the fact that 2008 and especially Q1 2009 saw delivery of projects initially expected in 2007 and 2008 respectively and whose opening had been rescheduled due to a number of reasons. There was no such boom of new projects expected in 2009.

The Mall Russia in the Moscow City IBC will be opened in autumn 2010 instead of April 2010, this measure will help cut the vacancy rate in the complex and avoid summer stagnation when the turnover of tenants goes down as consumers spend less.

Tashir Group announced implementation of a new retail center with a total area of 76,000 sq. m. in Moscow, at the intersection of Leninsky Prospect and Obrucheva Street. The delivery is scheduled for in Q4 2011. This is the first major professional retail center announced in Moscow since the beginning of the financial crisis.

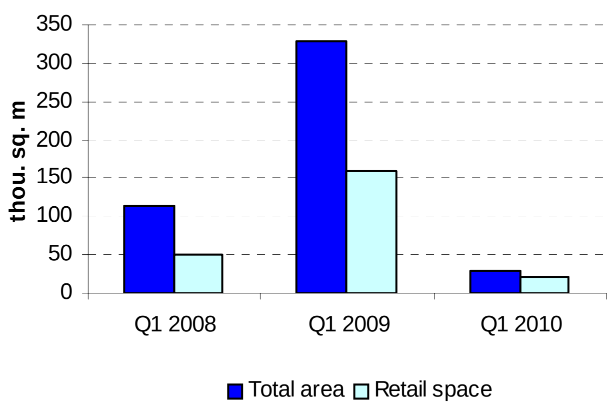
Speaking about new quality supply expected in the retail market in 2010, developers say that approx 10 malls with a total area of approx 1,5 mln. sq. m. will be commissioned in Moscow by the end of 2010.

**Major professional retail centers scheduled for commissioning in 2010**

| Name | Address | Total area, sq. m |
|---|---|---|
| Vegas | MKAD / Kashirskoe highway | 390 000 |
| River Mall | Avtozavodskaya str., 16 | 258 000 |
| Gagarinsky | Vavilova ul., 3 | 202 000 |
| Mall Russia | MMBC «Moscow City» | 179 000 |
| Rio Reutov | MKAD, 2 km | 170 000 |
| Gudzon | Kashirskoe highway, 12 | 145 000 |
| Paveletsky | Paveletsky railway station sqr. | 117 000 |
| Severnoe Chertanovo | Severnoe Chertanovo mkr., 1 | 35 000 |
| Viva | Polyany str., 8 | 32 000 |
| Tsentralny rinok | Tsvetnoy Bulvar str., 15 | 25 000 |

*Source: Blackwood research*

**New quality supply increase in the retail market, Q1 2008 - Q1 2010, Moscow**




*Source: Blackwood research*

## Demand

*In Q1 2010, demand* on the part of *retail operators continued to recover which resulted in declining vacancy rates and stabilization of rental rates, it can be observed most clearly in the street retail segment where supply is limited, especially in prestigious retail corridors. The vacancy rates in the main trade streets decreased by 5-10% in comparison with Q1 2009.*

Another important trend was retail turnover growth which began in Q4 2009 and continued in Q1 2010. Thus, according to the State Statistics Service of Mos-

**Demand**

cow, the growth in the retail turnover in January-February exceeded last year's index by 2,7%. We can expect that gradual growth of consumer spending will lead to the growth in the retail turnover which will help the retail real estate market to recover. However, it's too early to expect that this growth will be supported by the *growth* of *consumer credit. It will take a long time to reach the pre-crisis figures.*

Speaking about retailers, first of all, we should say that Carrefour, the world's second largest retailer, closed its two Russian hypermarkets. In 2009 Carrefour decided to abandon the Russian market but contemplated maintaining its presence in the market by selling franchises. Still, since the company managed to open only two hypermarkets and this brand is not well-known in this country, its business generated little interest among local and international market players.

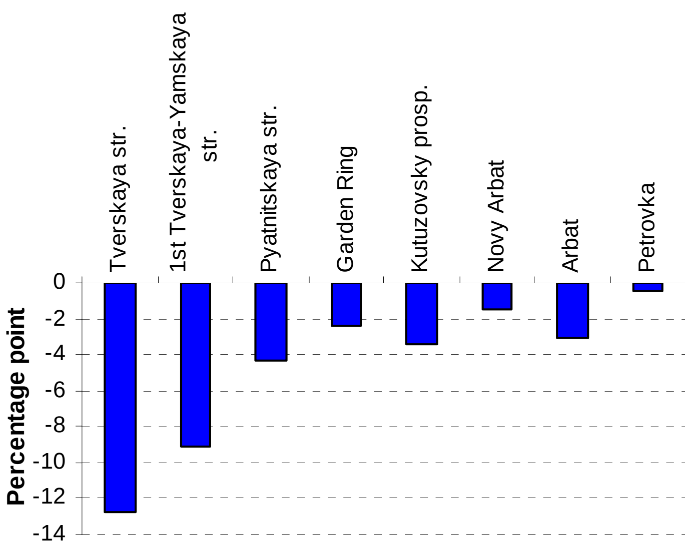
In Q1 2010 the Mir *chain*, which sells consumer *electronics* and *home appliances*, will close its retail outlets in Moscow and will focus on stores in regional cities instead.

Still, major international retailers show high interest in the Moscow market and in the Russian market in general. Thus, Burger King, the world's second-largest hamburger chain, finally opened its first Russian outlets earlier this year. In April, Japanese clothier Uniqlo (the mid-range price segment) opened its first store in the Atrium retail center.

*Besides,* Finnish Kesko Company announced its plans to develop K-Rauta DIY-hypermarkets in Moscow. Today there're 9 hypermarkets of the chain in St. Petersburg and 1 hypermarket in Tula. We can expect that the Finnish chain will enjoy high popularity in Moscow due to low competition among DIY hypermarkets: among major international companies are OBI, Leroy Merlin and Castorama. Besides, prices of land plots for construction have gone down, which can facilitate the company's plans.

All in all, the current state in the retail market confirms the forecast made in the beginning of the crisis: the least stable and successful companies abandon the market while big chains with aggressive expansion plans make a bad *economic situation* work to their advantage and gain highly profitable market shares.

**Vacancy rate decrease in main retail corridors, Q1 2009 - Q1 2010, Moscow**




*Source: Blackwood research*

**Rental rates**

In Q1 2010 rental rates in shopping malls and in the street retail segment remained stable and even showed gradual growth in some retail centers and trade corridors.

As far as professional retail centers under construction are concerned, landlords are willing to make concessions and give discounts to tenants. The amount depends upon the negotiation strength of the tenant and its brand awareness. The rental rates dynamics in operating malls depends upon the *mall's popularity* among shoppers and its attendance. The rents in the popular shopping centers are stable and are likely to grow if the retailers' activity intensifies, while in less popular retail centers, the rents remain at the level reached during the crisis and are likely to decrease, especially if new professional shopping malls with a well elaborated concept come to the market.

## Street retail segment

The street retail segment shows gradual growth. In Q1 2010, the rents increased in all the shopping streets, except for *First* Tverskaya Yamskaya Street, the Garden Ring and Novy Arbat. In early 2009, the street retail hadn't yet seen the highest rental rate decline. If we compare the average asking rents in the segment in Q1 2010 and the end of Q2 2009 – the beginning of Q3 2009, when the crisis reached its peak, the growth in all the shopping corridors will be evident.

Now more and more landlords are offering their space at high rental rates which shows their positive sentiment regarding the future rental rate growth. It also proves burgeoning *demand* from *retailers.*

Early this year, there was a large amount of vacant space available for lease in Novy Arbat. The premises vacated in 2009 which had been previously leased to gambling establishments don't enjoy popularity, and it doesn't happen only because of the crisis impact. This retail corridor was formed in the late 1990s – early 2000s and today many premises are outdated and need a new concept. Since pedestrian flows in Novy Arbat are smaller than in other retail corridor, we can assume that the occupancy rates may be raised if, instead of the retail segment, the entertainment (especially on the uneven side of the street) and public catering segments. From the retail point of view, the share of the upper price segment may be increased. Some premises may be leased to client banking offices and other service companies.

We see a similar picture in the Garden Ring: a specific pool of tenants, a *lack of rental growth and minor changes in the vacancy rates both in the beginning of the crisis and in the beginning of the market recovery show that this corridor targets small offices (mainly, bank branches) and public catering facilities rather than retail.*

**Vacancy rate and rental rates in Moscow retail corridors, Q1 2010**

| Retail corridor | Vacancy rate, % | Rental rate, $ / sq. m |
|---|---|---|
| Tverskaya | 1,8 | 3 450 - 4 850 |
| 1st Tverskaya-Yamskaya | 2,5 | 950 - 1 200 |
| Arbat | 2,7 | 1 300 - 2 240 |
| Novy Arbat | 9,3 | 800 - 2 130 |
| Pyatnitskaya | 5,5 | 1 250 - 2 100 |
| Petrovka | 1,2 | 2 250 - 2 900 |
| Garden Ring | 4,1 | 850 - 2 350 |
| Kutuzovsky prospekt | 3,7 | 1 000 - 2 250 |

*Source: Blackwood research*

## Forecast

The gradual growth of consumer spending which started in Q4 2009 – Q1 2010 will lead to the growth in the retail turnover which will enable them to become more active in the retail real estate market.

Consequently, the developers, both those of them who have retail centers under construction and projects in the pipeline, will also intensify their activity.

As far as the rental rates are concerned, we can expect that the market recovery will be slow considering the amount of supply which is supposed to be delivered in 2010 (over 1 mln. sq. m.). The newly opened malls are likely to decrease the average rental rates and raise the vacancy rates.

## Supply

Two four-star hotels, the Garden Ring (84 rooms) and the Aquamarine (159 rooms), were commissioned in Moscow in Q1 2010 adding 243 rooms to the hotel market. Both high-end hotels are operated by independent companies. The rack rate for a standard double room is over 300 euro (including breakfast and VAT). Therefore, the number of rooms in four-star hotels today exceeds 7,200.

According to developers and operating companies, five hotels operated by international companies are expected to open in Moscow in 2010: the Renaissance Monarch Center, the Radisson Royal Hotel, the Lotte Hotel, the InterContinental Moscow Tverskaya and the Courtyard Marriott Paveletskaya. Therefore, the hotel market, especially its high-budget segment, will acquire 1,500 rooms in 2010.

So we see that the supply deficit in the low and *mid-range price segments will remain and, consequently, the accomodation costs will grow provided demand for accommodations services recovers. All these factors will* have a fairly strong *negative impact on the popularity of Moscow among tourists.* There will be heavy *seasonality* in *demand in the hotel market*.

**New objects on hotel real estate market, Q1 2010, Moscow**

| Name | Address | Category | Room stock |
|---|---|---|---|
| Garden Ring | Mira prosp., h. 14, b.2 | 4* | 86 |
| Akvamarin | Ozerkovskaya emb., h. 26 | 4* | 159 |

*Source: Blackwood research*

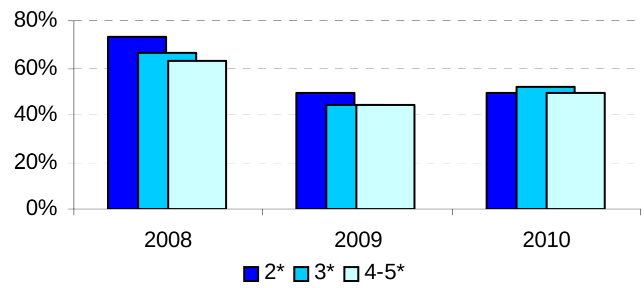
## Demand

Demand for accomodation services stabilized in Q1 2010: occupancy rates in the mid-price and premium segments grew 5% and 8% respectively (the positive dynamics was caused by demand from business tourists). This index in the low segment stopped falling. Still, the occupancy rates in all the segments of the hotel market remain at an extremely low level.

The only exception was mid-price hotels whose occupancy rates in Q1 2010 exceeded 50%.

We can expect that the demand for accomodation services will strengthen in 2010 which result in the gradual growth of the occupancy rates. The delivery of the high-end hotel is likely to cause a negative impact while the indexes in the low and mid-price segments are likely to go fast since new supply doesn't come into the market.

**Occupancy rate in Moscow hotels , Q1 2008 - Q1 2010**




*Source: STR Global, GAO «Moskva», Blackwood research*

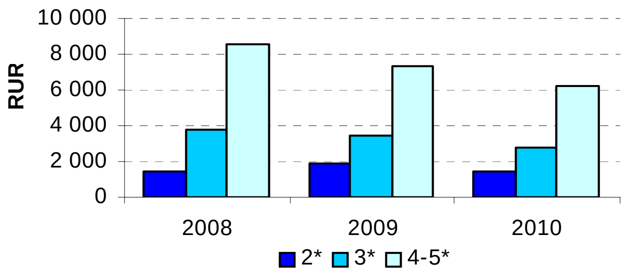
## Accommodation costs

The accomodation costs continue to decline across all the segments of the hotel market. ADR in the low-budget segment decreased by 28% and by 14% in the upmarket segment. A positive trend was some deceleration of this decline (5-10% versus Q4 2009) which, together with the stabilization of occupancy rates, resulted in the deceleration of decline in RevPAR: -5% in the high-budget segment and -4% in the mid-price segment versus Q4 2009.

Therefore, after a serious drop in RevPar in 2009, the market saw the first signs of stabilization in early 2010. If the delivery rates of new hotel properties remain low, we can expect that the pre-crisis figures will be reached soon.

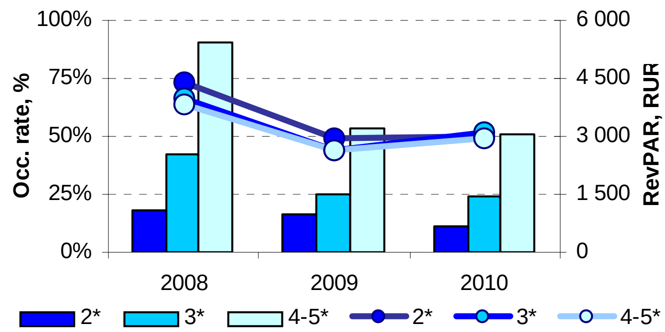
## Accommodation costs

**ADR in Moscow hotels, Q1 2008 - Q1 2010**




*Источник: STR Global, ГАО «Москва», данные компании Blackwood*

**RevPar and Occupancy rate in Moscow hotels,Q1 2008 - 2010**




*Source: STR Global, GAO «Moskva», Blackwood research*

## International hotel operators activity

The intense activity of international hotel operators in Q1 2010 shows that they are highly interested in the Russian market and, first of all, in the regional cities. Thus, the landmark event of January was the opening of the Reval Hotel Sonya, the first hotel of the Norwegian Reval Hotels chain. The 4-star hotel located in Liteyny Prospect includes 173 rooms. The project developer is Adamant Holding.

In February, the 168-room Novotel Yekaterinburg Centre was launched in Ekaterinburg. The property falls into the midscale category but it is positioned in the four-star business segment in the Russian market. It was developed by KESKO Company, the investment amount was approx $30 mln.

Currently there're over 60 hotels operating in Ekaterinburg, more than 15 of them are mini-hotels with less than 20 rooms.4 hotels including approx 800 rooms are operated by international companies, such as Rezidor Hotel Group, Accor Group, Hyatt and Wyndham Hotel Group International. The overall number of hotel rooms in Ekaterinburg is over 3 700.

In March, several landmark agreements were signed. For instance, during MIPIM 2010 Apart-Hotel LLC and Ratio Intel LLC decided to build an extended stay hotel under the Adagio brand (Accor Group) in Kaluga. This city turns out to be highly attractive to hotel developers and several hotel projects, Marriott Courtyard (Marriott International), Novotel and Ibis (Accor Group) were announced. *Volkswagen* Group and Volvo Trucks opened their assembly plants here, and PSA Peugeot Citroen and Mitsubishi Motors intend to open their joint plant in 2010.

Besides, in early March Russian Pacific Management Service Company and international Continent Hotels signed an agreement to open a hotel under the Continent Resort brand in Olginka, Krasnodar Region. The hotel is expected to be launched in April 2010. Another hotel of the branch will be opened in August in *Sakhalin Island*.

In late March, Hyatt, an international operator of hotels, signed an agreement with RosEvroDevelopment envisaging that the first hotel by Hyatt Regency Rostov international operator, Don Plaza, will be opened in 2011.

Russian companies also strive to conquer a market share in the regional cities: UMACO plans to develop its chains Katerina Inn and Katerina City in the cities with a *population of more than* 500 thousand people.

## Trends and forecast

Minimum five hotels with 1,500 rooms are expected to open in Moscow in 2010. All of them belong to the high-price segment.

Therefore, since the delivery rates of new hotels remain low and the properties which are commissioned fail to meet *the market expectations, the accommodations costs in Moscow are likely to rise again.*

Considering the seasonality factor, the hotel market indexes are expected to grow only in autumn 2010, whilst the occupancy rates, ADR and RevPAR are likely to remain at the level of Q4 2009 – Q1 2010 in Q2 and Q3 2010.