

HOTEL INDUSTRY IN RUSSIA - REGIONS ARE GAINING GROUND



A continuous growth in the demand and supply in the hotel market was observed in 2012 and 2013 across major Russian cities. A 10 percent increase in the number of overnight stays was recorded in 2012.

Igor Romanov, a Member of the Board of Directors AZIMUT Hotels outlined the key trends and the tendencies in the development of Russian hotel industry over the last 18 months. According to him, **Moscow city was the biggest beneficiary of the increase in demand.** However, Saint Petersburg also surprised with good results. The city recorded tourist arrivals of more than 6 million in 2012.

In other major cities (Kazan, Yekaterinburg) where oversupply had been predicted, there was a consistent increase in demand growth in 2012. This suggests that the development of high quality hotels in such cities will greatly contribute to the appeal of those cities.

The supply side was also on the increase - 10-15,000 new hotel rooms opened annually. This growth however, was uneven across the regions. For example, in 2012, a marked slowdown in new supply was clearly observed in St. Petersburg and Moscow as compared to the historic annual averages. However, it is expected that this trend will change especially in Moscow with the significant entry of new supply in the next twelve to eighteen months.

Similar market trends were observed in the whole region. The rapid increase in supply of new hotels in 2013-2014 is a reflection of the increasing business efforts in the development of the major hotel chains in the past years. This can also be attributed to the improvement of the macro-economic environment in the last few years.

The development activity in the ancient hotel formats and high activity in the development of new formats (mini-hotels and hostels, apart-hotels etc.) has led to the continued growth of the rooms inventory in 2012 and in the first six months of 2013.

The importance of regional markets, both in monetary and natural terms, continues to become more and more obvious to a big number of market participants. For example, in 2004, St. Petersburg and Moscow accounted for 35 percent of all Russian hotel overnight stays. However, only 27 percent was recorded in 2012.

Foreign brands have also become more significant players in Russian hotel market. **As of September 2013, the foreign brands were operating about 105 hotels with approximately 26,500 rooms. This translates to about 9 percent of the hotel market in Russia.** The room inventory under the foreign brands has expanded by 1,500 rooms over the past 12 months. It is expected that this growth rate will increase more rapidly in the next two to three years especially in the economy and mid-market segments.

The domestic hotel chains in Russia control approximately 4,300 hotel rooms. It is unlikely that the

hotel chains will surrender this control to the foreign players.

The financial crisis in 2009 left many office owners contemplating converting their office spaces to other financially viable projects and in most cases into hotels. This trend has changed; in 2012-13 a contrary trend has been observed. Hotels are now being converted to other functions such as apartments as observed in Moscow and St. Petersburg.

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