OCTOBER 2012 | PRICE €350

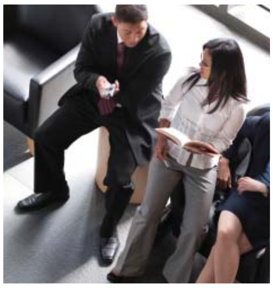
RUSSIA, THE CIS AND GEORGIA
HOTEL VALUATION INDEX 2012

Tatiana Veller
Managing Director

Alexey Korobkin
Senior Consultant

Margarita Lobova
Junior Consultant





www.hvs.com

See reverse for details

HVS Moscow Office | Gilyarovskogo Street 4/5, Office 301, Moscow 129090, Russia

The hotel markets of Russia, the CIS & Georgia continue their recovery and exhibit a second consecutive year of growth. In this publication, HVS provides a guide though the peaks and troughs of the various markets, giving operators, investors and owners a clearer view of the region from a valuation perspective.

Introduction

Over the last 18-20 months, hotel markets in Russia, the CIS & Georgia have been recovering, with operating results improving from the crash of 2008/09. The initial fast pace of recovery in the first six months of 2011 has since slowed down, as the continuing crisis in Europe affected travel and spending patterns. Nonetheless, values in the region were still able to grow by 8% on average in 2011 and are forecast to grow by 3% in 2012. The region outperformed the European average in 2011, but will likely fall behind in 2012.

This issue includes:

- **Hotel values continue to recover**
- **Investment climate**
- **Five-year forecast**
- **Market snapshots**
- **Focus on the 2018 FIFA World Cup**

Stable new supply over the last two years allowed values to grow, but HVS forecasts pressures on operational performance in the short term as increased new supply outweighs demand. In the medium to long term, most markets will be able to absorb this new stock of hotel rooms and continue to increase per room values. HVS forecasts hotel values in Russia, the CIS & Georgia to grow at a compound annual rate of 5.7% between 2013 and 2017.

Travel in the Region

Despite expensive air travel and complex visa procedures (in some countries), international arrivals to Russia, the CIS & Georgia grew on average by 10% from 2010 to 2011, which is a slight improvement on the previous year. According to Euromonitor forecasts, the average growth rate in 2012 will be slightly lower (8%), which may partly depend on strength of the recovery in global travel in 2011 that added to the growth percentages.

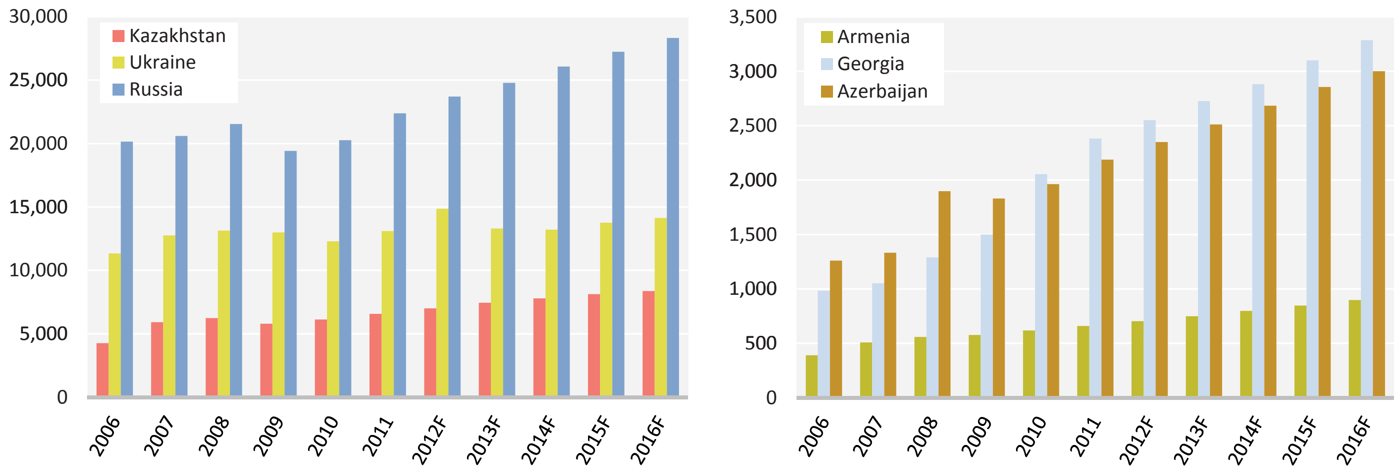
Since 2006, Georgia has been the leader in compound annual growth rates for international tourist arrivals; however, we should consider that the base figure in 2006 was relatively low. Russia and Kazakhstan top the table in absolute numbers, with increases of more than 2 million arrivals in five years.

In the medium term, Georgia is set to continue its fast pace of growth at a compound annual rate of 7% between 2012 and 2016, with all the other countries expecting a similar growth of 5-6%. Ukraine is the only exception and is forecast to see a drop of 1% in international arrivals from 2012 to 2016.

In the reviewed markets, there are significant differences in the proportion of air arrivals to the total number of visitors. Air arrivals are important to overall demand levels in any hotel market, as a hotel's target customer is normally of a certain income level. From all modes of arrivals, it is air arrivals that tend to use hotels more. As shown in Chart 2, Kazakhstan and Ukraine air arrivals represent less than 10% of the total number of travellers visiting the country, and this trend can be seen throughout the whole historical and forecast period with insignificant growth towards the end of the period under review. This can be explained by the origin of the travellers; among the top five feeder markets for Kazakhstan are neighbouring Kyrgyzstan, Uzbekistan and Tajikistan, low-income populations that prefer less expensive means of travel. As for the Ukrainian air arrival trends, the majority of travellers come from Russia, Moldova, Poland and Belarus where rail and road accessibility to Ukraine is effective and many catchment areas are within a 1,000 km radius.

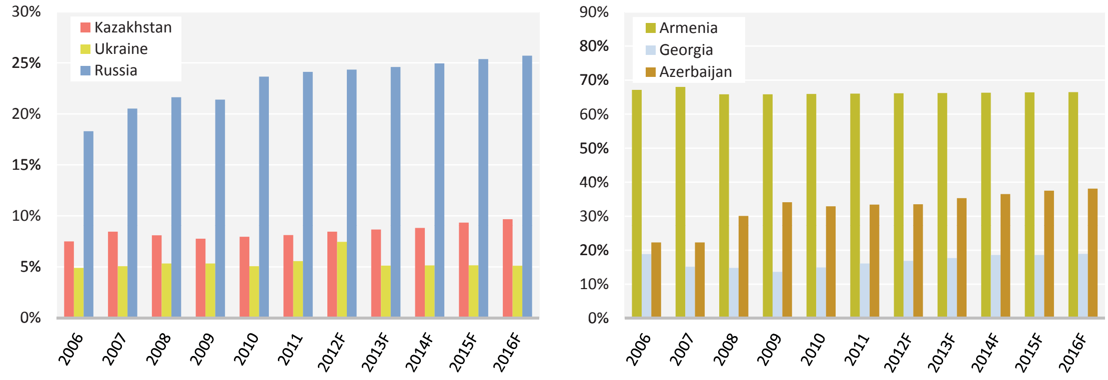
The country with the highest percentage of air arrivals is Armenia owing to the fact that the majority of travellers are representatives of the

CHART 1: HISTORICAL AND FORECAST INTERNATIONAL ARRIVALS (000s)



Source: Euromonitor

CHART 2: AIR ARRIVALS AS A PERCENTAGE OF TOTAL ARRIVALS (000S)



Source: Euromonitor

Armenian Diaspora from all over the world, covering significant distances to visit the country.

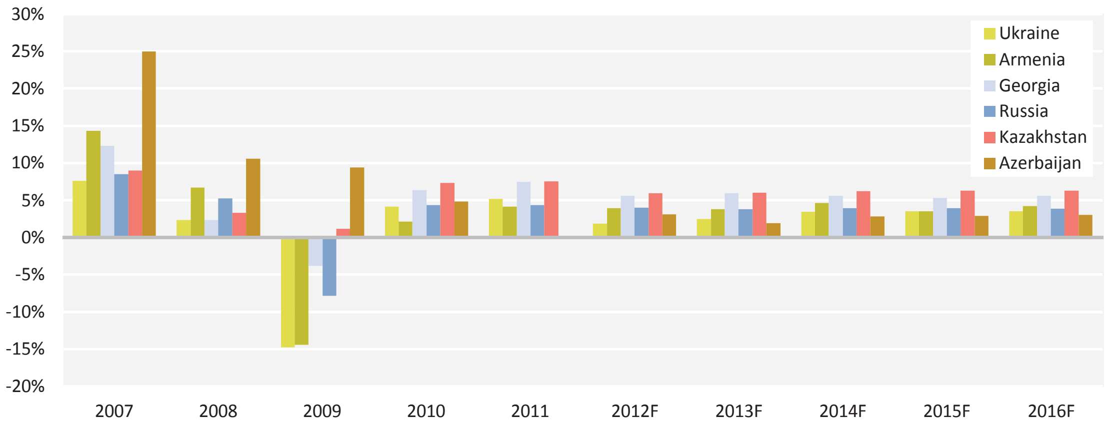
With the growth of the oil and gas industry in Azerbaijan and related business travel into the country, we can see that the fraction of air arrivals is increasing significantly throughout the period under review, reaching 38% in 2016, which is equivalent to a 10% compound annual growth rate from 2012 to 2016 (leading the table together with Georgia).

Russia and Georgia are forecast to see moderate increases in air arrivals as a percentage of total arrivals; however, owing to a low base, Georgia is exhibiting the highest compound annual growth rate (10%) from 2012 to 2016. The majority of visitors from neighbouring countries prefer to use other means of travel, owing to well-developed railway systems or road networks allowing better accessibility to remote parts of the country (especially those areas without airports nearby). The high cost of air fares also partly contributes to this trend.

Ukraine is the only country which shows a negative CAGR from 2012 to 2016, but this is more dependent on the fact that 2012 saw an unprecedented increase in air travel owing to the Euro 2012 football tournament (Euromonitor forecasts more than a 50% increase).

GDP statistics are a good indicator of the state of local economies in the region. Compared to the high GDP growth rates witnessed in the region during the peak pre-crisis years, the short-term forecast is more moderate. According to Euromonitor forecasts, the average GDP growth rate in the region will be 4%, with no country exceeding 6.5% per annum. The forecast growth rates continue to outperform the European countries, but struggle to match those of China or India. Currently, Ukraine is forecast to exhibit the lowest GDP growth in the region and, compared to the forecast published in the previous edition of the Hotel Valuation Index (HVI), this year's figures are more pessimistic. The forecast growth rates for 2012 dropped from 4.6% to 1.8% according to the recent data from Euromonitor, with a potential improvement to 3.5% only by 2015. Russia's GDP growth rate forecast is also more pessimistic compared to last year, with a 4% growth rate forecast by the end of 2012 versus 4.5% in the last publication, while 2013 is forecast at 3.8%. On the other hand, Georgia and Kazakhstan are forecast to exhibit the strongest GDP growth rates in the region.

CHART 3: HISTORICAL AND FORECAST GDP GROWTH



Source: Euromonitor

Investment Climate

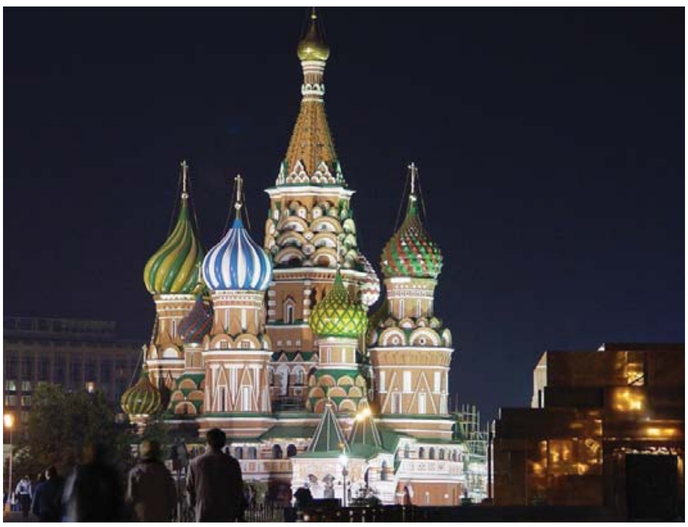
The investment climate is a combination of economic, legal, regulatory, political and other factors that ultimately determine the level of investment risk and its effective use. The favourable investment climate is generally characterised by political stability, a legislative framework, moderate taxes and various investor benefits. In this edition of the HVI, HVS discusses some of the main aspects of investment climate in the reviewed countries.

Russia – According to the World Investment Prospect Survey in 2010, Russia was among the top ten countries deemed most attractive for foreign direct investment. Most of the Russian economic growth witnessed during the past decade (with the exception of the worldwide economic crisis) was due to revenues from the commodity markets. Despite the abundance of natural resources, Russia's GDP growth in 2011 was 4.3%, which is still behind economies such as China (9%) and India (7%). Such a slow pace of growth can be partly explained by factors such as deficit of innovation, lack of infrastructure development and bureaucracy.

According to the World Economic Forum 2011-2012 rankings, the Russian Federation is highlighted by the excessive regime control along with its undeveloped and opaque internal structure. Being ranked 120th among 183 economies worldwide on ease of doing business by the World Bank and IFC ('Doing Business in Russia 2012' report), signals that Russia has yet to achieve significant targets to attract more foreign investment.

In spite of some of the challenges described above, Russia offers various investment prospects. The government recognises the importance of foreign investment in the future growth of the country's economy. Over the past decade, progress has been made in creating a

SAINT BASIL'S CATHEDRAL, MOSCOW



KREMLIN, MOSCOW

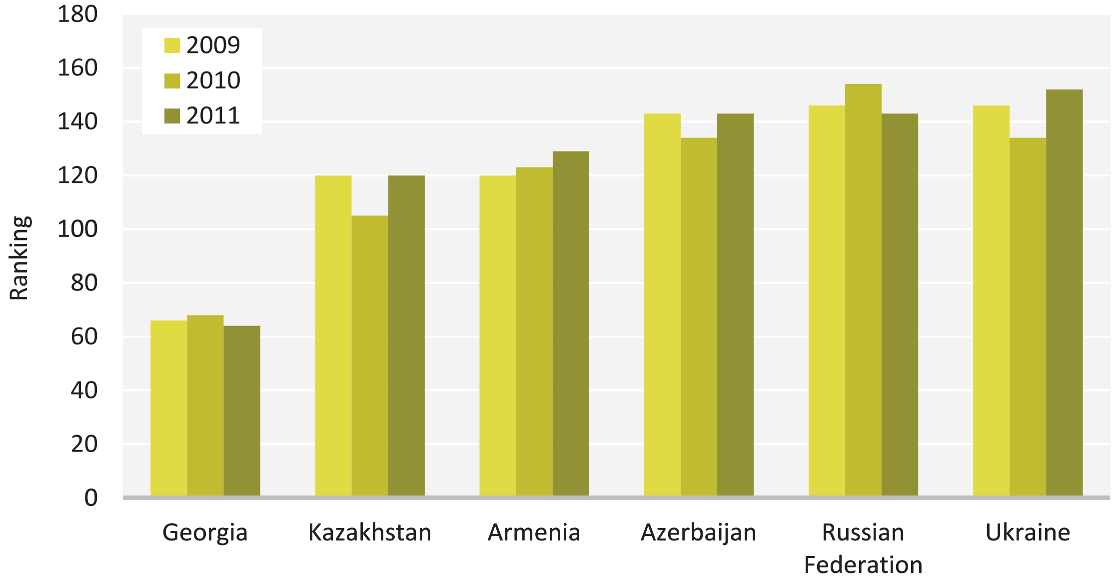
more competitive and transparent investment environment. Russia's accession to the WTO is considered to be an important factor in attracting more foreign investment into the country. Other plans towards promotion of the Russian market include implementing policy reforms that would make the economic environment more favourable and investor friendly. Some of the areas which are being targeted are privatisation, corruption, simplifying regulations, strengthening the legal system and decreasing bureaucracy.

Ukraine – During the worldwide economic crisis, Ukraine was one of the most affected countries, which was reflected by a 15% drop in GDP growth. Recovery has been noticeable, albeit at a slower pace. In 2012, the World Bank and IFC ranked Ukraine 152nd among 183 economies on the ease of doing business, which is a drop from 149th place in 2011. Such a trend does not encourage the global business community to invest in Ukraine's economy, which is reflected in the slowing growth rate of FDI over the last few years. In order to recover from the current economic situation, the authorities have developed a special reform programme, which mainly concentrates on privatisation, the fiscal system and government regulations.

Despite some of the above-mentioned barriers, investors still manage to seize the right opportunities by finding the right local partners, willing to collaborate and navigate the complex legislation and bureaucracy. In 2011, the Free Trade Agreement between the European Union and Ukraine was signed, which should positively affect the business environment and improve transparency.

Georgia – Among the countries reviewed in this report, Georgia is ranked top in terms of ease of doing business. Georgia is 16th out of the 183 economies covered by the Doing Business report 2012 (World Bank and IFC). Since 2003, Georgia has been trying to establish a market economy in the country; however, there were some issues

CHART 4: TRANSPARENCY INTERNATIONAL CORRUPTION PERCEPTIONS INDEX



that slowed down the process and affected Georgia's image. The conflict with Russia in 2008 and the global economic downturn challenged investor confidence and affected levels of FDI and GDP growth. Nonetheless, in 2011 Georgia demonstrated its improving investment climate to the global business community when two of the major American credit agencies (Fitch and S&P) increased the county's credit ratings. Yet there are more targets to achieve in order to gain investors' trust; some of these include concerns related to the undeveloped infrastructure and security issues in the country. However, some of the main issues which are frequently encountered in, say, the CIS countries, such as corruption and biasness of the judicial system, have been drastically improved in Georgia and reached minimum levels compared to the rest of the region.

Azerbaijan – Azerbaijan's economy is heavily dependent on the energy sector and for the past decade has attracted high levels of foreign investment in this field. However, the government is investing a significant amount of time and effort in diversifying the economy of Azerbaijan. Visible progress has been achieved in sectors such as tourism, IT and communication, and agriculture, which led to a 10% increase in the non-energy contribution to GDP in 2011. As Azerbaijan is being observed for accession to the WTO, it implemented a number of significant changes from 2007 to 2009. As a result, the World Bank named Azerbaijan among the top ten reformers worldwide. Despite these reforms and efforts to become a member of the WTO, the country is currently ranked 66th in ease of doing business across 183 economies worldwide.

Even though many improvements have already taken place, issues such as bureaucracy and regulations still limit the country's potential in achieving an investor-friendly climate.

Armenia – Among the countries reviewed in this publication, Armenia was one of the most affected by the economic crisis of 2009, with foreign direct investment decreasing by almost 30%. Only in 2011 did FDI demonstrate the first signs of improvement. Currently ranked 55th in World Bank's ease of doing business report, Armenia has moved up six positions since 2011. Despite the above-mentioned signs of progress towards a more transparent and favourable investment climate, some challenges that slow down the country's development still exist. High levels of corruption and bureaucracy are reflected in Armenia's 129th place among 182 countries reviewed in the Transparency International Corruption Perception Index 2011.

Kazakhstan – Kazakhstan is another country among those reviewed whose economy is dependent on the energy sector, and most of the foreign investment is in this field. The US Department of Commerce and the European Union agreed in the early 2000s that Kazakhstan's economy can be called a 'market economy'. The country ranked 47th among 183 economies reviewed by the World Bank and IFC on the ease of doing business in 2012. For comparison, the country ranked 58th in the same report in 2011. Currently, one of the biggest priorities for Kazakhstan's government is diversification of the economy to create a more favourable investment environment. Government actions are focused on improving visa procedures, investment legislation, reducing bureaucracy and many others. Despite the number of improvements achieved by Kazakhstan in the past few years, corruption will continue to impede business performance. In 2011, Kazakhstan announced its plan to join the Organization of Economic Cooperation and Development, which should positively affect the investment climate in the short to medium term.

CHART 5: HISTORICAL VALUES PER ROOM – RUSSIA, THE CIS AND GEORGIA (€)

	2007	2008	2009	2010	2011	2012
Moscow Upscale/Luxury	498,000	527,000	327,000	353,000	385,000	397,000
European Average	274,000	244,800	212,000	215,000	220,000	249,000
St Petersburg Upscale/Luxury	358,000	377,000	213,000	222,000	234,000	240,000
Kiev	427,000	376,000	194,000	201,000	246,000	227,000
Moscow Mid-Market/Budget	294,000	292,000	204,000	201,000	207,000	220,000
Almaty	418,000	293,000	190,000	152,000	173,000	177,000
Tbilisi	273,000	213,000	156,000	153,000	155,000	177,000
Astana	329,000	224,000	179,000	152,000	166,000	171,000
Average – Russia, the CIS and Georgia	**265,000**	**239,000**	**159,000**	**153,000**	**166,000**	**171,000**
Baku	292,000	245,000	205,000	200,000	198,000	162,000
Yerevan	134,000	100,000	85,000	86,000	97,000	112,000
Kazan	119,000	130,000	102,000	86,000	98,000	107,000
St Petersburg Mid-Market/Budget	139,000	137,000	81,000	83,000	94,000	106,000
Samara	156,000	145,000	88,000	91,000	98,000	104,000
Yekaterinburg	143,000	148,000	106,000	82,000	89,000	103,000
Rostov-on-Don	126,000	133,000	96,000	79,000	87,000	95,000

Source: HVS

Analysing the Numbers

As in previous issues of the Russia, the CIS & Georgia HVI, we continue to analyse the average hotel values per room for a number of key cities in the region. HVS has tracked the values across the region since 2007, as outlined in Chart 5, with the corresponding growth rates in Chart 6. Moscow and St Petersburg continue to be the only two markets where we make a distinction between the upscale/luxury and mid-market/budget segments. This further underlines the fact that the rest of the cities in this publication do not yet have hotel markets that are large enough across segments to support such a distinction.

The cities covered in the report are: Moscow, St Petersburg, Yekaterinburg, Rostov-on-Don, Samara and Kazan (Russia); Kiev (Ukraine); Baku (Azerbaijan); Astana and Almaty (Kazakhstan); Tbilisi (Georgia); and Yerevan (Armenia).

It comes as no surprise that the Moscow upscale/luxury segment continues to top the tables in value per room (ranked as of 2012). Despite pressure on average rates in the city and a more price-sensitive clientele, demand has increased. The result of this translates into RevPAR growth and a further increase in the value per room (€397,000 in 2012). St Petersburg's upscale/luxury segment experienced a similar trend with pressures on average rate, but RevPAR was still able to grow courtesy of increases in occupancy. The increase in values per room is moderate, but still positive and keeps St Petersburg's upscale/luxury segment near the top of the values table at €240,000 per room. It is important to note that the operating results across these two segments were slightly lower at the end of 2011 than initially expected and this led to a minor correction in the values per room for 2011.

The European average (that is, Western and Eastern Europe combined, as per our sister publication the *European Hotel Valuation Index*) moved up to second place in 2012 with a value of €249,000 per room and continues to increase in the wake of the worldwide economic crisis.

Operating results in Kiev at the end of 2011 were better than originally expected owing to delays in hotel openings and growing investor appetite, but have since suffered a decrease in value on account of oversupply following the Euro 2012 football tournament. Nevertheless, Kiev remains in fourth place with an average per room value of €227,000. The remaining positions in the table are largely unchanged, with the CIS capitals (such as Astana, Baku and Yerevan) populating the middle of Chart 5 and the Russian regional markets (Kazan, Samara, Yekaterinburg and Rostov-on-Don) at the bottom. One of the main changes in the table comes from the strong performance of the Tbilisi hotel market, allowing it to move up three places and record a per room value of approximately €177,000.

When looking at Chart 6 and the annual changes in value, we can see that 2011 was the year of recovery for all of the markets (with the exception of Baku). Renewed business activity and overall

CHURCH OF THE SAVIOR ON BLOOD, ST PETERSBURG

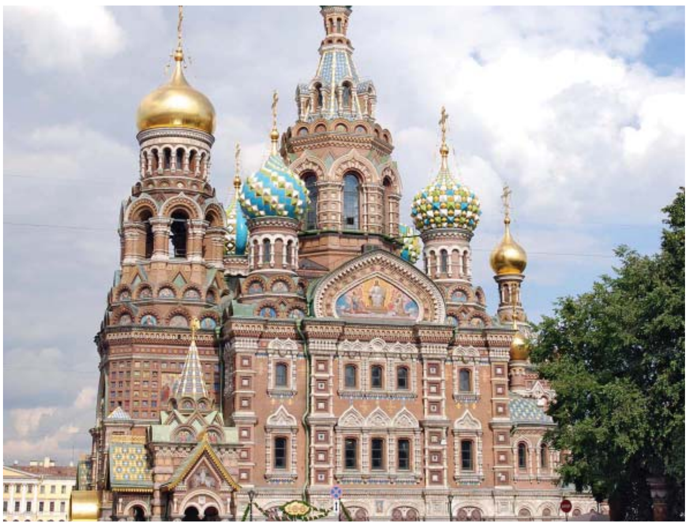


CHART 6: WINNERS AND LOSERS

Growth/Decline	2008	2009	2010	2011	2012
Yekaterinburg	+3%	-28%	-23%	+9%	+16%
Yerevan	-25%	-15%	+1%	+13%	+15%
Tbilisi	-22%	-27%	-2%	+1%	+14%
European Average	-11%	-13%	+1%	+2%	+13%
St Petersburg Mid-Market/Budget	-1%	-41%	+2%	+13%	+13%
Rostov-on-Don	+6%	-28%	-18%	+10%	+9%
Kazan	+9%	-22%	-16%	+14%	+9%
Moscow Mid-Market/Budget	-1%	-30%	-1%	+3%	+6%
Samara	-7%	-39%	+3%	+8%	+6%
Average – Russia, the CIS and Georgia	**-10%**	**-33%**	**-4%**	**+8%**	**+3%**
Astana	-32%	-20%	-15%	+9%	+3%
Moscow Upscale/Luxury	+6%	-38%	+8%	+9%	+3%
St Petersburg Upscale/Luxury	+5%	-44%	+4%	+5%	+3%
Almaty	-30%	-35%	-20%	+14%	+2%
Kiev	-12%	-48%	+4%	+22%	-8%
Baku	-16%	-16%	-2%	-1%	-18%

Source: HVS

demand growth (coupled with average rate increases) ensured value growth across the region.

In 2012, hotel markets in the region continued the recovery process, with all markets except Kiev and Baku exhibiting positive growth. For Yerevan and St Petersburg's mid-market/budget segment, average hotel values continued to increase by more than 10% per annum. Tbilisi demonstrated a 14% increase in 2012 versus just 1% in 2011. Both Moscow's and St Petersburg's upscale/luxury segments exhibited a lower-than-expected increase in 2011 and have slowed down in 2012, which is a result of pressure on average rates. Overall, values in the region are expected to increase by 3% in 2012, with average European growth forecast at 13%.

Kiev experienced a rollercoaster 20 months, going from a 22% increase in value in 2011 to an 8% decrease in 2012. As mentioned earlier, the then impending Euro 2012 football tournament combined with growth of occupancies and average rates in 2011 ensured a healthy increase in values in 2011, while 2012 is expected to yield lower-than-expected results.

The Baku market was expected to feel the effect of new hotel openings in 2011; however, owing to construction delays, the drop in values in 2011 was insignificant. Most of that new supply entered the market in 2012, which is expected to impact the operating results and therefore add significant pressure on per room values in the market. Coupled with the cautious approach of investors, we expect a further 18% drop in hotel values in Baku to approximately €162,000 per room.

When looking at the value rankings (Chart 7), the Moscow upscale/luxury segment remains at the top. Kiev, which managed to outperform the St Petersburg upscale/luxury segment in 2011 and come in second place, has now dropped into fourth. The St Petersburg upscale/luxury segment remains in third place. Most of the other markets maintained their rankings with the exception of Tbilisi, which went up to seventh place (equalling its highest achieved rank in 2010).

In the long term, we forecast that markets like Yekaterinburg and St Petersburg's mid-market/budget segment will continue to improve, while certain markets (such as Kiev and Kazan) will fall a few places.

CHART 7: VALUE RANKINGS

	2007	2008	2009	2010	2011	2012	2017
Moscow Upscale/Luxury	1	1	1	1	1	1	1
European Average	8	7	3	3	4	2	3
St Petersburg Upscale/Luxury	4	2	2	2	3	3	2
Kiev	2	3	6	4	2	4	8
Moscow Mid-Market/Budget	6	5	5	5	5	5	4
Almaty	3	4	7	9	7	6	5
Tbilisi	9	10	10	7	10	7	7
Astana	5	9	8	10	8	8	6
Average – Russia, the CIS and Georgia	**10**	**8**	**9**	**8**	**9**	**9**	**9**
Baku	7	6	4	6	6	10	10
Yerevan	14	16	15	12	13	11	12
Kazan	16	15	12	13	12	12	15
St Petersburg Mid-Market/Budget	13	13	16	14	14	13	11
Samara	11	12	14	11	11	14	14
Yekaterinburg	12	11	11	15	15	15	13
Rostov-on-Don	15	14	13	16	16	16	16

Source: HVS

CHART 8: HISTORICAL AND FORECAST VALUES PER ROOM IN EURO AND YEAR-ON-YEAR PERCENTAGE CHANGES

	2007	2008	2009	2010	2011	2012	2017	Compound Annual Growth Rate 2007-12	Compound Annual Growth Rate 2013-17
Almaty	418,000	293,000	190,000	152,000	173,000	177,000	283,000	-15.8%	10.9%
Astana	329,000	224,000	179,000	152,000	166,000	171,000	271,000	-12.3%	8.0%
Average – Russia, the CIS and Georgia	**265,000**	**239,000**	**159,000**	**153,000**	**166,000**	**171,000**	**230,000**	**-8.4%**	**5.7%**
Baku	292,000	245,000	205,000	200,000	198,000	162,000	201,000	-11.1%	6.2%
Kazan	119,000	130,000	102,000	86,000	98,000	107,000	128,000	-2.1%	3.6%
Kiev	427,000	376,000	194,000	201,000	246,000	227,000	250,000	-11.9%	3.1%
Moscow Mid-Market/Budget	294,000	292,000	204,000	201,000	207,000	220,000	288,000	-5.6%	5.4%
Moscow Upscale/Luxury	498,000	527,000	327,000	353,000	385,000	397,000	512,000	-4.4%	4.1%
Rostov-on-Don	126,000	133,000	96,000	79,000	87,000	95,000	96,000	-5.5%	-2.0%
Samara	156,000	145,000	88,000	91,000	98,000	104,000	140,000	-7.8%	2.9%
St Petersburg Mid-Market/Budget	139,000	137,000	81,000	83,000	94,000	106,000	158,000	-5.3%	8.7%
St Petersburg Upscale/Luxury	358,000	377,000	213,000	222,000	234,000	240,000	326,000	-7.7%	5.9%
Tbilisi	273,000	213,000	156,000	153,000	155,000	177,000	262,000	-8.3%	7.9%
Yekaterinburg	143,000	148,000	106,000	82,000	89,000	103,000	149,000	-6.4%	9.4%
Yerevan	134,000	100,000	85,000	86,000	97,000	112,000	152,000	-3.5%	4.6%

	2007	2008	2009	2010	2011	2012	2017	Compound Annual Growth Rate 2007-12	Compound Annual Growth Rate 2013-17
Almaty	—	-30%	-35%	-20%	14%	2%	10%	-15.8%	10.9%
Astana	—	-32%	-20%	-15%	9%	3%	10%	-12.3%	8.0%
Average – Russia, the CIS and Georgia	—	**-10%**	**-33%**	**-4%**	**8%**	**3%**	**10%**	**-8.4%**	**5.7%**
Baku	—	-16%	-16%	-2%	-1%	-18%	2%	-11.1%	6.2%
Kazan	—	9%	-22%	-16%	14%	9%	8%	-2.1%	3.6%
Kiev	—	-12%	-48%	4%	22%	-8%	14%	-11.9%	3.1%
Moscow Mid-Market/Budget	—	-1%	-30%	-1%	3%	6%	8%	-5.6%	5.4%
Moscow Upscale/Luxury	—	6%	-38%	8%	9%	3%	11%	-4.4%	4.1%
Rostov-on-Don	—	6%	-28%	-18%	10%	9%	10%	-5.5%	-2.0%
Samara	—	-7%	-39%	3%	8%	6%	9%	-7.8%	2.9%
St Petersburg Mid-Market/Budget	—	-1%	-41%	2%	13%	13%	11%	-5.3%	8.7%
St Petersburg Upscale/Luxury	—	5%	-44%	4%	5%	3%	13%	-7.7%	5.9%
Tbilisi	—	-22%	-27%	-2%	1%	14%	11%	-8.3%	7.9%
Yekaterinburg	—	3%	-28%	-23%	9%	16%	12%	-6.4%	9.4%
Yerevan	—	-25%	-15%	1%	13%	15%	7%	-3.5%	4.6%

Source: HVS

Charts 8 and 9 show the average values over the past six years, along with our estimates of 2017 values in both euro and local currency.

Any forecast has an element of uncertainty attached to it. It is important to remember that even though most of the markets show signs of recovery, they will remain fragile over the next few years and performances in these markets will largely be connected to the speed of entry and magnitude of new supply, as well as growth potential of average rates. The values presented in this report are market averages and individual hotels might well outperform or underperform the market. At the time of writing this report, the global economy is still on the road to recovery, and the European financial markets continue to be in turmoil. Our projections of future value recovery assume a slow but steady economic recovery (in line with the GDP forecasts presented in Chart 3). Should the global economy deteriorate significantly, this might well lead to an amended forecast next year.

As in previous editions of the HVI, we continue to analyse the values in local currencies. Currency fluctuations are important as they can affect the change in value. For example, the Moscow upscale/luxury segment exhibited 6% growth in per room values in euro terms; however, owing to currency fluctuations, it experienced only a 1% increase in values in local currency.

For the first time, this year's edition of the Russia, the CIS & Georgia HVI compares each market's hotel value to a base figure. This comparison is in the form of an index, where the base (1.000) is the Average Russia, the CIS & Georgia per room value in 2007. The base reflects the per room value of a typical hotel in the region in 2007.

We can thus see that, in the peak year of 2007, eight hotel markets exhibited per room values

CHART 9: HISTORICAL VALUES PER ROOM IN LOCAL CURRENCY AND YEAR-ON-YEAR PERCENTAGE CHANGES

	2007	2008	2009	2010	2011	2012	2017	Compound Annual Growth Rate 2007-12	Compound Annual Growth Rate 2013-17
Almaty	71,896	49,400	39,900	29,734	35,430	33,549	51,350	-14.1%	10.0%
Astana	56,588	37,766	37,590	29,734	33,997	32,411	49,173	-10.5%	7.1%
Baku	359	274	236	214	222	162	195	-14.7%	5.7%
Kazan	4,165	4,745	4,529	3,466	4,008	4,269	5,274	0.5%	4.2%
Kiev	3,074	4,098	2,192	2,117	2,728	2,334	2,585	-5.4%	1.6%
Moscow Mid-Market/Budget	10,290	10,658	9,058	8,100	8,466	8,778	11,866	-3.1%	6.0%
Moscow Upscale/Luxury	17,430	19,236	14,519	14,226	15,747	15,840	21,094	-1.9%	4.7%
Rostov-on-Don	4,410	4,855	4,262	3,184	3,558	3,791	3,955	-3.0%	-1.4%
Samara	5,460	5,293	3,907	3,667	4,008	4,150	5,768	-5.3%	3.4%
St Petersburg Mid-Market/Budget	4,865	5,001	3,596	3,345	3,845	4,229	6,510	-2.8%	9.3%
St Petersburg Upscale/Luxury	12,530	13,761	9,457	8,947	9,571	9,576	13,431	-5.2%	6.5%
Tbilisi	699	494	378	353	363	373	553	-11.8%	7.9%
Yekaterinburg	5,005	5,402	4,706	3,305	3,640	4,110	6,139	-3.9%	10.0%
Yerevan	59,067	43,140	45,807	40,661	50,277	57,407	77,909	-0.6%	6.1%

	2007	2008	2009	2010	2011	2012	2017	Compound Annual Growth Rate 2007-12	Compound Annual Growth Rate 2013-17
Almaty	—	-31%	-19%	-25%	19%	-5%	10%	-14.1%	10.0%
Astana	—	-33%	0%	-21%	14%	-5%	10%	-10.5%	7.1%
Baku	—	-24%	-14%	-9%	4%	-27%	2%	-14.7%	5.7%
Kazan	—	14%	-5%	-23%	16%	7%	8%	0.5%	4.2%
Kiev	—	33%	-47%	-3%	29%	-14%	14%	-5.4%	1.6%
Moscow Mid-Market/Budget	—	4%	-15%	-11%	5%	4%	8%	-3.1%	6.0%
Moscow Upscale/Luxury	—	10%	-25%	-2%	11%	1%	11%	-1.9%	4.7%
Rostov-on-Don	—	10%	-12%	-25%	12%	7%	10%	-3.0%	-1.4%
Samara	—	-3%	-26%	-6%	9%	4%	9%	-5.3%	3.4%
St Petersburg Mid-Market/Budget	—	3%	-28%	-7%	15%	10%	11%	-2.8%	9.3%
St Petersburg Upscale/Luxury	—	10%	-31%	-5%	7%	0%	13%	-5.2%	6.5%
Tbilisi	—	-29%	-24%	-6%	3%	3%	11%	-11.8%	7.9%
Yekaterinburg	—	8%	-13%	-30%	10%	13%	12%	-3.9%	10.0%
Yerevan	—	-27%	6%	-11%	24%	14%	7%	-0.6%	6.1%

Source: HVS

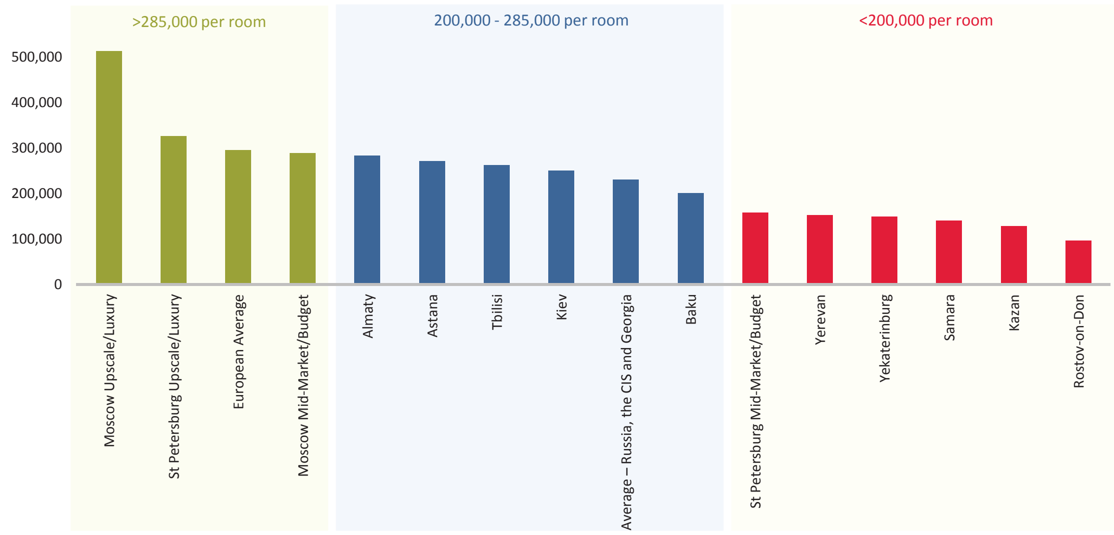
which were higher than the base. The years of the worldwide economic downturn severely impacted values in the region and markets witnessed sizeable drops. In 2012, HVS forecasts that only the Moscow upscale/luxury segment will once again exhibit an index of more than one, thus surpassing the base. Nevertheless, the expected recovery in the region will continue to pick up pace, with five hotel markets forecast to reach their respective index values of higher than the base. It is worth noting that the index of the Moscow upscale/luxury segment is the only one to ever almost double the base. Even though we do not forecast the index of the Moscow upscale/luxury segment to reach its peak value of 2008, we expect that by 2017 it will once again reach similar heights.

CHART 10: HOTEL VALUATION INDEX

	2007	2008	2009	2010	2011	2012	2017
Almaty	1.577	1.106	0.717	0.574	0.653	0.668	1.068
Astana	1.242	0.845	0.675	0.574	0.626	0.645	1.023
Average – Russia, the CIS and Georgia	**1.000**	**0.902**	**0.600**	**0.577**	**0.626**	**0.645**	**0.868**
Baku	1.102	0.925	0.774	0.755	0.747	0.611	0.758
Kazan	0.449	0.491	0.385	0.325	0.370	0.404	0.483
Kiev	1.611	1.419	0.732	0.758	0.928	0.857	0.943
Moscow Mid-Market/Budget	1.109	1.102	0.770	0.758	0.781	0.830	1.087
Moscow Upscale/Luxury	1.879	1.989	1.234	1.332	1.453	1.498	1.932
Rostov-on-Don	0.475	0.502	0.362	0.298	0.328	0.358	0.362
Samara	0.589	0.547	0.332	0.343	0.370	0.392	0.528
St Petersburg Mid-Market/Budget	0.525	0.517	0.306	0.313	0.355	0.400	0.596
St Petersburg Upscale/Luxury	1.351	1.423	0.804	0.838	0.883	0.906	1.230
Tbilisi	1.030	0.804	0.589	0.577	0.585	0.668	0.989
Yekaterinburg	0.540	0.558	0.400	0.309	0.336	0.389	0.562
Yerevan	0.506	0.377	0.321	0.325	0.366	0.423	0.574

Source: HVS

CHART 11: VALUE PER ROOM – RUSSIA,THE CIS AND GEORGIA 2017 (€)

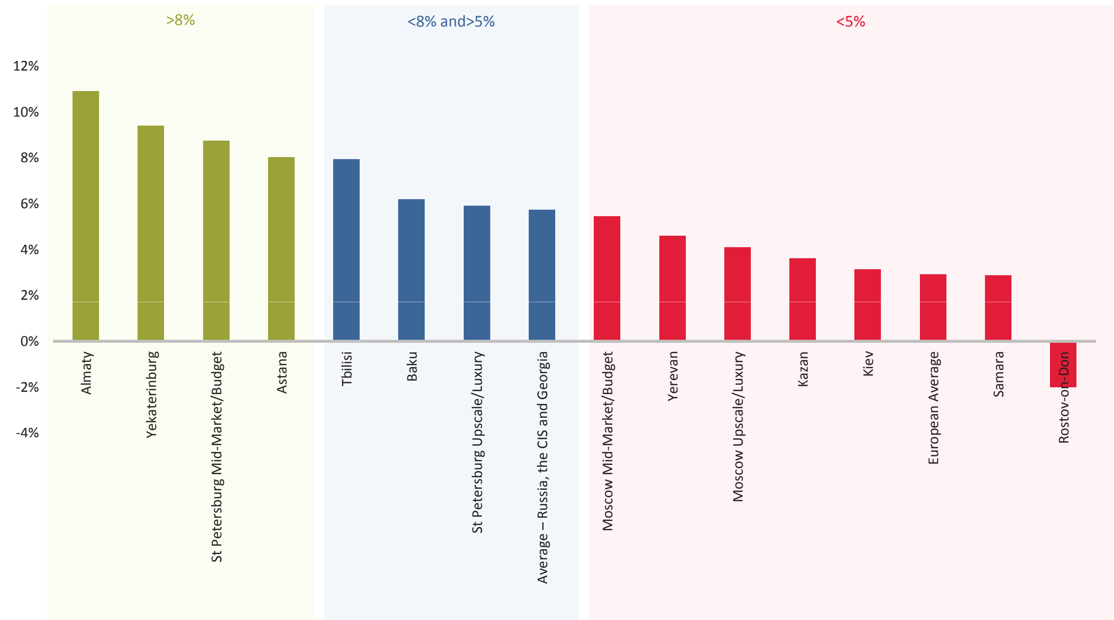


Source: HVS

The Moscow and St Petersburg upscale/luxury segments top the table, with values of more than €300,000 per room, while the Moscow mid-market/budget segment is forecast to 'catch up' with values of €288,000 per room. The CIS capitals are evenly spread out in the middle of the table and are forecast to achieve values per room in excess of €200,000. Russia's regional hotel markets along with Yerevan will continue to achieve fairly modest average rates, which translate into hotel values below €200,000 per room. Despite one of the highest forecast growth rates, St Petersburg's mid-market/budget segment is expected to remain below €200,000 per room in future values.

Almaty is forecast to achieve the highest growth rate going forward, merely showing recovery from rather strong value decreases in 2008-10, and remains the only market with more than 10% growth in the next five years. Yekaterinburg, Astana and the St Petersburg mid-market/budget segment hotel value growth rates are among the highest, exhibiting more than 8% growth by 2017. More mature markets like Moscow and Kiev exhibit the lowest growth rates going forward, mostly due to a more stabilised market performance and consistent demand generators which make these markets more resilient to fluctuations in value. It should be noted that Kiev's hotel value growth is limited in the medium term by significant increases in supply. Rostov-on-Don is the only market which is forecast to drop in value in the next five years owing to a significant number of new hotels projects coming into the market.

CHART 12: COMPOUND ANNUAL GROWTH RATES – RUSSIA, THE CIS AND GEORGIA 2013-17



Source: HVS

Market Overviews

Kiev is the capital of Ukraine and is the biggest tourist destination for foreign travellers within the country. The expected effect on the hotel market from the Euro 2012 football tournament was far less positive than forecast. A large proportion of regular business was displaced by the attendees of the championships, which increased the average rate in June, but negatively affected the year-to-date occupancy. Political uncertainty coupled with the October 2012 elections cast further doubts over the political and thus economic future of the city. In the short to medium term, the market is expected to absorb an additional 2,000 new rooms. Slow recovery in demand, coupled with new supply, will put pressure on average rates in the market. Despite the additional new supply and pressures on hotel performance, HVS expects Kiev's hotel values to show a moderate increase at a compound annual rate of 3% over the next five years, thus reaching a value per room of €250,000 by 2017.

In recent years, the Azerbaijani government has put considerable efforts into diversifying the economy and developing tourism infrastructure, which resulted in increased tourist arrivals as well as increasing the general appeal of **Baku**, helping it to emerge as a tourist destination. An event which had a major impact on visibility and recognition of Baku worldwide was the Eurovision Song Contest 2012. This attention resulted in an unprecedented increase in hotel supply in the city (especially in the luxury segment), with new properties from brands such as Hilton, JW Marriott, Jumeirah, Four Seasons, Sheraton, Fairmont and Kempinski, which have either opened or are due to open. Such an oversupply of luxury properties inevitably puts pressure on hotel performance, which was reflected by the 10% drop in overall city occupancy and 5% drop in average rates for year-to-date 2012. Taking into account the above-mentioned factors, HVS forecasts a drop in value per room from €198,000 in 2011 to €162,000 in 2012, but expects the values to recover in the next five years to approximately €201,000 per room.

Improvements in the economic environment and investment climate in Georgia, coupled with cancellation of the visa regime for EU, US, Canadian and CIS countries' citizens, assisted in developing the tourism industry. The growth in demand has offset the 11% increase in room supply in **Tbilisi** and resulted in a noticeable increase in occupancy (up 14%). Despite an insignificant drop in average rates as compared to same period in 2011, RevPAR showed a positive increase. Improved operational performances allowed Tbilisi to climb into the top three markets by increase in value in 2012 (14%), from €155,000 to €177,000. HVS has forecast hotel values in Tbilisi to improve in the medium term, reaching approximately €262,000 per room in 2017.

Development of the tourism industry is one of the major priorities for the Armenian government. The opening of the new passenger terminal in **Yerevan** in 2011 is a prime example of noticeable improvements in infrastructure. However, high air fares and lodging prices continue to be some of the main obstacles for growth of the travel sector in the country's economy. With only three branded hotels operating in the market, there is potential for development and growth, albeit in the medium to long term. With more international brands set to enter the market in the short term, growing average rates will become a significant issue for hoteliers. Despite modest average rates, HVS forecasts hotel values in Yerevan to grow at a compound annual rate of 4.6% to reach approximately €152,000 per room by 2017.

Owing to a growing energy sector over the past decade, Kazakhstan enjoyed an increase in business travellers, which in turn fuelled demand for first class accommodation in Kazakhstan. International hotel chains such as IHG, Rezidor, Ramada and Rixos have established their presence in the market. Growth in the local economy coupled with increased demand for accommodation should allow the markets to absorb new supply in the medium term. As a former capital and the financial centre of Kazakhstan, **Almaty**'s economic situation is stable and poised to grow in the short term. With limited additions to supply in the next few years (just three international hotels), growth potential is above average. A dearth of international quality accommodation in the mid-market segment promises future potential. Owing to a steady increase in supply coupled with growing demand, HVS forecasts the strongest compound annual growth rates (10.9%) in the region in terms of value per room from 2013 to 2017, reaching €283,000.

Since becoming Kazakhstan's capital in 1997, **Astana** has enjoyed strong growth backed by its construction industry. Establishing its presence in the international arena, Astana has

In December 2010, Russia won the right to host the **2018 FIFA World Cup** ahead of the UK, the Netherlands, Spain and Portugal. Since 2010, 13 cities have been announced as potential destinations to host matches, and in September 2012 the finalised list of host cities was published: Moscow, St Petersburg, Kaliningrad, Nizhny Novgorod, Kazan, Samara, Saransk, Volgograd, Rostov-on-Don, Sochi and Yekaterinburg.

According to FIFA requirements, all of the host cities are expected to reach certain hotel accommodation levels. More than 60% of the total required room supply is supposed to be positioned in the three-star segment, thus the majority of the construction/renovation projects that are expected to be completed within the coming years in the listed host cities are in the midscale segment. All of the cities except St Petersburg are planning to either build new hotels or renovate existing ones to prepare for the event. Cities such as Yekaterinburg and Moscow have enough rooms available to meet FIFA's requirements and are planning minimum additional construction to prepare for the event. Kazan and Sochi are hosting other large-scale international events prior to the FIFA World Cup and thus already have large volumes of additional rooms coming into the market before the event.

FIFA requirements for the minimum number of rooms available in the host cities differ depending on the type of match the destination is hosting. In order to host group matches, the city is obliged to have at least 1,000 rooms to accommodate participants, FIFA representatives, teams, referees and other official guests per match per day. This number does not cover football fans that are coming to the destination to watch the games. Cities such as Volgograd, Saransk, Rostov-on-Don, Nizhny Novgorod, Kaliningrad and Samara are planning to increase and renovate their existing room supply. Even though the total number of existing rooms in the host cities corresponds to the minimum requirements, most of this supply is worn-out, outdated products from the Soviet era. An estimated 19,000 rooms are expected to be built or refurbished by 2015 to match FIFA's minimum requirements. International brands such as Accor, Starwood, Swissôtel, Rezidor, Hyatt, Ramada, IHG, Kempinski and Hilton are scheduled to enter the market of the host cities within the next three to four years. The total investment allocated to update and expand Russia's tourism infrastructure is considered to be US$11 billion, according to the 2018 FIFA World Cup Bid Evaluation Report. However, while building all the new lodging facilities to host the event's visitors, participants and officials, one should keep in mind the future demand for hotel services. According to the recent experience of Ukraine's hotel market after Euro 2012, the numbers that pick up during the event tend to drop significantly thereafter, owing to a discrepancy in the supply and demand growth rates. Despite certain activities by the authorities to develop and improve infrastructure in time for the 2018 FIFA World Cup, which should increase the host cities' attractiveness as well as general levels of interest in these regions, it is important to keep in mind that most of these markets are likely to experience oversupply and will be subject to pressure in operational performance shortly after the event.

been hosting international events such as the Asian Winter Games and is currently bidding to host Expo 2017. In order to support the development of Astana as a MICE destination, some of the exhibitions have been relocated from Almaty. The hotel market in Astana remains mainly unbranded, with only three international operators (Rixos, Radisson and Ramada). Similar to Almaty, mid-market hotels are scarce, thus offering opportunities for development in this segment. Owing to limited new supply coupled with economic growth and an increase in demand, HVS forecasts Astana's hotel values to exhibit the fourth-largest growth in the region, reaching €271,000 per room in 2017.

Kazan is preparing to host some major sporting events in the near future, such as Universiade in 2013, the world championship of water sports in 2013 and the 2018 FIFA World Cup. In preparation for these events, at least three international brands have confirmed their plans to enter the market in the short to medium term. In addition to the major sporting events, Kazan attracts a large number of business travellers as the Tatarstan Republic's capital and one of the main commercial hubs of Russia. Kazan's hotel values continued recovering from the drop of 2010 and are forecast to reach €107,000 per room in 2012. Continued growth in market performance will allow hotel values to grow to €128,000 per room in 2017, with a moderate compound annual growth of 3.6%.

Yekaterinburg is one of the most developed industrial cities in Russia and is thus attracting mostly commercial travellers. The city's hotel market is well developed and the city has already hosted major international events such as the BRIC and SCO summits. International brands that are already settled in the market are Ramada, Accor, Hyatt and Rezidor. Having experienced considerable loss in hotel values between 2008 and 2010, the city's hotel market was finally able to show signs of recovery in 2011 and is continuing to do so in 2012. The recovery process is partly aided by the absence of new supply in the last two years, and values in the city are forecast to grow to €103,000 per room in 2012. Recently, Yekaterinburg has been in the spotlight of the international community as it has been named among 11 cities hosting FIFA World Cup matches in 2018. In addition, Yekaterinburg is among five cities that are bidding to host World Expo 2020. Taking into account the growing demand in the city and the continuing recovery of operating performances, HVS forecasts hotel values to reach €149,000 in 2017, with the second-largest compound annual growth in the region (9.4%).

SOCHI – CHOSEN TO HOST FIFA WORLD CUP 2018 MATCHES

Rostov-on-Don is a port city with a population of 1.1 million. Aside from being in one of the biggest agricultural regions, the city is developing as an industrial and technological centre. The majority of Rostov's visitors are commercial. The city is not well developed as a leisure/cultural destination, despite its potential. Currently, there are no international brands operating in the city. Owing to limited new supply in the past two years, hotel values were able to increase and are forecast to reach €95,000 per room in 2012. Rostov has also been named one of the host cities for the 2018 FIFA World Cup. In the short to medium term, the city will experience an unprecedented increase in international hotel accommodation with at least six hotels scheduled to enter the market. Such a drastic increase in supply will outweigh demand growth in the medium term and cause a situation of severe oversupply. HVS forecasts Rostov's hotel values to drop between 2013 and 2017 at a compound annual rate of 2%.

Samara is one of the most important transport hubs in the country. It is well known for its aerospace and refining industries and is one of the top cities in Russia by industrial production. Most of the city's visitors are on business, whilst the leisure market is almost non-existent. The current supply of hotel rooms in the city is represented by three international chains (Renaissance, Holiday Inn and ibis), with Azimut among the domestic brands. Hilton is the only confirmed international operator due to enter the market in the near future. Despite the fact that Samara has been chosen to host matches during the 2018 FIFA World Cup, increase in hotel supply is limited. Considering the above-mentioned factors, HVS forecasts moderate growth in hotel values at a compound annual rate of 2.9% between 2013 and 2017.

In 2011, hotel performance was lower than expected in **Moscow's upscale/luxury segment**, which resulted in a revision of hotel values to €385,000 per room. Market recovery continued in 2012, albeit at a slower pace, and, even though both occupancy and average rates are forecast to increase in 2012, hotel values are expected to grow moderately by 3% to €397,000 per key. Despite increasing levels of demand and limited new supply, pressure on average rates in the market is one of the main reasons for the slower-than-expected growth in values. In the medium term, Moscow's upscale/luxury segment will have to absorb almost 3,500 new rooms. However, HVS forecasts that the strong commercial base, coupled with Moscow's importance in the economic development of the country, will allow hotel values to continue to grow to €512,000 by 2017, which is a 4.1% compound annual growth rate between 2013 and 2017.

Similar to the upscale/luxury segment, **Moscow's mid-market/budget** hotels' performance improved over the past 24 months. Limited new supply coupled with recovering demand ensured hotel values increased to €207,000 in 2011 and are forecast to reach €220,000 per room in 2012. In 2012, hotel supply in this segment increased by the addition of the Courtyard by Marriott Paveletskaya and the Mercure Arbat. Over the next four to six years, Moscow's mid-market/budget segment is due to receive an additional 5,000 rooms. Demand growth potential for moderately priced and good quality accommodation as well as HVS's reservations regarding the likelihood that all of the announced projects will come to fruition leads us to consider that, in the medium to long term, this new supply will be absorbed by the market. Taking these factors into account, HVS forecasts a 5.4% compound annual growth rate between 2013 and 2017, taking Moscow's mid-market/budget per room value to €288,000.

Since 2010, occupancies in the **upscale/luxury segment of St Petersburg**'s hotel market have shown positive growth, although sometimes at the expense of average rates, which continue to be put under pressure. Nonetheless, RevPAR exhibited positive growth patterns (although slower than expected) which allowed hotel values to increase by an average of 4% a year over the last three years and are forecast to reach €240,000 per room in 2012. This is still significantly lower than the values achieved in the peak year of 2008 (€377,000 per room). In the short to medium term, HVS expects five more hotel projects to enter the market from companies such as IHG, Four Seasons, Hilton and Lotte. However, demand growth will be stimulated by factors such as the Pulkovo Airport expansion, the new ExpoForum, the 2018 FIFA World Cup, and various initiatives to relax visa regulations. All these factors are likely to help St Petersburg's upscale/luxury segment absorb the new supply and continue the growth of the per room value to €326,000 in 2017.

MARIINSKY PALACE, ST PETERSBURG

ST SOPHIA CATHEDRAL, KIEV

St Petersburg's mid-market/budget segment values have demonstrated a steady increase over the last two years, driven mainly by increases in occupancy. Owing to the large amount of supply in this segment and the city's relatively small commercial base, average rate potential is limited, which in turn is reflected in the hotel value per room, which is forecast to reach €106,000 in 2012. Additions to supply in this segment are limited and are mostly driven by IHG and Hilton. Taking into account some of the demand-stimulating activities that will take place in the city in the short to medium term, HVS forecasts St Petersburg's mid-market/budget segment per room values to grow fairly aggressively (at a compound annual rate of 8.7% between 2013 and 2017) and reach levels of €158,000 per room in 2017.

The Big Picture

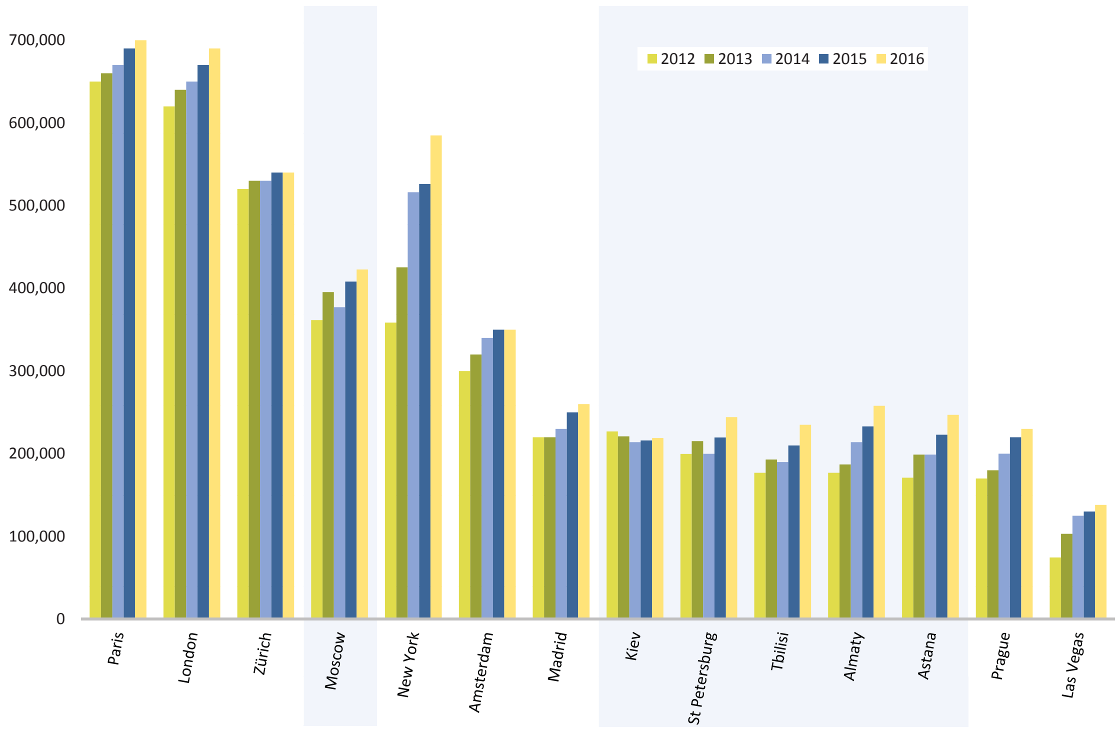
As we continue to compare the values in the region to that of international markets, we can see that Moscow hotel values will remain fairly high, ranking between Zürich and New York, with the latter forecast to increase significantly by 2016. With the exception of Yerevan and Baku, all other major cities in the region are comparable with global values and positioned at approximately €200,000 per room.

Outlook and Hotel Investment

The promising start to 2011 and the expected recovery showed signs of slowing down in the second half of the year, mainly based on the continued crisis in Europe and pressure on average rates. Therefore, 2012 began with additional concerns over the speed of the recovery. Despite demand growth in the market, average rate potential continues to be one of the main concerns for hoteliers. A slower pace of recovery for hotel values in the region is set to continue increasing, albeit at lower levels than expected.

Hotel development timelines continue to be lengthy and complex owing to factors such as bureaucratic approval processes, construction cost and numerous licensing requirements. Professional and cautious project management will continue to be important in successful and adequate development timelines.

CHART 13: GLOBAL VALUE COMPARISON (€)



Source: HVS

ROSTOV-ON-DON

Despite availability of debt financing in the region, interest rates remain high and therefore impact the expected returns on investment. Only once a hotel has commenced operations and started to generate cash flows can an investor explore refinancing options at more affordable interest rates. Such factors may deter potential investors and obstruct hotel development in the region.

Hotel branding continues to be important, to distinguish the hotel from the competition and capture more market share leading to higher profits and subsequently higher values. Furthermore, having the hotel managed by a reputable international operator may assist in securing more favourable financing terms.

Hotel transactions are proportional to the maturity of the hotel markets; therefore, as the region develops, more opportunities for hotel acquisitions will be available. Active transactions markets will encourage more investors to consider funding or acquiring hotel projects. In 2011-12, the Moscow hotel market witnessed unusually high activity. The biggest transaction was the acquisition of the Ritz-Carlton Moscow in 2011 by Kazakhstan investment company Verny Capital for US$700 million. According to the programme of privatisation of non-core assets, the Moscow government sold several iconic hotels, among which were the National Hotel (4.7 billion rubles) and the Metropol Hotel (8.9 billion rubles). Hotel Pekin was sold at the beginning of 2011 to System Gals for US$60 million and will be rebranded as a Fairmont. The bidding process is currently being held for the hotel Budapest. Another major transaction marks the acquisition of Unicor Group, which owns the InterContinental Hotel Moscow and the proposed Mandarin Oriental, by BIN Group.

Conclusion

We consider that the hotel industry in Russia, the CIS & Georgia will continue to offer investors a lot of potential for returns on their investment. Despite certain pressures on values in the short term, the medium- to long-term outlook for the region is positive. New supply will keep the pressure on average rates; however, the emerging mid-market hotel sector will offer a wider choice not only for guests, but also for potential investors.

Even though the region attracts a certain type of investor, attaining professional feasibility studies and diligent cost management, coupled with a solid product and management, will assure returns exceeding those that can be expected in more mature markets.

Understanding the HVI

The Hotel Valuation Index (HVI) is a valuation benchmark developed by HVS. It presents historical and anticipated value trends across 14 markets in Russia, the CIS and Georgia. The methodology adopted to derive these values is based on actual operating data which is maintained by HVS.

The valuation process starts by analysing the supply and demand dynamics in a given market. To quantify demand, actual operating data is used to determine the total accommodated demand, which is essentially the total annual room nights occupied within a defined market, and is supplemented with special events or hotel openings inducing additional demand.

On the supply side, the expected supply pipeline for the defined market is quantified by interviews with hotel operators and developers. The overall marketwide occupancy is then calculated based upon the total projected room night demand and the supply of existing and proposed hotel rooms for the defined period.

Having determined the marketwide occupancy, we then forecast the average rate for the defined market. Various market-specific factors influence the growth rates applied to the average rate, such as the overall status of the economy and the supply-demand equation for the defined period. The marketwide occupancy and average rate is applied to a typical 200-room hotel, thus attaining gross rooms revenue. Other revenue line items are then estimated using individual forecast models. Once the total revenues are derived, individual departmental expenses, undistributed operating expenses and fixed expenses are estimated based on HVS's knowledge of actual operating profiles, thus arriving at the Net Operating Income (NOI). As the HVI uses an income capitalisation approach to derive values, the NOI serves as the basis for determining the value of a typical 200-room hotel in the defined market.

From our experience of hotel financing and conducting several valuations over the past few years in Russia, the CIS and Georgia, HVS established appropriate valuation parameters for each city covered by the HVI. We should note that the capitalisation rates used in the forecast represent an all-in yield, reflecting investor sentiments in both the short and long term as well as availability of debt. The capitalisation rates between 2010 and 2012 were fairly stable, ranging from 9-11%. This level of stagnation in the capitalisation rates can be partly attributed to the continuing recovery process in the markets and scarcity of debt. These market-specific valuation and capitalisation parameters were then applied to the NOI derived for the hotels in each market to arrive at the values per room.

Disclaimer: We note that the valuations presented in this report represent the typical performance of a hotel in each market. Actual valuations of specific hotel assets will vary based on factors such as location, size, brand affiliation, age, condition and actual performance. We specifically note that our values are only based on market information available as of October 2012, and that any significant changes in supply or demand trends beyond this date could have an impact on value. The valuation parameters that were used to arrive at these values were based on our conversations with active hotel investors and reflect current investor sentiments. Any changes in such investor expectations in the future will have an impact on future values.

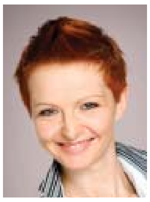
For further information on the HVI, please contact Alexey Korobkin at akorobkin@hvs.com.

About HVS

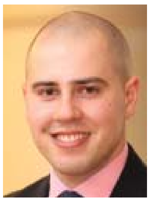
HVS is the world's leading consulting and services organisation focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year and clients include virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 31 offices staffed by more than 300 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit www.hvs.com.

With offices in London since 1990 and Moscow since 2007, HVS serves clients with interests in the UK; Europe, the Middle East and Africa (EMEA); Russia; and the CIS. We have appraised almost 4,000 hotels or projects in 50 countries in all major markets within the EMEA region for leading hotel companies, hotel owners and developers, investment groups and banks. Known as one of the foremost providers of hotel valuations and feasibility studies, and for our ability, experience and relationships throughout Europe, HVS is on the valuation panels of numerous top international banks which finance hotels and portfolios.

About the Authors



Tatiana Veller is the Managing Director of HVS in Russia, delivering various types of strategic consulting for all facets of the hospitality industry in Russia, Georgia, the CIS and the Baltics. In addition to Tatiana's HR Consulting background with leading firms in the USA, she possesses extensive operations experience with top companies in the hospitality and food service industries in Russia and the USA, along with a Bachelor's degree in Hotel and Restaurant Management from the Russian Academy of Economics n.a. Plekhanov and a US MBA in International Management. This gives Tatiana a unique understanding of the industry and the strategies that drive performance.



Alexey Korobkin joined HVS in 2010. Originally with a degree in Economics and Finance, Alexey has also obtained an MBA in Hotel and Tourism Management from one of Switzerland's top hotel universities. Alexey has held positions in various hotels across Europe, the USA and Russia. He has been involved in several feasibility and valuation studies for HVS. Since January 2011, Alexey has been based in Moscow, where he has completed feasibility and valuation studies in Russia and Ukraine.

Margarita Lobova started her career path in hospitality by earning a Degree in Economics and Management in Tourism. At the same time, she joined the Petro Palace Hotel in St Petersburg as a receptionist, gaining knowledge of the industry from an operational perspective. She furthered her experience by doing postgraduate studies in Switzerland at Glion Institute of Higher Education. After graduating from GIHE with distinction, she joined Shangri-La Hotels & Resorts in Abu Dhabi, UAE where she stayed for three years, advancing from Front Office associate to Business Development Manager. In July 2012, Margarita joined HVS Consulting & Valuation Moscow in the role of Junior Consultant.

www.hvs.com

HVS Moscow Office | Gilyarovskogo Street 4/5, Office 301, Moscow 129090, Russia

HVS
HVS_Consulting
HVS-Consulting
HVSConsulting