

Kyiv Hotel Market

# Change Does Not Happen Overnight

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## INTRODUCTION

A severe economic downturn and geopolitical tensions with Russia negatively affected hotel market performance over 2014-2015. A moderate economic recovery and noticeable revival of business sentiment were reflected in the gradual revival of the hotel market in 2016. In H12017 Kyiv's hotel market benefited from even stronger corporate confidence, as a key factor towards renewed ADR growth and conducive to profitability improvements. Furthermore, events held in the capital, such as the Eurovision Song Contest, supported the hotels' key performance indicators (KPIs), finally demonstrated the best results since 2013. We also recorded slow revival of development activity in the sector. A few new projects are expected to be brought to the market by year-end. Existing international hotel chains announced plans to increase their operational presence in Kyiv and key tourist destinations such as Odesa and Lviv, which yet again demonstrates a sign of positive changes in the hotel market dynamics.

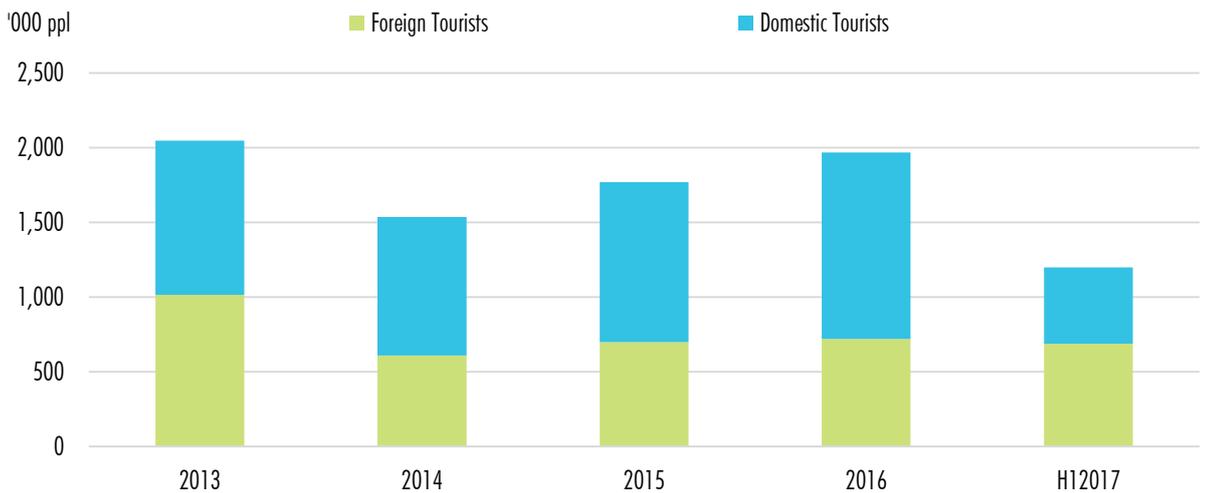


**INTERNATIONAL ARRIVALS START TO GROW, AS BUSINESS ACTIVITY SHOWS SIGNS OF REVIVAL**

While the number of both domestic and international tourists fell by 25% y-o-y in 2014, the trend reversed in 2015 driving tourist inflows up by 15% y-o-y and by 11% y-o-y in 2016. In H12017 ca. 688,500 of international tourists visited Kyiv, which is 34% y-o-y increase as compared to the prior year's figure. According to the data released by the Kyiv City State Administration, the number of international tourists is expected to reach 1.4 million people by year-end. Persistent growth in tourist arrivals marked the revival of business activity in the capital. As business tourism traditionally dominated the demand for hotel accommodations in Kyiv, the trend will have a positive impact on the hotel performance in H22017. According to WTTC, business tourist spending is expected to grow by 10.2% as of the end of 2017 and by a further 7% per annum through 2027, which indicates Ukraine's gradually improving business sentiment.

Latest available statistics reveal that demand for hotel stays in Kyiv showed a healthy growth of 16% in 2016. Growth continued in H12017 due to relatively more stable economic and political landscape in the country. In addition, international events like Eurovision 2017, eSport tournament Dota 2 and Ice Hockey World Championship that took place in Kyiv supported the demand for hotel industry during April and May. Upscale international hotel brands were of a particular interest to corporate groups and conventions, who are typically less price sensitive.

**Figure 1: Kyiv's Tourist Inflows Trend**



Source: Kyiv City State Administration, 2017

**Figure 2: Tourist Stays in Kyiv Hotels**



lhs – left hand side

rhs – right hand side

Source: Kyiv Statistics Office, 2017

**LACK OF INTERNATIONAL HOTEL OPERATORS IN MIDSCALE AND BUDGET SEGMENTS**

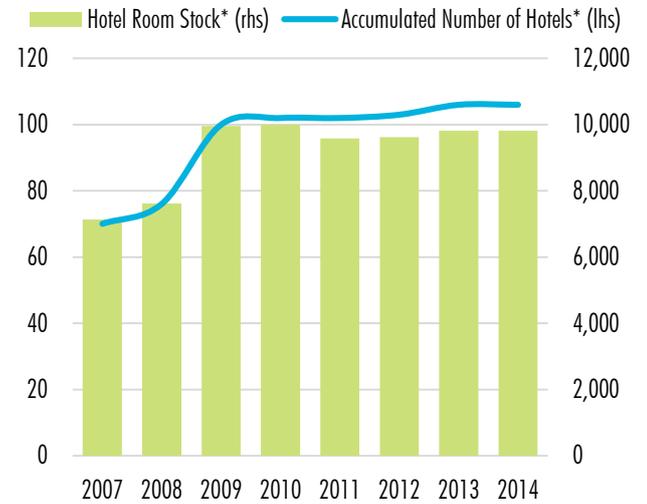
Due to the fact that no new hotels opened in H12017, total hotel stock remained unchanged, as compared to the end of the previous year. In the 2013-2016 period, a number of hotels closed, which decreased hotel room stock by 2%, although the opening of new properties mitigated this decrease. Currently, Kyiv's hotel supply market consists of 106 properties, with the total key count of ca. 9,800 as of the end of June.

Looking into by-the-segment supply structure, 3-star properties prevail on the market, representing almost 50% of Kyiv's hotels with ca. 4,800 keys in 45 hotels as of the end of June 2017. However, the majority of these properties are outdated and do not meet quality standards expected from a branded midscale hotel. Most of the midscale and budget hotels in Kyiv are operated by owners and local management. The only existing branded hotels operating in Kyiv's midscale segment are Ibis by AccorHotels and Ramada Encore by DBI in strategic partnership with Wyndham Worldwide. Both properties account for just 11% of 3-star room stock, indicating a lack of international hotel management presence in the midscale and budget segments.

**International operators represent only 11% of 3-star room stock**

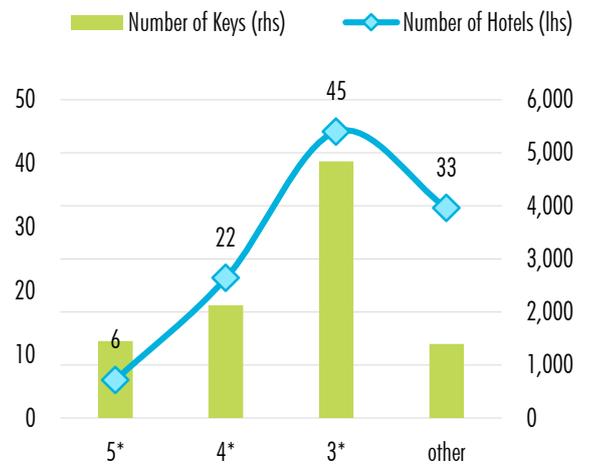
4-star properties account for 22% of the existing hotel supply. Approximately 30% of room stock in the 4-star segment is represented by international hotel brands, including Carlson Rezidor Hotel Group (Radisson Blu Hotels) and IHG (Holiday Inn). The total stock of 4-star hotel properties stood at ca. 2,200 keys as of the end of H12017. As for the 5-star properties, Hilton hotel was the latest addition to this segment in 2014, which pushed the 5-star room stock up by 18%, reaching ca. 1,500 keys. As of H12017 the stock of this segment remained stable. The segment is dominated by hotel chains like Hilton, Hyatt, IHG and FRHI with 71% of the room stock under management. 11 Mirrors Design Hotel in "others" category, is operated by a local company DEOL Partners. Design Hotels itself is an international brand in strategic partnership with Marriott International, previously Starwood.

Figure 3: Kyiv Hotel Market Stock



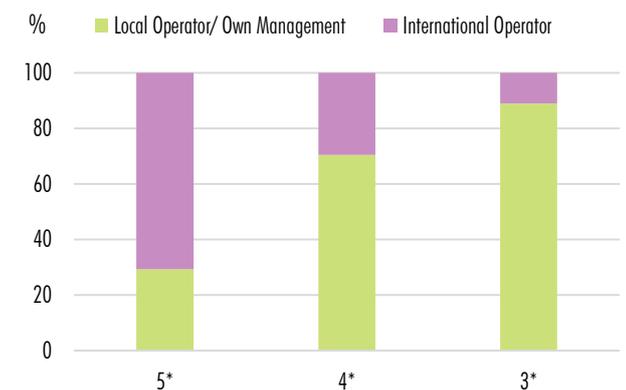
\*hotels with 10 and more rooms  
lhs – left hand side; rhs – right hand side  
Source: CBRE Ukraine, 2017

Figure 4: Total Kyiv Hotel Supply



lhs – left hand side; rhs – right hand side  
Source: CBRE Ukraine, 2017

Figure 5: Hotel Supply by Management Type



Source: CBRE Ukraine, 2017



**REVIVAL OF DEVELOPMENT ACTIVITY EVIDENT ON THE KYIV HOTEL MARKET**

A more stable economic situation has resulted in improving development activity in the hotel sector. New supply is forecast to reach 516 keys (+5.3% y-o-y) in H22017 due to the opening of Park Inn by Radisson Troyitska (196 keys) and Aloft hotel by Marriott International (320 keys). In addition, the rebranding of Kosmopolit Hotel into Mercure Kyiv Congress Hotel (160 keys) by AccorHotels is predicted to be finalized by the end of 2017, increasing the market’s competitive set. Lively expansion plans were also recently noted from DBI hotel management group, planning to open a rebranded 18-key lifestyle hotel Number 21 by DBI in September 2017, previously known as Impressa hotel.

Relatively low competition in the budget and midscale quality segment makes it an attractive market for hotel developers and hotel operators alike. For instance, AccorHotels showed an active interest in contributing to the Ukrainian hotel market, with several planned hotels in Kyiv and regions. Currently two Ibis hotel projects remain under construction and are expected to open in 2018. Furthermore, Moi hostel with 75-80 keys in close proximity to Kyiv City Airport is currently under construction and is expected to be delivered during the next two years under DBI management. The company announced further interest in opening millennial-style hotels in Obolon district, one of which under the Sync brand is due to open in 2018. No upscale and luxury hotels are currently projected for the next few years. The construction of Sheraton Kyiv Olympiyskyi and Renaissance Kyiv Hotel have been at a standstill for an extended period of time, with their delivery timing uncertain. The probability of reversal in development/construction activity in the short-term remains rather low due to restricted debt financing and higher international competition in the high-end segment of the market.

Table 1: Kyiv Hotel Pipeline 2017-2018

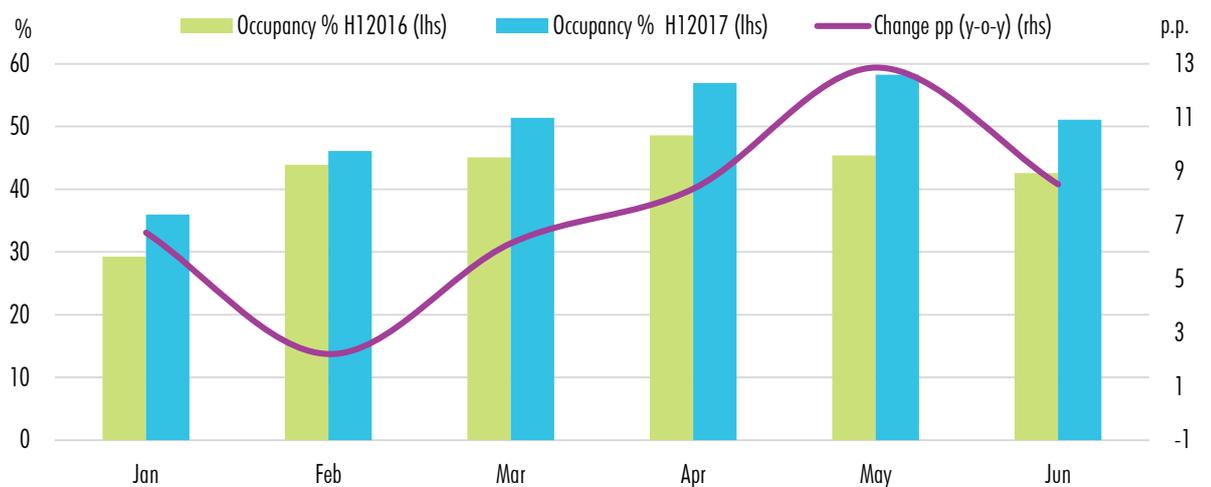
NAME	ADDRESS	MANAGEMENT COMPANY	NUMBER OF KEYS	EXPECTED YEAR OF OPENING
Park Inn by Radisson Kyiv Troyitska	55 Velyka Vasytkivs'ka St.	Carlson Rezidor Hotel Group	196	2017
Aloft Kyiv	17 Esplanadna St.	Marriott International	320	2017
Mercure Kyiv Congress	6 Vadyma Hetmana St.	AccorHotels	160	2017 rebranding
Number 21	21 Sahaidachnoho St.	DB International	18	2017
Ibis	6 Polzunova St.	AccorHotels	280	2018
Ibis	Peremohy Ave.	AccorHotels	245	2018
Sync	Obolon district	DB International	n/a	2018
Moi	Kyiv City Airport	DB International	75-80	2018-2019

Source: CBRE Ukraine, 2017

**AVERAGE OCCUPANCY GROWTH STIMULATED BY POSITIVE CHANGES IN DEMAND**

After a seasonal drop in January 2017 (-36% m-o-m), associated with decreased business trips during New Year and Christmas holidays, the occupancy of the quality room stock was growing gradually until May 2017 reaching its peak at 58.3% (+12.9 pp m-o-m). While May results benefited from the foreign tourist arrivals for the Eurovision Song Contest, June results were still 8.5 pp y-o-y higher than the same period the prior year. Although the event contributed to occupancy growth, the positive trend was more a result of fundamental strengthening of demand. H12017 demonstrated a record peak in average occupancy of circa 50%, which is almost 14pp y-o-y higher than the average occupancy of H12016. This is the highest occupancy figure experienced since 2013.

Figure 6: Hotel Market Occupancy of Kyiv Quality Hotel Stock H12017 vs H12016

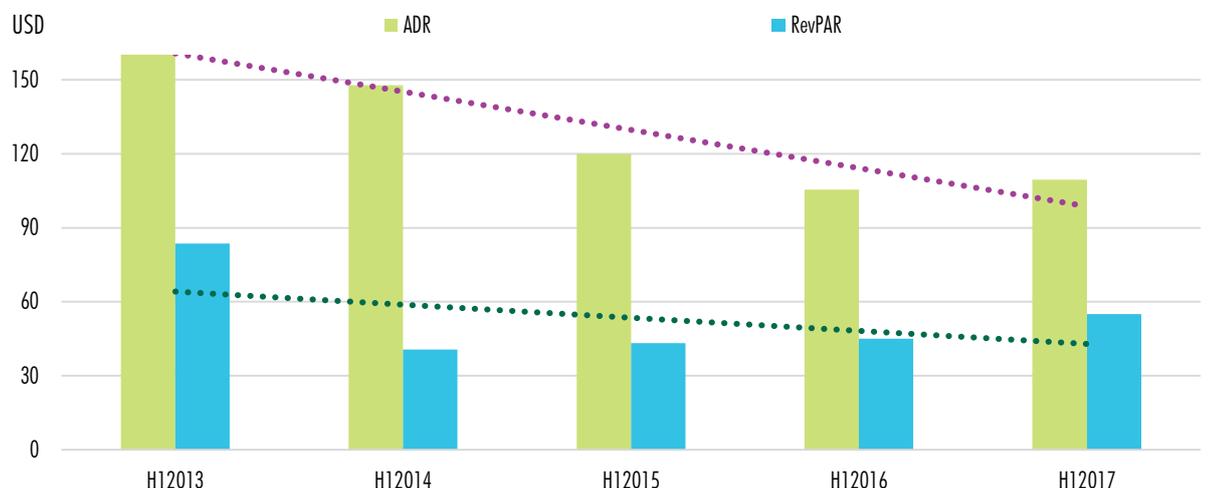


Source: STR Global; CBRE Ukraine, 2017

**RISE IN ADR & REVPAR AS HOTELIERS INCREASE RACK RATES**

In response to the increased tourist inflow and spikes in occupancy during the international entertainment and sporting events, noticeable improvements in both average daily rate (ADR) and revenue per available room (RevPAR) were recorded during the first six months of 2017. Unlike previous years, USD-denominated ADR demonstrated a slight growth of 3.8% y-o-y reaching USD110 in H12017. The increase was mainly due to May and June results, amounting to USD119 (+7.9% m-o-m) and USD120 (+13.8% m-o-m), respectively. In this period of growing demand for lodging industry, partly stimulated by the inflow of tourists during Eurovision Contest 2017, hotels were able to drive USD rack rates higher, which in turn resulted in increased ADR.

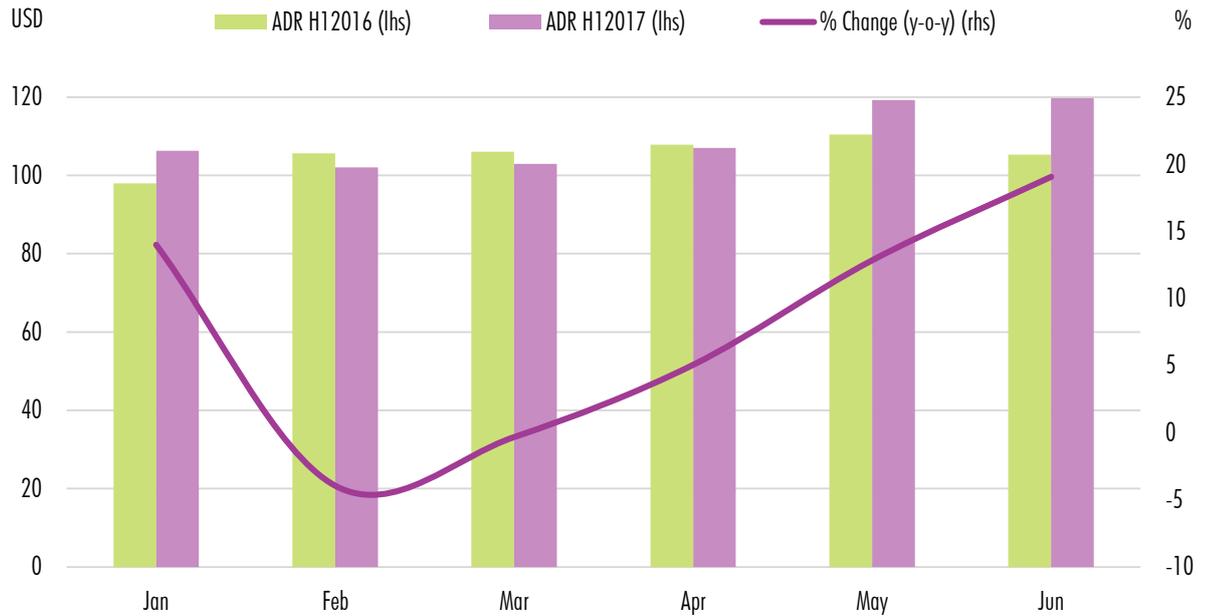
Figure 7: ADR and RevPAR of Kyiv Quality Hotel Stock



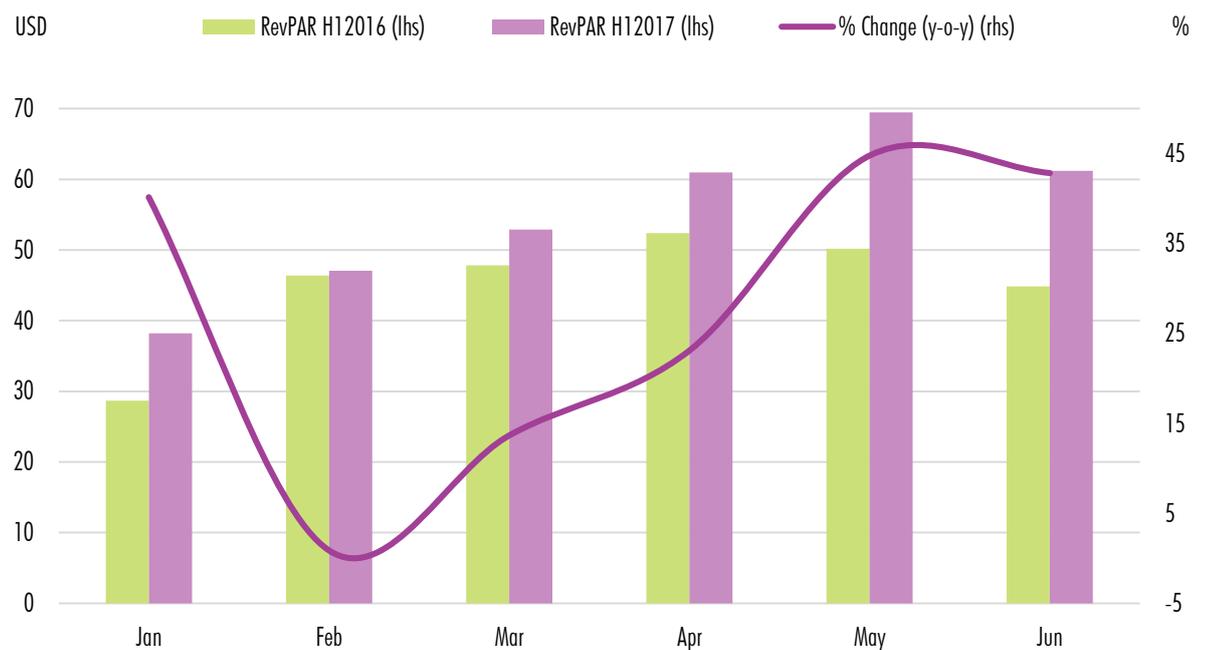
Source: STR Global; CBRE Ukraine, 2017

An increase in ADR and occupancy had a positive impact on RevPAR in H12017, resulting in a substantial growth of 22% y-o-y during the period. Hence, the average RevPAR amounted to USD55, with the max RevPAR indicator reaching USD70 (+38.5% m-o-m) in May. With a larger flow of international and domestic travelers, H22017 results should look even more promising, while being historically the busiest half of the year for Kyiv’s hospitality market.

**Figure 8: Monthly ADR of Kyiv Quality Hotel Stock H12017 vs H12016**



**Figure 9: Monthly RevPAR of Kyiv Quality Hotel Stock H12017 vs H12016**



lhs – left hand side  
 rhs – right hand side  
 Source: STR Global; CBRE Ukraine, 2017

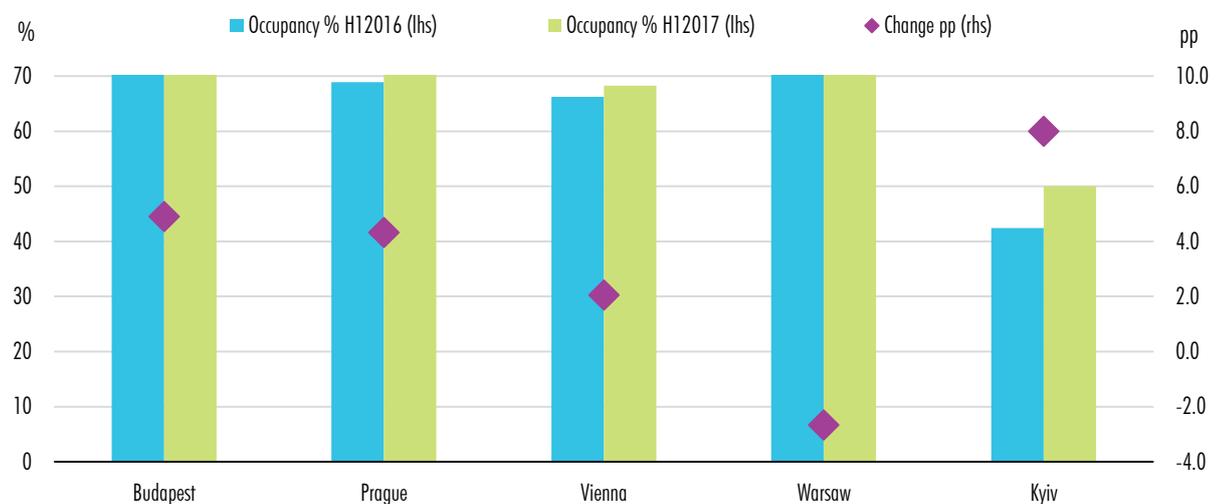


**KYIV HOTEL MARKET KPIS AS COMPARED TO SELECTED EUROPEAN CAPITALS**

In order to analyze the Kyiv hotel market, we benchmarked it with other most resembling European capitals. Kyiv had noticeably lower occupancy rates in both H12016 and H12017 compared to other European cities listed, having the smallest occupancy variance of 18.3 pp with Vienna in H12017. However, in H12017, Kyiv demonstrated the most significant occupancy growth from last year (8 pp) among all the listed cities. Although, it is worth noting that such significant growth factor in occupancy is relatively attributed to initially low base indicators of the Kyiv market. Such indicators clearly demonstrate a positive growth trend of traveler demand for the Kyiv hotel market. Notably, an additional push in occupancy was initiated by the Eurovision song contest in May. On a positive note, in the following months the occupancy still levelled out at a higher rate than the same period last year driven by general revival of business tourism.

*In H12017, Kyiv demonstrated the most significant occupancy growth from last year (8 pp) among all the listed cities*

Figure 10: Hotel Occupancies in Selected European Capitals, H12017 vs H12016



lhs – left hand side  
 rhs – right hand side  
 Source: Hotstats; CBRE Ukraine, 2017

Notwithstanding Kyiv's lower occupancy rates, ADR in Kyiv's hotels was roughly at the same level as those of Prague, Warsaw, and Budapest. However, while Prague experienced an occupancy rate of 73.2% in H12017, its ADR of USD112 was only USD2.5 higher than Kyiv's, which had considerably lower occupancy of 50%. Furthermore, in both H12016 and H12017 Kyiv's ADR is roughly at the same level as those of Budapest and Warsaw too. Among the cities listed, only Vienna has 58% higher ADR of USD173 in H12017.

*Kyiv experienced the highest RevPAR percentage change (+22%) among other capitals*

As an effect of high ADR, Vienna's RevPAR was among the highest. Owing to its popularity among different traveler categories, its ADR was also relatively stable compared to other cities. Budapest had a significant ADR push responding to higher occupancy and ADR, which moved it further away from Warsaw's indicators. Unlike other KPIs, every listed capital experienced a rise in RevPAR, whilst Kyiv, in particular, experienced the highest percentage change of +22% y-o-y, followed by Budapest's +16.4% y-o-y. Regardless of the increase, Kyiv still retains the lowest RevPAR indicator in both years among other capitals. Cross-city comparison indicates the fact that Kyiv has to focus on stimulating occupancy growth through developing its presence on the international arena, in order to attract demand from foreign travelers. Nevertheless, while Kyiv's rates are feasible for a foreign traveler, they are, however, relatively high for a domestic one, which is why another area of focus is the budget hotel sector.

Figure 11: ADR in Selected European Capitals H12017 vs H12016, USD

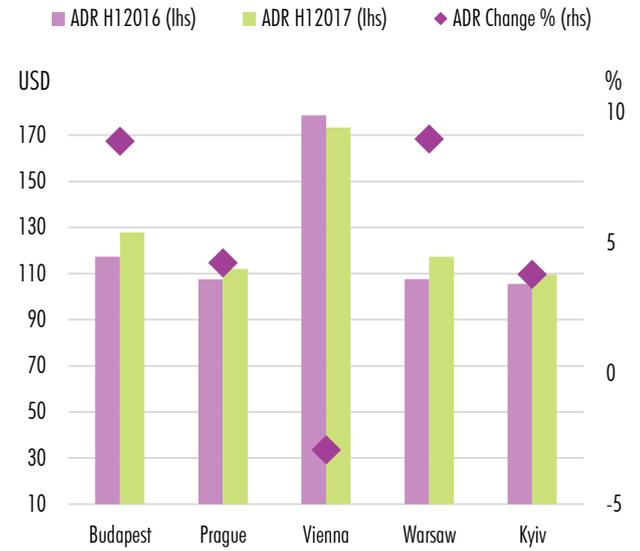
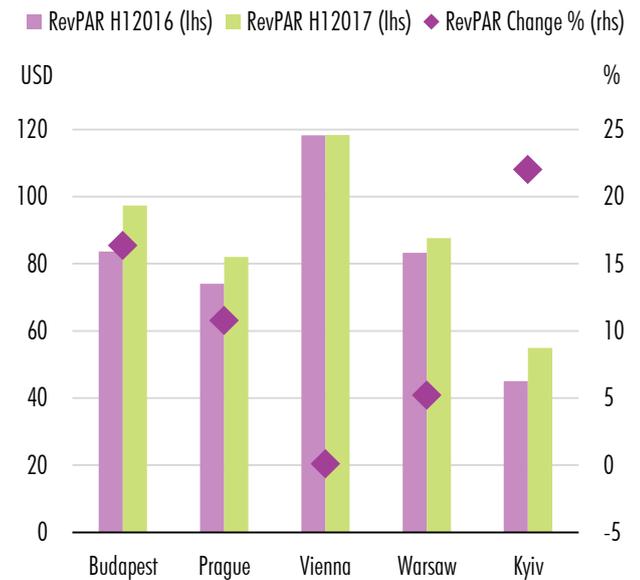
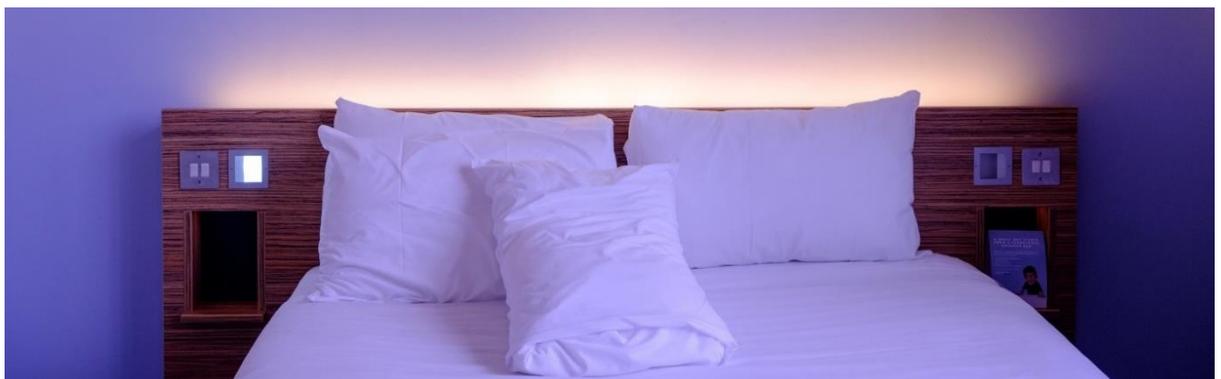


Figure 12: RevPAR in Selected European Capitals H12017 vs H12016, USD



lhs – left hand side  
rhs – right hand side  
Source: Hotstats; CBRE Ukraine, 2017





**INTERNATIONAL OPERATOR EXPANSION BEYOND KYIV**

While Kyiv’s hotel stock remained unchanged, Ukrainian regions were under the spotlight of international hotel operators, as the result of a visible increase in tourist arrivals. For instance, AccorHotels opened their first Ukrainian market boutique hotel in Odesa, a Southern city on the coast of Black Sea. Hence, Hotel de Paris is now operating under Accor’s brand MGallery by Sofitel, adding 51 keys to the hotel stock. Unlike, the group’s existing properties in Kyiv and Lviv, MGallery targets the luxury leisure and business segments. An independent hotel under the name Merlin also opened in H12017 in Odesa, adding 46 rooms to the upscale room stock.

Among other global hotel chains, Hyatt Hotels Corporation likewise reviewed opportunities to enter Odesa hotel market with a few properties; however, further details are unknown as of now. With more certainty, IHG is planning to launch Crowne Plaza Hotel Lviv instead of the current Grand Hotel, a first Crowne Plaza brand on the market. The operator is planning to double the current hotel size already in 2017, which will make it a 120-key hotel. Domestic hotel operators, like Reikartz, also kept up in the regional expansion. The company is now rebranding two hotels in Mykolaiv (south Ukraine), which will result in 148 Reikartz branded keys in H2 2017.

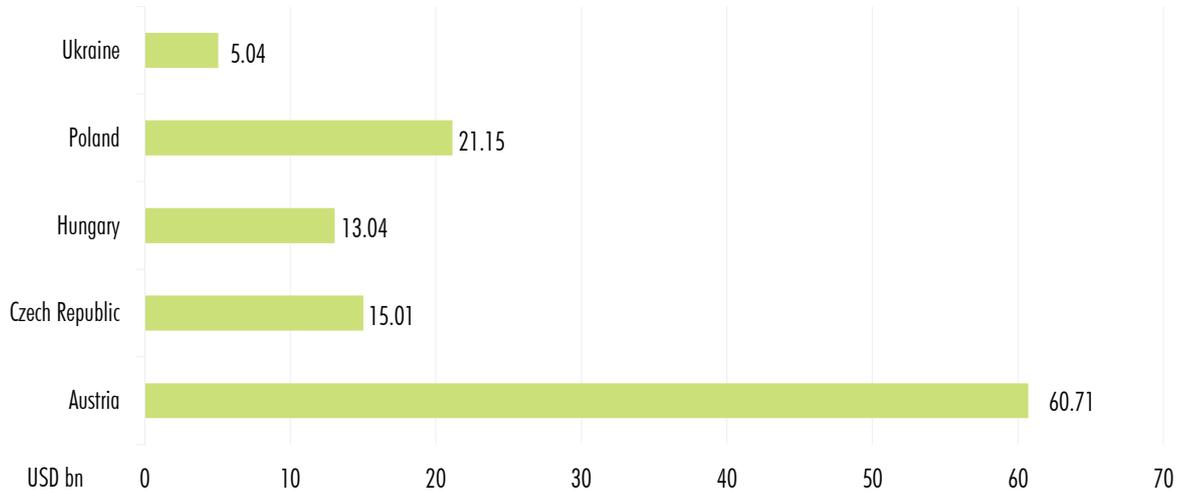
**Table 2: Key Regional Hotels Pipeline 2017-2018**

NAME	ADDRESS	MANAGEMENT COMPANY	NUMBER OF KEYS	CURRENT STATUS
Crowne Plaza Lviv	13 Svobody Ave., Lviv	IHG	120	U/C
Reikartz Nikotel Mykolaiv	120 Tsentral'nyi Ave., Mykolaiv	Reikartz Hotel Group	81	Rebranding
Reikartz Kontinent Mykolaiv	42 Admiral Makarov St., Mykolaiv	Reikartz Hotel Group	67	Rebranding
Il DeCameron	10 Kachinskoho St., Odesa	Il Decameron	36	U/C
Taurus Hotel	9 Kniazia Sviatoslava Sq., Lviv	Taurus Hotel	N/A	U/C
Hotel Property	12 Virmenska St., Lviv	N/A	N/A	U/C

Source: CBRE Ukraine, 2017

**FURTHER HOTEL MARKET GROWTH EXPECTED AS THE RESULT OF RISING TOURIST INFLOWS**

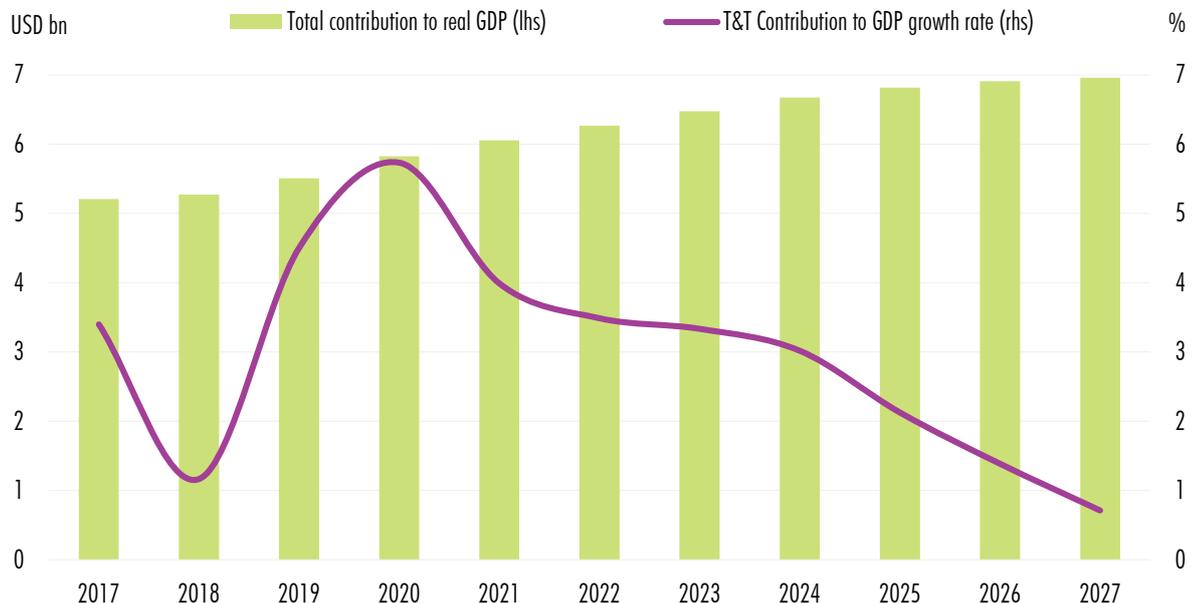
Figure 13: T&T Industry Contribution to Eastern European Countries' GDP in 2016, USD bn



Source: WTTC, 2017

With the political and economic situation in Ukraine stabilizing, positive signs of improvement in Kyiv hotels' operating performance are expected to be more evident by the end of 2017. Currently, travel and tourism (T&T) industry's contribution to Ukraine's GDP equals USD5bn (5.6% of GDP in 2016), which is the lowest among other selected European countries. In particular, the indicator is USD16bn lower than Poland's T&T contribution in 2016. However, by the end of 2020, travel and tourism industry contribution to Ukraine's GDP is forecast to grow by almost 6%, reaching USD5.8bn. Although it is still lower than the 2013 results, it shows a positive trend of the industry's improvement. Alongside the revival of business activity in the country, international volume events, such as Eurovision and previously UEFA Euro 2012, are likely to have a knock-on effect, increasing the presence of Ukraine on the international travel arena. There is a considerable reason for optimism looking towards 2018 in view of upcoming international events held in Kyiv, such as Champions League Final 2018, ISSA and Expo Techmash, are likely to increase international tourist inflows and support the hospitality industry in 2018.

Figure 14: Travel and Tourism Industry Total Contribution to Ukraine's GDP



Source: WTTC, 2017

On the supply side, ca. 1140 keys are scheduled for opening in 2017-2018. Should all the announced projects be completed, the hotel stock will increase by 12% by the end of 2018. Approximately 70% of current pipeline is comprised of midscale and budget segment. Moreover, we expect growing presence of international operators in low and midscale segments. Currently only 23% of the hotel market in Kyiv is represented by international operators, where only 11% represents the budget segment. Lower presence of international operators in the budget and midscale segments demonstrates availability for a niche market to develop, which has already been noticed by AccorHotels. The company is planning to increase the Kyiv hotel supply under management by almost 700 keys in the next few years. Marriott International and IHG, as well as local chains like DBI also announced their plans to expand their operations in Kyiv and regional cities. Such newcomers to the market will add value to the Kyiv's and the regional competitive hotel set, serving as an incentive for more dated hotels to improve their quality and product offering or be redeveloped.

Hotel performance growth is likely to continue in H22017 – 2018 on the back of positive business sentiment and moderately rising tourist flows. Both ADR and RevPAR are forecast to post gradual growth by the end of the year, although there is a risk of minor deflationary pressure in 2018, owing to floating UAH/USD exchange rate, that may impact hotels' operating performance. At the same time, while we expect further growth in demand for hotel stays over the next 18 months, the delivery of new hotels might hold back further growth of KPIs.

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