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IN FOCUS:

KAZAKHSTAN – ALMATY & ASTANA

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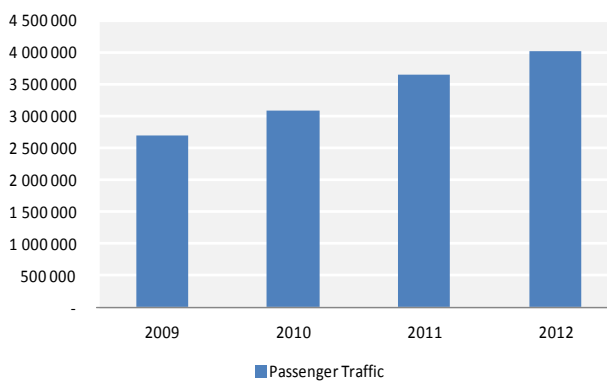
Almaty, the former capital city of Kazakhstan, is the largest and most developed city with estimated population of 1,5 million. It still remains a scientific, cultural, historical and financial centre of Kazakhstan. Economy of the city is diversified among financial services, food industry, light industry, transport and others. Oil & gas industries that used to be based in the former capital are being moved to Atyrau and Aktau.

Astana is the current capital and political centre of the country with population of 776 thousand inhabitants. The city is rapidly expanding and is set to become the main centre of the country under support from the Kazakhstan president Mr Nazarbayev. Astana is due to host Expo 2017 that should boost interest of the international society to the country and improve Kazakhstan's image.

Airport Statistics

International Almaty Airport is the biggest airport of Kazakhstan, leading in domestic, international passenger and cargo traffic. Currently, more than 30 airlines fly to Almaty, connecting it with more than 40 cities worldwide.

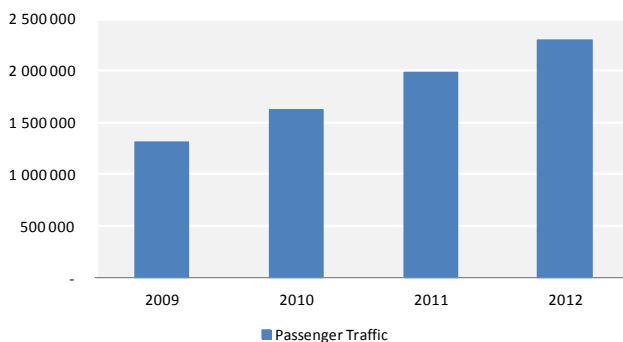
FIGURE 1: ALMATY AIRPORT PASSENGER TRAFFIC



Source: Almaty Airport, 2013

In 2012 the Almaty airport passenger traffic reached 4 million, exhibiting an average growth of 14% per annum over the past three years. There are plans to expand the current capacity of the airport allowing it to handle up to 8 million passengers per year.

FIGURE 2: ASTANA AIRPORT PASSENGER TRAFFIC



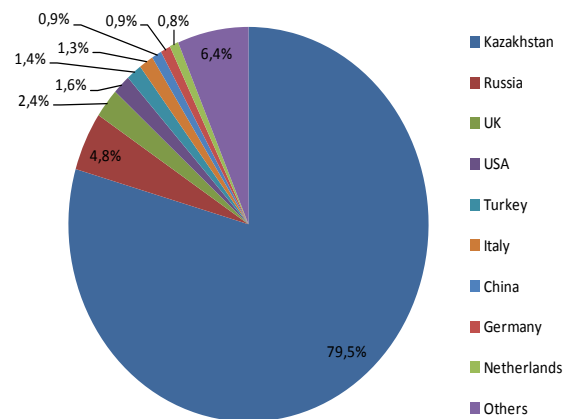
Source: Astana Airport, 2013

Despite the fact that Astana is the capital, its airport traffic is half of that in Almaty. The passenger traffic at **International Astana Airport** reached the figure of 2,3 million passengers in 2012 and has demonstrated aggregate growth rate of ~21% from 2009 until 2012. Currently 13 airlines are flying to Astana airport, connecting the capital city with 17 cities outside of Kazakhstan.

Hotel Source Markets

Inbound tourism in Kazakhstan is currently undeveloped, which is reflected in the below numbers. The country continues to rely predominantly on domestic travelers and is not yet appealing enough for the foreign guests. Such issues as quality and level of service, accessibility, undeveloped infrastructure and lack of destination marketing make Kazakhstan less competitive among other destinations.

FIGURE 3: COUNTRY OF ORIGIN OF BRANDED HOTEL GUESTS



Source: HVS Research

The major source market for internationally branded hotels remains to be Kazakhstan itself, with approximately 80% of the total guests. The remaining demand for international hotel accommodation is spread out between Russia, UK, Turkey, USA, Italy, China, Germany and Netherlands.

The main source markets for Kazakhstan arrivals are Uzbekistan, Kyrgyzstan and Russian Federation; however their main purposes of visits are transit, work migration and private visits.

Leisure and business tourism comprise approximately 6% of total arrivals.

Hotel Market Segmentation

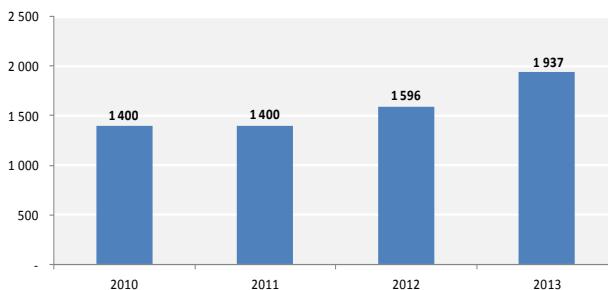
Kazakhstan is primarily a business destination for the inbound travelers. This is proved by the following numbers: over 90% of international hotel guests are staying in branded hotels for business purposes. Domestic guests exhibit a similar pattern with almost 70% of total hotel stays being for business. The leisure segment, despite its potential, continues to remain undeveloped.

Hotel Rooms Supply

Almaty

Almaty & Astana are the main tourist centers of Kazakhstan. Almaty hotel market is the largest in the country in terms of internationally branded hotel rooms with almost **2000 branded rooms in 2013**. Majority of the hotel stock is in the upper upscale and luxury segments.

FIGURE 4: ALMATY EXISTING SUPPLY (2010 – 2013)



Source: HVS Research

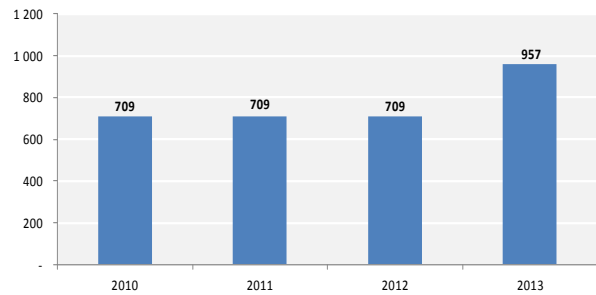
Recent additions to the Almaty hotel market are Best Western Plus Atakent and Ritz-Carlton. At the moment an anticipated supply in the market is only Park Inn Hotel, located next to the Almaty Airport with inventory of approximately 150 rooms.

Astana

Despite the fact that Astana is a fast growing city, international branded hotel supply has been very stable for the past few years and is comprised of approximately 700 rooms. In 2013 Astana market room inventory has increased by almost 250

rooms due to the opening of Park Inn at the end of Quarter 3.

FIGURE 5: ASTANA EXISTING SUPPLY (2010 – 2013)



Source: HVS Research

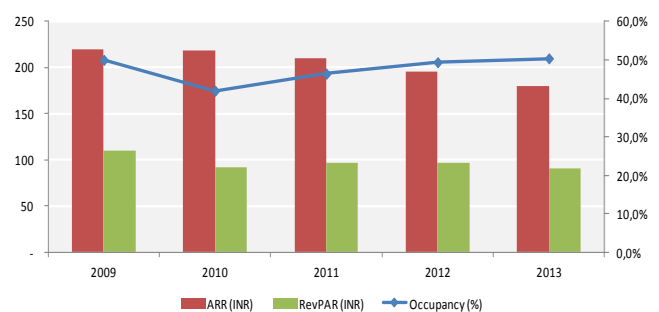
Looking forward in anticipation of Expo2017, more international hotel brands, such as Marriott, Accor and others are expected to establish their presence in the capital of Kazakhstan. Hotel development is going to be more active in Astana with an additional 750 rooms expected to enter the market within the next three years.

Hotel Market Performance

Almaty

The city's hotel performance is heavily dependent on business travelers, hence is strongly influenced by the domestic and international economic situation. Operational results still have not recovered after the crisis of 2008-2009. In addition due to Astana becoming the capital, much of the government business hotel demand has also shifted. Oil & Gas industry is developing in Aktau & Atyrau, which forces hotel demand of this segment to shift from Almaty to the new

FIGURE 6: ALMATY HOTEL MARKET PERFORMANCE (2009 – 2013)



Source: HVS Research

markets. The combination of the above factors resulted in significant pressure and slow pace of recovery from the crisis for the Almaty hotel market.

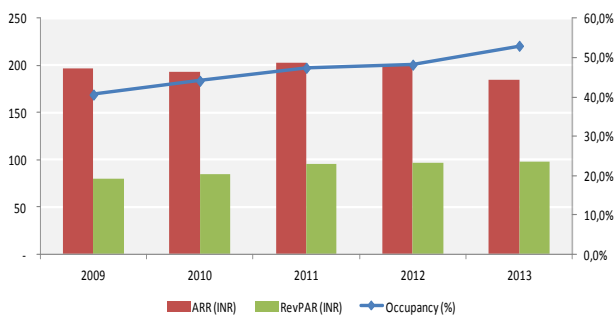
Astana

While Almaty is suffering from the shift of business to the capital, Astana has been enjoying RevPAR growth, mostly driven by rising occupancy. Average Daily Rates' growth, however, has been under pressure and continues to remain one of the challenges for hoteliers. Such major international event as Expo 2017 will positively impact the image of the city and will increase awareness of the global community about the destination, which will allow demand for hotel accommodation to grow further.

Limited future supply in the market should also aid the recovery process and allow hotel performance to improve in the mid-term.

In anticipation of Expo 2017 Astana is picking up the pace of hotel development after a few years of stagnation. The anticipated hotel pipeline should double the current hotel stock, putting hotel performance under pressure. However, taking into account the fast growth of the city's economy, as well as the government support it is currently enjoying, the hotel market there should be able to absorb the future supply in the medium to long term.

FIGURE 7: ASTANA HOTEL MARKET PERFORMANCE (2009 – 2013)



Source: HVS Research

Outlook

Hotel market of Kazakhstan is currently starting to spread beyond Almaty and Astana. New markets (such as Atyrau and Aktau) have surfaced due to the development Oil & Gas industry, cutting into the share of demand which was originally catered to by the two main cities.

Almaty, however, remains the most mature business destination and the financial centre of the country, that still attracts demand for hotel accommodation. The government has put in place a plan which should see Almaty transform into a leisure destination, which should have a positive impact on the hotel market in the long term.



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About the Author

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.

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