# IIII IPG. ESTATE



## **EFFECT OF**

FIFA World Cup:

RESULTS of Germany, South Africa, Brazil

**FORECASTS of Russia** 

## III IPG. ESTATE

## THE WORLD CUP EFFECT

RESULTS of Germany, South Africa, Brazil FORECASTS of Russia

#### Investments\* in FIFA World Cup

#### Distribution Structure

Organization of the FIFA World Cup Championship requires a serious amount of investments (that basically can be paid off only in a long-term perspective) from a hosting country.

- A share of investment in sports infrastructure: stadiums hosting the matches, training bases for participating teams, as a rule, does not exceed 30%.
- 40-50% of investments are directed to the development of transport infrastructure: construction of new roads and interchanges, railway stations, airports, purchase of new trains and so on.
- About 10% of investments go to the development of hotel infrastructure: modernization of existing accommodation facilities and construction of new facilities
- About 10% of investments go to organization of events and broadcasts, providing security.

The effect of the FIFA World Cup Championship holding is traditionally considered in a long-term perspective, since a significant part of the funds is allocated for the development of transport infrastructure that has an impact on general state of the urban environment: the function of major urban hubs and highways is improving, thus leading to increase in throughput capability, and giving a long-lasting economic impact during and after the World Cup events.

In our research, we have analysed the impact of the FIFA World Cup holding for Germany, South Africa and Brazil, as well as have made a forecast for such an effect in Russia.

\$7.7 billion

Investments of Germany for the FIFA World Cup holding in 2006

\$5.2 billion

investments of South Africa for the FIFA World Cup holding in 2010

\$14.0 billion

investments of Brazil for the FIFA World Cup holding in 2014

\$13.1 billion

investments of Russia for the FIFA World Cup holding in 2018

\$200 billion

Qatar is planning to spend in 2022

### Investments in Transport Infrastructure

To ensure comfortable logistics between the cities of a country hosting the FIFA World Cup matches, a significant portion of the budget goes to the development of its transport system.

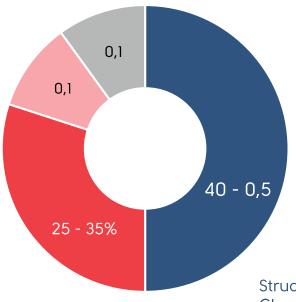
- In Germany, more than 70% of 7.7 billion dollars of investments were spent on infrastructure projects, including construction of the Central Railway Station, a tunnel of 3.5 kilometres long under the Tiergarten Park in Berlin, and the fourth tunnel under the Elbe in Hamburg.
- In Brazil, 2.6 billion dollars were invested in airports, while in transportation infrastructure 3.4 billion dollars.
- In South Africa, the biggest part of the investments were spent on construction and launch of Gautrain rapid rail link in Gauteng, a South African province, that connected Johannesburg, Pretoria, Ekurhuleni and O. R. Tambo International Airport. Gautrain was not built in time for the FIFA World Cup and was launched only in 2011, at that, today the rail link is not really used by the locals.
- During preparation for the FIFA World Cup, 20 railway stations were renovated and modernized in Russia. A new airport was built in Rostov-on-Don.



Berlin, Germany
Central railway station
Year of construction: 2006



South Africa Gautrain rapid rail link Year of construction: 2011





Rostov-on-Don, Russia Platov International Airport Year of construction: 2017

Structure of Investments in the FIFA World CUP Championship Holding

- Transport infrastructure
- Sports facilities
- Accommodation infrastructure
- Events, broadcasting, safety



12

New stadiums

1

Investment in infrastructure

\$7.7 billion

FIFA profit

\$3.2 billion

Stadium with a minimum volume of investments



Max-Morlock-Stadion, Nuremberg Cost of reconstruction: \$55 million



Alianz Arena, Munich Cost of construction: \$340 million



10

New stadiums

4

Investment in infrastructure

\$5.2 billion

FIFA profit

\$2.4 billion

Stadium with a minimum volume of investments



Loftus Versfeld Stadium, Pretoria Cost of reconstruction: \$14.6 million



Cape Town Stadium, Cape Town Cost of construction: \$600 million



12

New stadiums

7

Investment in infrastructure

\$14.0 billion

FIFA profit

\$4.0 billion

Stadium with a minimum volume of investments



Estádio Beira-Rio, Porto Allegre Cost of reconstruction: \$150 million



Estádio Nacional, Brasilia Cost of construction: \$700 million

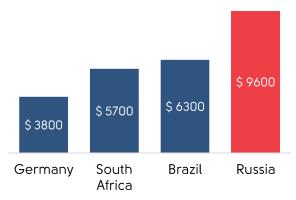
#### CONCLUSIONS

• Germany spent on sports facilities only **25%** of the invested 7.7 billion dollars.

#### 11 stadiums were reconstructed, one stadium was built

- Allianz Arena in Munich, which nowadays belongs to Bavaria FC. At the moment, 100% of the stadiums are managed by local football teams and used for their intended purpose for football matches and used for holding cultural and social events.
- South Africa spent about 25% of the budget on sports infrastructure.
- 4 stadiums were built, and 6 stadiums were reconstructed. At the moment, all of the arenas are used for sporting events: football, rugby, cricket matches, and less frequently for cultural and social events. It is noteworthy, that in the process of exploitation of some arenas it is often considered to demolish the facilities or to reform them for commercial functions. For example, such a fate is predicted to Peter Mokaba arena in Polokwane.
- In Brazil, **about a third** of the invested 14 billion was spent on sports facilities.
- 7 new stadiums were built, 5 stadiums were renovated. Unfortunately, at the moment 6 arenas (out of 12) are not used, teams, to which they were transferred, are not able to bear the costs on their operation and maintenance, these teams have matches at other stadiums, which are cheaper to maintain. In Brazil, for a number of stadiums, for example, Cuiabá and Manaus, the location was chosen mistakenly from the very beginning, namely away from popular Brazilian clubs locations, that immediately excluded an opportunity to use the stadiums in a classical format as a local arena of a football team. Another example, the Mané Garrincha National Stadium in Brazil, with no strong football club around, is nowadays used as a parking lot for buses.
- In Russia, 39% of 13.1 billion budget for the FIFA World Cup were directed to the sports infrastructure development.

## Cost of Sports Facilities Construction\*



\*On conversion to one seat of a stadium

\$130 million

annual revenues from Allianz Arena stadium, Germany

\$96 million

annual costs on Allianz Arena stadium maintenance, Germany

- About 39% of investments, aimed to preparation of Russia to the 2018 FIFA World Cup, were spent on creation and renovation of sports infrastructure
- At the moment, Russia is setting records in costs of sports infrastructure among the countries which previously hosted the championship.
- But the global trend is justified every 4 years the volume of investments in the FIFA World Cup is increasing.



12

New stadiums

8

Investment in infrastructure

\$12.0 billion

FIFA profit

more than \$5 billion

Stadium with a minimum volume of investments



Mordovia Arena Cost of construction: \$300 million



Saint Petersburg Arena Cost of construction: \$760 million

#### STADIUMS OF RUSSIA



City: Moscow

Name: Otkrytie Arena Capacity: 45 thousand seats Year of construction: 2014



City: Moscow

Capacity: 81 thousand seats Year of reconstruction: 2016



City: Saint Petersburg

Name: Saint Petersburg Arena Capacity: 68 thousand seats Year of construction: 2016



City: Kazan

Name: Kazan Arena

Capacity: 45 thousand seats Year of construction: 2013



City: Nizhny Novgorod

Capacity: 45 thousand seats Year of construction: 2017



City: Kaliningrad

Name: Kaliningrad Arena Capacity: 35 thousand seats Year of construction: 2017



City: Yekaterinburg

Name: Yekaterinburg Arena Capacity: 35 thousand seats Year of reconstruction: 2017



City: Samara

Name: Kosmos Arena Capacity: 45 thousand seats



City: Sochi

Name: Fisht Arena

Capacity: 40 - 48 thousand

seats

Year of reconstruction: 2016



City: Rostov-on-Don Name: Rostov Arena

Capacity: 45 thousand seat: Year of construction: 2017



City: Saransk

Name: Mordovia Arena Capacity: 45 thousand seats Year of construction: 2017



City: Volgograd

Name: Volgograd Arena Capacity: 45 thousand seats Year of construction: 2017

#### **FORECASTS**

- A football stadium pay-off period depends primarily on football matches attendance: not only during the FIFA World Cup matches, but also matches of the Russian Football Premier League (RFPL) or the Football National League (FNL) Championships.
- Today, in Russia the culture of football support in general, and of a local football club in particular, is poorly developed. In terms of match attendance, we are far behind European countries. At that, football matches Saint Petersburg attendance is growing, which is influenced by improving Arena comfort and security in the stadiums.
- Reaching 90 100% attendance during matches is systematic work that requires time. At the moment, only two stadiums in Russia are filled to 80-90% - Otkrytie Arena and Zenit Arena, where the leading teams of the country play.
- Accordingly, after the 2018 FIFA World Cup, stadiums that will be used for the Premier League matches, will be paid-off for a shorter period of time, attracting fans and earning from it.
- It will be tougher for stadiums, where the National Football League matches are played; a number of NFL fans is much less than the ones of the Premier League, and the rights for the games broadcasting are cheaper here.
- The stadiums maintenance will be an additional burden for the NFL clubs, which can be borne by either sponsors or public authorities, as all private clubs of Russia - CSKA. Spartak and Krasnodar – play in the Premier League.
- All the 12 stadiums need to be to evaluated from the business point of view: the sports facilities shall be paid off, that's why the professional management is needed. In addition to the profits from matches and sports activities, an important part of income can be formed by public cultural events (concerts, public events, etc.).
- After the 2018 FIFA World Cup, the stadiums will be a part of the sports infrastructure of the country, which, of course, will require a programme for their operation and development not only from the part of football clubs, but from the part of public authorities at different levels as well.
- Development of regional programmes for the use of stadiums as a base for the children's football development (even at the expense of state subsidies) will be of a huge social importance.
- Investments in preparation for the FIFA World Cup became an important base for the development of sports, tourism and transport infrastructures, which, in its turn, provides our country with an opportunity to be properly qualified for holding large-scale international activities on the territory of Russia.

#### Stadiums with RFPL teams







Yekaterinburg

Kazan Arena







Otkrytie Arena

Rostov Arena Kosmos Arena

14,000

#### people

average attendance of the RFPL championship matches

> Stadiums with FNL teams







Kaliningrad Arena

Arena

Mordovia Arena

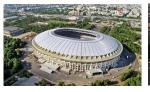


## 2000 people

Volgograd Arena

average attendance of the NFL championship matches

Stadiums with no teams





Luzhniki

**Fisht** 



Required accommodation facilities

**50** thousand rooms

Accommodation facilities growth

2%

Flow of tourists during the championship

2 million people

Hotel occupancy rate

92%



Required accommodation facilities

55 thousand rooms
Accommodation facilities
growth

9%

Flow of tourists during the championship

million people

Hotel occupancy rate

89%



Required accommodation facilities

55 thousand rooms
Accommodation facilities
growth

7%

Flow of tourists during the championship

1.5 million people

Hotel occupancy rate

87%



Required accommodation facilities

60 thousand rooms
Accommodation facilities
growth

10%

Flow of tourists during the championship

2.1 million people

Hotel occupancy rate

90%

#### **RUSSIA**



74,000 rooms
Expected flow of tourists
500,000 people



Accommodation facilities 19,000 rooms Expected flow of tourists 400,000 people



Accommodation facilities 5,500 rooms
Expected flow of tourists 100,000 people



Accommodation facilities 7,200 rooms
Expected flow of tourists 200,000 people



Accommodation facilities 64,000 rooms
Expected flow of tourists 200,000 people



Accommodation facilities 1,500 rooms Expected flow of tourists 100,000 people



Accommodation facilities 2,500 rooms
Expected flow of tourists 150,000 people



Accommodation facilities 8,500 rooms
Expected flow of tourists 120,000 people



Accommodation facilities 10,000 rooms Expected flow of tourists 150,000 people



Accommodation facilities 13,000 rooms Expected flow of tourists 150,000 people

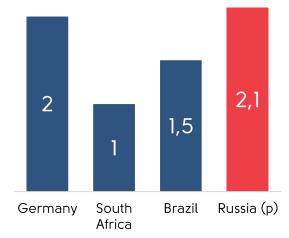


Accommodation facilitie 9,000 rooms
Expected flow of tourists 200,000 people

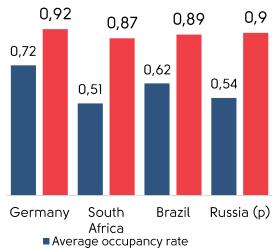
#### CONCLUSIONS

- Market research that we have conducted in three countries that hosted the FIFA World Cup, shows a trend of growth in the hospitality sector, indicative for South Africa, Brazil and Russia. In these countries, the hotel infrastructure was developed depending on a city status and location: in cities with active tourism development policy the hospitality sector was developed according to the market laws. For example, in Rio De Janeiro not a single new hotel was built, the accommodation facilities were renovated.
- In cities with poorly developed tourism infrastructure, a catalyst for the construction of new hotel facilities was the FIFA World Cup and the FIFA's requirements. Thus, the major growth in South Africa showed Johannesburg and Capetown.
- Germany stands out from these statistics because the cities that hosted the championship matches form the flow of tourists even in normal periods and tourism is a stable portion of income, which, quite naturally, affects the infrastructure development.
- For 4 years prior to the 2006 FIFA World Cup in Germany the total increase in accommodation facilities (in the hosting cities) was 2%, whereas in South Africa, Brazil and Russia, the figure for the same period of time was within the range between 7% and 10%.
- Russia won the right to host the 2018FIFA World Cup in December, 2010. At that moment, the accommodation facilities capacity of cities hosting the 2018 FIFA World Cup was consistent with the FIFA's requirements. But, in spite of this fact, 4 years prior to the World Cup, the accommodation facilities in Russia were increased by an average of 10%.
- In Moscow, Saint Petersburg, Kazan, Yekaterinburg and Sochi (where business and educational tourism is developed), the growth in accommodation facilities also occurred in a natural way.
- In Kaliningrad, in a city with a steady flow of tourists, several facilities were introduced by the 2018 FIFA World Cup.
- In other Russian cities Nizhny Novgorod, Saransk, Volgograd, Samara, Rostov-on-Don an increase of accommodation facilities was event-related; for example, the following international networks entered the market of these cities: Lotte (Samara), Four Points by Sheraton and Mercure (the capital of Mordovia), Courtyard by Marriott, Radisson Blu (Rostov-on-Don), Hampton By Hilton, Park Inn by Radisson, Hilton Garden Inn (Volgograd), Nizhny Novgorod Kremlin, Sheraton, Courtyard by Marriott, Hampton by Hilton (Nizhny Novgorod).

## Flow of tourists at the World Championships, million people



## Hotel occupancy rate at the World Championships



Occupancy rate during WC days

## 2400 roubles/day

maximum established room rate in non-format accommodation facilities in Kaliningrad

700,000

#### roubles/day

maximum established room rate in 5star hotels in Saint Petersburg

#### **FORECASTS**

- About 4,500 thousand hotels in 11 cities of Russia will host Russian and foreign football fans. Occupancy rate will reach 100%. The increase will be short-term and occupancy rate will fall down to an average rate right after the 2018 FIFA World Cup closing.
- First of all, the flow of tourists to the cities will depend on the Championship stages. In regional cities hosting only matches of the 2018 FIFA World Cup group stage, attendance rate will be lower than in the cities hosting play-off matches (Sochi, Kazan, Nizhny Novgorod, Moscow, Rostov-on-don, Samara, Saint-Petersburg).
- Economic impact in the hospitality sector will be short-term within the period of the 2018 FIFA World Cup holding. In the future, the flow of tourists will be reduced down to an average rate indicative for each region.
- According to our estimates, after the 2018 FIFA World Cup, Moscow, Saint Petersburg, Kazan, Yekaterinburg, Sochi and Kaliningrad will continue to meet tourists, the flow of which will be formed by cultural and business programmes. Nizhny Novgorod, Saransk, Volgograd, Samara, Rostov-on-Bon will face difficulties with accommodation and absence of demand for hotel facilities as business and educational tourism programmes in these regions are poorly developed.

## Average Cost of Hotel Room during the FIFA World Cup Holding



- A logical decision was made in Saransk: Tavla hotel and residential complex was constructed here, it will function as an "Olympic village" for tourists during the FIFA World Cup, and later will be introduced to the housing market. Such a move is more attractive from an investment point of view; its pay-off period can be predicted.
- In other cities, where an increase in accommodation facilities was 10-20%, according to our estimation, the owners can come to a conclusion to re-form the hotel facilities for other commercial functions such as office building, MFC.
- Possible economic growth will be ensured in the future, subject to proper maintenance of the infrastructure, establishment and development of long-term tourism, sports and business programmes at regional and state levels both within Russia and internationally.

#### Forecast for Flow of Tourist in Cities Hosting the 2018 FIFA World Cup in Russia



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