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World-Class Hotel Rooms Still at a Deficit

By Svetlana Danilova

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Workers eyeing the Hotel Moskva, which has yet to reopen. Four Seasons has the management contract. **Igor Tabakov**

International hotel chains are bullish on Moscow, as rates of return are higher than the rest of Europe, but developers are in no rush to put up the large amounts of capital necessary to build world-class hotels.

The crisis proved that the hotel segment is one of the most attractive for investors. Philippe Brisbois, chief executive of IFK Hotel Management, said developers who included hotels in their multifunctional projects "because of commitments to the Moscow authorities" now find themselves in a good position.

How Much Per Night?

Published rates for Moscow hotel rooms in October 2010, per night, in rubles.*

Category	Standard Room	Deluxe
5-Star	18,800	60,800
4-Star	8,400	20,800
3-Star	3,800	8,000
2-Star	3,200	6,600

*Average price based on single occupancy, including VAT but excluding discounts and special offers.

Source: NAI Becar

According to Mike Collini, vice president of Hilton Worldwide responsible for Northern Europe, during the crisis many developers wanted to transform office space into hotels.

Those who abandoned hotel projects two years ago are now returning, said Michael O'Hare, managing director of Horwath HTL Hungary and Russia. The return on investment for hotels in Russia is faster than in Europe, though payback periods can get dragged out.

"In current market conditions [payback periods] will be from seven to 10 years, as opposed to 14 years in Europe, and will get longer as competition increases," said Alexis Delaroff, general manager of Accor in Russia and the CIS.

However, it seems that Moscow developers are not rushing to construct hotels. "International hotel groups are ready to move into Russia, but there is not enough capital," O'Hare said. Hoteliers want to expand the presence of their chain, but the builder carries all risks, while the owner pays for everything, said Alexander Popov, general director of Clover Group.

"None of the international [hotel] management companies offers [financial] guarantees, but they do risk their reputations," said Alexander Gendelsman, director of Azimut Hotels.

In Moscow, a three-star turnkey hotel project costs 3,500 euros ($4,600) per square meter to build, said a source from one of the management companies who preferred not to give his name, but in Beijing, for example, the cost is about $1,000 per square meter.

"In countries such as China and South Korea, the return on investment period is shorter than in Moscow, thanks to less expensive financing and larger numbers of tourists," said Margaret Mills of NAI Becar.

Revenue growth for Moscow hotel rooms is running at 15 percent per year, whereas for European cities the figure does not exceed 4 percent to 6 percent, said Kirll Irtyuga, chief executive of management company Rosinvestotel.

According to Jones Lang LaSalle Hotels and STR-Global, the average price for a night in a four- or five-star hotel room in Moscow for the first nine months of 2010 was $183.

Hilton Worldwide, Rezidor Hotel Group, Accor and others announced expansion plans this fall. Hilton will open the Doubletree by Hilton Moscow Leningradsky Riverside on Leningradskoye Shosse in spring 2012, and said it will open hotels in Yaroslavl and Kazan.

Accor will open a Mercure Hotel on Smolenskaya Ploshchad. Over the next four years Accor plans to expand the number of hotels under management in Russia to 17, with nearly 3,900 rooms. Intercontinental Hotels Group intends to open a luxury hotel on Tverskaya Ulitsa in the reconstructed Hotel Minsk next summer.

In Moscow there are now about 260 hotels with 30,000 rooms, of which 40 hotels and 10,000 rooms meet international quality standards, according to IFK Hotel Management.

"The number of rooms in Moscow is about the same as those around Charles de Gaulle Airport in Paris — a paltry figure. You can just keep building and building," Delaroff said.

Acquiring land and obtaining permissions and utility connections increase costs in Russia by 30 percent compared with Western Europe, Delaroff said. In Moscow, up to 40 percent of project costs go to acquiring land, O'Hare said.

A three-star hotel room costs an average of $120,000 to $150,000 to build, while construction of a five-star room will run $200,000 to $250,000, Gendelsman said. According to the EC Harris agency, the cost in 2010 of building a quality hotel room in Russia — excluding furniture and equipment, the cost of land and utility connections — ranged from 105,000 to 211,000 euros. In France, the figure ranges from 114,000 to 285,000 euros, Delaroff said.

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