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FIFA Brings Surprises and Creativity to Regional Hotel Market

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A view of central Saransk, a town of 300,000 people, from a Ferris wheel.

A provincial town of 300,000 residents where new multistory buildings contrast with neighboring old wooden houses, Saransk grabbed attention last month when it was tapped by FIFA to be one of the World Cup 2018 host cities.

The decision raised eyebrows, as the town 630 kilometers southwest of Moscow appeared to be the least prepared to accommodate tens of thousands of football fans compared with the 12 other cities competing for the approval of FIFA executives.

But Saransk, which will get its first luxury hotel next year, might attract major international hotel chains, as they place bets on the regions. Industry executives say that hosting the championship should catalyze growth in the hospitality market outside Moscow and St. Petersburg.

Plans by international hotel chains to develop business in Russia go far beyond 2018, but the World Cup is widely seen as a positive milestone for the country's future growth.

Hosting big events like the 2014 winter Olympics in Sochi or the World Cup increases awareness of the host cities and attracts investment, said Robert Shepherd, senior vice president for development at InterContinental Hotels Group in Europe.

"We've just had the Olympics in London. ... The legacy of that Olympics ... will generate more business and more investment for London. The same thing will happen here," he said in an interview. "The point is that the World Cup and the things like that are catalysts that will generate interest, awareness and development that will then create the economic growth."

Shepherd joined executives of the world's leading hotel chains, who gathered at an investment conference Tuesday to discuss the prospects of the Russian market weeks after FIFA announced the 11 host cities for the World Cup: Moscow, St. Petersburg, Kazan, Sochi, Yekaterinburg, Samara, Saransk, Rostov-on-Don, Nizhny Novgorod, Volgograd and Kaliningrad.

InterContinental Hotels said it is looking at more of the winning cities to identify potential demand. Other global hotel chains are already present in many host cities.

Azimut, which has 11 hotels across Russia, including in Moscow, St. Petersburg, Nizhny Novgorod and Samara, is about to finalize a deal in Rostov-on-Don, where the group has two options. It can take over an existing hotel or build a new one, the company's chief executive, Remco Gerritsen, said on the sidelines of the conference.

Rezidor, which manages 21 hotels across the country, is also in talks to open hotels in Rostov-on-Don and Samara, two of the three host cities where the group is not yet present, said Arild Hovland, the company's senior vice president for business development.

Rezidor will also analyze its options in Saransk, he said in an interview.

"This is a surprise city," he said jokingly.

With slightly more than 300 nonbranded rooms, Saransk is the only host city that doesn't meet the FIFA requirements to host even group matches, according to a survey by Deloitte.

FIFA requires that each World Cup host city have at least 7,760 rooms to accommodate visiting fans. That figure must include at least two five-star hotels with 150 rooms in total, at least eight four-star hotels with 860 rooms in total, at least eight three-star hotels with 750 rooms and at least 30 lower-end hotels with 6,000 rooms.

Most of the host cities meet requirements for the group matches, but only three of them — Moscow, St. Petersburg and Sochi — have the necessary 8,000-room capacity to host final matches, Deloitte said.

As of late last year, Moscow offered a total of 35,000 rooms, while St. Petersburg and Sochi had approximately 16,000 and 9,000 rooms, respectively, it said in the survey.

The host cities said preparations are under way to improve the hotel infrastructure ahead

of the World Cup.

Accor, Kempinsky, Hilton, Marriott and Rezidor are all developing projects in Nizhny Novgorod, Denis Labuza, the regional official responsible for small entrepreneurship and the consumer market, said in e-mailed comments.

An 11-story Sheraton hotel with 159 rooms will open its doors in Saransk in 2013, and city authorities said it's the first step to upgrading local hotel infrastructure, as more than 10 new hotels will be built in the city ahead of the competition.

Renovation of existing hotels, health resorts and dormitories will add more than 15 properties to the overall capacity, the Saransk city administration said in e-mailed comments.

The city also plans to use student dormitories and facilities at children camps as economy-class accommodations.

A shortage of low-cost accommodations is an issue for most host cities. Some of them are getting very creative to solve the problem. The Kaliningrad regional government said it's looking into the option to accommodate football fans on board cruise ships and yachts moored in the marina of Russia's Baltic Sea port.

Such alternative accommodations could help host cities avoid oversupply, which is inevitable, given a huge amount of projects in the pipeline, said Gerritsen, of Azimut.

Hotels might see a slump in occupancy for a few years after the sporting events, but the market is likely to ultimately balance out if the regional governments use the new infrastructure wisely to attract tourists, said Hovland, of Rezidor.

"It depends very much on how the city is going to take advantage of it," he said, adding that demand is likely to come primarily from domestic travelers.

He mentioned the example of Sochi, which got modern infrastructure like exhibition halls, stadiums and roads ahead of the 2014 Olympics. Hovland said the federal government should create favorable conditions for tourists to stimulate domestic travel after the games, and a critical step is lowering the prices for airline tickets.

"It costs more to fly from Moscow to Sochi than from Moscow to Istanbul," he said. "And it's actually time to start getting that organized, because after the Olympics it will be too late."

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