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World Cup Cities Draw Hotel Brands

By Alec Luhn

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Now that FIFA has finished choosing the host cities for the 2018 World Cup in Russia, the race is on to build hotels there.

The government will spend big on infrastructure in the selected host cities, providing a platform for the growth of business, one of the main criteria international operators look at in choosing where to develop hotels with local partners. Kaliningrad, Volgograd and Saransk stand to get the greatest boost in attractiveness for hotel development, consultants say.

At the end of September, FIFA picked Kaliningrad, Kazan, Moscow, Nizhny Novgorod, Rostov-on-Don, Samara, Saransk, Sochi, St. Petersburg, Volgograd and Yekaterinburg to host World Cup matches. These cities will have to meet FIFA standards for quantity and quality of hotel rooms.

The government will invest 300 billion rubles ($9.5 billion) in World Cup preparations, with an additional 300 billion coming from private investment, Sports Minister Vitaly Mutko said

in October.

About 40 percent of the total will go toward sports facilities. The rest will be invested in construction and improvement of hotels, airports and roads and in security, medical and communications provision, he said.

International hotel operators have long since picked the regional cities they see as most promising, said Marina Usenko, executive vice president and head of Jones Lang LaSalle Hotels in Russia and the CIS.

"Operators always look at cities where there is life. This is industry or the existence of a regional administrative center," Usenko said.

At the same time, government investment in the infrastructure can provide a basis for business growth, she said.

World Cup cities "can give some incentives and provide additional opportunities to Russian entrepreneurs planning to invest in new hotels," Olga Arkhangelskaya, partner and head of the real estate, infrastructure and government group in the CIS at Ernst & Young, said in e-mailed comments. "Therefore, the chance is higher that new international operators will come to FIFA cities."

Hotel chains are viewing host cities with interest. In particular, InterContinental Hotels is looking at more of the selected cities to identify potential demand, the chain said in October.

Rezidor said it is planning to open hotels in Rostov-on-Don and Samara and is looking at possibilities to develop in Saransk, covering the three host cities in which it is not already present. It is also planning multiple hotels in Sochi.

The host cities with the least developed hotel markets — Kaliningrad, Volgograd and Saransk — will likely see the most benefit from their selection, Usenko said. Mid-market hotels make sense in regional cities, as luxury hotels take too long to pay off their initial cost, she added.

Infrastructure investment could dramatically increase Kaliningrad's potential as a business destination. Expansion of the airport and the appearance of more routes, including routes operated by budget airlines, could make visiting this exclave easier and cheaper, especially for Russians, Usenko said.

"People will be able to travel there, and that will provide an impetus for the development of the region," she said.

Kaliningrad has one internationally branded hotel, the four-star Radisson Hotel Kaliningrad, with 178 rooms, but according to a 2012 Ernst & Young report, three more projects are in the pipeline: Ibis Kaliningrad, Domina Inn Kaliningrad and Park Inn Kaliningrad.

In Volgograd, which lacks an internationally branded hotel, a Park Inn and two Hampton by Hilton hotels are expected to be delivered in 2014.

Saransk also has no internationally branded hotels, but a Sheraton hotel with 159 rooms will open there in 2013, and more than 10 new hotels will be built before the competition, city

authorities said in October.

A major challenge facing brands in the host cities will be finding good employees.

"The lack of qualified staff is really an important thing" for Marriott's three upcoming hotels in Sochi, Mikhail Kolesnik, director of development for Russia and the CIS at Marriott International, said at a hotel conference in October.

In addition to staff, operators will need to find local developers and builders who can do a professional job, Usenko said.

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