

# Frozen Luxury Hotel Projects Come Back to Life

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InterContinental Hotels Group returned to the Moscow luxury market in 2011. Its hotel sports “a classic Russian design with a contemporary feel”.

Moscow's luxury hotels will see some long-delayed additions this year. The global banking crisis made financing elusive, but several projects are back on track.

Four Seasons is due to open its first Moscow Hotel in the fall. It was delayed for three years, partly by the change of ownership of Hotel Moskva, the replica of the 1930s hotel situated between Teatralnaya and Manezhnaya Squares. It will have 175 rooms, including 36 suites, and 1,400 square meters of meeting space.

This month, Russia's Hals-Development, and Citer Invest of the Netherlands began building the 1Q-Quarter complex in the Moscow City business district, which will house a 5-star hotel and 104 apartments managed by Sofitel.

Hals is also this year beginning the redevelopment of the Peking Hotel, a landmark at Triumfalnaya Square, which was built in 1955 by Dmitry Chechulin. It plans to retain internal spaces along with original Chinese motifs discovered prior to the renovation. It will have 236 rooms but is not expected to open until 2017, under Fairmont Hotels and Resorts.

While the financial crisis choked bank finance, it also hit occupancy and average rates which fell 30 percent. Last year, average rates across the hotel sector finally began to approach pre-crisis levels, but luxury hotels struggled to raise rates by more than a few percentage points.

That is not putting off investors, according to Olga Fazullina, manager of Hospitality and Leisure Corporate Finance at KPMG. "Due to a large number of luxury hotels under construction in Moscow, the announcement of new projects in this segment has gradually slowed down. However, despite moderate growth in the previous year, the average daily rate of Moscow hotels is still ranked among the highest in the world. Combined with recovering occupancy this provides a very attractive margin for potential investors."

International brands do not usually build or own hotels nowadays, describing their strategy as asset light, to insulate themselves from the fluctuations of the property market. However, foreign investors are also thin on the ground due to perceived country risk, according to Scott Antel, partner and head of Hospitality and Leisure for Russia, CIS and Turkey, at DLA Piper.

Luxury hotels are largely built and traded among Russian nationals, often for reasons other than return on investment, Antel said. "You can't really invite your friends to the coal mine or the gas field, but you can take them to your hotel. However, those aesthetic reasons are nothing to do with business. If someone wants to make money from hotels, they build lots of small boxes in a big box."

There are not many luxury hotels in Moscow if the category is defined carefully, says David Jenkins, head of Hotels and Hospitality, Russia and CIS, at Jones Lang LaSalle. Rather, there are many 5 star hotels. "We have Ritz Carlton and Park Hyatt as luxury hotels. They are brands that are recognized globally as top luxury. There are others that call themselves luxury but maybe are not because they are not obtaining the pricing that a luxury should get."

"At the moment here the segmentation is not so broad because of the lack of supply and lack of maturity of supply."

The InterContinental Hotels Group returned to the Moscow luxury market in 2011, managing a 203-room hotel at 22 Tverskaya Ulitsa, owned by Business Centre on Tverskaya LLC. Asked what characteristics define a luxury hotel, Yulia Pimenova, director of sales and marketing at InterContinental Moscow Tverskaya, responded: "Our brand and high level of service. Every aspect of the hotel's design and amenities has been chosen to reflect InterContinental's commitment to delivering authentic and enriching experiences to its guests."

The hotel was designed by London interior architectural design studio Alex Kravetz Design. This gives the InterContinental Moscow Tverskaya "the look and feel of a grand boutique, combining classic Russian design with a contemporary feel," Pimenova said.

Other hotels have been upgrading their services. The Ararat Park Hyatt, this month opened its Park Suites, aiming for the feel of a private home.

Despite the growing luxury hotel segment in Moscow, however, one key element is missing: the wealthy independent traveller. Most tourists come in groups, on package tours. "If you are sitting in London and you want to go to a historical city in Europe for a weekend, you may think of Venice, Florence, Budapest or St Petersburg. But you'll say. 'Oh, we need a visa for St. Petersburg. Forget that'.

"That's why hotels in Moscow are 70 to 80 percent corporate business," said JLL's David Jenkins. "You do get high-end tourists, but it is a lot of groups. You can see them on the streets, especially in St. Petersburg in the summer. Both cities would benefit greatly from a change in the visa program."

Other projects in the luxury pipeline include the Mandarin Oriental Moscow, which is being built on the site of the mostly-demolished Hotel Lux on Tverskaya Ulitsa. Mandarin Oriental Hotel Group will manage the 262-room hotel. The construction project switched hands last year from Russian businessman-now-Georgian politician Boris Ivanishvili, to the B&N group.

The Raffles Hotel was announced in 2008 by Russia's ALT Corporation and is being developed at the crossroads of Nikolskaya Ulitsa and Bogoyavlensky Pereulok in Kitai-Gorod.

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