

## **Opportunities too good to miss?**

**Jonathan Worsley, Chairman, Bench Events**

**As we start to see signs of economic recovery following a turbulent two years, hoteliers and investors should consider the Russia/CIS region as those already established there position themselves for growth.**

The Russia/CIS hotel market remains relatively immature compared with others, a view cemented by the evidence showing that hoteliers are still looking to establish their brands in Russia/CIS, whereas in other markets (such as the Middle East) they will be looking to develop and raise the profile of recognized brands. This immaturity, however, presents many possibilities for investment, growth, successful partnerships and, ultimately, profits. The key is talking to and, perhaps more importantly, *listening* to local experts and those that have been involved in projects in the region. For locals that already work in the Russia/CIS hotel industry, it is crucial that you embrace and partner with reputable brands because of the expertise and experience they can bring to your market. Learn from them just as much as they will learn from you.

### **Opportunities**

There remains a lack of international-standard hotel rooms across Russia/CIS. Combined with inexpensive land, labour and raw material costs, this presents opportunities for astute developers and investors – certainly those with the long-term in mind. Moscow, for example, has just 10% of the rooms that are available in London. Despite the large number of cities with populations of 500,000+ and 1,000,000+, there remains very limited hotel accommodation. Whilst luxury hotels are expected (and usually demanded) in the major cities, other metropolitans may not have capacity to sustain such high-end establishments – opening the door to mid-range hotels. Rezidor, for example, sees a huge potential for its mid-market Park Inn brand, signing a deal with the Regional Hotel Company to develop 20 Park Inn hotels near railway stations across Russia. The company has recently announced work on projects in Rosa Khutor (200 rooms), Voronezh (164 rooms) and opening one in Veliky Novgorod (225 rooms).

As the global economy begins to recover, and business and holiday travel starts to increase, it is vital that Russia/CIS can provide a full range of hotels across the region catering for all

budgets. The low construction and development costs means that projects should now be looking to position themselves appropriately as the upturn takes place. The Winter Olympics in Sochi will be a boom to the development of its tourism infrastructure and hotel development in the region.

### **Russia better than China**

Lack of supply across Russia/CIS has led to high ADRs, which are unsustainable in the long-term. Indeed, RevPAR reductions are symptomatic of the devaluation of local currencies against the dollar and Euro. Daniel Thorniley, president of DT-Global Business Consulting, also notes Russia/CIS economies are tied closely to oil prices, which have shown fluctuations in the last couple of years. In his report *The Russian Business Outlook 2010-2014*, Thorniley predicts that Russia in terms of GDP growth “will be one of the big regional ‘bouncers back’ with 3.5% to 5% GDP growth [...] but we think sustainable annual GDP growth in 2010 will be in the range of 4.0% to 5.5%.” Thorniley also forecasts “Russia was and will remain one of the best profit markets in the world because companies can charge high prices since consumers appreciate and understand quality. Profits rose for many companies in 2009 even on falling sales because they implemented price rises at the start of the year and also carried out extensive cost cuts. Russia is by far a better profit market than China.”

### **Summary**

The post-Soviet era means that the days of business Russian roulette for foreign companies aiming to get a foothold in the region are a thing of the past. As with other markets, Russia/CIS is not immune from challenges — availability of credit remains scarce, but where doesn't? Europe, USA, Asia and the Middle East have the same challenges. However, given the relative immaturity of the Russia/CIS hotel market, opportunities exist for both hoteliers and investors to make large profits, but only if they don't just focus on the high-end hotels traditionally associated with the big cities.

The things, perhaps, to consider in this vast untapped region include:

- Which is the best location for your hotel/investment?
- Speak to those who have been involved in previous and current projects – ask them what didn't work as well as determining what has been successful.
- Speak to local experts and build solid relationships to gain an in-depth understanding of the local business market and practices.

Above all, by taking a pragmatic, realistic and long-term approach to business in Russia/CIS, and taking the time to find the right people to work with, you will be able to bring in the right investors for specific projects. Ultimately, you will be partnering for success.

*The Russia and CIS Hotel Investment Conference will take place in Moscow on 25-27 October.*

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