Post-Conference Report by Mary Gostelow, Publisher/Editor of Gostelow Report

The first Russia CIS Hotel Investment Conference was a sell-out, with 420 delegates, 50% from outside the region: 110 total were investors-developers. In his opening remarks, the conference patron, HRH Prince Michael of Kent GCVO, pointed out that the hotel sector often acts as an economic barometer of change. The lifetime achievement award, an Inuit bear statue, went to the Mayor of Moscow, Yuri Luzhkov, who came to Horwath's opening vodka reception.

Horwath's md Hungary & Russia Michael O'Hare moderated a panel of Hank Ciaffone (HC), president international Interstate; Michael Cooper (MC), vp strategic development Russia & CIS IHG; Arild Hovland (AH), svp business development Rezidor; Igor Romanov (IR), board member Azimut. All agreed the opportunity is strong, with a dire shortage of international or branded hotels outside Moscow and St Petersburg. (AH) More optimistic about Russia-CIS than anywhere. Most of his projects already have financing, some could be slowed but he doubts if any will fall out altogether: construction prices should come down because commercial construction will see a softening - and when he reads about Russia in the global press he does not recognise where he lives • (MC) Russia has so many delays - relocation costs, planning permits - that financial crises come pretty low. 2008 development plans were already met by mid-year • (HC) Russia is in great demand, this is not comparable to the crisis of 1998, and Moscow is breaking up into submarkets which will add more demand. Interstate, which is purely management, currently operates 6 hotels, with 7 opening in 2009.

Macro-economy came from The Economist's Daniel Thorniley. Whatever happens, China and Russia's GDP growth will be about 5 times that of Europe/USA for the foreseeable future (CNN says every Russian partner will steal your money and kill you - all of which is at least 97.6% wrong). Russia's big weakness is that it is very bad on PR: even the USA knows Russia is between Cuba and Nicaragua. Russia is still today one of the top macro-economies in the world. Here topline growth is 13-35%: Microsoft is growing at 99%. There is lots of opportunity. Only 1% of the population are shareholders (in the USA it is 45%) and only 3% are in mortgages (in the USA it is over 50%). Russian consumers understand quality and will pay for it. In Russia real wages after inflation are growing 12%; Germany and Japan are zero, USA 0.1%. Since 2004 corruption has diminished significantly generally but it has increased in dealings with government and state-run companies. What the government should do is double spending on education and health, and cut the defence budget by 80%. What happened in Ossetia was primarily Russia setting out to irritate the USA - Thorniley says the next step should be to buy Citibank or General Motors.

Arthur de Haast global ceo Jones Lang LaSalle, says Russian hotel activity is development-led rather than investment-led. For January-July 2008, hotels were 8% ($4.5bn) of total real estate investment, versus a mere 2% for all 2007. Moscow has somewhere around 11,000 rooms, whereas greater New York City has over 90,000 - so the average rate in Moscow is the world's most expensive, at $400 (January-July 2008). One challenge is that Moscow is business, week nights only, whereas St Petersburg, with 2 seasons that are longer each year, is nearly all leisure. Every other city still urgently needs supply (someone cited only 4 branded hotels elsewhere) • Erkan Erkek ceo Capital Partners - whose portfolio includes Moscow Ritz-Carlton - said having a brand certainly helps. He is not unduly worried by what is happening worldwide right now: in Kazakhstan, where he has a lot of activity, there has been crisis for over a year. He will move into Ukraine when the turbulence there ends. He sincerely thinks the luxury segment will remain strong even though one challenge is that you do not know what is going to happen from one day to the next (and from now on Capital Partners will never start building until all minutiae of design have been finalised). He will only work with brands, for long term value • Knut Kleiven deputy president/cfo Rezidor, wants critical mass in Russia before venturing most obviously into the CIS. He is looking throughout Russia at cities with 300,000-plus population, which means about 50 cities. Right now he is placing Park Inn and Rezidor

but he thinks Moscow has room for both Missoni and Regent - and his competitor, Ed Fuller, would like a Moscow Bulgari but it must be absolutely central. Hilton, meanwhile, is eyeing Moscow and St Petersburg for both Conrad and Waldorf=Astoria.

Labour is now 36% of hotels' operating costs in Russia. Even the 'luxury' panel highlighted the continuing search for people. Thomas Noll, gm St Petersburg Grand Hotel Europe, described how supporting a local orphanage results in trainees in the hotel, ultimately sponsored by his top-100 VIP club local guests. Robert Gaymer-Jones, coo of the newly-empowered Sofitel group, shared cross training with such other French brands as Chanel - both he and Jennifer Fox, coo Europe IHG, will have signature Moscow hotels soon (InterCon opens first in Kiev, early 2009, with a Kazakh pair and St Petersburg also on the map • The closing superb reception, hosted by Baltschug Kempinski, over-delivered its promised networking, wine, food and music - somehow the exuberance also momentarily closed all elevators, but fortunately sponsors were able to get to a rooftop dinner, where Prince Michael showed his genuine passion for both the hotel industry and luxury - his nephew, James Ogilvy, runs Luxury Briefing. END

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