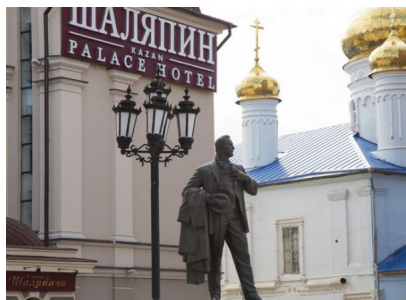


RUSSIA LACKS QUALITY ECONOMY CLASS HOTELS



Quality economy class hotels are hard to find in Russia, according to a survey of hotel operators by RBTH. In the majority of cases, in lieu of economy hotels, tourists are being offered rooms in run-down Soviet era establishments or in mini-hotels (of 20 to 40 rooms).

Vadim Prassov, Vice-President of the Russian Federation of Restaurant and Hotel Operators, explained that the situation varies from city to city: in some places, **mini-hotels are able to compensate for up to 70% of the lack of good quality economy class hotels.**

As far as larger hotels are concerned, the situation depends on the policies of the local authorities, whether they offer incentives to investors.

Stanislav Ivachkevitch - Deputy Director in charge of hotel industry development for CBRE - reasoned that those who are interested in opening economy class hotels in Moscow are the ones who suffer the most. New hotels built in the capital cannot count on good locations or incentives of a financial nature or otherwise. Therefore, only 20 out of the 200 Russian economy accommodation facilities are of good quality in Mr. Ivachkevitch's opinion.

The main cause of this situation can be attributed to the elevated cost from the outset of undertaking such a project. Mr. Prassov explained that the costs associated with equipping a two star hotel and a five star hotel are practically the same due to the expenses connected with the construction site.

The expert specified that it is a question of the work involved in connecting the various utilities as well as the costs relating to the certification and design of the hotel. Not only does connecting the building to the various utilities - electricity, water, heating - take time, but the monopolistic organizations in control of these services also impose exorbitant fees.

Thus, in the provinces, connecting a new hotel to the electrical grid can cost up to 20 million rubles (335 000 euros), while the connection for heating can cost around 80 million rubles (1.35 million euros). In Prassov's estimation, these fees could theoretically represent up to 20% of the necessary investment for the construction of a hotel.

"No investor will be willing to build a two star hotel when such high costs are involved. In these circumstances, it is much more profitable to build a five star hotel since the price which can be charged per night is three times higher - resulting in a much quicker return on investment," the expert explained.

Tamara Bouïolva, Vice-President in charge of public relations for the Association representing Saint Petersburg's small hotels, said that at the moment, the time required for a return on investment in an economy hotel is 10 years.

"The reasons for the difficulties relating to the opening of economy class hotels are of an economic nature. In the case of large economy hotels (more than 50 rooms), located in the megacities, where

land in the center and surrounding areas is expensive, construction at the city's center is not an economically viable option," Bouiolva acknowledged.

To solve the problem of the lack of good quality economy hotels, the hotel industry will require State support. For the experts surveyed by RBTH, this support could take the form of subsidies for construction, preferential credit rates, simplified certification procedures or preferential rates for the building's connection to the various necessary utilities.

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