From hotel hell to heaven in Kiev

Ukraine's capital finally begins to fulfill promise of high-quality accommodations

By Otto Pohl

KIEV

In August 1999, Hilton issued a news release announcing the opening of a 288-room hotel in central Kiev within the year. The chief executive of Hilton Group at the time, David Michels, was quoted as saying what a "good deal" the project would be for the company.

It might have been a good deal for the city, too — Kiev was the only major European capital without an internationally branded hotel.

But the hotel was never built. And for the next six years Kiev remained a Bermuda Triangle of sorts for international hotel projects, where plans by Sheraton, InterContinental, Kempinski and others vanished without a trace.

But with the opening of a 255-room Radisson SAS hotel last September, the spell appears to have been broken.

A 234-room Hyatt Regency is slated to open in mid-August, and construction has begun on a 190-room Holiday Inn to open in the second quarter of 2007.

"People smell the business," said Conrad Meier, general manager of the Radisson SAS Kiev. "There are so many opportunities here now."

The shift, market watchers say, is the result of trends in the country and the region, rather than any sudden market change. Perhaps most important is the growing wealth and stability of Ukraine and its neighbors, including Russia, Poland and Hungary.

Total foreign direct investment has surged since Ukraine's independence in 1991 and increased by $7.5 billion, or 80 percent, to $16.4 billion in 2005 alone.

"The perceived risk of this market is much lower than it was a few years ago," said Darren Blanchard, a hotel consultant in Ukraine for the past two years. "The returns required are not necessarily as high as they once were."

But investor concerns were only one reason for the previous failures. Blanchard, who documented about 20 failed hotel projects over 15 years, most with international brands, said bureaucracy and corruption had claimed the majority of them.

For the past five years, until the Radisson opened, the only top-end hotel in Kiev was the Premiere Palace, rumored to have been built with money from Russian investors. The hotel did not disclose ownership information.

The inability of the country to live up to its promise is familiar to people who live here, like David Sweere, who came to Ukraine from Minneapolis 16 years ago to capitalize on the country's agricultural potential.

While he has built a successful farming business for both domestic consumption and export and sees countrywide growth ahead, he is saddened by Ukraine's many missed opportunities.

"I'm getting a little tired of hearing about potential," he said. The so-called Orange Revolution a year and a half ago captured the attention of the Western world and seemed to be a chance for the country to jump ahead, but much of the revolution's promise of quick change has gone unfulfilled.

That is a familiar tale to many, like Gennadi Radchenko, corporate affairs manager for Nestlé Ukraine. "I have a Ukrainian passport, so I'm not surprised," he said of the slow development. "Everything is possible and impossible at the same time."

Ukraine is certainly not without good reasons for attracting international investment. The country is Europe's second-largest in area, after Russia, and a considerable portion of its 48 million people are urban and educated. It has some of Europe's richest farmland and a beautiful Black Sea coastline.

But apart from Minsk, Belarus, Kiev has the least developed hotel market among European capitals, according to an analyst at Ernst & Young, Andriy Nazarenko. The average European capital has 10 hotel rooms per 1,000 inhabitants, while Kiev has just four, and many of those are dismal.

As a result, room rates and investment returns are high. Payback periods on hotel investments average seven to nine years, analysts say, while it can take decades in Western Europe.

The absence of Western hotels has long been seen as emblematic of Ukraine's investment environment. An April 1998 article in The Wall Street Journal, under the headline "Kiev's Dreary Hotels Offer Microcosm of Reform Failures," described red tape and bureaucratic foot-dragging; it still seems largely apt, eight years later. The Radisson project took eight years from start to finish, and the €60 million, or $73 million, Hyatt — once slated to be an InterContinental, and then a Sheraton — has been in the planning stages since 1997.

But such long development periods appear to be in the past. "Things are becoming easier to do," Andre Pury, senior vice president of Hyatt International says of the Ukrainian market. "Five to seven years ago was a totally different market."

The Radisson, which cost €50 million, and the new terminal wing at the city's international airport have given Kiev a bit of allure— and it is reflected in visitor expectations. The Kiev city administration expects the number of visitors to rise 50 percent, to 2.3 million annually, by 2010.

Even more excitement surrounds the pending opening of the Hyatt Regency St. Sophia. A soaring atrium gives the hotel an open feel. A grill restaurant features a balcony overlooking one of Kiev's grandest squares, and the presidential suite's rooftop pool has views of golden church domes and tree-lined avenues in every direction.

The Radisson SAS is new construction behind two meticulously restored turn-of-the-century facades. Located in the stately old center of Kiev, it already has fueled the renaissance of its neighborhood, with several stores, restaurants and coffee shops hoping to capture some of the hotel's visitor traffic.

So far, the Radisson has been operating near capacity, with some of the demand driven by the recent removal of visa requirements for some travelers, including those from Western Europe, the United States and Japan.

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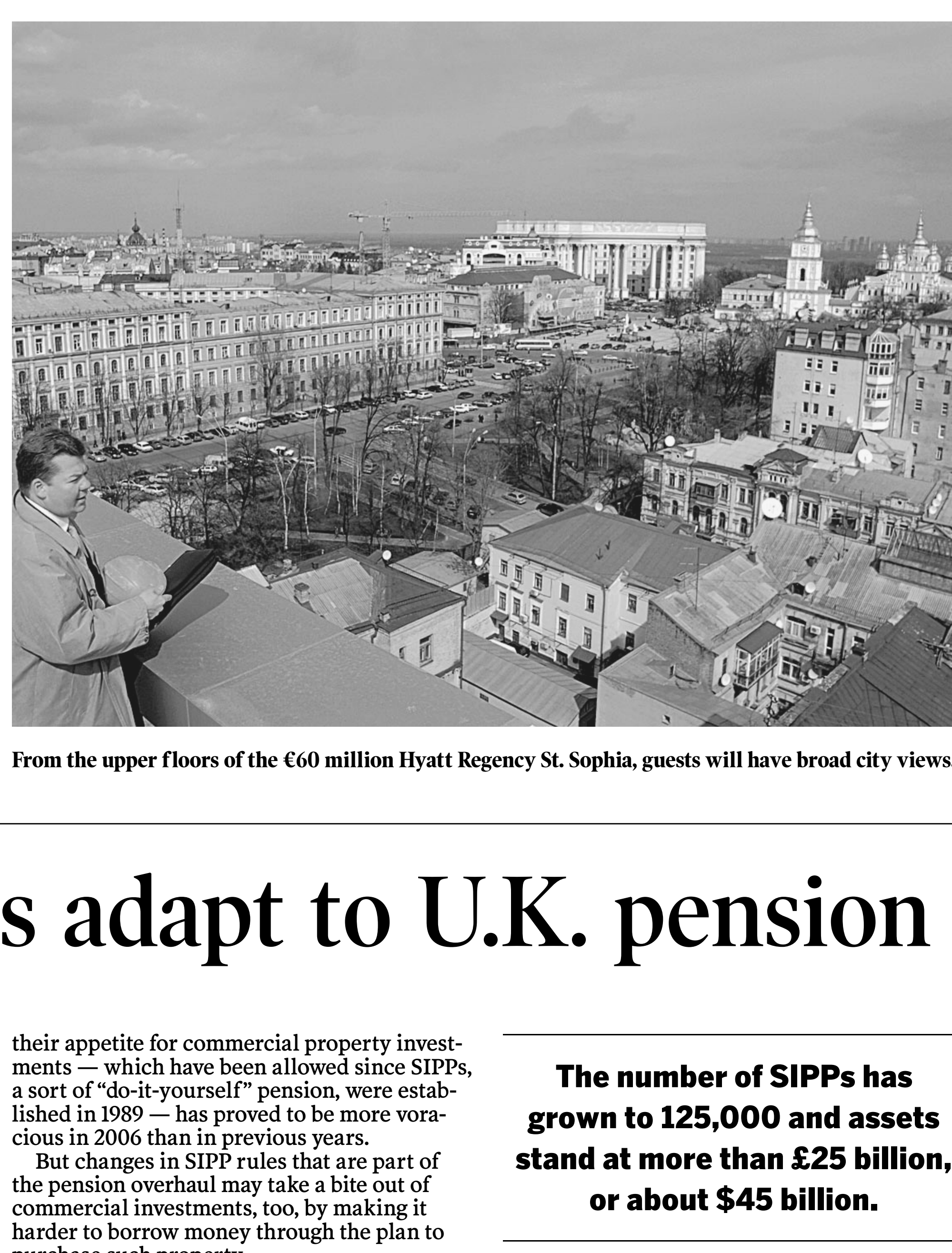
Photographs by Anne Sherwood for the International Herald Tribune

The Radisson SAS became Kiev's first international-brand hotel when it opened last September in the Ukrainian capital. The €50 million hotel was eight years in the planning, and, while industry analysts say projects still face a lot of delays, they believe hotels will be completed much more quickly in the future.



From the upper floors of the €60 million Hyatt Regency St. Sophia, guests will have broad city views.

Retirees adapt to U.K. pension changes

By Shelley Emling

LONDON

Many British retirees were stunned when the chancellor of the Exchequer, Gordon Brown, changed his mind last December about allowing the money in self-invested personal pensions, or SIPPs, to be used to buy residential property in Britain and abroad. They had spent months anticipating that the investment opportunity would be part of the government's pension overhaul April 6 and, in some cases, they had redirected their investments.

As a result, some financial advisers say, their appetite for commercial property investments — which have been allowed since SIPPs, a sort of "do-it-yourself" pension, were established in 1989 — has proved to be more voracious in 2006 than in previous years.

But changes in SIPP rules that are part of the pension overhaul may take a bite out of commercial investments, too, by making it harder to borrow money through the plan to purchase such property.

Perhaps the primary change was a reduction in mortgage amounts. As of April 6, 50 percent of the net value of a SIPP fund was the maximum that could be borrowed; 75 percent of the property's purchase cost was allowed previously. The government said the change was made to deter speculation.

The number of SIPPs has grown to 125,000 and assets stand at more than £25 billion, or about $45 billion.

"For most SIPPs, this will restrict the level of borrowing and hence the size of property the SIPP will be able to purchase," said Anthony Clements of Millfield Partnership, parent company for more than 1,500 independent financial advisers, based in Croydon, England.

SIPP commercial property investments still can be made anywhere, in Britain or overseas, although the overseas countries may have restrictions of their own. "However, I have been involved in successful purchases in Spain, France, Portugal, the United States and Australia," Clements said.

There have been several governmental twists in the months that led to April 6.

First, Brown reversed his initial proposal to allow SIPP residential property investments, citing concerns that people would abuse the system by claiming tax relief while using SIPPs to buy second homes for their own uses.

Then, in late March, the government's suddenly gave a green light to real-estate investment trusts, or REITs.

An investor entering a REIT, a vehicle widely used in the United States, holds an interest in the trust and will receive dividends from the properties it owns.

Financial advisers say the British government's REIT structure is flexible enough to lure even more new funds into the already strong commercial sector, and in the end it may be a way for SIPPs to be used for residential purchases too.

In general, it is not clear exactly how much SIPPs have affected Britain's property market to date.

But government officials say that the number of SIPPs has grown to 125,000 from about 25,000 since 1995 and that their assets now stand at more than £25 billion, or about $45 billion.

As for the commercial property sector, it has served investors well by outperforming stocks and bonds over the past 10 years, according to the Investment Property Databank, a research firm based in London.

Last year the sector posted its strongest returns since 1993, with returns growing 19.1 percent, and bringing the annualized three-year return in the sector to 16 percent, according to the company.

Such results have made property "an extremely popular asset at present through all the available routes, including SIPPs, and many investors are seeking to diversify investment portfolios to include property, which is something many were not doing a few years ago," said Janet Measom, a property specialist at Morley Fund Management.

In reaction, many firms have created vehicles structured specifically to attract the interest of individual investors.

For example, Britain's first hotel-room buy-to-let plan, known as GuestInvest, is being marketed to potential residential property investors who were stung by Brown's U-turn on SIPPs last December.

Under the plan, an investor can buy a room in a hotel and get a 50 percent share of the income when it is used by guests. "This offers a commercial SIPP-compliant investment in residential clothing," said Daniel Marsden, a senior surveyor at Colliers CRE, the selling agent for GuestInvest.

He said the plan has proved popular because it is a no-hassle investment: "There are no voids, no wear and tear, no nightmare tenants and you have the ability to enjoy your investment by staying there for 52 nights per year."

International Herald Tribune

Shirin Elghanayan, a partner at the retail consultant CWM, has spent most of the past nine years helping to revitalize Marylebone High Street for the main local landlord, the Howard de Walden Estates.

Courtesy of CWM

Fashioning London's chic streets

By Shelley Emling

LONDON

On Bruton Street in London's posh Mayfair section, Stella McCartney's flagship store doesn't rub shoulders with the Matthew Williamson boutique by accident.

The retail property adviser CWM helped orchestrate the brands' moves and, as a result, a street that used to be known for art galleries rather than high-end fashion is becoming more exclusive than Bond Street.

"A lot of these types of retailers like the idea of being 'discovered' " by the customer, said Shirin Elghanayan, a partner at CWM. "And it can be so boring for a retailer to be in an obvious location."

Founded in 1990, CWM has been helping to shape the shopping scene in London ever since with a team of 21 employees, including Elghanayan.

The company not only matches retailers with landlords but also advises large-scale landowners on the tenant makeup of a particular area.

The fees are very much tailored to the project. "We usually get a retainer on a monthly basis from our clients for consultancy advice that we give, and the amount varies," Elghanayan said. "We also get 10 percent of the first year's rental that we achieve on a particular shop. That's very much standard with retail agents."

For the past nine years, Elghanayan's primary job for CWM has been to help with the revitalization of Marylebone High Street for the main local landlord, the Howard de Walden Estates.

This once-shabby area of central London now attracts the likes of Madonna, Kate Winslet and Cate Blanchett. And it has managed to do so, Elghanayan said, by keeping out the big national chains while attracting a mix of boutiques and small retailers.

The plan apparently has worked. Not only has Marylebone High Street been voted London's favorite street by Radio 4 listeners but also the Evening Standard said in March that only Marylebone could match a typical Paris arrondissement for sophisticated food shops and restaurants.

'We really just work with landlords that have a long-term vision.'

"There used to be mostly vacant shops and charity shops in that area and we put a strategy together and went after some unusual but popular retailers and encouraged them to come to Marylebone High Street," Elghanayan said.

One of those retailers was the Ginger Pig, a popular butcher with a regular stall at the eclectic Borough Market in South London.

Elghanayan said the trend among upscale consumers was to avoid the ubiquitous giants that have made many high streets a bore to visit. "Every high street is starting to look the same," she said. "They all have Boots, a Barclays bank, and a Starbucks or a Caffè Nero.

"People now are looking for something different," she said.

Elghanayan said there were landlords who cared only about getting tenants who would pay the most for the space they rent.

"But we really just work with landlords that have a long-term vision and who realize that success comes from having the right mix," she said.

Next on CWM's radar screen is Fitzrovia, the area around Fitzroy Square and Charlotte Street, where London Merchant Securities, a property development and investment firm, owns one million square feet, or 93,000 square meters, of office and retail space and has hired CWM to revive the area. CWM is also taking on Camden Passage in the borough of Islington.

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