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From hotel hell to heaven in Kiev

By Otto Pohl International Herald Tribune

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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 euro, 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 euros, 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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