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For Sochi, Olympic Training Starts Here

05/27/2008 There may still be six years to go until the 2014 Winter Olympics in Sochi, but officials are anxious to show that the Black Sea resort will not face the same criticisms as Moscow did last week, when the capital's hotels struggled to cope with an influx of football fans for the Champions League final.



The final, which many have seen as an early test of Russia's readiness to welcome hordes of foreign visitors for the Olympics, received a boost when the government rushed through a law to suspend the country's complex visa regime for those traveling to the match at Moscow's Luzhniki stadium.

Yet the estimated 40,000 traveling English fans stretched the capital's hotels to the limits -- and beyond.

In a bid to avoid the spectacle of desperate sports fans sleeping in river cruise ships, hired cars or on park benches around the city, officials in Sochi have pledged that an extra 35,000 hotel rooms will be built over the next few years.

"We are sure that we won't have the same problems as Moscow, as making sure there are plenty of available and affordable rooms is a priority," said Yelena Pavlovich, head of the city administration's hotel development department.

Having doubled its capacity over the past five years to 125,000 beds, Sochi, the country's largest resort, already boasts twice the number of rooms in Moscow. But most of those are in Soviet-era relics that would barely qualify for a one-star rating in Europe.

"Sochi is an old-style resort town made up mainly of sanatoriums and small hotels rather than international standard hotels," said Marina Smirnova, vice president for Jones Lange LaSalle Hotels in Russia.

And the imbalance in the hotel market poses some unique problems for the sector's development in Sochi.

A serious lack of top-end accommodation -- Cushman and Wakefield estimate that there are only 126 four-star rooms within 10 kilometers of the planned site for the Olympic Village -- has forced some wealthy Russians to take drastic steps and opened the door for major international chains.



Dmitry Beliaikov / Bloomberg
Skiers riding the ski lift at Krasnaya Polyana. As well as creating Olympic-class winter sports facilities, Sochi also needs to overhaul much of its infrastructure.

Aluminum and construction magnate Oleg Deripaska, the country's richest man according to Forbes magazine, built his own hotel -- the luxury 40-room Rodina -- in 2006 to give him and his friends somewhere to stay in the city.

On a grander scale, a subsidiary of Deripaska's Basic Element holding is behind one of Sochi's biggest developments -- the giant 3 million-square-meter Imeretinskaya Riviera mixed-used development. Other major projects also have high-profile backers, including Interros owner Vladimir Potanin and state-mammoth Gazprom.

The Altius site will include four hotels -- totaling more than 1,000 rooms -- and could see top-end international operators brought on board, spokesman Yevgeny Prokhorenkov said.

Across the city, a number of Western chains are currently eyeing up Sochi -- although none have put pen to paper on any concrete new deals yet. Sochi's hotel development program requires the construction of another 50 five-star hotels, the Cushman and Wakefield study said.

"Companies such as Sheraton and Hilton are conducting negotiations to open hotels here, and Radisson is looking to expand," Pavlovich said.

There are already two Radisson hotels in Sochi.

Five-star operator Kempinski has also been eyeing Sochi, even since before the city won its bid for the Olympics.

"Sochi is the only resort in Russia, so where else would you want to have a hotel?" said Natalya Kalashnikova, Kempinski development manager for Eastern Europe and Russia. The company is set to sign a concrete deal -- most likely with a local developer -- before the end of the year, Kalashnikova said.

As the foreign operators move in, Western visitors will feel more at home in Sochi with the brands that they are used to. But the prices will rise, too.

"Sochi used to be for the middle class, but now staying there in August is more expensive than going to Turkey. Even in a small midrange hotel, it costs \$150 a night," Smirnova said.

With all the projects being mooted at the moment, some operators and officials fear that Sochi could actually end up with a glut of hotel rooms once the Olympics are over.

"There would be a huge oversupply if all the projects that are being talked about happened, but all the plans have to be taken with a pinch of salt," said Darren Blanchard, business development director at Rezidor, which runs the Radisson and Park Inn chains.

"There is talk of tens of thousands of hotel rooms coming on line for one event, but Sochi needs to have a long-term future as a resort or it will be difficult for the operators," Blanchard said.

Local officials admit that trying to weigh the demands for the Olympics against the city's future needs is proving a complex balancing act.

"Maybe we will have slightly more rooms than necessary, but that will mean that we will have places in reserve that we can use for other events," said Pavlovich, the city administration official.

High-end hotels are known to have a long payback period, and the city wants to avoid having locations standing empty in the future, Pavlovich said. But as the hotel development is in the hands of private investors, it's ultimately up to them.

"You cannot build and own a hotel for a two-week sporting event. Most shrewd investors build temporary accommodation solutions for such events and adapt them for more permanent use, such as residential apartments," said Joel Goldman, director of Cushman and Wakefield Hospitality.



for MT

Sochi may yet rely on revamped Soviet-era sanatoriums to expand capacity.

While the new hotels are set to start springing up over the next few years, many of the Soviet-era facilities that used to house sun-scorched tourists from friendly Soviet satellite states are being refurbished.

"The sanatoriums are to some degree a threat to development," Blanchard said. "The market is diminishing, and as it diminishes, they have to start reinventing themselves."

One argument in favor of renewing the older hotels and sanatoriums is the huge infrastructure challenge facing the region.

"In Sochi, the main problems are transport and communication infrastructure problems, such as electricity, sewers and water supplies," said Smirnova, of Jones Lange LaSalle.

The government initially pledged to pump around \$12 billion into bringing the city's infrastructure up to speed, but recent reports suggest that that figure could soar.

"I understand that power supply is a major problem in Sochi. Without sufficient mains power it will be disastrous. However, with political will there is a way," said Goldman, of Cushman and Wakefield.

City officials denied that the major building works going on in and around the city over the next few years would stem the flow of visitors, and hit hotels occupancy in the short term.

"The major building works for the Olympics are being carried in the town's Adler district and in the Imeritinskaya



Viktor Klyushkin / ITAR-TASS
Sunbathing women enjoying a summertime read on the Black Sea shore.

valley outside the center, toward the airport," said Lela Megrelidze, deputy head of Sochi's tourism development department.

"The place where most of the tourists stay is in the center, quite far from there -- and the work we are doing in the city is just renewing the roads and squares," Megrelidze said.

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