

# UREClub Digest 05 November 2012

Photo: Ukrainian Real Estate Club



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The organizer of the Forum was Ukrainian Real Estate Club – an organization in the Ukrainian real estate market. The General Partner of the Forum for the second time in a row was ArtBuild Hotel Group.

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# «Hotel a la Kiev»: experts' formula

Real estate players tried to create formula of the successful hotel project in Ukraine.

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## Budget, economy and midscale hotels will develop faster than others.

One of the main results of the Forum was the understanding that Ukraine has a huge potential for the development of budget, economy and midscale hotels. According to the experts, the hotels of exactly such segments meet either the Ukrainian or the foreign tourists' requirements and can stimulate the development of the mass tourism in the country. However, there is lack of such hotels in the country.

Ukraine is one of the last in Europe by the number of one-three star hotels, while exactly such hotels (including development of infrastructure) are able to attract various groups of foreign tourists such as students, pensioners and people of «middle class» to the country. According to ArtBuild Hotel Group, at the end of 2011 the number of the hotel rooms in Kiev made up 3,2 per 1000 inhabitants while Berlin had 16,8 rooms per 1000 inhabitants, Warsaw – 7,5 and Bucharest – 5,2. In fact, the «expensive» high class hotel projects are more preferable in Ukraine than hotels of mid and low price segment. As a result, the hotel room capacity of the capital after the year 2000 includes just 14% of budget and economy segments and 25% of the luxury one.

Many experts say that further development of the 5star hotels will lead to an oversaturated market and a tough price competition. It isn't strange that the

most considerable increase is expected in upscale and midscale segments – the most spacious and prospective categories.

According to the ArtBuild Hotel Group's data as of September 2012 the midscale segment has already increased by 94,6%. On the basis of the declared projects this segment will increase by 123% by the end of the year. The hotel room capacity in the upscale category (in condition of realization of all declared projects) will increase by 300% by the end of the year 2015.

As for the budget and economy segments, they remain the less developed and can't attract an attention of the main real estate players'. According to **Aleksei Evchenko, managing partner at ArtBuild Hotel Group**, «in spite of the fact that the economy segment nominally is the most numerous (43%) in the total hotel room capacity of Kiev, the capital has just one modern qualitative hotel of this class under the control of international hotel operator (Ibis). Kiev doesn't have any international brand in a budget segment. That's why development of the hotel projects of exactly such segment is the top priority».

Besides the prospects of this segment and the strategic plans of the hotel chains development in Ukraine, in the course of the forum experts discussed the problems of the professional recruitment during the whole process of the project realization, its planning and designing. They also touched upon

## PROVISION OF THE EUROPEAN CITIES WITH THE HOTEL ROOMS PER 1000 RESIDENTS



SOURCE: ABHG, NAI BECAR MOSCOW, COLLIERS BUDAPEST, INSTITUTO NACIONAL DE ESTADISTICA PORTUGAL, 2011.

the issues of construction standards and essential technical requirements for hotel building.

### Prices in the 5-star hotels will be changed

Another conclusion of the forum which is directly connected with the first one emphasizes that prices in the five-star hotels will be inevitably changed and, possibly, not in favour of owners and operators of these hotels.

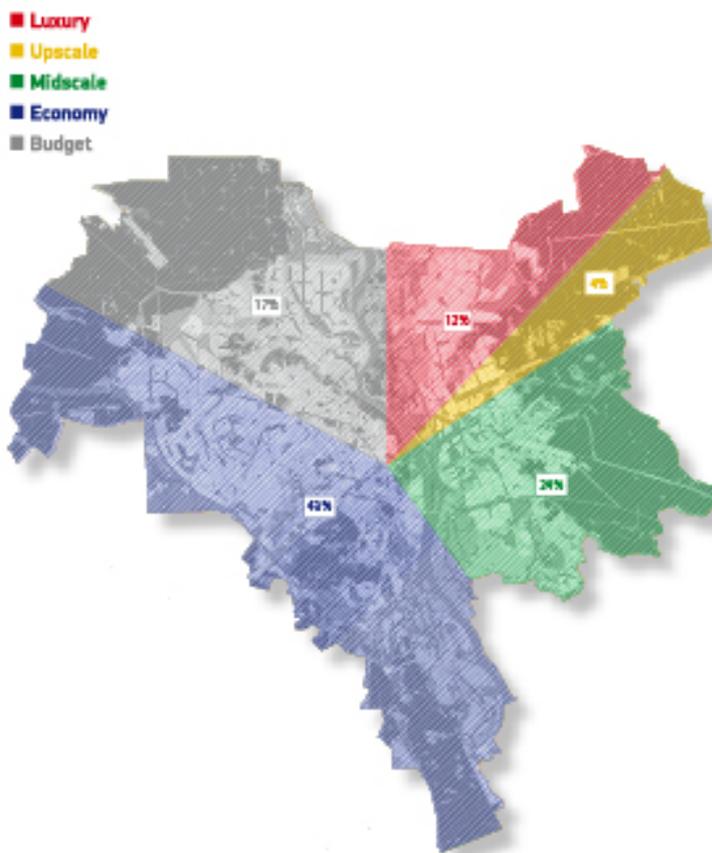
According to **Daron S. Rose, managing partner at ArtBuild Hotel Group**, «new hotel room capacity which will arise in Ukraine in the near future will not have significant impact on the price formation in the sphere of hotel services. Firstly, the number of hotels per 1000 habitants of Ukraine is one of the lowest in Europe. That's why we need time for the total market saturation. Secondly, the existing hotel room capacity of the 2-4 star hotels often doesn't correspond to the international quality standards and can't compete with new hotels».

According to the expert – the only segment where the prices can be adjusted in the near future is the 5-star hotels. «Exactly this segment generates a real competition. And if there is a competition, there is also the price adjustment» - Daron S.Rose says.

Summarizing the overall situation and tendencies in the hotel real estate segment, **vice-president at InterContinental Hotels Group Aron Libenson** admits that «the hotel market in the CIS countries as well as in Russia has significant indicators of improvement. The period of eco-projects has already passed and now it is time for the hotels oriented on the brands of midscale level. The owners have realized the importance of the international brand presence in the project. So, developers try to invite the operator into the project at the early stages, often, in order to attract financing».

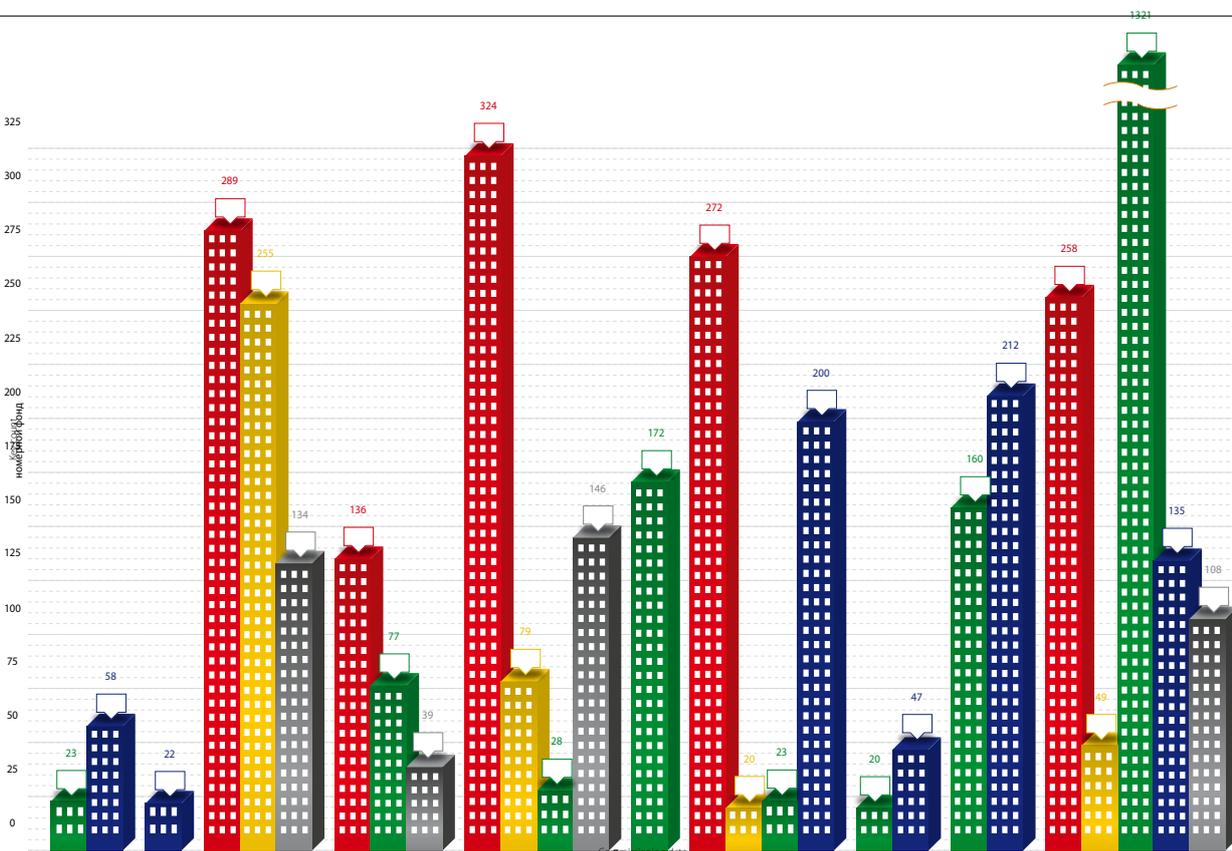
According to the expert, the hotel market in Ukraine is becoming «softer» and such tendency will be stable for the next few years until new proposal in the cities which participated in EURO 2012 will be equal to the demand. «Such situation has caused the real economic prospects for Ukraine and improved the infrastructure of the country including the new airport. Nevertheless, regional communications have not considerably changed», – the vice-president at IHG admitted.

### STRUCTURE OF KIEV HOTEL ROOM CAPACITY



SOURCE: ABHG, 2012.

### HOTEL ROOM STOCK, BUILT AFTER 2000



SOURCE: ABHG, 2012. ANIMATED GRAPHICS IS MADE ON THE BASIS OF THE HOTEL PROPERTY MARKET OF KYIV PRESENTED BY ART BUILD HOTEL GROUP



Participants of the first discussion panel



Speakers of the UREC Hospitality Forum second session

### Attraction of the international hotel brand

Discussion within forum was held in accordance with special algorithm – each new problem raised by the moderators - **Aleksei Evchenko and Daron S. Rose, managing partners at ArtBuild Hotel Group** - was discussed as next «ingredient», next component of the formula of the successful hotel project. So, during the first session they discussed problems, among which were: selection of the brand under which the hotel will operate, determination of the future form of the project management, structure of its financing and many others.

Most of the time the forum participants focused on the questions of the cooperation with international hotel brands: when and how is it possible to cooperate with them; is it necessary at all or not, etc.? Experts admitted that the professional consultation of major operators at the early stage of the project remains one of the most important things. Nevertheless, some of the speakers underlined that it was individual decision whether to cooperate with international operator or not. It may depend on the project scale, its location etc. The developer should know what potential the future location of the hotel has; the hotel of what category it is possible to build in this area; what the project value may be. And only after analyzing these factors he can determine the structure of its financing.

Discussing the project value, **Aron Libinson, vice-president at InterContinental Hotel Group in charge of development in Russia and CIS countries**, added: «large hotel chains want the owners to realize the project right (the hotel should correspond to the brand) but it isn't necessary at a high price. The increase in hotel value will influence the operating activity of the company which will participate in the project».

**Irina Pshennaya, general director at Vertex Hotel Group** subscribed to this opinion: «It isn't right to invest a large sum of money in the project and then demand from the operator to return the investment in the shortest term because it is impossible to take from the market more than it can give».

Despite the concept and the evaluation of the perspectives of the construction area, the professional recruitment also is one of the important moments. According to **Oleg Salmin, general director at 21 Century**, «to organize a team of the hotel project is rather difficult task as there is lack of the managers in the market. I think that more foreign professionals in sphere of management will come to Ukraine as a result of the hotel property development. But today they are very expensive for Ukraine. This

segment needs professional project managers ready to accept responsibility, to organize the team and to be responsible for all business rates».

### From the construction to the «cutting of the ribbon»

When the first session of the forum covered more conceptual issues, the speakers of the second session of UREC Hospitality Forum 2012 touched on more concrete topics: work with general contracting and engineering organizations, working out of the hotel design and interior, organization of the hotel operation. These aspects are as important for realization of successful hotel project as strategic issues such as partnership with an operator or with the credit structures.

#### REPRESENTATION OF THE INTERNATIONAL HOTEL BRANDS



According to **Sergei Fedorik, managing partner at Ukrbudkontrakt**, successful construction (subject to the main features of the hotel project) is based on the following factors: detailed technical assignment for planners and designers, properly elaborated design documentation, effective electrical and plumbing systems, materials and equipment of high quality and well co-ordinated intercommunicating system. Herewith, the careful study of the area, planned for the object construction, is also very important step. If such moments remain without proper attention, the risks of project revision in process of construction grow significantly. It can cause the increase in the project value as well as in its timeline.

«Usually local customer is interested in project execution just by one company when general contractor is responsible for the whole process of the hotel construction, its equipment and furnishing. Only those companies with the experience in the execution of the hotel projects from scratch to the «ribbon cutting» can cope with such tasks», - Sergei Fedorik says.

As for detailed technical assignment for designers, the experts emphasized on the importance of the mock-up room designing that gave the opportunity to understand what impression the hotel may leave and to see how the interior elements look in the room.

### Hotel business «a la Ukraine»

However, many experts say that there is no common formula of the successful hotel project because each project is individual. After UREC Hospitality Forum 2012 you can see that this segment is always open for original approaches and new strategies.

Nevertheless, developers should take into account each concrete aspect and complete it professionally even with typical for Ukraine subjective and creative character.

# Formula of the successful hotel project: from the idea to the Grand-opening

According to the experts, there isn't a precise formula of the successful hotel project, as each hotel is individual and any project – unique. Nevertheless, the specialists define major ingredients essential for the project realization. What should one take into account in order to carry out the hotel project efficiently?

➔ Talking about the important components of the successful hotel project, **Aron Libenson, the vice-president at InterContinental Hotel Group** in charge of development in Russia and CIS countries, says that one of the important factors of a success still remains the place of hotel location and the easy accessibility. Also it is important to have: the developers and consultants' experience, the early participation of the operator in the project and the readiness to consider his advice, the availability of financing and the ability to control expenses. In addition it is necessary to have a strong market entry strategy. As for expectations, they should correspond to market reality.

## First stage. Preparation.

You need the following:

1. To understand the idea and to conceive the final result. To make a decision of working under the international brands or to give up such an idea.
2. To make a right Feasibility Study to understand what kind of project and how it is possible to execute it?
3. To define the future form of the hotel management.
4. To select the most appropriate financing structure.
5. To assemble a solid team of professionals with a strict assignment of duties and responsibilities.

➔ According to **Aleksei Evchenko, managing partner at ArtBuild Hotel Group**, «theoretically, formula of the hotel project profitability is rather simple – decrease of capital and operating costs and increase of operating income. It is possible to cut capital expenses due to management approach to the planning and designing. For instance, the rate of maximum income and profit of the future hotel depends on the proper correlation of «earning» spaces (hotel room capacity, business center, and restaurant) and service spaces (administrative, technical and utility). As for increasing of the operating income and reduction of the costs, they depend on the managing company (its experience and management standards).

## Second stage. Project realization.

You need the following:

1. To work out the detailed technical assignment for projection and design.
2. To define the priorities: what comes first – projection or design?
3. To elaborate the efficient engineering system.
4. To carry out construction, taking into account the special features of a hotel project
5. To create future mock-up room.
6. To purchase FF&E (furniture, fixtures and equipment).

➔ According to Irina Pshenaya, general director at Vertex Hotel Group, the Ukrainian hotel owners are often guided by personal experience in order to choose the hotel rooms design. Such attitude leads to the frequent change of the interior. But at the same time, it gives successful results as the hotel rooms become better after each modification. The developer has to agree that client's comments were useful.

## Third stage. Pre-opening.

1. To recruit professionals.
2. To check the hotel is ready to host. To make additional purchase if it is necessary.

## Fourth stage. Soft-opening.

1. To practice and improve operating process.

## Fifth stage. Grand-opening



The material is prepared with the support of ArtBuild Hotel Group



# Aleksei Evchenko:

«The potential of the hotel real estate market is enormous, but it needs to be developed using the right approach»

*The segment of the hotel real estate market remains one of the most perspective in Ukraine and is one of the most poorly developed at the same time. Being at the crossroads of the real estate market and the services market, hotel business demands a professional and specialized approach. The hotel development market got a tremendous push during the preparation for the European Football Championship in 2012; the infrastructure started developing quickly, and a lot of countries got to know about Ukraine's hospitality.*

*Aleksei Evchenko, managing partner at the ArtBuild Hotel Group, speaks about growth opportunities and market tendencies in his interview for URE Club.*

**One of the broadly discussed topics connected with the hotel market in Ukraine is the opportunity of its development after hosting the European Football Championship in 2012. What is your opinion on market expectations «before» and «after» EURO 2012?**

Despite the general hype around this issue, our company has never analyzed the hotel real estate market of Ukraine through the prism of EURO 2012. Professional market participants, such as consultants, developers, and investors have always viewed the market from the perspective of long-term investment attractiveness, supply and demand ratio, existing competition, increase of business activity in the region, etc. Thus, the end of the Championship is not «the end of the world» for the hotel sphere: the market has its own way of moving in relation to the rate of development and growth, and a lot of time is needed to saturate it with quality offerings and products.

On the other hand, it should be admitted that the program regarding Ukraine's preparation for EURO 2012 became a serious catalyst for the sphere's development. Despite the fact that most hotel projects, which opening was planned for EURO 2012, were not completed in time, the year 2012 showed, in general, the most active market growth in the last decade. According to our data, the hotel market volume in Kiev increased by 18% in the beginning of 2012, while its growth earlier comprised only 3-5% per year.

**Speaking about a qualitative and not about quantitative aspects, to what extent was the Ukrainian hotel market ready for the arrival of international fans and participants?**

The indicator of the hotel segment's readiness became the guests' comments. They varied a lot, but I didn't hear anything of an absolutely negative character. Speaking about high grade hotels, I encountered a lot of positive reports both from players and UEFA representatives. These comments were not only about the quality of the hotels, but also the level of hospitality, in general: our people, our city, our country. It is impossible to investigate the hotel segment apart from the infrastructure and the overall atmosphere. As far as I'm concerned, comments were very positive in most cases. This is a case where most people felt that they got more than they were expecting.



Aleksei Evchenko, managing partner at the ArtBuild Hotel Group

**What tendencies are typical for the modern hotel market of Ukraine?**

In my viewpoint, today's Ukrainian market undergoing an interesting transition phase from an intuitive and inexperienced state to a more professional and steady rate of development. We now face the formation of the new hotel segment, which is realized in cooperation with the biggest international hotel networks, to a major extent. If the first hotel, led by the Radisson SAS (now Radisson Blu), was opened in Kiev in 2005, almost 13 top brands will have been opened in the capital city by 2015. This tendency is a very serious signal for the future local market growth potential in reaching European and international levels. Market players will have to maintain above average levels of service in order to fend off competition and not to lose their market share. I consider this competitive fight, which will emerge in the nearest 5-7 years, to be the most important and interesting tendency in respect to the national market.

**You mentioned serious opportunities in the development of 2-3 star hotels in Ukraine in one of your interviews. Have any changes taken place in this segment recently? Do you consider economy and mid-market hotels still to be the most opportunistic?**

Our company has not changed its opinion. We believe that budget, economy and midscale class hotels present the greatest opportunity for real estate and hospitality investors in Ukraine. On the one hand, the buying power of our local population is more in line with this price level. On the other hand, 2-3 star hotels comprise of the largest hotel segment in the world in relation to their users, leisure- and business-tourists. We lack qualitative projects in these categories in our country. Speaking about high grade hotels, the Kiev market started its development with them. Thus, for instance, there are 5 luxury hotels in Kiev, 3 of which are represented by popular

international brands. Several other internationally branded hotels are to be opened in the nearest year or two and this will as of now fill current demand in this market segment entirely. However, it is not correct to speak about the future oversaturation in the luxury segment: the number of hotels is «sufficient» or «insufficient» only for a certain period of time. If the infrastructure and the country's tourist sphere develop at an intensive rate, perhaps, there will be more tourists and the situation will change again. I think that the market will show, whether it has enough 5-star hotels in the nearest 2-3 years.

The market definitely lacks a qualitative 1-3\* fund. Hotels in these segments are necessary for the majority of tourists (the potential hidden import, our government relies so much on). There are some difficulties in developing such projects. When examining the luxury hotel segment a significant amount of attention and special benefits are received on behalf of the Government. We now have a paradoxical situation in Ukraine, as we speak about mass tourism development which requires more 1-3star hotels, the tax benefits and preferences are given to hotels of a narrow more-premium segment. Even through a majority of this segment is built by novice, unprepared, local investors, the budget and economy hotel sectors are quickly gaining attention and the situation is changing quickly for the better.

**Is it only about the development of the capital city of Kyiv, or is it about Ukraine in general? Does your company plan to develop hotel projects throughout the regions?**

Yes, ArtBuild Hotel Group is planning to develop projects in the regions as well. Everything will depend on the rate of and scale of the development of infrastructure. When the infrastructure develops, everything becomes more attractive for tourists. Let's take the Crimea, for example. We have excellent weather conditions, but we cannot represent them in the best way, as we lack normal roads, airports, railway stations, there is no beach use regulation, etc.

The market needs a stable economic situation, a normal political state, and appropriate business conditions in order to reach its full development potential. If these things happen, foreign investors will enter the market, and the hotel segment will develop not only in Kiev, but within the whole of the country. The main thing here is that the approach to development should be hand in hand, it is then the results can exceed expectations. If all the segments are developed separately, independently from each other, the result may be negative.

**Moving from generalizations in the market to concrete details and specifics: When analyzing specific properties - which factors are necessary for creating a successful hotel project?**

First of all, there should be a professional approach towards its realization. Some people think that a hotel can be built by having an experience of creating projects in retail and residential real estate. I don't agree with this viewpoint. Professionals should be involved in all stages of the properties development. There are many details in the development of hotels and their

further management that need to be taken into account from the planning stages. If the approach towards building a project is wrong from the very beginning, it would almost be impossible to find and correct many of the issues that will arise later.

Secondly, once the client is ready to realize his or her hotel project, basic issues that define the further algorithm of project development should be scrutinized. These issues are: what segment and format should the project be representing, the number of rooms and additional infrastructure, the manager or operator of the hotel, the price of the rooms, etc. The main thing here is that the answers to these issues should be not nominal, but carefully worked out and reasonable. The preliminary analysis will help you understand the most important thing – how relevant it is to build a hotel in a certain city, on a certain plot, in a certain format and whether or not it makes sense financially.

A Feasibility Study (or a technical-economic study) provides a solution for the questions posed above. For instance, our company doesn't start working on a project without reviewing the full documentation available to us. We need to see a plan, and if it doesn't exist as in most cases, then be it one of our own projects or a fee-development for a client, we work to produce this set of documents independently and can assure that you won't find a more comprehensive and elaborated Feasibility Study on the Ukrainian market amongst the hospitality consulting groups. We created the Extended Feasibility Study, which includes an elaborated Concept including the architectural pre-planning layouts in addition to the standard contents of the document. We plan to include the engineering network and BMS concepts in the future. Such an approach will enable us to perform financial and economic calculations on the basis of the real and elaborated project and not on the basis of an average model of an abstract hotel of a certain class. We do it to reduce the number of assumptions lacking detail and to gain a more precise financial result. Besides that, it gives an understanding of what technical conditions are required for the project and how realistic it is for the client to obtain such requirements for the specific plot.

Thirdly, the client has to formulate a precise sequence of actions as pertaining to the project with professional assistance. One of the most widespread misconceptions is that lots of operators, who are ready and willing to manage the hotel, will come to you after its construction. In fact, one should clearly make the decision who will manage the hotel and under which brand it will operate during the project /design/build stage. This is because further project development, changes, and guides will depend on the decisions that were taken at this stage.

Experts like to underline the over-importance of «location, location, location». However, I would like to note that if the plot is presented separately from the concept in its entirety, hence lacking a professional complex approach, the owner or investor risks in making the project successful.

**It is known that ArtBuild Hotel Group is a proponent of «green building» technologies and is also one of the founding members of the Ukrainian Green Building Council (UAGBC). What benefits does this technology have for hotel projects? Does it stand a chance in becoming popular among local hospitality developers?**

I am convinced that the Ukrainian market will gradually succumb to the active use of green technologies incorporated into the construction process. The whole world has shifted towards this direction and not because it is «trendy», «prestigious» or «socially responsible», though social responsibility is important among western companies and we try to stick to this principle, as well. The basis for the movement is in the Energy saving technologies which prove to be economically beneficial.

It is known that the biggest line items in the annual hotel expenditure budget comprise of administrative and municipal payments. In order to reduce such costs while maintaining the property, special measures should be taken at the concept development stage, such as in designing the proper engineering systems for the building. The opinion on economical irrelevance of such technologies' implementation differs. I strongly disagree with it, because a correctly planned and installed system of building management can cover its additional expense within three and a half years.

One should not also forget about marketing attractiveness of such an approach. Certification systems of «green» projects (LEED, DGNB, BREAM) have long existed in the West. When making a choice, a western consumer will prefer projects that have been created by taking into account energy efficient technologies especially those that have a corresponding expert's estimation. Besides, such projects are much spoken and written about, which is a free additional positive advertisement. Many brands also list whether the hotel is «green friendly» or «certified» on the booking page.

**How do you evaluate the issue of financing new development projects in Ukraine, in general? Could the situation improve in the near future? What should be done in order for this to happen?**

Every business sector in its own way provides a direct reflection of the country's state, all in all, the hotel segment is not an exception. It is no secret that a lot of projects now face financial difficulties. However, there are projects that happen to be attractive from an investment standpoint despite the current economic situation in our country. In order to gain access to financing, a project first and foremost has to be well-structured and represented. You won't be able to improve your dialogue with any financial institution without a good Feasibility Study. Banks need detailed and accurate financial models. For example, our company provides an elaborate hotel financial and economic model for an average of 10 years. If they see that the customer has already attracted professionals to the project and has created a clear project development strategy, their risks, as for the credit organization, are reduced. The client or

developer must of course have «skin in the game» and their ability to attract decent credit terms plays to a number of issues including their portfolio, location of the project, etc. A common ratio used today is the 50x50 correlation (debt/equity), but the number can vary from 20 to 80 and from 80 to 20.

**One of your company's services is managing hotel real estate. How is managing hotels in Ukraine different from elsewhere? How do you solve the issue of a lack of experience in the workforce? Does ABHG perform its own training of its employees for its projects?**

One of the peculiarities is that the Ukrainian market is still very young and it has just started forming. It doesn't have established traditions and amounted experience, which would include existing international management standards. Thus, we have to educate our personnel on our own. It is an evolutionary process we cannot escape.

ArtBuild Hotel Group plans to adopt the experience of international companies, which set up their own schools of hotel management. Perhaps, we will have an opportunity in organizing the same schools in Ukraine. This personnel training will differ from typical Ukrainian university education, it will be based upon a program that ArtBuild Hotel Management has developed which we created together with our American partners. We plan to manage budget, economy and midscale hotels in the future. It is possible that in the future we would undertake management of higher category properties as well.

**What is your vision regarding the future of the hotel real estate market in Ukraine?**

I believe it will be an interesting and dynamic market to work in. Players that are ready to study, improve and work actively, will win. I am convinced that some achievements on the local market surprise even western operators and financiers: our way of thinking leads to methods of optimization that western professionals have not thought of yet since they have never been posed with the challenges that our market presents.

New players will always emerge in the market, and this is a positive tendency. Rivalry has always given birth to quality, and we just have to be ready for that competition. The potential of the hotel real estate market in Ukraine is colossal, but it should be developed strategically and in a proper manner. If we want to get a qualitative increase, the work should be performed systematically and not fragmentary. Otherwise the result can be negative. A complex approach on all levels beginning with properly managed individual projects and overflowing on through to government support and subsidies will lead to an overwhelming result.

**ArtBuild Hotel Group** is one of the industry leaders actively working in Ukraine specializing in hotel fee-development and hospitality consulting. The company's primary focus is in the nationwide development of 2, 3, and 4 star hotel/motel properties throughout Ukraine.

In 2011, the ABHG entered into a partnership with Best Western International, one of the world's largest hotel chains. As per the master license agreement signed between ABHG (Kyiv, Ukraine) and BWI (Dublin, Ireland), the company has the permission and competency to review and assist all projects and properties interested in becoming part of the Best Western Hotel Chain in Ukraine.

ABHG combines Ukrainian and Western experts which provide a synergy of unique experience in consulting, investment and development activities in the hospitality real estate market of Ukraine.

**ArtBuild Hotel Group** provides the following services and capabilities:

- Turn-Key Hotel Development.
- Hotel Consulting.
- Hotel Design.
- Design Concept Hotel Facades.
- FF&E (Furniture, Fixtures & Equipment).
- Exec Search, HR & Training.
- Hotel Management.
- Green Building.

# Is there a general contractor market in Ukraine?

## URE Club adduces experts' comments

On September 11th in the President Hotel Ukrainian Real Estate Club held the conference on the topic: «Is there a general contractor market in Ukraine?» The main object of the conference was to find out what goes on in this sector which suffered crisis and then rapidly recovered due to the EURO 2012. Will the participants of the construction process (developers, general contractors, planners and investors) able to carry on a constructive dialogue and to work as a team?



▲ «The customer is not ready to pay for the full range of the general contractor's services. As a result, the general contracting structures on the Ukrainian market is not profitable — their revenue amounts to 4-7% that makes it impossible to develop this area in our country» — Vladimir Zhavoronkov, capital construction director at TMM.

As experts noticed, there are more questions than work in this sector. The market rates don't quite meet its participants' expectations any more. This segment was the one in Ukraine which slowed down in 2011. Last year 58,5% of construction enterprises earned 1 billion 899 million UAH while the remaining 41,8% lost 2 billion 747 million UAH. According to State Statistics Committee there was a significant decline in the sector after 2008 which lasted during 2009-2010. The market reached the level of the year 2008 in 2011 when the volume of construction work raised to 60 454,3 million UAH in the actual prices.

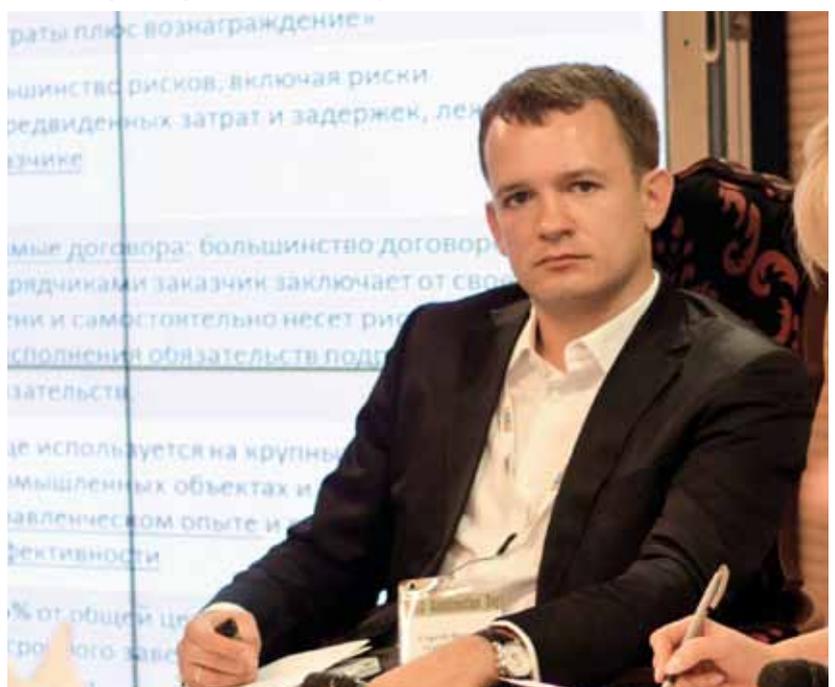
► «Creation of powerful services of the Customer with the best personnel of the general contracting companies has become one of the main trends of 2009-2012. Such approach gives the Customer an illusive feeling of the reliability and control over the situation. And it threatens with desiccation of the construction management functions and narrowing down the contractor's functions to the functional of the multi skilled construction company. When the office of the customer consists of former employees of general contracting companies, the psychological profile of its work will inevitably come to the informal undertaking of the general contractor's functions. It can cause the ambiguity of the responsibility, unconformity, and miscommunications with suppliers etc., and as a result it is profitable neither for the Customer nor for the general contractor» — Sergey Fedorik, managing partner at Ukrbudcontract.

The speakers of the conference organized by URE Club were Oleg Salmin, 21 Century, Igor Guriev, SOLID Group, Vladimir Zhavoronkov, TMM, Tibor Tompa, KESZ UA Holding and Vladimir Artyukh AC Engineering. Moderators of the Conference were Elena Shulyak, Midland Development Ukraine and Sergey Fedorik, Ukrbudcontract.

Summarizing the results of the event, we adduce the experts' comments concerning the situation on the Ukrainian general contractor market.



▲ «The main problem of the work with state customer remains the designing of poor quality and bureaucracy of all work schemes. As a consequence, it is more difficult to carry out a state order in time than the commercial one. On the other hand, those rates that the state is ready to pay give the general contractor and sub-contractor opportunity to earn» — Igor Guriev, general director at SOLID Group.





◀ «Construction and general contractor markets of Ukraine are characterized not only by certain underdevelopment but also by absence of high professionalism either of customer or general contractors» — Elena Shulyak, general director at Midland Development Ukraine.



In the course of the conference the specialists touched on the question related to the cooperation with state customer. Among the advantages of such cooperation were mentioned the duties set forth strictly in the contract as well as large scale of the projects; among the disadvantages – absence of the insurance against any risks and delays of the payments.

▲ «Nowadays many developers create their general contracting department as a panacea against all problems. But, more often, it causes the delays, growth of a budget and other negative consequences. After that the customer turns to the professional general contracting organizations» — Tibor Tompa, deputy general director at KESZ UA Holding.



▲ «State customer always works in accordance with state standards for construction but, at the same time, such customer always has problems with a design documentation, a technical assignment for contractor, and the most important problem in such cooperation is, of course, payments.» - Oleg Solmin, general director at 21 Century.

In general, many issues of the conference touched on the professionalism of the representatives of both parties of the construction process. That meant that the real estate market and its participants still have room for improvement and should learn to work taking into account the interests of the development companies as well as general contracting structures.



▲ «There isn't fixed price for general contractor's services in Ukraine. Such situation remains without changes because of two main factors: volatile economic situation on the Ukrainian market and the customer's wish to control the prices for the work and materials of the contracting organization» - Vladimir Artyukh, founder of AC Engineering.



*Whatever you do, you need to do well,  
even when committing a frenzy.*

*Honoré de Balzac*



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# «Seven levels» of management

## How does Rustler Property Services manage the retail and office center in Kharkov?

*It is obvious for specialists of the real estate industry of Ukraine the following thing: professional commercial property must be managed by professional company - the specialists of management, marketing, engineering and many others areas who perform every day work of the shopping mall. URE Club has visited the retail and office center in Kharkov and interviewed Taras Shelemekh, managing director at Rustler Property Services in order to understand: what does the work of the center consist in? What advantages of collaboration with the managing company have the owners, tenants and customers of the center?*

The date of the official opening of the Retail and Office Center «AVE PLAZA», which is owned by the Austrian company UNIQA Real Estate Management GmbH (Vienna), was February 25th, 2012. In fact, the center began its work on December 23rd, 2011, when two first floors were opened. The shopping mall is situated in the business and historic part of Kharkov. The shopping mall is a modern seven storey building designed by the leading architect of Kharkov. The center has all advantages of a modern commercial object.

At first sight everything is obvious: the list of the managing company's services generally is known to everyone. The team is responsible for the professional staff recruitment required for the commercial property management. The managers plan, coordinate and come to agreement with the owners. They also implement the marketing strategy, detail plans of the work and control expenses of the budget. The managing company's marketing specialists of different objects share experience and methods of the customer attraction to the shopping malls. The ticket to investor's success is a systematic approach of the commercial property management and its progress. But how do they realize such an approach practically?



In fact, the center began its work on December 23rd, 2011

### More shopping malls are opened in Ukraine, competition keeps growing. What special features does retail and office center «AVE PLAZA» have in comparison with others centers?

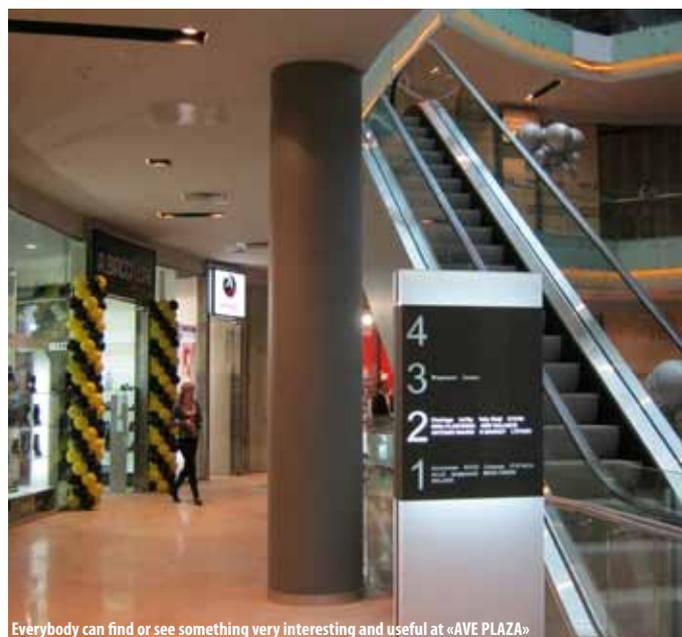
– Initially, during the elaboration of the center promotion strategy, we had one of important advantages — it's location that was the base of the offered strategy. The Office and Retail Center «AVE PLAZA» is situated in the business and historic part of Kharkov that is considered not just the first capital of Ukraine but also the cultural capital of the country. That's why when we worked out the development strategy we understood that despite the well-known retail names attracted to the shopping mall, we should create a positive image that will work in favour of the shopping mall.

We tried to broaden the main activity of «AVE PLAZA» by the possibility to hold different cultural events (exhibitions, books presentation, master classes, musicians' performances, dancing events, festivals and contests etc.). Being situated in the heart of the city, «AVE PLAZA» will be an important place for the residents and guests of Kharkov.

We perform active work to create the image of the center in order to make it interesting and important place for the cultural recreation of the Kharkov's residents. We would like every visitor when comes into «AVE PLAZA» understand that they will find or see something very interesting and useful here. Of course, we understand that we should develop entertainment zone and general pool of tenants to realize all our plans.

### What are the advantages of working with managing company?

– In case the investor involves a managing company, he doesn't need to recruit staff, train them, control, purchase necessary specialized software. As a rule, the investor may focus on his main business, entrusting the managing company with the responsibility for the object. When the investor and managing company have signed the contract with its procedures and insurance of the professional responsibility, the investor has a right to require more effective and competent object management in comparison with the work of home-grown staff.



Everybody can find or see something very interesting and useful at «AVE PLAZA»



Managing company creates the image of the center in order to make it interesting and important place



The main work on building systems maintenance is performed by the qualified services

**What main difficulties does managing company face when work on such object?**

– The current managing value may be compared with the personal staff recruitment. However, the personal staff causes the risks of unprofessionalism that may lead to the damages.

To maintain the technical systems is cheaper as the managing company, as a rule, maintains a few buildings. And the permanent presence isn't always necessary and may be reasonable only relative to the large objects

Our personal staff performs significant scope of work but universalization in the technical issues isn't a better option. The main work on building systems maintenance is performed by the qualified services that have appropriate permissions and licenses.

Selection of the contractor, control of the work quality, and following of the regulations and terms of the agreement are performed on the basis of the tender. The long term operation is performed at a high level that's why the building is more attractive and, as a result, more competitive than others.



Managing company cooperates intensively with many consultants concerning the most optimal and the fastest startup of the tenants work in the office and retail center



The managing company takes into consideration the terms of the owner and of the tenant

**What strategies does your company implement in order to attract new tenants?**

– The work with tenants begins from the concept. We create a mix of different formats taking into account the market reality and the building owner's wish. If the owner agrees with the offered format, we involve the potential tenants. As we have the experience in the different project management either in Ukraine or in Europe, we have a great resource of reliable interesting tenants (shops, offices, public catering etc.) which we use. Nowadays DTZ Company is the exclusive real estate agent that rents out a retail space to Ave Plaza. Also we cooperate intensively with many consultants concerning the most optimal and the fastest startup of the tenants work in the office and retail center.

Of course, the managing company provides more affective work with the tenants. It is a systematic process that includes search, negotiations, legal and formal support of the deals.

The tenant should have comfortable conditions to run his business. In turn, the owner requires expected revenue. That's why the managing company takes into consideration the terms of each party. The tenant doesn't always have an opportunity to negotiate with the owner directly, especially when the owner is beyond the country. To provide permanent cooperation of the tenant and the owner, following the principals of the individual approach is the main task of the managing company.



The shopping mall is a modern seven storey building designed by the leading architect of Kharkov



In 2012, Rustler held a lot of interesting events, elaborating unique scenery plans



**Tell us about marketing events which are held by your company in this retail and office center.**

– By implementing the strategy of the shopping mall promotion, it's necessary to admit that the important thing of the marketing communications complex program became the event-marketing that gives the opportunity to attract new visitors due to realization of different creative ideas.

In 2012, we held a lot of interesting events, elaborating unique scenery plans among which were: event dedicated to the European football festival that took place in Kharkov on June 2012, «Football triumph in «AVE PLAZA», where football players of the Kharkov football team «Metallist» and the chief of the City Administration EURO-2012 department participated. There was also a festival «Europa Day», where the organizers told the «AVE PLAZA» visitors about four European countries (Holland, Germany, Portugal and Denmark). The fans from those countries were the guests of Euro-2012 in Kharkov.

We created interesting format for celebration of the Kharkov Day in August and for the festival «Heart of the city», using all three operating floors of the center to create comfortable conditions for the visitors in all floors in order that they participated in quiz games and competitions, in the photo call against the background of the old Kharkov in Entourage of that time, to visit the photo exhibition «With love for Kharkov: events, spaces, people».



«Football triumph in «Ave Plaza»



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UREC delegation near ION Orchard shopping mall

# Unique objects – unique experience

*In the course of the URE Club business trip to Singapore the delegates of the tour visited the unique real estate objects such as «vertical city», «eco-mall» and modern science city. They also got to know the process of realization of the mix-use objects with retail and office spaces, hotel rooms and elite apartments. Besides, the participants of the business tour met with the representatives of the development companies, the architect bureaus, the major investment funds and the financial structures. URE Club business tour lasted from October 20th to October 28th with the support of the Embassy of Ukraine in Singapore.*



▶ Studying New Tech Park



▶ Business meeting with the CEO of Sabana Real Estate Investment Management Pte. Ltd.



▶ Special place for events of the mall on the roof of the J Cube mall



▲ Answering questions of developers about Raffles City shopping mall

◀ Official meeting of the delegation with Parliament Representative, general consulate and ambassador's wife at Yio Chu Kang community club



▲ Presentation of Ocean Financial Centre



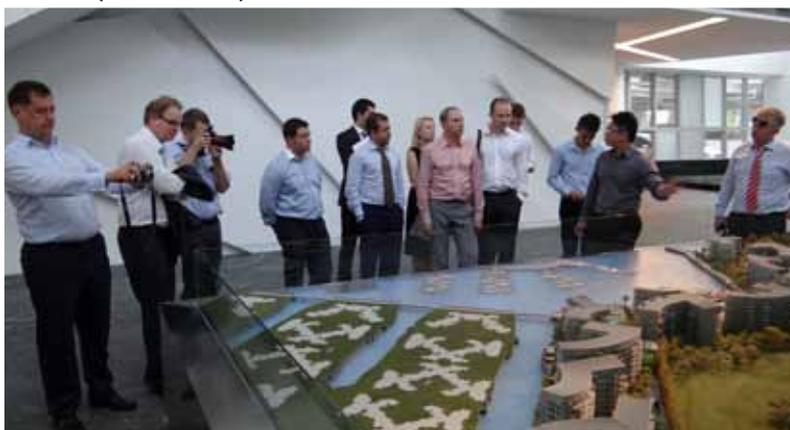
◀ Inside Biopolis



▲ The master plan of the Marina Bay Financial Center



▲ Presenting of the floor plan at V on Shenton



▲ Presentation of Reflections residential complex



▲ Going into the shopping mall inside PETRONAS Towers Suria KLCC

The tour was prepared and realized with the support of the Embassy of Ukraine in Singapore, IE Singapore and the MOS International company.