HOTELS IN INDIA – TRENDS & OPPORTUNITIES

2010 Edition

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Introduction

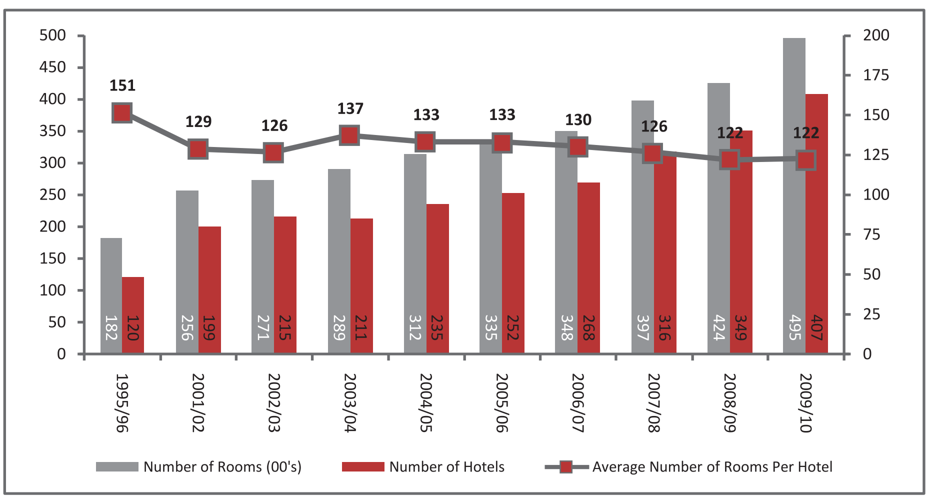
HVS has now been at the forefront of providing in depth consultancy services to the Indian hospitality industry and tracking trends in it for the past 14 years. After observing two economic downturns and a historic growth period, we are in a position to offer a unique perspective on the cyclicity endemic to the hospitality industry as well as the process of recovery that it currently finds itself in.

The Trends & Opportunities report assesses key trends in market performance of major Indian cities and also presents HVS's outlook of the market's performance in the near future. It also outlines existing and future opportunities in the hospitality industry, of specific interest to investors, developers, as well as hotel operators. This report is generated after analysis of the results of the Trends & Analysis Survey conducted by HVS annually; the survey collates data related to key hospitality industry operational characteristics. This year, a record 407 hotels having a total room count of 49,480 rooms participated in the survey: an increase of 58 additional hotels and approximately 7,055 rooms since the last survey. When we started collecting the data for this market in 1995/96, only 120 hotels with a total of 18,160 rooms participated in the survey. The increase in the number of respondents over the years demonstrates an increase in both HVS's penetration into the market and the market's bandwidth. Exhibit 1 illustrates survey participation from the years 2001/02 to 2009/10, with 1995/96 being the base year for the surveys.

The financial year 2009/10 has been challenging for the world at large and has rewritten the way in which the nations of the world cooperated in recovering from the financial crisis together. For the struggling Indian hospitality industry, 2009/10 was a year of twists and turns – turbulent, yet hopeful. Hurt as it was by the previous year's twin troubles of the world's worst-ever economic crisis and the terror strike on Mumbai, the first half of 2009/10 saw tremendous turbulence. With the global economic machinery almost stuttering to a halt, the corporate world had been engaged in cost cutting via drastic cutbacks on non-essential expenses; this drop in corporate travel had adversely affected the Indian hospitality sector.

However, HVS would like to highlight the fact that most hotel markets across India experienced a marked recovery in demand in the second half of 2009/10 and this revival is further reinforced by the demand-supply estimates for April to August 2010, presented in Table 13.

Exhibit 1: **Sample Size for the Trends & Opportunities Survey for the Years 2001/02-2009/10**



The nationwide occupancy, which started its decline in 2008/09, plummeted to its lowest in the first half of 2009/10 and witnessed a revival in fortune in the latter half. The financial year 2009/10 saw hotels give precedence to occupancy over rate, resulting in a rate correction as predicted by HVS last year. A year-on-year rate correction of approximately -16% was witnessed in 2009/10 across all star categories in the major markets of the country.

The government, too, is making a conscious effort to revive the industry through a slew of policy changes as many new and ongoing hotel projects had stalled during the downturn. These include the Reserve Bank of India's (RBI's) ruling, which states that loans for construction of hotels will not be classified as commercial real estate (CRE), the relaxation in the External Commercial Borrowing (ECB) norms to ease the tight liquidity conditions, and the recently announced investment-linked tax deduction (tax holiday) for new hotels of two-star category and above commencing operations from April 2010. Additionally, with the entry of a few hospitality funds, certain hotel projects have managed to secure the required funding.

Also in this issue:

The Indian hospitality industry is clearly showing signs of recovery and the credit for the same can be largely attributed to the domestic traveller, who has time and again aided in the industry's recovery and also accounts for the bulk of the industry's revenue. With increased spending power and better access to an improving road and air infrastructure - witness the airports at Bengaluru, Hyderabad, Delhi, and Mumbai – the domestic traveller is sustaining the Leisure and Commercial demand in India. Thus, it will only be apt to say that from managing the crisis we are moving towards managing the recovery.

The human capital of the industry over the last one year has also witnessed a turbulent time, and employees across levels have remained resilient through these tough times. These employees also referred to as the software of the industry have, however, adapted to the prevailing conditions and have gained rich experience by countering these difficult times. Hotel companies during these dormant times have also focussed on retention of talent and internal training, thus enabling a more capable and committed workforce for the upcoming business cycle. The past year has clearly underlined the importance of human capital development as it ultimately drives customer satisfaction, productivity, and profitability.

Critical to the performance of the hospitality sector is the economic and political climate of a country. This report discusses the tourism industry in India in the perspective of the economic scenario and includes macro data from the Department of Tourism, Government of India.

Exhibit 2: GDP of India Sectoral Growth Rates

Source: Central Statistical Organisation - Economic Survey 2009/10 *Forecasted

The Indian Economy – An Overview

The Indian economy recorded an estimated growth rate of 7.4% for the financial year 2009/10, according to the Central Statistical Organisation (CSO). The GDP growth in 2009/10 can be attributed to a strong performance by the manufacturing and services sectors, steady foreign direct investment (FDI) inflows, as well as government policies that helped enhance economic growth. The services sector continued to fuel India's unique growth (in contrast to other developing economies that are led by manufacturing) by contributing more than 50% of the GDP in 2009/10. Exhibit 2 compares historical and estimated growth rates by various sectors comprising India's economy.

The central government under the aegis of Prime Minister Manmohan Singh has stressed on several key focus areas, including food, energy, education, and health, by consolidating notable past initiatives and formulating new policies as well. Initiatives to achieve a targeted growth rate of 9% in the present financial year are underway.

Inflation has remained a major cause of concern in the economy for more than a year. Even though we had a relatively low Wholesale Price Index (WPI) for the early part of 2009/10, primary food product prices continued to rise and remained at double digit levels for most of 2009/10. The low WPI was a result of a combination of delays in revising petroleum fuel prices, which instead resulted in a negative inflation for the energy sector and a low inflation for the manufacturing sector. Spiralling raw material prices in 2009/10 have kept hotel bottom lines under pressure.

The economic downturn led to reduced liquidity in the marketplace and impacted the availability of both debt and equity. This period also saw limited lending by banks for the construction of new hotels and that too at low loan-to-cost ratios. Sources of equity also dried up and even if equity was available, it was very expensive during that time. The debt markets did improve beginning the second half of 2009/10, as evidenced by the increasing number of hotel projects financed by both public and private sector banks. There has also been a significant improvement in the amount of equity available in the market and the interest in investing in the Indian hospitality sector. The surplus liquidity conditions started moderating in early 2010/11 in response to the calibrated normalisation of monetary policy by the RBI. Moreover, the emergence of inflationary trends prompted the RBI to increase the repo rate, which resulted in tighter liquidity condition and subsequent increase in lending rates by banks. Rising lending rates are clearly a deterrent for new hotel projects; however, that said, the relaxation in the ECB norms by the Ministry of Finance is a welcome policy change, and is expected to benefit the industry at large. Another interesting trend noticed in the debt markets has been the emergence of loan syndication. This process has enabled banks to work together to finance hotel projects while taking on only the desired level of exposure to the deal. This has made it easier for borrowers to obtain debt financing and often at lower interest rates. Based on our interaction with hotel developers syndicated loans are fast becoming a preferred route for hotel financing.

With the signs of recovery and return of foreign institutional investments (FIIs) flows in 2009/10, the Indian rupee has been strengthening against the US dollar. Monthly exchange rate variations have been in an acceptable range and RBI is expected to manage the same with an objective to reduce excessive volatility. The inflow of foreign direct investment (FDI) in the country has also been an influential factor in fuelling economic growth. According to the Department of Industrial Policy & Promotion, ₹123,378 crore worth of FDI poured in during April-March 2009/10, as compared to ₹122,919 for the same period in 2008/09. India has also recently replaced the US as the second-most important FDI destination after China for the year

2010/11. Growth in FDI is a welcome sign for the hotel industry as it enjoys a 100% FDI participation.

The performance of the Indian economy in 2009/10 has greatly exceeded expectation and the recently released GDP growth estimates of 8.8% for April-June 2010 and the steep Indian stock market rally further reaffirms the robust revival of the economy. In fact, it has contributed to the global recovery which has been led by robust growth in Emerging Market Economies (EMEs). The Indian economy has withstood the turmoil owing to the inherent strength of its banks, which are financially sound and well capitalised, as well as influx of capital from the government in the form of infrastructure spending. The increased spending on infrastructure development will clearly help boost the tourism industry at large, as it has done directly in improvements of airport infrastructure across India. However, the grant of infrastructure status still evades the hotel industry, and while there have been discussions on this subject, the government has failed to deliver on this account.

Tourism Trends

The tourism industry in India contributed 6% to the GDP in 2009/10 as compared to 6.1% in 2008/09. According to estimates of the World Travel and Tourism Council (WTTC), GDP growth for Travel & Tourism economy is expected to average 9% per annum over the coming ten years.

The government's 'Tourist Visa on Arrival Scheme' for citizens of Japan, Finland, Luxembourg, Singapore, and New Zealand, is also expected to establish the country's image as a tourist-friendly nation and further bolster Foreign Tourist Arrivals (FTAs) in the future. These initiatives have generated a renewed interest in Indian tourism, a testament to which is the marked improvement in FTAs from January to August of 2010 (increase of 10% year-over-year). Overall, our outlook for foreign travel to India is positive.

Domestic demand for hotels in India has historically been higher than demand from foreigners. Though a large portion of domestic demand originates from commercial activity, an increasing number of Indians are taking annual holidays, both within the country and overseas. Many states within India such as Goa, Rajasthan, and Kerala have started focusing their marketing efforts on the Indian Leisure traveller after realising the potential of this segment.

In 2009, the domestic market in India recorded 650 million travellers as compared to only about 5 million international travellers. This highlights the dominance of domestic travel in the country. India is fortunate to have a domestic market that supports the growth of the travel industry even when the world economy is experiencing a downturn. According to HVS, domestic travel has never been given its due. Even today, it is the statistics on the foreign travellers that garner attention; however, it is the less represented domestic segment that forms the major component of revenue generated by the Indian travel industry.

With the growth of recognised sporting events like the IPL T20 annual cricket tournament, upcoming Formula 1 Motor Race and the ICC Cricket World Cup next year, domestic leisure travel is expected to grow further. Also with corporate sponsorship playing a significant part in driving the success of these large format events (usually covering multiple cities), the growth in internal travel by these sponsors is expected to directly benefit airline and hotel business (in 2009 domestic travel grew by 16% over that of 2008). While the Commonwealth Games have not provided the much anticipated impetus for the NCR hotels, the growth in demand from successful large format sporting events remains an untapped opportunity.

Based on our research, we believe that the domestic traveller will continue to play a dominant role, not just within hospitality, but across sectors and will help further insulate the Indian economy from the problems in other countries and make India less susceptible to global economic downturns. The availability of quality hotels in the mid market and budget segment is also providing more cost-effective travel options and encouraging travel across different cities in India.

Airport Infrastructure Overview

Aviation is now recognised as crucial for sustainable development of trade and tourism. The quality of airport infrastructure, which is a vital component of the overall transportation network, contributes directly to a country's international competitiveness and the flow of foreign investment. The recently executed airport projects at Delhi, Mumbai, Bengaluru, and Hyderabad bear testimony to the government's focus on infrastructure improvement through airport expansion and development. These projects are also paving the way for growth in all sectors of the economy, including tourism.

The expansion of the Indira Gandhi International Airport at Delhi has been given priority by the government due to the Commonwealth Games scheduled for October 2010 in Delhi. The expansion is scheduled in five phases; the recently completed first phase saw the modernisation of existing terminals and the opening of a new integrated Terminal 3 (T3) spread over 5.4 million square feet. This is expected to increase the airport's handling capacity from 12 million passengers per annum (mppa) to 37 mppa.

The Chhatrapati Shivaji International Airport (CSIA) at Mumbai, the busiest airport in the country, is also undergoing redevelopment simultaneously. Mumbai International Airport Pvt Ltd (MIAL), responsible for development of CSIA, has introduced a new arrivals terminal, refurbished the existing terminals, and upgraded the runway network. MIAL has also initiated work on construction of the integrated passenger terminal at Sahar, which is expected to cater to all international and domestic flight operations in and out of Mumbai. This terminal is expected to be operational by 2013 and will be able to handle 50 mppa compared to the existing capacity of 15 mppa.

In addition, the Ministry of Civil Aviation had identified 35 non-metro airports for upgrade and modernisation to aim for double digit GDP figures. These airports are important for regional connectivity and development of regional hubs, and also to cover major tourist attractions. However, the target for completion of these projects has been delayed and is now 2012.

Survey Results

The HVS Survey has been computed by dividing the participating branded hotels into their respective classifications according to star grading. As before, we have examined the performance of 11 major cities across India, wherever a reasonable sample allowed. While most of the data provided to us is in Indian rupees, we have presented survey results in US dollars as well.

This report presents the results of the HVS Survey on the performance of branded hotels, analysed by each hotel segment, as well as major cities. For each city we have presented the new supply, its market orientation and even suggested the number of rooms under construction or active development (refer to Table 11). It then recommends the best markets for hotel development in the current scenario and proposes steps for improving their long-term performance.

Industry Performance According to Star Category

The industry from managing the crisis in 2008/09 is steadfastly moving towards managing the revival that started in 2009/10. Boosted by the revival in demand in the second half of 2009/10, the occupancy levels of the overall industry in 2009/10 managed to recover and were able to sustain 2008/09 levels. The revival in demand, however, came at a significant rate correction (16.3%); a rate correction of this proportion was imminent as predicted by HVS last year, especially with the country witnessing the highest number of hotel openings in 2009/10. RevPARs also witnessed similar declines (16.2%) owing to the sizeable rate corrections. Going forward, we can expect hotel rates across categories to rationalise and be more aligned with global industry benchmarks.

HVS believes the mantra for the industry in the short to medium term especially in the light of the impending supply pressure would be to give precedence to occupancy over rate. Going forward, we also believe that there is an opportunity for hotels increasing focus on other revenue generating departments, such as Food and Beverage (F&B) and Spas.

In last year's report, all hotel categories experienced substantial occupancy erosions. This year, however, all categories barring four stars, were able to sustain or marginally grow their occupancies from 2008/09 levels. Average rates, especially across the higher-category hotels (four star and higher), witnessed corrections in the range of 15% to 16% (in Indian rupee terms), whereas three-star hotels witnessed a correction of 5.1%. We believe that there will be further rate corrections across hotel categories owing to competition from leading international and domestic brands entering the market as well as the availability of quality options in the mid market and budget category. Table 1 reflects room occupancy by hotel classification for the period 1995/96-2009/10. Table 2 presents average rate performance in Indian rupees for the same period while Table 3 reflects average rate results in US dollars.

In terms of RevPAR, all categories experienced a marked decline in 2009/10. The five-star deluxe hotels experienced the maximum decline in Indian rupee terms (16.2%) followed by the five-star hotels (15.4%). The four star and three-star hotels each saw a decline of 15.2% and 5.1%, respectively. The same trend of decline in average rates was observed in US dollars also, with maximum declines experienced by five-star deluxe hotels and the minimum declines by the three-star hotels. Table 4 presents RevPAR performance in Indian rupees for the period 1995/96-2009/10 and Table 5 presents the same in US dollars.

Industry Performance According to Major Cities

In 2009/10, many hotel markets witnessed a revival, though certain IT and ITeS-dependent markets like Pune (21.4%), Hyderabad (4.8%), and Bengaluru (3.9%) still saw declines in occupancy.

Ahmedabad's decline in occupancy (7%) can be largely attributed to the entry of sizeable number of new branded hotels in the city. Chennai also experienced a marginal decline of 2% owing to the reduction in demand. Leisure destinations of Jaipur, Goa and Agra witnessed healthy growth rates of 8.9%, 8.7% and 6.3%, while Delhi-NCR and Mumbai also posted smaller growth rates of 0.9% and 4% respectively.

Table 1: Key Operating Characteristics by Hotel Classification – Occupancy

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	12-Month Growth*	Compounded Growth
Overall Average	66.5%	62.9%	57.1%	55.4%	53.9%	57.2%	51.6%	57.2%	64.8%	69.0%	71.5%	71.4%	68.8%	59.5%	59.6%	**0.0%**	**-0.8%**
Five-star Deluxe	74.0%	67.6%	62.0%	60.2%	58.3%	60.9%	52.2%	59.3%	65.0%	71.4%	73.8%	73.0%	71.7%	62.5%	62.5%	**0.0%**	**-1.2%**
Five-star	67.5%	65.7%	58.5%	56.4%	55.7%	56.1%	51.4%	57.0%	66.8%	71.1%	70.4%	70.2%	67.2%	58.5%	59.0%	**0.9%**	**-1.0%**
Four-star	57.9%	60.5%	58.2%	55.9%	53.2%	58.7%	52.7%	56.4%	68.7%	71.8%	72.7%	71.7%	68.9%	58.5%	58.3%	**-0.5%**	**0.0%**
Three-star	51.5%	49.2%	47.0%	48.2%	47.7%	48.8%	49.7%	53.6%	59.6%	56.7%	65.9%	68.9%	64.7%	56.2%	56.5%	**0.5%**	**0.7%**

** Growth in 2009/10 (in absolute terms) expressed as percentage of the figure for 2008/09*

Table 2: Key Operating Characteristics by Hotel Classification – Average Rate (Indian rupees)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	12-Month Growth*	Compounded Growth
Overall Average	₹ 3,025	₹ 3,688	₹ 3,986	₹ 3,903	₹3,505	₹ 3,731	₹ 3,467	₹ 3,269	₹ 3,569	₹ 4,299	₹ 5,444	₹ 7,071	₹ 7,989	₹ 7,722	₹ 6,467	**-16.3%**	**5.6%**
Five-star Deluxe	4,019	4,991	5,613	5,572	4,910	5,102	4,668	4,335	4,686	5,606	7,168	9,778	11,200	11,096	9,297	**-16.2%**	**6.2%**
Five-star	2,515	3,044	3,315	3,516	3,368	3,447	3,277	3,114	3,372	3,897	4,985	6,506	7,652	7,268	6,096	**-16.1%**	**6.5%**
Four-star	1,418	1,825	2,538	2,296	2,168	2,392	2,368	2,246	2,580	3,088	3,847	5,111	5,722	5,745	4,896	**-14.8%**	**9.3%**
Three-star	1,212	1,432	1,543	1,457	1,505	1,673	1,696	1,669	1,670	1,830	2,212	3,012	3,488	3,530	3,332	**-5.6%**	**7.5%**

** Growth in 2009/10 (in absolute terms) expressed as percentage of the figure for 2008/09*

Table 3: Key Operating Characteristics by Hotel Classification – Average Rate (US dollars)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	12-Month Growth*	Compounded Growth
Overall Average	93	104	110	90	81	83	73	68	78	96	122	162	199	168	135	-19.4%	2.7%
Five-star Deluxe	124	141	155	128	113	114	99	90	102	125	161	224	278	242	195	-19.4%	3.3%
Five-star	78	89	91	79	77	77	69	65	73	87	112	149	190	158	128	-19.3%	3.6%
Four-star	44	52	70	61	50	53	50	47	56	69	86	117	142	125	103	-18.0%	6.2%
Three-star	37	40	43	37	35	37	36	35	36	41	50	69	87	77	70	-9.2%	4.6%

** Growth in 2009/10 (in absolute terms) expressed as percentage of the figure for 2008/09*

Table 4: Key Operating Characteristics by Hotel Classification – RevPAR (Indian rupees)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	12-Month Growth*	Compounded Growth
Overall Average	₹ 2,012	₹ 2,320	₹ 2,276	₹ 2,162	₹1,889	₹ 2,134	₹ 1,789	₹ 1,870	₹ 2,313	₹ 2,966	₹ 3,892	₹ 5,049	₹ 5,496	₹ 4,598	₹ 3,851	-16.2%	4.7%
Five-star Deluxe	2,974	3,374	3,480	3,354	2,863	3,107	2,437	2,571	3,046	4,003	5,290	7,138	8,030	6,933	5,811	-16.2%	4.9%
Five-star	1,698	2,000	1,939	1,983	1,876	1,934	1,684	1,775	2,252	2,771	3,509	4,567	5,142	4,250	3,597	-15.4%	5.5%
Four-star	821	1,104	1,477	1,283	1,153	1,404	1,248	1,267	1,772	2,217	2,797	3,665	3,942	3,362	2,852	-15.2%	9.3%
Three-star	624	705	725	702	718	816	843	895	995	1,038	1,458	2,075	2,257	1,985	1,883	-5.1%	8.2%

** Growth in 2009/10 (in absolute terms) expressed as percentage of the figure for 2008/09*

Table 5: Key Operating Characteristics by Hotel Classification – RevPAR (US dollars)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	12-Month Growth*	Compounded Growth
Overall Average	62	66	63	50	43	48	38	39	50	66	87	116	137	100	81	-19.4%	11.8%
Five-star Deluxe	92	95	96	77	66	69	52	53	66	89	119	164	200	151	122	-19.4%	11.1%
Five-star	53	58	53	44	43	43	36	37	49	62	79	105	128	93	75	-18.5%	12.5%
Four-star	25	31	41	34	27	31	26	26	39	49	63	84	98	73	60	-18.4%	12.4%
Three-star	19	20	20	18	16	18	18	19	22	23	33	48	56	43	39	-8.7%	13.6%

** Growth in 2009/10 (in absolute terms) expressed as percentage of the figure for 2008/09*

In terms of average rate (Indian rupee terms), Agra enthused some optimism in the market by continuing the nine-year upward trend and posting a growth rate of 8.2% for 2009/10. All other markets witnessed a freefall in average rates with Bengaluru, Pune and Mumbai witnessing significant declines of 30.9%, 27.2%, and 21.5% respectively. Hyderabad, Chennai, Delhi, and Kolkata all experienced rate corrections; even the leisure destinations of Goa and Jaipur had to sacrifice rate for occupancy in 2009/10.

HVS believes that most of these cities will further see rate corrections especially with hotel supply clearly outpacing demand, and expect this trend to continue till the supply entering these markets stabilises.

In terms of RevPAR growth in 2009/10, Agra is the only city that recorded a RevPAR growth of 15%. This may be attributed to the fact that Agra has been slow in attracting new supply. All other cities recorded negative growth for 2009/10 owing to the decline in business and leisure travellers. Pune posted the largest decline of 42.8% in RevPAR for the year 2009/10. While all this data may appear dismal at first glance, it is important to see how actual demand has gone up in all these cities and the corrections are due to supply outpacing demand (see Table 13). Table 6 illustrates hotel occupancy for eleven key cities in India between 1995/96 and 2009/10. Tables 7 and 8 show average rates for each of these hotel markets, expressed in Indian rupees and US dollars, respectively. Tables 9 and 10 present the corresponding RevPAR data for each city.

Hotel Supply

Over the years, HVS has followed a comprehensive approach for tracking new hotel development. We would like to state that a lot of effort goes into collating this data and then verifying many of these projects across various cities in terms of their development stage. Our tracking omits any flippant statements made to the media or announcements made by real estate developers to promote their brand and, therefore, get greater visibility. Thus, like each year, we have put together a list of developments under construction or those announced in each market that have a confirmed tie-up with an operator. Such developments have been analysed rationally, through the prism of an unbiased third party, for the probability factor of their development within the next five years.

We would like to highlight that 2009/10 witnessed the highest number of hotel openings, with an addition of 14,081 branded rooms to the existing supply. This substantial growth was boosted by the increased room inventories in Delhi-NCR and Mumbai; Delhi during the same period also crossed the 10,000 branded room's mark. In Table 11, we present the existing and proposed supply entering each of the 12 markets and other cities covered in this report. Moreover, the table reflects the anticipated growth over the next five years and also shares an active supply of hotels, which are either under

Table 6: **Key Operating Characteristics by Major City – Occupancy**

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	12-Month Growth*	Compounded Growth
Agra	47.6%	51.7%	46.1%	46.4%	40.1%	42.5%	33.7%	30.7%	50.0%	57.1%	56.0%	58.9%	58.3%	52.4%	55.7%	**6.3%**	**1.1%**
Ahmedabad	55.7%	65.8%	71.8%	58.0%	50.8%	55.8%	53.2%	53.8%	63.2%	68.3%	69.1%	67.9%	73.3%	61.2%	56.8%	**-7.1%**	**0.1%**
Bengaluru	71.3%	67.2%	61.2%	59.0%	64.4%	69.8%	64.3%	72.0%	78.5%	81.4%	76.7%	72.5%	65.3%	54.6%	52.5%	**-3.9%**	**-2.2%**
Chennai	84.6%	80.2%	68.4%	64.7%	65.3%	64.6%	56.5%	58.3%	66.6%	72.9%	78.2%	74.7%	72.8%	63.1%	61.8%	**-2.0%**	**-2.2%**
Delhi (NCR)	71.7%	67.3%	60.2%	54.1%	52.9%	58.9%	53.3%	60.4%	73.1%	79.1%	80.8%	76.9%	73.9%	67.3%	67.9%	**0.9%**	**-0.4%**
Goa	62.1%	58.4%	59.2%	58.6%	53.3%	60.6%	53.6%	60.5%	59.3%	62.5%	67.8%	72.8%	72.2%	61.1%	66.4%	**8.7%**	**0.5%**
Hyderabad	58.1%	54.8%	53.4%	66.0%	61.3%	69.1%	68.0%	68.9%	75.9%	78.7%	82.0%	72.1%	65.7%	55.8%	53.1%	**-4.8%**	**-0.6%**
Jaipur	52.2%	58.4%	51.7%	45.6%	47.0%	55.0%	48.3%	44.9%	58.8%	67.2%	65.7%	65.5%	64.7%	54.1%	58.9%	**8.9%**	**0.9%**
Kolkata	63.8%	55.9%	61.8%	57.8%	54.8%	62.9%	66.4%	65.4%	62.8%	69.0%	76.4%	75.5%	73.9%	69.5%	67.5%	**-2.9%**	**0.4%**
Mumbai	81.0%	73.0%	65.3%	67.6%	64.5%	64.6%	52.0%	63.4%	69.7%	72.0%	76.2%	77.9%	74.6%	60.6%	63.0%	**4.0%**	**-1.8%**
Pune								71.0%	68.9%	86.4%	83.1%	83.4%	69.5%	62.2%	48.9%	**-21.4%**	**-5.2%**

** Growth in 2009/10 (in absolute terms) expressed as percentage of the figure for 2008/09*

Table 7: **Key Operating Characteristics by Major City – Average Rate (Indian rupees)**

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	12-Month Growth*	Compounded Growth
Agra	₹ 1,593	₹ 1,826	₹ 2,027	₹ 1,906	₹ 1,638	₹ 1,586	₹ 1,840	₹ 1,954	₹ 2,431	₹ 3,012	₹ 3,622	₹ 4,715	₹ 5,262	₹ 5,322	₹ 5,758	**8.2%**	**9.6%**
Ahmedabad	2,132	2,678	1,833	2,220	2,705	2,736	2,354	2,164	2,410	2,787	3,111	3,526	4,351	4,754	4,173	**-12.2%**	**4.9%**
Bengaluru	2,300	3,136	3,451	3,254	3,025	3,602	3,735	3,752	4,832	7,470	8,762	10,406	9,827	9,495	6,564	**-30.9%**	**7.8%**
Chennai	2,779	3,540	3,977	3,600	3,424	3,796	3,535	3,224	3,323	3,714	4,357	5,378	6,340	6,677	5,607	**-16.0%**	**5.1%**
Delhi (NCR)	3,054	4,007	4,913	4,626	4,115	4,526	4,338	4,089	4,269	5,103	6,909	9,192	10,429	9,811	8,565	**-12.7%**	**7.6%**
Goa	2,220	2,347	2,303	2,863	2,727	2,914	2,676	2,754	3,086	3,985	4,804	5,801	6,255	6,271	5,617	**-10.4%**	**6.9%**
Hyderabad	1,499	1,604	1,646	1,579	1,867	2,316	2,414	2,541	2,774	3,772	4,870	5,962	6,271	6,297	5,160	**-18.1%**	**9.2%**
Jaipur	1,518	1,836	2,473	2,533	2,514	2,902	2,949	2,728	2,980	3,461	4,407	5,285	5,664	5,982	4,791	**-19.9%**	**8.6%**
Kolkata	3,104	3,556	3,951	3,888	3,557	3,698	3,409	2,917	3,021	3,240	3,887	5,288	6,575	6,686	6,135	**-8.2%**	**5.0%**
Mumbai	5,137	6,229	6,169	6,297	5,661	5,555	4,932	4,184	4,356	4,822	6,041	8,738	10,932	10,679	8,388	**-21.5%**	**3.6%**
Pune								2,603	2,805	3,521	4,915	6,523	7,946	7,493	5,455	**-27.2%**	**11.1%**

** Growth in 2009/10 (in absolute terms) expressed as percentage of the figure for 2008/09*

Table 8: **Key Operating Characteristics by Major City – Average Rate (US dollars)**

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	12-Month Growth*	Compounded Growth
Agra	49	52	56	50	38	35	39	41	53	67	81	108	131	116	121	**4.3%**	**6.7%**
Ahmedabad	66	76	50	53	62	61	50	45	52	62	70	81	108	104	87	**-16.3%**	**2.0%**
Bengaluru	71	89	95	81	70	80	79	78	105	166	197	239	244	207	138	**-33.3%**	**4.9%**
Chennai	86	100	110	89	79	85	75	67	72	83	98	123	158	145	118	**-18.6%**	**2.3%**
Delhi (NCR)	94	113	135	111	95	101	92	85	93	114	155	211	259	214	180	**-15.9%**	**4.7%**
Goa	69	66	63	73	63	65	57	57	67	89	108	133	155	137	118	**-13.9%**	**3.9%**
Hyderabad	46	45	45	39	43	52	51	53	60	84	109	137	156	137	108	**-21.2%**	**6.3%**
Jaipur	47	52	68	62	45	65	62	57	65	77	99	121	141	130	100	**-23.1%**	**5.5%**
Kolkata	96	100	109	88	82	82	72	61	66	72	87	121	163	146	129	**-11.6%**	**2.1%**
Mumbai	159	176	170	138	130	124	104	87	95	107	136	200	272	233	176	**-24.5%**	**0.7%**
Pune								54	61	78	110	150	197	163	114	**-30.1%**	**5.5%**

** Growth in 2009/10 (in absolute terms) expressed as percentage of the figure for 2008/09*

Table 9: **Key Operating Characteristics by Major City – RevPAR (Indian rupees)**

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	12-Month Growth*	Compounded Growth
Agra	₹ 758	₹ 944	₹ 934	₹ 884	₹ 657	₹ 674	₹ 620	₹ 600	₹ 1,216	₹ 1,720	₹ 2,028	₹ 2,777	₹ 3,068	₹ 2,790	₹ 3,208	**15.0%**	**10.9%**
Ahmedabad	1,188	1,762	1,316	1,288	1,374	1,527	1,252	1,164	1,523	1,904	2,150	2,394	3,189	2,908	2,372	**-18.4%**	**5.1%**
Bengaluru	1,640	2,107	2,112	1,920	1,948	2,514	2,402	2,701	3,793	6,081	6,720	7,544	6,417	5,181	3,443	**-33.6%**	**5.4%**
Chennai	2,351	2,839	2,720	2,329	2,236	2,452	1,997	1,880	2,213	2,708	3,407	4,017	4,616	4,210	3,466	**-17.7%**	**2.8%**
Delhi (NCR)	2,190	2,697	2,958	2,503	2,177	2,666	2,312	2,470	3,121	4,036	5,582	7,069	7,707	6,600	5,814	**-11.9%**	**7.2%**
Goa	1,379	1,371	1,363	1,678	1,453	1,766	1,434	1,666	1,830	2,491	3,257	4,223	4,516	3,829	3,729	**-2.6%**	**7.4%**
Hyderabad	871	879	879	1,042	1,144	1,600	1,642	1,751	2,105	2,969	3,993	4,299	4,120	3,515	2,742	**-22.0%**	**8.5%**
Jaipur	792	1,072	1,279	1,155	1,182	1,596	1,424	1,225	1,752	2,326	2,895	3,462	3,665	3,234	2,820	**-12.8%**	**9.5%**
Kolkata	1,980	1,988	2,442	2,247	1,949	2,326	2,264	1,908	1,897	2,236	2,970	3,992	4,859	4,648	4,141	**-10.9%**	**5.4%**
Mumbai	4,161	4,547	4,028	4,257	3,651	3,589	2,565	2,653	3,036	3,472	4,603	6,807	8,155	6,473	5,288	**-18.3%**	**1.7%**
Pune								1,848	1,933	3,042	4,084	5,440	5,522	4,661	2,666	**-42.8%**	**5.4%**

** Growth in 2009/10 (in absolute terms) expressed as percentage of the figure for 2008/09*

Table 10: Key Operating Characteristics by Major City – RevPAR (US dollars)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	12-Month Growth*	Compounded Growth
Agra	23	27	26	23	15	15	13	13	27	38	45	64	76	61	67	20.0%	14.1%
Ahmedabad	37	50	36	31	31	34	27	24	33	42	48	55	79	64	49	44.0%	11.1%
Bengaluru	51	60	58	48	45	56	51	56	82	135	151	173	160	113	72	-7.9%	14.3%
Chennai	73	80	75	58	52	55	42	39	48	61	77	92	115	91	73	24.8%	8.0%
Delhi (NCR)	67	76	81	60	50	59	49	51	68	90	125	162	192	144	122	18.1%	13.8%
Goa	43	39	37	43	34	39	31	34	40	56	73	97	112	84	78	15.9%	11.3%
Hyderabad	27	25	24	26	26	36	35	37	46	66	89	99	102	76	57	3.7%	16.6%
Jaipur	25	30	35	28	21	36	30	26	38	52	65	79	91	70	59	14.9%	13.9%
Kolkata	61	56	67	51	45	52	48	40	41	50	66	91	121	101	87	32.2%	10.1%
Mumbai	129	128	111	93	84	80	54	55	66	77	104	156	203	141	111	30.0%	9.0%
Pune								38	42	67	91	125	137	101	56	9.8%	29.1%

** Growth in 2009/10 (in absolute terms) expressed as percentage of the figure for 2008/09*

construction or those that HVS is confident will open before March 2015. We have further classified the new supply into its potential segments of luxury, first class, mid market, budget and extended stay hotels. Table 12 presents the development of the hotel markets across India over the last four years.

Even though Kolkata and Chandigarh reflect the highest growth rates (229% and 227%) in hotel development among the cities, the actual numbers of rooms being developed are much fewer in comparison to Delhi-NCR owing to their small existing supply base. Delhi-NCR is expected to witness maximum hotel development among all the cities over the next five years. While Table 11 needs to be read carefully and may come as an eye opener to many potential investors, it is the fourth column that needs careful consideration, since it reflects the actual active development of the proposed supply. So while Delhi-NCR may reflect that 20,021 rooms are under development, we at HVS believe that only 75% of this proposed supply will actually get developed by March 2015. Similarly, Table 12 illustrates how the Delhi-NCR market has changed on the supply front over the past two years. The later portion of this report discusses the growth, demand and supply situation for each of the cities mentioned in the report.

Table 12 also highlights a substantial reduction in Mumbai's proposed supply between 2008/09 and 2009/10, which is primarily because of the delays to the landside hotel development plan at CSIA, thus pushing the proposed hotel openings beyond March 2015.

An encouraging trend for the industry is the constant growth in the active development of supply over the last three years, which clearly highlights the continued investor confidence.

Research by HVS confirms a significantly lower number of branded/ quality rooms supply (62,500 approximately) as compared to most major cities across the globe. Exhibit 3 clearly shows that while the Indian economy grew, our cities remained starved for branded/quality rooms. Therefore, even with the addition of approximately 89,500 (or 60,000 confirmed) quality/branded rooms across India in the next five years, we believe that India offers huge potential to investors and operators across all segments. Moreover, the fact that India has an annual travelling population of 650 million travellers, which is twice the size of the entire population of the United States alone is a case in point.

Table 11: Distribution of Existing and Proposed Branded Hotels by Major City - 2010/11 - 2014/15

	Existing Supply 2009/10	Proposed Supply	Increase over Five Years	Active Development of Supply	Luxury	First Class	Mid-market	Budget	Extended Stay
Agra	1,439	510	35%	41%	11.8%	22.0%	52.5%	13.7%	0.0%
Ahmedabad	1,521	2,339	154%	69%	10.7%	40.6%	33.4%	15.3%	0.0%
Bengaluru	5,597	9,819	175%	65%	16.9%	37.7%	22.7%	15.5%	7.2%
Chandigarh	653	1,482	227%	76%	11.1%	22.1%	54.7%	12.1%	0.0%
Chennai	3,806	5,995	158%	72%	24.1%	28.0%	22.3%	13.7%	11.9%
Delhi (NCR)	11,018	20,021	182%	75%	26.7%	31.4%	25.4%	13.9%	2.5%
Goa	3,402	1,736	51%	41%	18.2%	49.1%	24.8%	7.9%	0.0%
Hyderabad	3,782	5,302	140%	63%	29.4%	28.3%	18.2%	20.0%	4.1%
Jaipur	2,472	2,664	108%	77%	8.2%	61.3%	22.5%	8.0%	0.0%
Kolkata	1,520	3,481	229%	51%	28.0%	37.2%	34.9%	0.0%	0.0%
Mumbai	9,877	7,477	76%	60%	42.5%	22.6%	20.6%	14.4%	0.0%
Pune	2,672	5,196	194%	67%	14.5%	31.7%	34.1%	19.7%	0.0%
Other Cities*	14,759	23,427	159%	65%	2.3%	28.7%	47.5%	20.5%	1.0%
Total	62,518	89,449	143%	67%	18.0%	32.0%	31.0%	16.0%	3.0%

** Includes all other hotel markets across India*

Table 12: Comparative Analysis - Distribution of Existing and Proposed Branded Hotels by Major City - Year over Year

	Existing Supply				Proposed Supply				Active Development			
	2006/07	2007/08	2008/09	2009/10	2006/07	2007/08	2008/09	2009/10	2006/07	2007/08	2008/09	2009/10
Agra	1,336	1,336	1,381	1,439	764	670	400	510	32%	55%	75%	41%
Ahmedabad	519	675	800	1,521	2,230	3,664	3,058	2,339	60%	47%	71%	69%
Bengaluru	2,414	3,456	3,889	5,597	12,882	15,542	10,784	9,819	61%	60%	58%	65%
Chandigarh	340	340	351	653	1,567	1,813	1,459	1,482	45%	54%	55%	76%
Chennai	2,442	2,826	3,307	3,806	6,213	7,147	4,945	5,995	68%	71%	67%	72%
Delhi (NCR)	7,990	9,019	8,625	11,018	19,423	22,360	16,560	20,021	56%	51%	53%	75%
Goa	2,450	2,768	2,795	3,402	3,058	3,353	2,178	1,736	58%	42%	31%	41%
Hyderabad	1,868	2,554	2,761	3,782	10,619	8,250	5,884	5,302	47%	64%	73%	63%
Jaipur	1,388	1,556	1,683	2,472	4,012	2,937	3,357	2,664	56%	53%	53%	77%
Kolkata	1,354	1,396	1,373	1,520	3,644	5,965	4,025	3,481	67%	49%	62%	51%
Mumbai	7,402	8,454	7,948	9,877	11,578	10,613	13,386	7,477	49%	62%	73%	60%
Pune	777	1,346	1,518	2,672	8,072	8,243	8,054	5,196	77%	66%	52%	67%
Other Cities*	9,005	11,256	12,006	14,759	17,909	23,909	20,025	23,427	58%	60%	60%	65%
Total	39,285	46,982	48,437	62,518	101,971	114,466	94,115	89,449	58%	58%	60%	67%

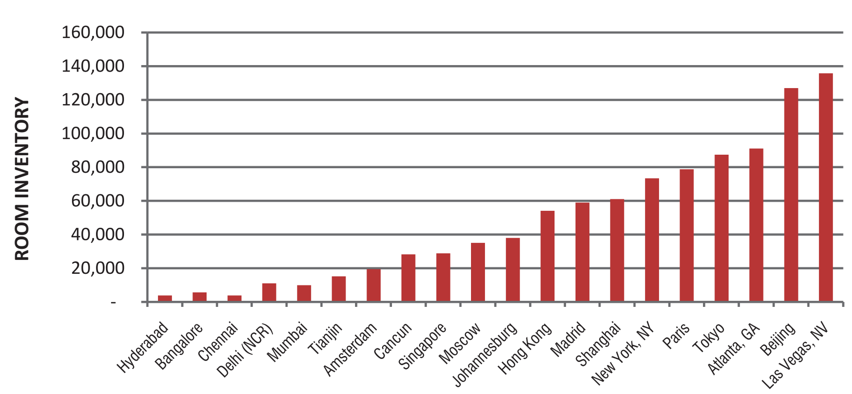
** Includes all other hotel markets across India*

Table 13: Supply and Demand Analysis - April - August 2009 v/s. April - August 2010

	Rooms Supply Per Day			Rooms Occupied Per Day			Occupancy%			Average Daily Rate (ADR)			RevPAR		
	Apr-Aug 2009	Apr-Aug 2010	Var	Apr-Aug 2009	Apr-Aug 2010	Var	Apr-Aug 2009	Apr-Aug 2010	Var	Apr-Aug 2009	Apr-Aug 2010	Var	Apr-Aug 2009	Apr-Aug 2010	Var
Bengaluru	4,410	5,346	21.2%	2,395	3,390	41.5%	54%	63%	16.8%	₹6,800	₹6,375	-6.3%	₹3,693	₹4,043	9.5%
Chennai	3,581	4,027	12.5%	2,059	2,393	16.2%	57%	59%	3.3%	5,628	5,400	-4.1%	3,105	3,344	7.7%
Delhi (NCR)	7,980	9,825	23.1%	4,852	6,220	28.2%	61%	63%	4.1%	7,516	7,423	-1.2%	4,570	4,699	2.8%
Goa	3,019	3,402	12.7%	1,910	2,250	17.8%	63%	66%	4.5%	4,650	4,930	6.0%	2,942	3,261	10.8%
Hyderabad	2,464	3,244	31.7%	1,385	1,762	27.2%	56%	54%	-3.4%	5,687	5,150	-9.4%	3,197	2,797	-12.5%
Kolkata	1,327	1,474	11.1%	813	985	21.2%	61%	67%	9.1%	5,700	6,200	8.8%	3,492	4,143	18.6%
Mumbai	6,772	8,900	31.4%	3,914	4,850	23.9%	58%	54%	-5.7%	7,612	7,658	0.6%	4,399	4,173	-5.1%
Pune	1,853	2,773	49.6%	1,080	1,398	29.4%	58%	50%	-13.5%	4,729	4,397	-7.0%	2,756	2,217	-19.6%

Source: HVS Estimates

Exhibit 3: Distribution of Existing and Proposed Branded Hotels by Major City - 2009/10



Source : HVS Research

Moreover, we would like to highlight that the impending supply pressures will prompt further rate corrections and will put pressure on hotels to maintain quality and benchmark service standards and facilities in their respective competitive sets. The price correction induced by the new supply as well as introduction of more budget and mid-market hotels will increase the market's potential for attracting high volume, low yield segments such as meeting and conferences, domestic leisure group, incentive travel etc. We also foresee a revival in the mid-level traveller segment which had defected to more cost effective alternatives due to increasing room rates. We also expect the meetings, incentives, conferences and exhibitions (MICE) segment to benefit from the large format conference centres being planned across major cities in the country. The following sections further highlight the trends and developments in major cities across India.

Table 13 provides key operating statistical estimates for branded hotels in the eight different cities for the period of April to August 2010. It also provides comparisons for the corresponding period for the previous year.

All markets witnessed a sizeable increase in hotel rooms supply from 2009 to 2010. The rising supply levels have been ably supported by the revival in demand, witnessed across markets since the second half of 2009/10, which was primarily boosted by the robust growth in the economy. This revival is reflected by the rooms occupied per day (RPD) statistic, which reflects a marked year-over-year growth across markets. Bengaluru (41.5%), followed by Pune (29.4%), and Delhi-NCR (28.2%) posted the highest year-over-year RPD growth rates.

However, the rising supply pressures continue to depress ADRs across markets, with the exceptions being Goa and Kolkata as they have witnessed negligible supply impact. Going forward, with more supply coming online we can expect further declines in ADRs across markets.

City Trends

Agra, was the only market from among the 11 cities tracked that actually saw an increase (15%) in RevPAR. Unlike Goa and Jaipur, which had to sacrifice rate to maintain occupancies, it appears Agra focused and gained more from the domestic travellers who visited this city. The data from Agra reaffirms our faith in the resurgence of the market led by the domestic traveller. We're currently tracking a proposed supply of 510 rooms over the next five years with 41% probability factor of all these rooms actually commissioning. The silver lining is that most of this active development is taking place in the mid-market space, which will serve the burgeoning domestic market.

Ahmedabad witnessed a substantial growth (90%) in new supply during 2009/10, but had a decline in occupancy of only 7.1%; the decline reflects the strong demand growth in the market during the past 12 months. Though investors have been looking at this state aggressively as a business-friendly destination, the economic downturn resulted in a decline of demand for hotel rooms from companies based in or around Ahmedabad. Some large-scale real estate projects announced by the government, such as the Gujarat International Financial Tec-City (GIFT) and Sabarmati Riverfront Development Project also slowed down due to the economic situation. We're currently tracking a proposed supply of 2,339 rooms over the next five years with 69% probability factor of all these rooms actually commissioning. With a sizeable number of new hotel rooms expected to enter the market in the near future, especially in the upscale space, marketwide occupancy and rates are expected to be depressed over the next few years.

Bengaluru has not been among the forerunners in market performance in India for the past few years, primarily because of the marked drop in demand from the IT/ITeS segment. The hotel room supply increased by 44% during the past 12 months; however, it was mainly concentrated in the Whitefield area, which saw sharp occupancy declines compared to the CBD. Over the past few years, Bengaluru hotels have been witnessing a correction in rate and occupancy. In 2009/10, the city experienced a very steep decline in rate (31%). We're currently tracking a proposed supply of 9,819 rooms over the next five years with 65% probability factor of all these rooms actually commissioning.

We believe that the city is currently flirting with the danger of an oversupply in the luxury and first class space. However, we anticipate a delay in completion of many projects from earlier estimated schedules and this is likely to work towards reviving the market. Another important factor for Bengaluru is that it needs to reduce its dependency on just corporate business. Unlike some other large cities in India, it historically has no tourist base and, therefore, the only possible growth can come from the MICE segment. Fortunately, there are active plans underway to develop a large convention centre near the new international airport that will be the largest of its kind in India, which is however expected to open only in 2015. With the city hotel base inventory expected to double in the next few years, we expect only modest rate increases as hotels focus on retaining key corporate accounts and maximising occupancies in an increasingly competitive environment.

Chandigarh (also includes Mohali) witnessed a growth of 86% in new supply during 2009/10. Historically, the city has had limited branded supply but continues to offer excellent demand for F&B and large social banquets business. We're currently tracking a proposed supply of 1,482 rooms over the next five years with 76% probability factor of all these rooms actually commissioning. Moreover, it would be interesting to observe the market's dynamics with the entry of the JW Marriott and Sheraton in the coming months. The pace of new industrial developments around the state capital will support the proposed new supply; and, overall HVS expects a stable market performance in the next few years.

Chennai continues to be a diversified market with various demand generators and is among the leading cities in terms of industrial growth. Along with the growth in demand, the city is expected to see the opening of an estimated 2,500 rooms in the next two years, most of which are expected to be in the upscale and luxury space. This is expected to depress marketwide occupancies in the short term; however, HVS's outlook for the market remains positive as we believe demand will continue to grow and balance out the impending supply pressures. We anticipate Chennai to see an increase of 158% (5,995 rooms), with a probability factor of 72% for active development.

Delhi-National Capital Region (NCR), historically, has maintained the largest branded room inventory in the country and has recently crossed the 10,000 branded room mark. The region is further expected to witness a growth of 182% over its existing supply (11,018 rooms). However, we expect only 75% of all these projects to be built over the next five years. More importantly, a large number of these have missed the Commonwealth Games (CWG) deadline. HVS estimates that only 4,500 rooms have opened before the CWG. Hoteliers across the city were banking on the CWG for a substantial spike in marketwide occupancies and rates; however, the chaos surrounding the games has severely blunted their expectations. Moreover, with a majority of hotels expected to come online post the CWG, we foresee further rate corrections. However, the city will benefit from the infrastructure improvements taking place across the region like the extension of the Delhi Metro, improvements in intra-roadways, and the redevelopment of the airport. Although we maintain that the rates will further drop owing to the impending supply pressures, we would like to state that the overall demand is expected to keep pace with the supply.

Another interesting trend observed over the years has been the emergence of micromarkets within the NCR, Gurgaon being one such example with an existing supply of approximately 4,500 rooms.

Gurgaon hotels have, over recent years, benefitted from a lower tax structure and displaced sizeable volumes of MICE business from the Delhi hotels. Another segment to watch out for in Gurgaon will be the growth of the healthcare sector and demand associated with the same. The new hospitals that have opened in the area are beginning to generate substantial room nights for the hotels in their vicinity.

Goa continues to grow in popularity as India's preferred beach destination. However, future growth will depend upon the improvement in infrastructure relating to roads and airport, especially with Sri Lanka being promoted as a preferred beach destination. The infrastructure in the state, though, is expected to improve with various road expansion projects underway and the proposed development of a greenfield international airport at Mopa in North Goa. Unfortunately, due to the political instability, Goa has now become one of the worst administrations to get approvals and licenses for opening new hotels and that is hurting the state as its economy is highly reliant on tourism. We're currently tracking a proposed supply of 1,736 rooms over the next five years with 41% probability factor of all these rooms actually commissioning. At present, we are only aware of three new hotels including the Grand Hyatt being under active development. We also believe that this hotel with its unique facilities will truly be a game changer for the market as it will be able to attract a sizeable chunk of the MICE business and will even benefit some of the existing hotels. Thus we have a situation where there is strong demand and strong barriers to entry at the same time. Goa therefore remains an extremely attractive destination for hotel investment.

The **Hyderabad** market witnessed corrections in occupancy levels and average rates over the last two years, as the global economic downturn led companies to sharply reduce travel while also becoming increasingly price sensitive. Hyderabad has also recently witnessed widespread disturbance due to the renewed demand for partition of the state of Andhra Pradesh for the formation of Telangana. This has resulted in a loss in investor confidence with business getting affected throughout the city, especially with regards to the MNCs present in HITEC City and Gachibowli. The impact has been even greater for the Hyderabad International Convention Centre (HICC), which has seen numerous cancellations of large domestic and international groups that could have generated a significant amount of demand for the overall market. Such dynamics in the market have been further exacerbated by the increase in supply of new hotels in the recent past. The city had an increase in rooms supply of 37% in the last 12 months. We're currently tracking a proposed supply of 5,302 rooms over the next five years with 63% probability factor of all these rooms actually commissioning. Given these supply and demand dynamics and the continued uncertainty regarding the Telangana issue, our outlook for the market remains depressed.

Jaipur, over the years, has established itself as a Leisure destination and is also fast emerging as a Commercial location. New supply is expected to grow by 108% (2,664 rooms), of which HVS believes 77% will actually get developed. Though some supply entered the market during the past 12 months, the occupancy levels improved from 2008/09 levels; however, average rates witnessed a further decline from 2008/09 levels. We would also like to highlight that the city has witnessed a sizeable growth in first-class hotel supply vis-à-vis mid-market hotel supply from our 2009 edition of the same report. Our 2009 edition had 40.5% mid-market hotel supply and 27.2% upscale hotel supply; this has changed to 22.5% mid-market hotel supply and 61.3% upscale hotel supply. We believe this shift in strategy to develop more first class hotels by developers and operators will ultimately impact hotel viabilities, especially with rates further expected to soften in the wake of the impending supply pressures.

Kolkata witnessed marginal decline in occupancy and rate in comparison to the other cities being tracked in 2009/10. The city also has a small base and, therefore, we can expect a 229% (3,481 rooms) growth in new rooms supply with a probability factor of 51% development taking place over the next five years. This year again there has been a reduction in proposed supply from 2008/09 levels, which benefits the market at large. Should new investments in the state and Kolkata in particular not be supported by the state administration, we expect the hospitality sector to decline. Of the few developments in the pipeline, we believe currently there is too much focus on the Luxury and First-Class segments and not enough on the Budget front. The upcoming state assembly elections do not provide much hope, as a populist regime is further expected to hurt business sentiment in the short to medium term.

Mumbai has witnessed severe correction over the last two years owing to a combination of factors such as the terror attacks, global financial meltdown, and the opening of new hotels. The city has a supply growth pipeline of 76% (7,477 rooms), which is a substantial decline from previous years 168% (13,386). This is primarily owing to the delays to the landside hotel development at Mumbai's international airport, thus pushing the proposed hotel openings beyond March 2015. We're currently tracking a proposed supply of 7,477 rooms over the next five years with 60% probability factor of all these rooms actually commissioning. Although the progress of infrastructure development in Mumbai has been slow, significant steps concerning the Mumbai Metro Rail Project, redevelopment /rehabilitation of mill lands, development of Mumbai's international airport, and intra-city road upgradation are expected to improve the city's overall attractiveness. Our outlook for the Mumbai market remains bullish for the medium to long term and we expect the market to return to its earlier levels of performance. Moreover, in recent years, North Mumbai is increasingly becoming an attractive destination for companies given the relatively lower office rents, central location, and better connectivity as compared to South Mumbai. While South Mumbai will remain the most exclusive commercial district in the city with high rents and low vacancy rates, North Mumbai will see an increase in its commercial base in the form of new companies entering the city and existing firms moving operations from South Mumbai to North Mumbai.

Pune experienced a freefall in occupancy and rate in 2009/10, and a catastrophic -42.8% decline in RevPAR, clearly highlighting the conundrum the city faces. The new supply remains strong at 194% (5,196 rooms); the opening of the Marriott Convention Centre in 2011 is expected to boost MICE demand. However, the existing city infrastructure will require substantial upgradation to support the upcoming convention centre facility. Boosted by the industrial and IT/ ITeS development, the city is witnessing the emergence of micromarkets like Hinjewadi, Chakan, Ranjangaon and Talegaon. With a 67% probability factor of the 5,196 rooms actually opening, our medium to long-term outlook for the market remains bearish and we expect marketwide occupancies and average rates to decline further in the next two to three years.

Overall, we would like to reiterate that the days of unprecedented, unsustainable rate growths are behind us. The past few years have reinforced the cyclical nature of the hotel industry; and, while there may be declines in the short to medium terms, the market will ultimately bounce back. All in all, the Indian hospitality industry remains a preferred investment destination for prudent investors owing to its nascent stage of development. According to HVS, from an investor's perspective this recovery period is probably the best time to make investments into the hotel sector. Also from a developer's point of view, this is a good time to construct and finish hotels and be ready to open and stabilise as the upswing starts especially in the light of the recent government policy changes on CRE, ECB and tax holidays.

Cyclical Nature of the Hospitality Industry

In the time that the HVS India office has been operational (since 1997), two distinct cycles for the hospitality industry are discernable, both reaching a recognisable peak and trough. The first cycle covered the period from late 1996 to early 2002. The second cycle started with the recovery of the economy in late 2003 and peaked in 2007/08. Exhibit 4 presents the RevPAR trend for 15 years, from 1995/96 to 2009/10 along with the India GDP growth rate for the same period.

We assert that the leading macro-economic indicators such as GDP are correlated to the performance of the hotel industry. Though the hotel industry is among the first to be hit by a downturn in business, it is among the slowest to recover since the spending on tourism is considered as discretionary for most leisure travellers and some business ones as well.

Since late 2009, global economies have realigned to a slow recovery phase across all businesses. Hotels in India have also witnessed a difficult period; however, recovery is in progress.

Future Trends

With the worst behind us, we can safely say that the Indian hospitality industry is on the path to recovery. Going forward, we would like to reiterate that most hotel markets will experience sustained revival in demand; however, the impending supply pressures are likely to result in further rate rationalisation in most markets. We also believe the future performance of new supply in Tier II and Tier III locations will be based on the untapped potential of the domestic Commercial and Leisure demand.

The Indian hotel market remains an expensive market to enter in, especially with the exponential growth in capital land values over the recent years across the country. However, the entry of a host of institutional investors in the recent past clearly highlights the potential and fundamentals of the market. Additionally, with the entry of these investors, we can expect transactions to become more transparent, and serve as valuation benchmarks, which instead can be utilised to arrive at valuations for other assets in a more scientific manner.

HVS roadmap for future trends highlights efficiencies brought through the following:

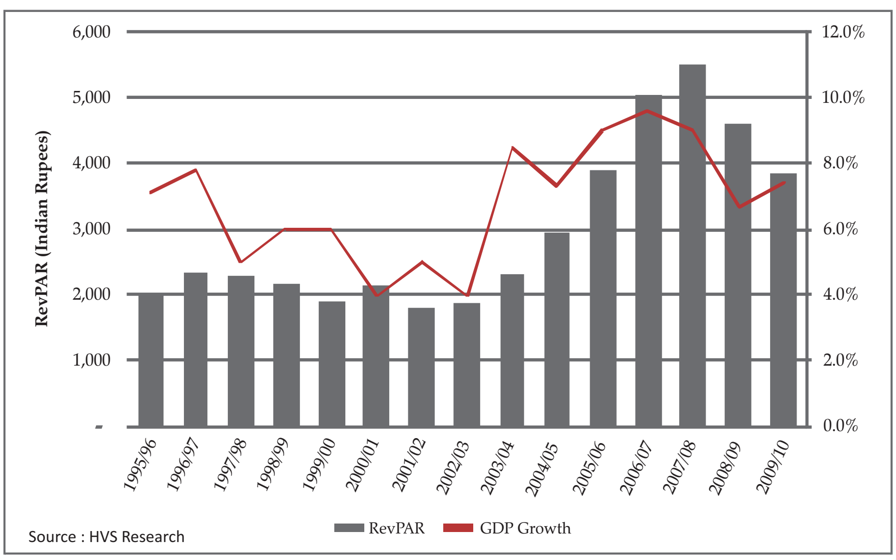
Green Hotels will increase operational efficiencies and bottomlines, inspite of marginally higher construction costs initially. Though hotel development cost trends and construction tenures have been detailed in a separate article (refer to page 13), we would like to highlight here the importance of environment-friendly construction and operation of hotels as demonstrated by ECOTEL hotels that are certified for environment friendliness by HVS Eco Services.

Relocation of non-revenue generating departments from hotel premises to off-hotel premises will maximise on space efficiencies. This, we believe, will work for hotel companies that enjoy multi-brand presence in a particular location and can thus avail of centralised facilities.

Manpower retention programs through marked increase in salaries across positionings. Most hotel operators have employed the standard strategy of retaining their trained teams through increased salaries, long-term measures like e-sops and improved health plans. Going forward, we do expect a further increase in salaries across the sector.

Sustainability linked recruitment will gain importance with most hotel operators aggressively pursuing opportunities in Tier II and III locations. We believe these locations will face a severe staff crunch especially at the lower management and rank file levels. It is suggested that the staffing gap for these levels may be bridged through recruitments from hospitality educational institutions at or near such locations. Thus, by maximising social and economic benefits to the local community through sustainable community participation, the true potential of tourism may be leveraged. In this aspect,

Exhibit 4: Growth of Room Supply – India (1995/96 - 2009/10)



Source : HVS Research

the central government's decision to introduce hospitality education in school curriculum is also encouraging for the industry at large.

Hotels, over the years, have felt the requirement of supplementing accommodation revenues with enhanced revenues from departments like F&B. We understand the benchmark for rooms to F&B split of revenues in hotels stands at 65:35. In recent years, the F&B contribution to the overall revenue has increased considerably, and this is primarily because hotel chains have focused on their F&B offerings with renewed interest, culminating in interesting cuisines, designs, and concepts. Overall, hotels have realised the importance of creating interesting F&B concepts and have resorted to restaurant designers to create areas that complement the elaborate food offerings and leave a lasting impression that acts as a product differentiator. Restaurants by themselves are eventually poised to become destinations in themselves, with the cuisines and ambience playing equally important roles in supplementing revenues. Some interesting F&B trends are-:

- Loca-vore: Focus on local cuisines as a concept is being embraced by the F&B community in India. It is practiced extensively in the West where it is part of a broader sustainability movement that believes in maximising benefits to cultural heritage through elements of using the local art, architecture, and food in the business. Owing to the diversity in cuisines available at hand, we believe this to be a future trend.
- Growing Importance of Healthy and Organic Food: This probably ranks as the most important trend today and for the future with the emergence of the health-conscious global traveller. Hotels have introduced a substantial number of healthy and organic food items on their à la carte menus; a few have even introduced separate healthy and organic food menus. Health food and organic food, we believe, will become an essential feature in the menus of all day dining and multi cuisine restaurants in the coming years.
- Alliances with Restaurant Brands: Wasabi by Morimoto and a Nobu restaurant in the offing are typical examples of the brand alliances that benefit the industry at large and are known to be instant successes owing to the lack of comparables in the market.

Opportunities

With the economy on the recovery once again, upcoming ports, industrial parks, and manufacturing areas across the country (including Tier II and III cities) provide good opportunities for budget and mid-market hotels. We believe branded hotels will enjoy unparalleled first mover advantage in most of these locations. Moreover developments like the hospitality district at Delhi's international airport clearly highlight the unique opportunities available for planned hotel developments in and around new or existing airports.

The infrastructure development will also give an added impetus to domestic tourism, which HVS research reaffirms is leading the resurgence in tourism, both in the Commercial and Leisure segments. In this aspect, most hotel operators are aggressively pursuing opportunities across major hillside destinations. Again, mid market and budget hotel offerings would be best suited for these locations.

Growth across these positionings could also be benefitted from international sporting events hosted nationally. Large format sporting events as discussed earlier are a growing yet untapped segment; these events generally provide a boost in demand through some traditionally low occupancy periods in hotels. As India plays host to many more international events in the next few years, the demand for accommodation from these events is expected to show exponential growth.

Another contributor of growth across all positioning will be Medical Tourism. Medical tourism, whereby world-class medical treatment is provided at a comparative advantage combined with attractive resorts for convalescence, is clearly on the rise. The drivers of medical tourism are: low cost of medical treatment, highly trained and experienced medical staff, hospital infrastructure, and the universality of English as a language of communication. In addition, specialty hospitals are present and accessible to the domestic population only in the major cities of the country. Thus, we believe hotel project opportunities around hospitals at metro locations are also worth exploring.

In addition, the nationwide launch of the much awaited faster third generation (3G) telecom services by the private players in India is expected to lead to an explosion in mobile marketing. This will in turn benefit the hospitality sector as international trainers, consultants, technicians etc. will be brought into the country to enable the 3G services. Hotels across multiple locations where the services will be introduced are expected to benefit from these international visitations.

Acknowledgements

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Hotel Development Cost Trends in India

India - with a large domestic consumer base, a significant increase expected in foreign tourist arrivals (FTA) and an overall healthy economic growth - is attracting several globally renowned hotel brands to set up shop in the country. While the Luxury and Upscale players started eyeing the Indian landscape during the mid-90s, Mid-Market and Budget brands like the Courtyard by Marriott, Hilton Garden Inn, Four Points by Sheraton, Novotel, Aloft, Premiere Inn and Ibis have strategically entered the market in the last two to three years. As the Indian hospitality sector gears up for stiff competition across the positioning spectrum, it is interesting to take note of the development costs associated with these assets. As most brands have an international presence, are the development costs and construction tenures of their India projects in line with their own international benchmarks?

Over the past two years, HVS has been collating data to shortlist hotels for the 'New Hotels of the Year Award' at HICSA [Hotel Investment Conference - South Asia]. This has enabled HVS to maintain its own repository of all the new hotel developments in the country. The two fundamental questions we ask are, 'How much does it cost to build these hotels?' and, 'What is the average time taken to complete these projects?

This article aims to answer these questions by presenting development costs and construction tenures of branded hotels across all positioning that have recently entered the Indian market.

Construction Cost Index

The last two years have seen building and material costs escalate, owing partially to the rising inflation. According to the Construction Cost Indices for Buildings released every month by the Construction Industry Development Council (CIDC), the material costs witnessed a steep increase in early-2008, then remained relatively stable for the remainder of that year as well as most of 2009, but have now seen a jump in 2010 again. Exhibit A displays the Construction Cost Indices for Buildings for six major cities in India.

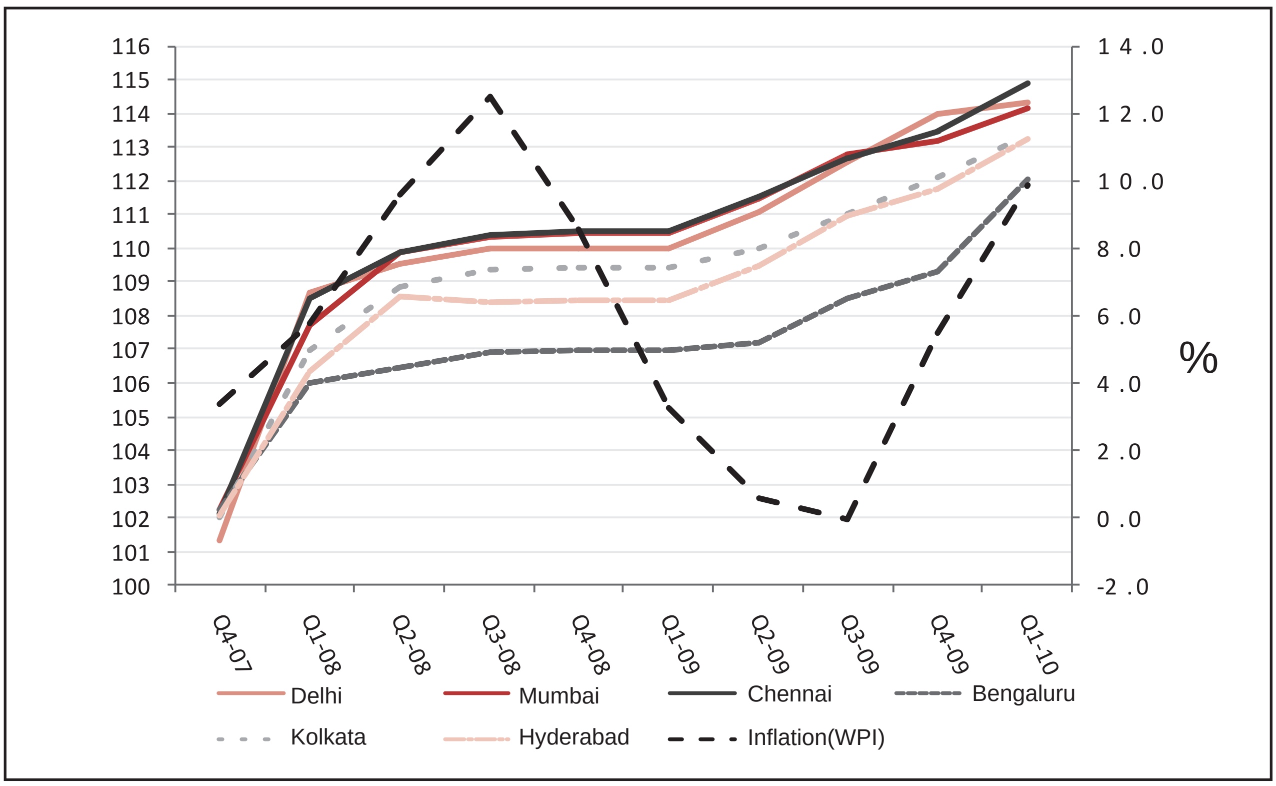
Development Costs Survey

HVS examined the recent trends in development costs of branded hotels that opened across the country in the past 24 months. Our survey sample included data for over 9,000 hotel rooms from 70 hotels, across five levels of positioning: Luxury, Upscale, Mid Market, Budget, and Serviced Apartments.

Exhibit B presents an average of the development costs incurred by these hotels (excluding land cost), per key in US dollars. As expected, the Luxury segment had the highest average development cost per key, followed by Upscale, Mid Market, and the Budget positioning. Branded Serviced Apartments incurred development expenses similar to that of the Upscale segment.

It is interesting to note that there was a significant variance between development costs within the same

Exhibit A: Construction Cost Indices for Buildings*



* Base —100.00, October 2007
Source: Construction Industry Development Council (CIDC)

positioning, across all segments. For instance, the lowest development cost per key was almost a third of the maximum development cost per key within the Luxury segment. Although such a variance can be partially attributed to factors such as diverse hotel design elements, size and scale of public areas, varied brand standards as well as the experience (or lack thereof) of the developer, this huge gap across the same positioning also highlights an obvious lack of standardisation. This frequent deviation from brand standards is a result of several hotel developers merging their business plans with their personal aspirations in their quest for developing unique, landmark projects instead of constructing efficient products that maximize the return on investment. The international brands have set standards that they practice globally. However, they too are in the process of re-inventing their brand standards for India so as to effectively penetrate the Indian hospitality sector; thus, they are yet to establish firm guidelines that would ensure a consistent brand and product delivery, irrespective of the location of the hotel. It is, thus, no surprise that the same brand may offer two or more widely varied products across different cities in India.

Construction Tenure Survey

HVS also analyzed the construction tenure for the same hotels that opened in the past 24 months. Exhibit C illustrates that the average time for building a hotel was approximately 39 months in the Luxury segment and 30 months for both the Upscale and the Mid-market segments. It took approximately 23 months on an average to construct Budget hotels and 34 months for the development of Branded Serviced Apartments. While the average construction tenure across different positioning was expectedly varied, an interesting outcome of this exercise was that the longest time taken to build a hotel across most of the researched positioning was approximately four years. This could be attributed to the fact that the actual time taken to gather the required licenses, permissions and funding ends up delaying projects, irrespective of their positioning. HVS research reveals that a full service hotel requires over 120 licenses from multiple state and central agencies (as many as 40 depending upon the state) before it can open and operate. This process can take multiple years, especially if the developer is new to the system.

Other Emerging Trends

Most internationally branded hotels that opened over the last two years have provided extended and varied food and beverage (F&B) options. A typical Mid-Market hotel in the United States for instance, would offer no more than one F&B outlet and negligible meeting space, if any. However, the same brand is offering two to three F&B options and substantial meeting space in India. F&B is a significant contributor to the top line, especially in Tier 2 and 3 locations, such as Bhubaneswar, Raipur, Chandigarh, etc. Also, the availability of relatively inexpensive manpower as compared to that in North America and Europe has given these brands an opportunity to develop full service hotels, even in the Budget and Mid-Market space. Another emerging trend in the Budget space is the outsourcing of F&B facilities on a revenue-share model to brands such as Café Coffee Day and Barista. Laundry and housekeeping services are also increasingly being outsourced with the expansion of facilities management companies such as Aramark entering India. Outsourcing allows the hotels to reduce fixed costs and thus enables even stronger bottom lines.

In Closing

As the Indian hospitality sector grows, it will begin to see more differentiation in the presently hazy hotel positioning. While it is fair to assert that hotels in India are currently witnessing several overlaps between the Budget and Mid-Market segments and then again between the Mid-Market and Upscale segments, it is likely that the picture will become clearer with time. We anticipate that as the industry matures, each segment will carve its niche in terms of the product as well as service deliverables and there will thus be a rationalisation of development costs, which will be in line with their respective market positioning.

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Exhibit B: Development Cost per Key (USD - 000's)

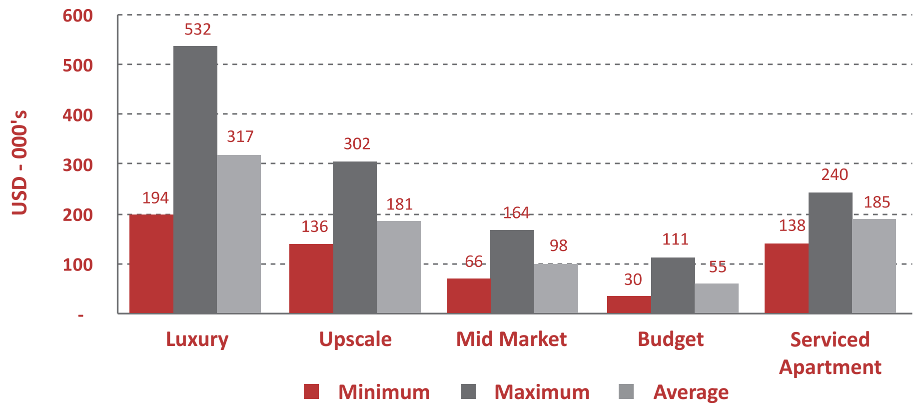
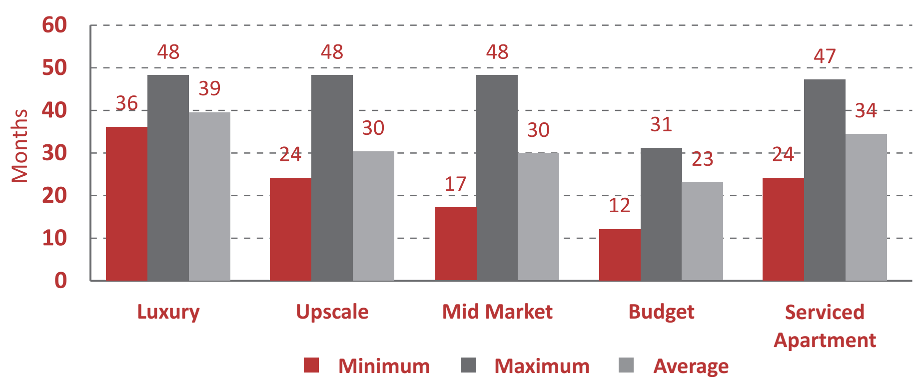


Exhibit C: Construction Tenure (Months)



The Spa: From Support Facility to Profit Centre!

SPA is an acronym originating from the time of the Roman Empire when battle weary legionnaires tried to find a way to recover from their military wounds and ailments. They sought out hot springs (wells) and then built baths so that they could heal their aching bodies, calling these places 'aquae' for water and naming the bathing treatments undertaken there 'Sanitas Per Aquam' (SPA) - meaning health by or through water. It is now recognised as "an establishment that promotes wellness through the provision of therapeutic and other professional services aimed at renewing the body, mind, and spirit."

In recent years, the global spa industry has witnessed the emergence of various different categories of spas that tend to have varying usage and operating patterns. Examples of such spas range from medical spas, day spas, and destination spas to hotel spas, mineral springs spas, airport spas, and club spas. The global spa industry has boomed in the past five to six years due to an increasing sense of wellness concepts within the 'Baby Boomers' generation that happen to be the core customer base for the industry. The global spa industry today contributes 60.3 billion US dollars to the overall wellness industry, which is worth roundly 2 trillion US dollars. Of the 60.3 billion US dollars global spa industry, the Indian market is worth a mere 384 million US dollars or 0.6% of the total.

In comparison to the global spa industry, the Indian market is still undefined and rather immeasurable. India is yet to form a government body that administers the industry. Though the government has initiated discussions on the same, when this actually turns into reality is uncertain. Due to this unorganised nature, it is difficult to accurately quantify the size and potential of the spa industry in India. At last count, India was ranked as the 19th top spa country, with 2,359 operational spas. The industry is estimated to have generated roundly 384 million US dollars in 2007 and employed 22,175 people.

Historically, hotels have offered a spa as an add-on facility that was often an after-thought in the development process. However, with the spa phenomenon in recent years, the industry has realised that a spa provides a competitive advantage to a hotel and has evolved from being a support facility to a profit centre. Until recently, quantifying this competitive

Table A: Sample selection of HVS Spa Survey 2010 Results

	Total Facility Size (Sq Ft)	Number of Treatment Rooms	Average Price Per Treatment (₹)	Average Number of Treatments Per Day	Revenue Per Sq Ft (₹)	Average Treatments Per Treatment Room	Total Number of Employees	Total Development Cost Per Sq Ft (₹)
Min	2,072	2	1,400	4	328	1	9	3,906
25th Percentile	4,500	5	2,500	7	1,637	2	15	4,784
50th Percentile	8,610	6	3,000	14	2,922	2	19	5,139
75th Percentile	10,800	8	3,763	17	4,568	3	27	6,138
Max	21,526	14	5,000	35	7,883	4	35	17,421

Table B: Financial Comparison between Three Hypothetical Hotel Scenarios (₹000)

	Without A Spa		With A Spa		With A Spa & A Premium	
Number of Rooms	200		200		200	
Occupied Rooms	47,450		47,450		47,450	
Days Open	365		365		365	
Occupancy	65.0%		65%		65%	
Average Rate	₹ 11,000.00		₹ 11,000.00		₹ 12,100.00	
RevPAR	₹ 7,150.00		₹ 7,150.00		₹ 7,865.00	
REVENUE						
Rooms	5,21,950	47.0%	5,21,950	45.9%	5,74,145	48.2%
Food & Beverage	5,49,293	49.5%	5,49,293	48.3%	5,49,293	46.2%
Telephone	10,986	1.0%	10,986	1.0%	10,986	0.9%
Spa		0.0%	28,063	2.5%	28,063	2.4%
Other Income	27,465	2.5%	27,465	2.4%	27,465	2.3%
Total Revenue	**11,09,694**	**100.0%**	**11,37,757**	**100.0%**	**11,89,952**	**100.0%**
DEPARTMENTAL EXPENSES						
Rooms	82,394	15.8%	82,394	15.8%	90,633	15.8%
Food & Beverage	2,47,182	45.0%	2,47,182	45.0%	2,47,182	45.0%
Telephone	2,746	25.0%	2,746	25.0%	2,746	25.0%
Spa			12,628	45.0%	12,628	45.0%
Other Expenses	10,986	40.0%	10,986	40.0%	10,986	40.0%
Total Expenses	**3,43,308**	**30.9%**	**3,55,937**	**31.3%**	**3,64,176**	**30.6%**
DEPARTMENTAL INCOME	**7,66,385**	**69.1%**	**7,81,820**	**68.7%**	**8,25,776**	**69.4%**
OPERATING EXPENSES						
Total	**2,50,362**	**22.6%**	**2,51,862**	**22.1%**	**2,53,100**	**21.3%**
HOUSE PROFIT	**5,16,024**	**46.5%**	**5,29,958**	**46.6%**	**5,72,676**	**48.1%**
INCOME BEFORE FIXED EXPENSES	**4,82,733**	**43.5%**	**4,95,825**	**43.6%**	**5,36,977**	**45.1%**
FIXED EXPENSES						
Total	**62,255**	**5.6%**	**63,321**	**5.6%**	**67,356**	**5.7%**
NET INCOME	**4,20,478**	**37.9%**	**4,32,504**	**38.0%**	**4,69,621**	**39.5%**

advantage was complex due to a lack of significant data as the industry was in its maturing stages. However, over the past five years, several global spa surveys have been carried out that all demonstrate a spa's ability to enhance overall profitability for a hotel by one of the following, if not all:

- Attain higher average occupancy
- Attain a premium on average room rate of 20-30%
- Attain longer length of stay by 0.75-1.8 days
- Attain higher usage of suites by estimated 11%
- Attain higher overall average spend per night

The above advantages have come as a revelation to the global industry and hoteliers are now beginning to understand and accept these advantages as 80% of all luxury travelers tend to choose their accommodation based on wellness and fitness facilities available at a hotel.

In an effort to quantify the Indian spa industry better, HVS conducted a pan-India survey of urban Luxury/First-Class hotel spas and gathered operating data on more than 40 spas across the country. Though the HVS Spa Survey 2010 has detailed operational data on the spas covered, only a consolidated sample is presented below:

As Table A highlights there is a great amount of disparity in the operating nature of the spas covered within the study, thus demonstrating the unorganised and immature nature of the Indian spa industry. The potential of the industry is only half realised today and operational efficiencies are bound to kick in as the industry matures and consolidates. The government body for administering spas, which is in the pipeline, will greatly assist in eliminating properties that are not up to the mark and provide higher benchmarks for the industry.

Thus far, we've discussed the transition of spas from being a support facility to a profit centre. The data collected from the HVS Spa Survey 2010 enables us to access the financial benefit a spa can bring to a hotel. To do so, we created a case study with three hypothetical scenarios:

1. The base case scenario – a 200-room Luxury/First-Class hotel with no spa facility
2. The second scenario – a 200-room Luxury/First-Class hotel with a spa facility
3. The third scenario – a 200-room Luxury/First-Class hotel with a spa facility that is able to attain an ADR premium of 10%. (It may be noted that in reality, the premium should be much higher. However, for the purpose of this case study we have used a conservative scenario.) Due to the increase in room rate, rooms' expense has also been adjusted accordingly.

Table C: Return on Investment Analysis

Assumptions (₹)	
Total Facility Size	10,000
Development Cost Per Sq Ft	10,000
Total Development Cost	**10,00,00,000**
NOI without Spa	42,04,77,959
NOI with Spa	43,25,04,194
NOI with Spa & Premium	46,96,21,486
As compared to Base Case (Without Spa)	
Incremental NOI with Spa	1,20,26,235
Incremental NOI with Spa and Premium	4,91,43,527
Capitalization Rate	**10%**
Investment Value with Spa	**12,02,62,347**
Investment Value with Spa & Premium	**49,14,35,267**
Incremental Gain in Value with Spa	**2,02,62,347**
Incremental Gain in Value with Spa & Premium	**39,14,35,267**

Table B highlights the revenue discrepancy between the three scenarios and highlights that spas are not only revenue generators but also impact bottomlines positively.

The three scenarios in Table B clearly indicate the benefits of operating a spa as bottomlines improve by roundly ₹1.2 crore from the base case to the second scenario. The rate premium in scenario three, though minimum, has a drastic ₹4.9 crore impact on bottomlines compared to the base case.

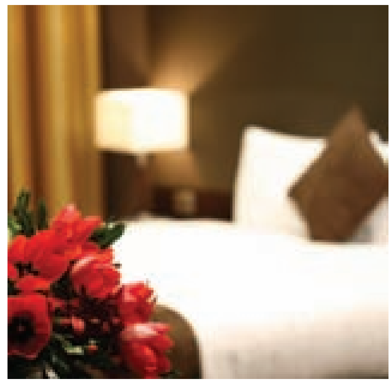
Table B also enables us to evaluate spa revenue vis-à-vis rooms revenue. The case study demonstrates that the spa revenue per available room (SPAR) in scenario two and three is ₹384 (Spa revenue/total rooms available). In other words, for every available hotel room, the spa operator was able to yield ₹384. Thus, comparing the SPAR with the RevPAR will enable us to understand the spa's contribution to hotel revenues. For example, in scenario two the ratio between SPAR and RevPAR (₹384/ ₹7,150) is 5.38%. This means that for every ₹1 a room earns, 5.38 paise or a twentieth of the rupee is generated by the spa.

Having looked at the income potential of a spa, the section below examines the worth of the additional income generated by a spa.

Table C illustrates that despite a high development cost, the investment value in both scenario two and three is greater than the development cost, thus providing a premium for the developer.

It is to be noted that the above case study is a hypothetical exercise consisting of three scenarios. Actual incremental gain in value through a spa will vary based on factors such as location, size, brand affiliation, age, condition, and actual performance and investors sentiments. The objective of the case study is purely to demonstrate the untapped potential of the spa industry.

For further information on spas and property specific studies, please contact **Megha Tuli,** Consulting and Valuation Analyst at mtuli@hvs.com.



About HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980 by President and Founder Steve Rushmore, MAI, FRICS, CHA, the company offers a comprehensive scope of services and specialized industry expertise to help you enhance the economic returns and value of your hospitality assets.

Because hotels represent both real property and operating businesses, the founding partners of HVS decided to develop the first comprehensive valuation methodology for appraising these specialized assets. Their initial textbook on this topic entitled, The Valuation of Hotels and Motels, published by the Appraisal Institute, created the industry standard for valuing hotels and is now used by virtually every appraiser around the world. HVS continues to be at the forefront of hotel valuation methodology, having published six textbooks and hundreds of articles on this subject, which are used in appraisal courses and seminars and at leading hotel schools such as Lausanne, IMHI, and Cornell. HVS associates are constantly called upon to teach this methodology to hotel owners, lenders, and operators and to participate at industry conferences. HVS principals literally 'wrote the book' on hotel valuation, which significantly enhances the credibility and reliability of our conclusions.

Over the past three decades, HVS has expanded both its range of services and its geographical boundaries. The company's global reach, through a network of 30 offices staffed by 400 seasoned industry professionals, gives you access to an unparalleled range of complementary services for the hospitality industry.

Manav Thadani, MRICS, Managing Director of HVS Hospitality Services (India), spearheads the company's operations in South Asia. Manav commenced his professional career with operational experience in hotels in New York City; this was following an MA in Food Service Management from New York University. He then joined HVS, where he honed his consulting and hotel appraisal skills in the company's New York and London offices. In 1997, Manav took HVS's Consulting and Valuation division to India – this was also the company's first office in Asia.

HVS India has conducted hotel feasibility studies and asset valuations for many prominent international hotel groups, real estate companies and investment banks in South Asia. HVS India has also expanded to include Executive Search, Web Technology Strategies, Asset Management and Operational Advisory, Eco Services and Marketing Communications in its portfolio of services in the region. The company, since 2005, has successfully organised the Hotel Investment Conference - South Asia (HICSA), which is widely seen as the most popular conference in the South Asian region.

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