



2012

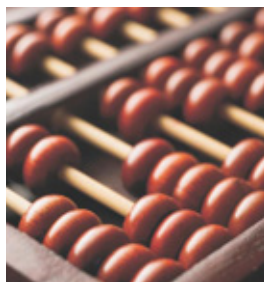
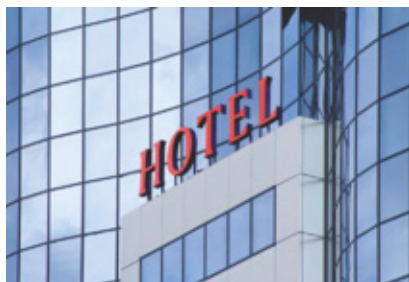
HOTELS IN INDIA TRENDS & OPPORTUNITIES

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It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to heaven, we were all going direct the other way – in short, the period was so far like the present period, that some of its noisiest authorities insisted on its being received, for good or for evil, in the superlative degree of comparison only.

– Charles Dickens, A Tale of Two Cities.

Introduction

At HVS, we have been tracking trends within the Indian hospitality industry for the last 17 years and have witnessed two economic downturns and a historic growth period during this time. During these cycles, we have seen investors typically react either with “irrational exuberance”, a phrase coined by Alan Greenspan, and go overboard in building hotels in what they deemed “hot” markets at that point in time, or swing completely the other way to assume extremely pessimistic views of the industry and question the very fundamentals of the sector. While the policy paralysis within the government during the past year and concerns about macro-economic conditions amongst investors have led to a more cautious outlook towards the hotel sector, the outlook is being artificially depressed by recent reports from other research and consulting firms. We believe that these reports rely on incorrect data and lack a detailed analyses of the various parameters that impact the hotel industry's performance and, therefore, present an incorrect opinion of past performance and future potential. Our extensive experience in India and the depth of hospitality information across numerous markets available in-house enables us to conduct more sophisticated analyses and present a true picture of reality on the ground. Through this year's edition of the

Trends & Opportunities Report, we aim to dispel the misleading information currently available to investors and present accurate data and analyses that will enable them to make an informed investment decision.

The Trends & Opportunities report assesses key trends in the market performance of 13 major Indian cities and presents HVS' outlook of the markets' performances in the near future. It also outlines existing and future opportunities in the hospitality industry of specific interest to investors, developers and hotel operators. This report is generated after analyzing the results of the Trends & Opportunities Survey conducted by HVS annually; the survey collates data related to key hospitality industry operational characteristics. When we started collecting data for major Indian cities in 1995/96, only 120 hotels with a total of 18,160 rooms participated in the survey. This year, a record 551 hotels with a total room count of 69,891 rooms participated in the survey: an increase of an additional 89 hotels and approximately 12,000 rooms since the last survey. The growing number of survey participants over the years demonstrates an increase in both HVS' penetration into the market and the market's size. **This year, in order to compute the overall occupancy and average rates, we have weighted the number of room nights to account for new supply that**

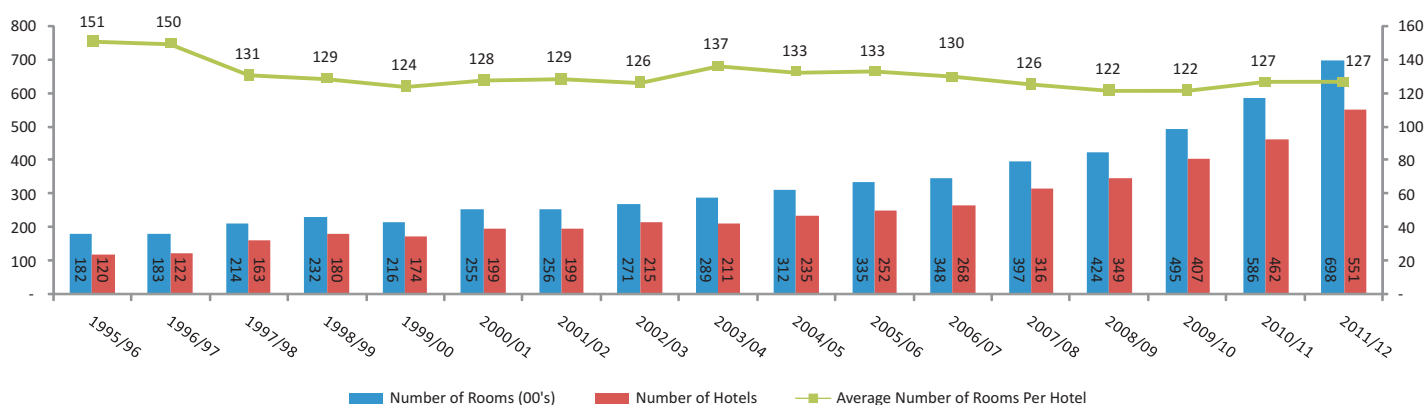
was not operational for the entire fiscal year of 2011/12. The weighted room count for 2011/12 is 65,612. Exhibit 1 illustrates survey participation from the fiscal years 1995/96 to 2011/12.

The Indian Economic Scenario – An Overview

The global economy has been reeling under the shock of the Eurozone crisis, which has affected trade across industries and geographies. Global risk aversion led to a decrease in exports by India, which in turn exerted downward pressure on the economy by widening the current account deficit in the fiscal year 2011/12. In the fiscal's last quarter, the current account deficit was US\$21.7 billion as compared to US\$6.3 billion in the previous year.¹ Further, at 5.9% of the GDP, the high fiscal deficit translated to a significant expenditure-revenue gap, weakening domestic fundamentals.

In April 2012, Standard & Poor lowered its outlook for the Indian economy from stable to negative, on account of deteriorating economic indicators and lack of action on the fiscal deficit. In June, Moody's followed suit and scaled down India's sovereign credit outlook to negative for similar reasons. Although the move was not unexpected, it elicited mixed reactions, since the country's underlying growth

Exhibit 1: Survey Participation (1995/96 – 2011/12)



Source: HVS Research

¹ Country Report: India (July 2012). Economist Intelligence Unit

parameters are still believed to be strong.

India's GDP growth declined to 6.5% (revised estimates by GOI, May 2012) during 2011/12 as against 8.4% in the previous fiscal year. According to Reserve Bank of India (RBI) estimates, real GDP growth for 2012/13 is also expected to be 6.5%, although an increase in private consumption and investment is likely to lead to a partial recovery in 2013/14. Private consumption expenditure, which accounts for over 50% of the nominal GDP, is likely to register moderate growth in 2012/13, strongly supported by rapid urbanisation and the fast-growing middle class.

The most serious challenge currently facing the Indian economy is inflation, which was 8.8% in 2011/12. Supply-side constraints, logistical issues and poor agricultural performance have led to a sharp increase in food prices, a crucial determinant of inflation. Rising fuel prices and the move to more expensive sources of fuel have raised the level of public expenditure. Coupled with falling export demand, this has stoked inflationary pressures through currency depreciation. However, open market operations corrected the tight liquidity situation, and the two-stage reduction in the cash reserve ratio (CRR) in the fourth quarter of 2011/12 gradually eased monetary conditions.

Going forward, strong economic fundamentals in the form of high savings and rapid working force expansion are likely to lead to improved economic performance in the medium-to-long term. The record hike in diesel price announced by the Indian government in September 2012 is an indication of the government's intent to ensure fiscal consolidation. In the same month, initiating a shift in expenditure from consumption to investment, the government proposed 51% FDI in multi-brand retail and 49% in aviation, a move that has led to the country's financial markets responding positively. This was followed by the RBI keeping the repo rate unchanged at 8% and cutting the CRR by 25 basis points to 4.5%, clearly indicating that managing inflation remains the central bank's priority. At the beginning of the third week of September, the rupee was trading at ₹53.37/US\$1, which placed it amongst Asia's best-performing currencies in the second quarter of 2012/13; the rupee is expected

to witness further appreciation in the short-to-medium term. The focus on economic reforms and a change from a policy deadlock situation should provide the much-needed momentum to the Indian economy. Exhibit 2 shows the comparison between GDP growth, inflation and exchange rate from 2006/07 to 2011/12.

Tourism Overview

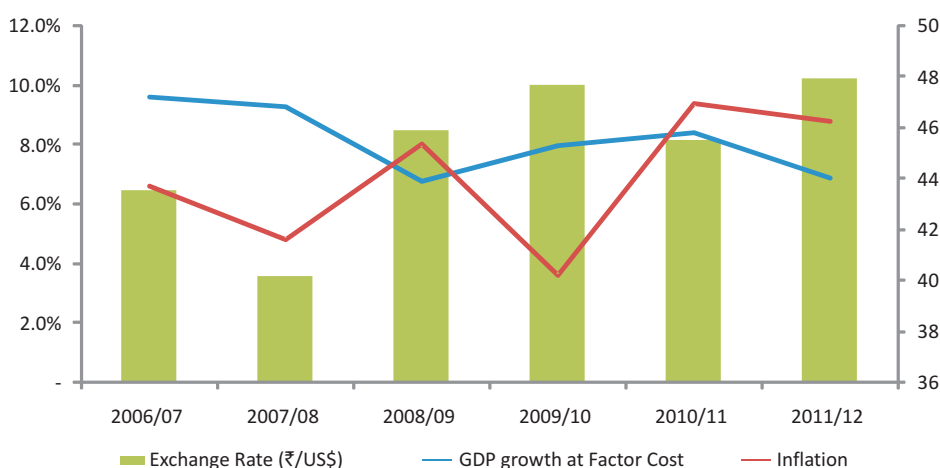
Despite the slowdown in the economies of America and Europe, foreign tourist arrivals (FTAs) were recorded at 6.29 million in 2011, an increase of 8.9% over 2010. The top source markets were USA (15.97%) followed by UK (12.57%) and Bangladesh (6.34%). Foreign Exchange Earnings (FEE) too witnessed a rise by 16.7% in 2011 over the previous year. Although the country witnessed a growth of 60% in FTAs from 2005 to 2011, it moved only five places in its world ranking from 43rd to 38th, during this period. Also, its percentage share of international tourist arrivals in the world continued to remain below 1% (0.64%) in 2011. Growth in FTAs has continued in 2012, albeit at a slower pace. From January-August 2012, FTAs registered an increase of 6.2% over the previous year, as compared to the 10% growth recorded during the same period in 2011 over that of 2010. FEE from tourism, on the other hand, rose by 23.7% in January-August 2012, as compared to a growth of 15.9% during January-August 2011, over the corresponding period of 2010.² On the domestic visitation front, the country registered a growth of 13.8% in 2011 over the previous year crossing the 850 million mark. According to World Travel & Tourism Council's (WTTC) *Economic Impact 2012 - India* report, domestic travel spending

contributed 82.2% of the 'direct' Travel and Tourism GDP in 2011 as compared to 17.8% generated by foreign visitor spending, highlighting the dominance of domestic visitation in Indian tourism. The former is estimated to grow by 8.3% in 2012, while foreign visitor spending is anticipated to increase by 3.5% in 2012. Overall, the total contribution of Travel and Tourism to India's GDP was ₹5,651 billion (6.4% of GDP) in 2011, and is forecasted to rise to 7.3% in 2012 and by 7.8% annually by 2022. As per the *Economic Survey 2011-12*, the hotel industry had reported a growth of 14.3% in 2010/11 and is estimated to have maintained the same pace of growth in 2011/12. In 2012/13, growth is anticipated mainly from regions in Southeast Asia.

Survey Results

The HVS Survey has been computed by dividing the participating branded hotels into their respective classifications according to star grading. This year we have examined the performance of 13 major cities across India. **We have split Delhi NCR into Delhi, Gurgaon (including Manesar) and NOIDA (including Greater NOIDA), and have also shown their three-year historical performance. We believe that even though these markets are a part of Delhi NCR, they have separate supply and demand dynamics, and will, therefore, be discussed separately.** 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 estimated the number of rooms under construction along with the probability of their development over a period of five years.

Exhibit 2: Comparison between GDP Growth, Inflation and Exchange Rate



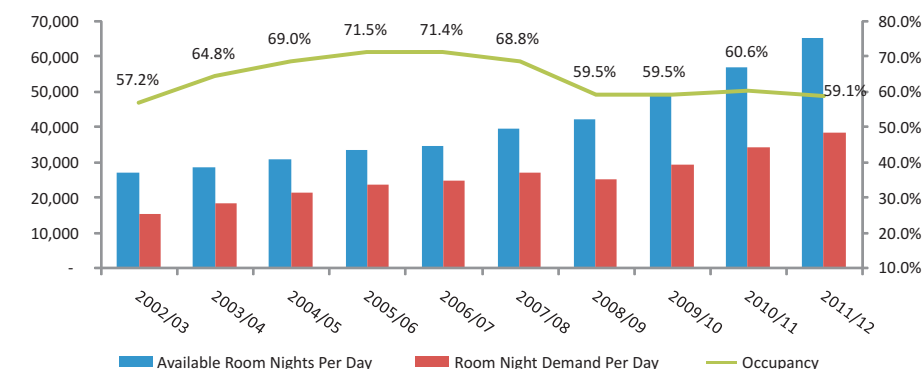
² Market Research and Statistics Division, Ministry of Tourism, GOI

In Defense of Hospitality

Over the past decade, the branded supply of room nights in India has risen by 142%, while room night demand has increased by 150%, as depicted in Exhibit 3. During this period we witnessed a 10% compounded annual growth rate in the supply of branded room nights, accompanied by an 11% compounded annual growth rate in demand. The strong positive correlation between the growth in supply and demand is indicative of the presence of a significant amount of unaccommodated demand that was absorbed as new lodging options became available, and highlights the strength of the hospitality industry in India.

While the major cities of the country witnessed a 15% increase in supply in 2011/12, demand exhibited a strong increase of 12% during the same period, one of the strongest demand increases across any market in the world. Thus, while nationwide occupancy declined in 2011/12, it is important to note that it was purely due to supply increasing faster than demand, and not due to an absolute decline in demand. Nationwide average rates

Exhibit 3: Room Night Demand Vs Available Room Nights (2002/03 – 2011/12)



Source: HVS Research

witnessed a decline of 3.9% over the previous year on account of supply pressure. Overall, Nationwide RevPAR declined by 6.3%. Recent reports by certain other firms have expressed grave concern about the amount of new supply anticipated across the various markets and how the new hotels will have a significant adverse impact on the performance of existing hotels in these markets. One report has gone so far as to claim that hotels in India will see decadal lows in operating margins and predicts a bloodbath in the

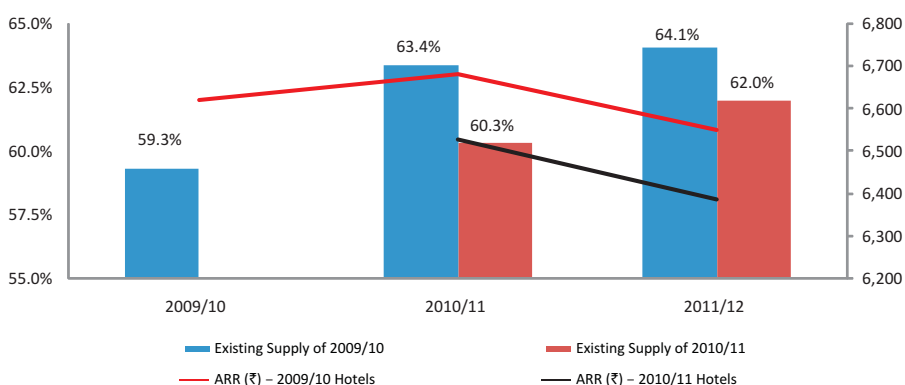
hospitality space going forward. We believe such concerns are highly over-rated and ignore the inherent strength of our hotel markets.

Our confidence in the market's resilience and potential is supported by our analysis of the 2010/11 and 2011/12 performance of hotels in major cities where new supply has been added in the past two years. We took the hotels that were operational as of 2009/10 across the major cities and tracked their occupancy and average rate levels in 2010/11 and 2011/12 to measure the impact, if any, of the new supply that opened during these two years. We similarly looked at all the hotels open in 2010/11 and tracked their performance in 2011/12. The results are presented in Exhibit 4.

Notably, the average occupancy of hotels that were open in 2009/10 actually increased in both 2010/11 and 2011/12, despite new supply increasing by about 15% annually during these two years. The hotels that were operational in 2010/11 also exhibited an occupancy increase in 2011/12 despite aggressive increases in supply. Additionally, the fact that these occupancy increases were attained with only marginal declines in average rate clearly proves that the Indian hospitality industry has remained resistant to increases in supply in the past. Reports that, therefore, raise the specter of significant increases in supply and project a doomsday scenario in the future without considering corresponding increases in demand, ignore basic realities on the ground and do the entire industry and its stakeholders a disservice.

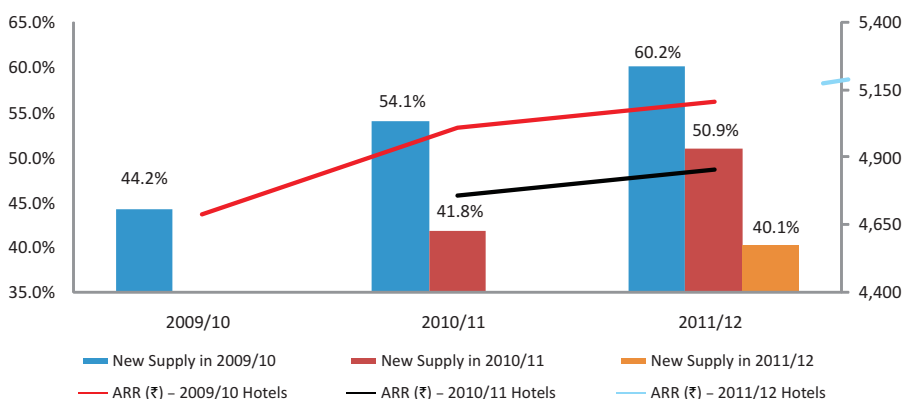
In addition to the analysis presented in Exhibit 4, we decided to go a step further

Exhibit 4: Performance of Existing Hotels Across Major Cities (2009/10 – 2011/12)



Source: HVS Research

Exhibit 5: Performance of New Hotels Across Major Cities (2009/10 – 2011/12)



Source: HVS Research

and also examine the performance of new hotels that opened from 2009/10 through 2011/12 in the major cities to understand how they performed in terms of occupancy and average rate in their initial years of operation and if their performance was impacted by the turbulent economic environment they opened in.

As presented in Exhibit 5, hotels that opened in 2009/10 consistently increased their occupancy and average rates over the next two years. The same trend was observed in the case of hotels that opened in 2010/11. However, we have noticed that new hotels are taking longer to improve their occupancy levels as a result of the economic downturn and increased supply in the market. Thus, while hotels that opened in 2009/10 attained an occupancy of 44% in their first year and 54% in the second year, the hotels that opened in 2010/11 only managed occupancy levels of 42% and 51% in their first and second years, respectively. Hotels that opened in 2011/12 attained an occupancy of 40%, showing a continuation of this trend. Thus, while hotels are taking more time to stabilise, what is obvious is that they are enjoying consistent increases in both occupancy levels and average rates after opening.

These analyses clearly show that the Indian hospitality industry has thrived in the past despite significant increases in supply, with such supply increases actually resulting in strong growth in demand. Except for 2008/09, the nationwide hotel market has never seen a decline in demand and such a trend is expected to continue into the future. It is clear that the entry of new hotels across the country has not had a significant impact on the overall performance of existing hotels in these markets and that any occupancy or average rate declines for the markets are mainly a result of the new hotels impacting the weighted average of the market. We, therefore, believe that any claims of gloom and doom for the hotel industry going forward are highly exaggerated, irresponsible, and based on a very simplistic view of the hotel sector. It is our recommendation to hotel investors that they focus on the various parameters relevant to the specific market they are evaluating and then make an informed investment decision instead of purely considering India-wide hotel trends.

Industry Performance According to Star Category

In 2011/12, hotels across all categories witnessed a decline in weighted occupancy, except for the four-star segment, which benefitted from its positioning between the five-star and three-star categories and was able to attract demand from both segments. In terms of weighted average rates, all categories witnessed a decline with the exception of the three-star segment, which maintained its average rate. All categories showed a decrease in RevPAR with the five-star category being the worst performing.

Existing Supply – 2011/12

We would like to highlight that 2011/12 witnessed an addition of 12,782 branded rooms in the country, which led to an existing supply of 84,313, an 18% increase over the previous year. The new supply of 12,782 branded rooms in 2011/12 was 31% higher than the new supply in 2010/11 and second only to the new supply

in 2009/10. Mumbai (including Navi Mumbai) has the highest existing supply of branded rooms in the country, followed by Delhi (excluding Gurgaon, NOIDA and Greater NOIDA) and Bengaluru, while NOIDA had the lowest supply of branded rooms (527 rooms) across the major markets. Bengaluru witnessed the largest increase in supply of branded rooms in 2011/12, closely followed by Delhi. NOIDA on the other hand witnessed the least amount of new supply in 2011/12 with only 176 rooms entering the market. Table 1 shows the existing supply for the 13 major cities from 2006/07 to 2011/12.

Table 2, overleaf, illustrates hotel occupancy across the star categories in India between 1995/96 and 2011/12. Tables 3 and 4 show average rates for each of the star categories, expressed in Indian rupees and US dollars, respectively. Tables 5 and 6 present the corresponding RevPAR data.

Table 1: Existing Supply Across Major Cities (2006/07 – 2011/12)

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	12-Month* Change	Compounded Growth
Agra	1,336	1,336	1,419	1,439	1,439	1,739	21%	5%
Ahmedabad	519	675	800	1,521	1,785	1,975	11%	31%
Bengaluru	2,414	3,456	3,889	5,597	5,947	7,713	30%	26%
Chennai^a	2,442	2,826	3,307	3,806	4,066	4,904	21%	15%
Delhi^b	7,990	9,019	8,625	8,129	9,111	10,697	17%	15%
Gurgaon^c				1,980	3,246	3,782	17%	38%
NOIDA^d				300	351	527	50%	33%
Goa	2,450	2,768	2,795	3,288	3,375	3,885	15%	10%
Hyderabad	1,868	2,554	2,761	3,782	4,036	4,797	19%	21%
Jaipur	1,388	1,556	1,683	2,472	2,554	3,054	20%	17%
Kolkata	1,354	1,396	1,373	1,520	1,588	1,787	13%	6%
Mumbai^e	7,402	8,454	7,948	9,877	11,303	12,052	7%	10%
Pune	777	1,346	1,518	2,672	4,691	5,672	21%	49%
Other Cities^f	9,345	11,596	12,357	15,412	18,039	21,729	20%	18%
Total	39,285	46,982	48,475	61,795	71,531	84,313	18%	17%

* Change in 2011/12 expressed as percentage of the figure for 2010/11

For all tables

a - Chennai (includes Sriperumbudur and Oragadam)

b - Delhi NCR data (Shaded Portion), rest Delhi (excluding Gurgaon, NOIDA and Greater NOIDA) data

c - Gurgaon (includes Manesar)

d - NOIDA (includes Greater NOIDA)

e - Mumbai (includes Navi Mumbai)

f - Other Cities (includes all other hotel markets across India)

Source: HVS Research

Table 2: 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	2010/11	2011/12	12-Month* Change	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%	59.5%	60.6%	59.1%	-2.5%	-0.7%
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%	61.6%	60.9%	59.9%	-1.6%	-1.3%
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%	58.6%	61.9%	58.6%	-5.3%	-0.9%
Four-star	57.9%	60.5%	59.2%	55.9%	53.2%	58.7%	52.7%	56.4%	68.7%	71.8%	72.7%	71.7%	68.9%	58.5%	60.3%	60.7%	61.0%	0.5%	0.3%
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%	55.5%	58.5%	56.7%	-3.1%	0.6%

* Change in 2011/12 expressed as percentage of the figure for 2010/11

Source: HVS Research

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

	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	2010/11	2011/12	12-Month* Change	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	6,489	6,513	6,257	-3.9%	4.6%
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	9,277	9,350	9,192	-1.7%	5.3%
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	6,410	6,380	6,016	-5.7%	5.6%
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	4,638	4,905	4,777	-2.6%	7.9%
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	3,255	3,348	3,349	0.0%	6.6%

* Change in 2011/12 expressed as percentage of the figure for 2010/11

Source: HVS Research

Table 4: Key Operating Characteristics by Hotel Classification – Average Rate (US\$)

	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	2010/11	2011/12	12-Month* Change	Compounded Growth
Overall Average	93	104	110	90	81	83	73	68	78	96	122	162	199	168	136	143	130	-8.7%	2.1%
Five-star Deluxe	124	141	155	128	113	114	99	90	102	125	161	224	278	242	194	205	192	-6.6%	2.8%
Five-star	78	89	91	79	77	77	69	65	73	87	112	149	190	158	134	140	125	-10.4%	3.0%
Four-star	44	52	70	61	50	53	50	47	56	69	86	117	142	125	97	108	100	-7.5%	5.2%
Three-star	37	40	43	37	35	37	36	35	36	41	50	69	87	77	68	73	70	-5.0%	4.0%
Exchange Rate	32.4	35.4	36.3	42.2	43.5	44.9	47.2	48.2	46.0	44.9	44.5	43.6	40.2	45.9	47.7	45.6	48.0		

* Change in 2011/12 expressed as percentage of the figure for 2010/11

Source: HVS Research

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

	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	2010/11	2011/12	12-Month* Change	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	3,861	3,947	3,698	-6.3%	3.9%
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	5,715	5,694	5,506	-3.3%	3.9%
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	3,756	3,949	3,525	-10.7%	4.7%
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	2,797	2,977	2,914	-2.1%	8.2%
Three-star	624	705	725	702	718	816	843	895	995	1,038	1,458	2,075	2,257	1,985	1,806	1,959	1,899	-3.0%	7.2%

* Change in 2011/12 expressed as percentage of the figure for 2010/11

Source: HVS Research

Table 6: Key Operating Characteristics by Hotel Classification – RevPAR (US\$)

	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	2010/11	2011/12	12-Month* Change	Compounded Growth
Overall Average	62	66	63	50	43	48	38	39	50	66	87	116	137	100	81	87	77	-11.0%	1.4%
Five-star Deluxe	92	95	96	77	66	69	52	53	66	89	119	164	200	151	120	125	115	-8.1%	1.4%
Five-star	53	58	53	44	43	43	36	37	49	62	79	105	128	93	79	87	74	-15.2%	2.1%
Four-star	25	31	41	34	27	31	26	26	39	49	63	84	98	73	59	65	61	-7.0%	5.6%
Three-star	19	20	20	18	16	18	18	19	22	23	33	48	56	43	38	43	40	-7.9%	4.7%
Exchange Rate	32.4	35.4	36.3	42.2	43.5	44.9	47.2	48.2	46.0	44.9	44.5	43.6	40.2	45.9	47.7	45.6	48.0		

* Change in 2011/12 expressed as percentage of the figure for 2010/11

Source: HVS Research

Future 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, as we do 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.

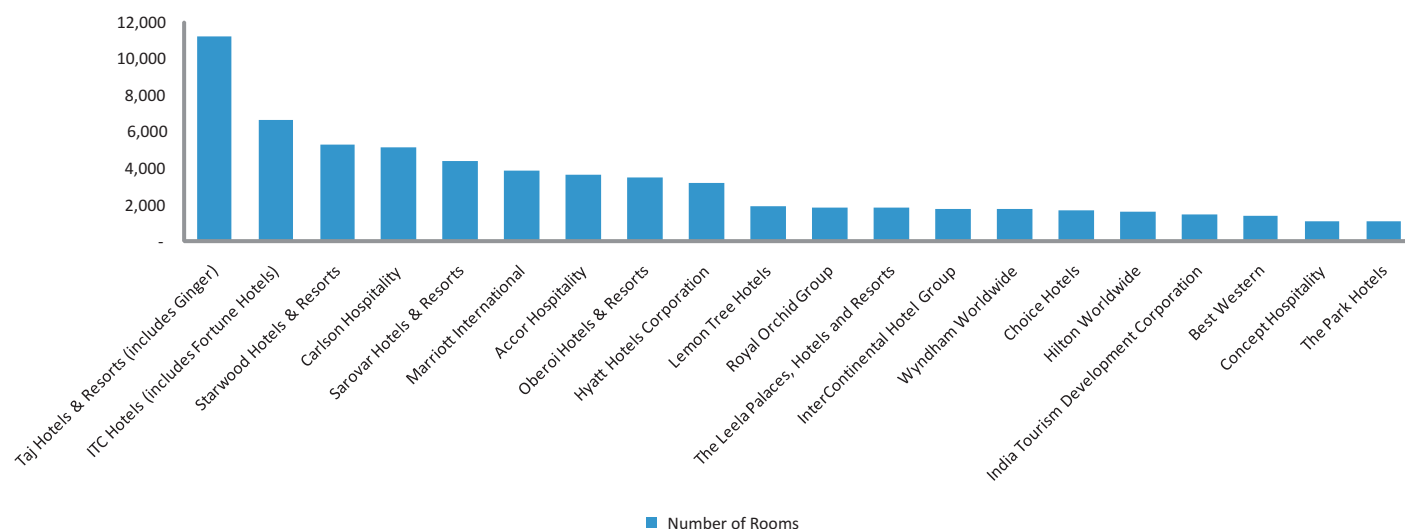
The proposed supply of branded hotels in 2007/08 was 114,466 rooms, which declined to 94,115 rooms in 2008/09 due to the economic downturn. The decline continued through 2009/10 with the total proposed supply amounting to only 89,499 rooms. As the economy strengthened the proposed supply grew to 102,438 in 2010/11.

In the year 2011/12, we witnessed an 8.8% decline in proposed supply over the previous year to 93,355 rooms. The decline can partially be attributed to a substantial number of rooms in last year's proposed supply having become operational this year; these rooms are now included in this year's existing supply. Additionally, several projects that had their plans for development formalised and were in the supply pipeline till last year, have now been delayed or called-off on account of high borrowing costs, tight liquidity and perhaps a lowered confidence in the Indian economy and political leadership.

Numerous international hotel brands have entered the Indian hospitality market in the past decade and are now aggressively focusing on their expansion strategies. In Exhibit 6, we present the total operating inventory for the 20 largest hotel brands in the country as of September 2012.

In Table 7, we present the existing and proposed supply in each of the 13 major markets and 'other cities' covered in this report. Table 7 reflects the anticipated

Exhibit 6: Top 20 Hotel Brands by Existing Inventory – September 2012



Source: HVS Research

Table 7: Proposed Branded Hotel Rooms Across Major Cities (2012/13 – 2016/17)

	Existing Supply 2011/12	Proposed Supply	Increase in Future Supply	Active Development of Supply	Luxury	Upscale	Mid Market	Budget	Extended Stay
Agra	1,739	650	37%	80%	20.0%	0.0%	80.0%	0.0%	0.0%
Ahmedabad	1,975	2,550	129%	69%	9.8%	39.4%	26.9%	23.8%	0.0%
Bengaluru	7,713	9,716	126%	71%	20.0%	31.2%	23.4%	17.0%	8.4%
Chennai	4,904	7,547	154%	58%	19.9%	19.3%	32.9%	22.6%	5.3%
Delhi	10,697	5,626	53%	87%	18.4%	31.8%	33.8%	16.0%	0.0%
Gurgaon	3,782	5,818	154%	55%	23.2%	38.3%	20.7%	15.6%	2.1%
NOIDA	527	5,522	1048%	37%	32.5%	39.8%	10.6%	11.9%	5.3%
Goa	3,885	2,422	62%	53%	4.3%	4.5%	40.5%	45.5%	5.2%
Hyderabad	4,797	5,265	110%	74%	12.4%	28.5%	35.0%	17.3%	6.8%
Jaipur	3,054	3,356	110%	52%	3.3%	51.1%	26.3%	19.3%	0.0%
Kolkata	1,787	3,118	174%	74%	21.6%	30.4%	47.9%	0.0%	0.0%
Mumbai	12,052	10,896	90%	47%	30.0%	22.3%	32.4%	9.8%	5.5%
Pune	5,672	4,645	82%	69%	12.2%	24.3%	36.4%	25.5%	1.6%
Other Cities	21,729	26,224	121%	48%	0.7%	29.3%	49.0%	21.0%	0.0%
Total	84,313	93,355	111%	58%	14.5%	29.2%	35.3%	18.0%	3.0%

Source: HVS Research

Table 8: Distribution of Existing and Proposed Branded Hotel Rooms Across Major Cities (2006/07 – 2011/12)

	Existing Supply						Proposed Supply						Active Development of Supply					
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Agra	1,336	1,336	1,419	1,439	1,439	1,739	764	670	400	510	667	650	32%	55%	75%	41%	22%	80%
Ahmedabad	519	675	800	1,521	1,785	1,975	2,230	3,664	3,058	2,339	2,319	2,550	60%	47%	71%	69%	73%	69%
Bengaluru	2,414	3,456	3,889	5,597	5,947	7,713	12,882	15,542	10,784	9,819	12,509	9,716	61%	60%	58%	65%	67%	71%
Chennai	2,442	2,826	3,307	3,806	4,066	4,904	6,213	7,147	4,945	5,995	7,819	7,547	68%	71%	67%	72%	57%	58%
Delhi	7,990	9,019	8,625	8,129	9,111	10,697	19,423	22,360	16,560	20,021	18,608	5,626	56%	51%	53%	75%	75%	87%
Gurgaon				1,980	3,246	3,782						5,818						55%
NOIDA				300	351	527						5,522						37%
Goa	2,450	2,768	2,795	3,288	3,375	3,885	3,058	3,353	2,178	1,736	2,154	2,422	58%	42%	31%	41%	53%	53%
Hyderabad	1,868	2,554	2,761	3,782	4,036	4,797	10,619	8,250	5,884	5,302	5,713	5,265	47%	64%	73%	63%	77%	74%
Jaipur	1,388	1,556	1,683	2,472	2,554	3,054	4,012	2,937	3,357	2,664	4,867	3,356	56%	53%	53%	77%	45%	52%
Kolkata	1,354	1,396	1,373	1,520	1,588	1,787	3,644	5,965	4,025	3,481	3,612	3,118	67%	49%	62%	51%	58%	74%
Mumbai	7,402	8,454	7,948	9,877	11,303	12,052	11,578	10,613	13,386	7,477	12,121	10,896	49%	62%	73%	60%	35%	47%
Pune	777	1,346	1,518	2,672	4,691	5,672	8,072	8,243	8,054	5,196	5,545	4,645	77%	66%	52%	67%	56%	69%
Other Cities	9,345	11,596	12,357	15,412	18,039	21,729	19,476	25,722	21,484	24,909	26,504	26,224	58%	60%	60%	65%	56%	48%
Total	39,285	46,982	48,475	61,795	71,531	84,313	101,971	114,466	94,115	89,449	102,438	93,355	58%	58%	60%	67%	60%	58%

Source: HVS Research

growth over a five-year period by quantifying the number of hotel rooms currently under construction or those that HVS is confident will open by March 2017. We have further classified the new supply into its potential segments of luxury, upscale, mid market, budget and extended stay hotels. Table 8 presents the development trend of the hotel markets across India over the last six years.

We note that Mumbai (including Navi Mumbai) has the highest planned future supply in the country in 2011/12 with close to 10,896 proposed rooms. However, this number could be misleading and needs to be further viewed in conjunction with the probability of the proposed supply actually being developed in that period of time. The active development of supply percentage is the percentage of total proposed supply, which is expected to be developed in the next five years or by March 2017. So, while Mumbai reflects a total proposed supply of 10,896, we believe that only 47% of this proposed supply will actually be developed by March 2017. Meanwhile Bengaluru, which has the second highest number of proposed room supply (9,716 rooms), will actually see 71% of this supply, or 6,890 rooms, become operational by March 2017.

The countrywide active development of supply over the next five years has declined from 60% in 2010/11 to 58% in 2011/12, as projects were deferred on account of reduced liquidity and concerns about macro-economic conditions. **After taking into account the 58% active development of future supply, we expect**

54,000 rooms to be developed over the next five years, taking the total supply to about 138,000 rooms by 2016/17. Exhibit 7 presents the increase in hotel room supply in India from 2000/01 through 2011/12, and then further presents proposed new supply through 2016/17.

An interesting point to note is the shift in the composition of this supply. Traditionally, India has been associated with the development of luxury and upscale hotels. In our report in 2010, proposed luxury and upscale hotel supply constituted 50% of the total new supply expected to enter the market in the next five years. In 2011, this number has dropped to 45% giving way to increased development in the mid market and budget space. Going forward, this year's survey reaffirms this trend with the luxury and upscale segments now accounting for only 43.7% of the total proposed supply across the country. In our opinion, such a trend bodes well for the hospitality industry at large as the availability of lodging options across all price points will encourage and enable more Indians to travel within the country and thereby increase demand for the industry.

Industry Performance Across Major Cities

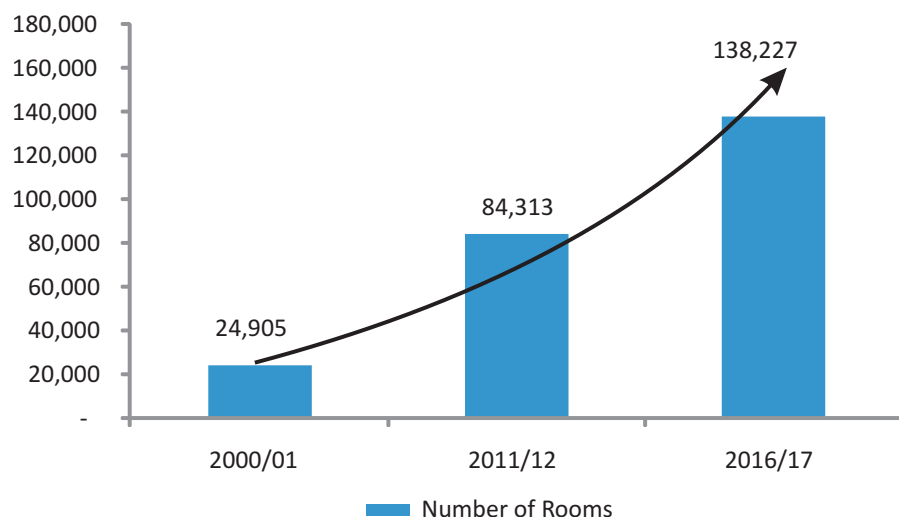
In 2011/12, most hotel markets witnessed a decline in occupancy with the exception of Ahmedabad, Pune, Kolkata, Mumbai (including Navi Mumbai) and Goa. Ahmedabad, which witnessed a decline in

occupancy in 2010/11, bounced back in 2011/12 with the highest increase in occupancy (10.1%) on account of strong growth in demand and limited supply entering the market. Pune, which also witnessed a decline in occupancy in 2010/11, recovered in 2011/12 with an 8.4% increase in occupancy due to reduced supply pressure. Kolkata and Mumbai witnessed a 4.5% and 2.2% increase in occupancy, respectively. NOIDA (including Greater NOIDA), on the other hand, witnessed the highest decline in occupancy (22.3%) in 2011/12 with 50% increase in supply by the addition of a single hotel, but only 15% growth in overall demand. Delhi saw the second highest decline (9.9%) in occupancy for that year.

In terms of average rates all markets witnessed a decline with the exception of Goa. Goa witnessed an 8.9% increase in average rate in 2011/12 over the previous year. Pune suffered the highest decline in average rate by about 11.3% over the previous year, reflecting the trade-off the city witnessed in order increase its occupancy. Despite a 3.9% decrease in average rate, Delhi witnessed the highest average rate in the country in 2011/12 at ₹8,293. RevPAR witnessed a decline in all the cities in the country barring Goa, Ahmedabad and Kolkata.

Table 9, overleaf, illustrates hotel occupancy for 13 key cities in India between 1995/96 and 2011/12. Tables 10 and 11 show average rates for each of these hotel markets, expressed in Indian rupees and US dollars, respectively. Tables 12 and 13 present the corresponding RevPAR data for each city.

Exhibit 7: Growth of Room Supply – India (2000/01 – 2016/17)



Source: HVS Research

City Trends

After having witnessed no new branded supply in 2009/10 and 2010/11, **Agra** witnessed a 21% increase in supply in 2011/12 compared to the previous year. Consequently, the city saw a decline in both occupancy (-6.1%) and average rate (-3.9%), leading to a decrease in overall RevPAR (-9.8%). We are currently tracking proposed supply of 650 rooms over the next few years, 80% of which is in the mid market segment and 20% in the luxury segment. Of the markets being tracked by us in the report, Agra remains one of the few cities that are yet to witness any development of budget hotels.

Table 9: Key Operating Characteristics Across Major Cities – 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	2010/11	2011/12	12-Month* Change	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%	55.9%	60.2%	56.5%	-6.1%	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%	58.2%	54.3%	59.8%	10.1%	0.4%
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%	53.2%	58.4%	56.8%	-2.7%	-1.4%
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%	62.1%	67.2%	66.7%	-0.7%	-1.5%
Delhi^a	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%	68.3%	68.7%	61.9%	-9.9%	-4.8%
Gurgaon															66.0%	66.5%	64.2%	-3.5%	-1.4%
NOIDA															74.0%	80.7%	62.7%	-22.3%	-8.0%
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%	65.1%	67.7%	68.1%	0.6%	0.6%
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%	53.3%	57.1%	54.2%	-5.1%	-0.4%
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%	57.3%	57.7%	55.7%	-3.5%	0.4%
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%	68.3%	71.4%	4.5%	0.7%
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%	62.5%	62.4%	63.8%	2.2%	-1.5%
Pune								71.0%	68.9%	86.4%	83.1%	83.4%	69.5%	62.2%	50.9%	46.7%	50.6%	8.4%	-3.7%

* Change in 2011/12 expressed as percentage of the figure for 2010/11

a - Delhi NCR data (Shaded Portion) from 1995/96 to 2008/09, Delhi (excluding Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2011/12

Source: HVS Research

Table 10: Key Operating Characteristics Across Major Cities – Average Rate (₹)

	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	2010/11	2011/12	12-Month* Change	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	5,773	6,243	5,998	-3.9%	8.6%
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	4,540	4,285	4,057	-5.3%	4.1%
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	6,597	6,776	6,400	-5.5%	6.6%
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	5,710	5,632	5,551	-1.4%	4.4%
Delhi^a	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	8,834	8,634	8,293	-3.9%	-3.1%
Gurgaon															8,247	7,554	7,438	-1.5%	-5.0%
NOIDA															7,496	7,752	7,035	-9.2%	-3.1%
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	5,613	6,056	6,598	8.9%	7.0%
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	5,146	5,173	4,954	-4.2%	7.8%
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	4,539	4,718	4,675	-0.9%	7.3%
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	6,087	6,408	6,281	-2.0%	4.5%
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	8,428	8,194	7,988	-2.5%	2.8%
Pune								2,603	2,805	3,521	4,915	6,523	7,946	7,493	5,810	4,949	4,388	-11.3%	6.0%

* Change in 2011/12 expressed as percentage of the figure for 2010/11

a - Delhi NCR data (Shaded Portion) from 1995/96 to 2008/09, Delhi (excluding Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2011/12

Source: HVS Research

Table 11: Key Operating Characteristics Across Major Cities – Average Rate (US\$)

	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	2010/11	2011/12	12-Month* Change	Compounded Growth
Agra	49	52	56	50	38	35	39	41	53	67	81	108	131	116	121	137	125	-8.7%	6.0%
Ahmedabad	66	76	50	53	62	61	50	45	52	62	70	81	108	104	95	94	85	-10.0%	1.6%
Bengaluru	71	89	95	81	70	80	79	78	105	166	197	239	244	207	138	149	133	-10.3%	4.0%
Chennai	86	100	110	89	79	85	75	67	72	83	98	123	158	145	120	124	116	-6.3%	1.9%
Delhi^a	94	113	135	111	95	101	92	85	93	114	155	211	259	214	185	189	173	-8.7%	3.9%
Gurgaon															173	166	155	-6.4%	-5.3%
NOIDA															157	170	147	-13.8%	-3.4%
Goa	69	66	63	73	63	65	57	57	67	89	108	133	155	137	118	133	138	3.5%	4.4%
Hyderabad	46	45	45	39	43	52	51	53	60	84	109	137	156	137	108	114	103	-9.0%	5.2%
Jaipur	47	52	68	62	45	65	62	57	65	77	99	121	141	130	95	104	97	-5.8%	4.7%
Kolkata	96	100	109	88	82	82	72	61	66	72	87	121	163	146	128	141	131	-6.9%	2.0%
Mumbai	159	176	170	138	130	124	104	87	95	107	136	200	272	233	177	180	167	-7.4%	0.3%
Pune								54	61	78	110	150	197	163	122	109	91	-15.8%	6.0%
Exchange Rate	32.4	35.4	36.3	42.2	43.5	44.9	47.2	48.2	46.0	44.9	44.5	43.6	40.2	45.9	47.7	45.6	48.0		

* Change in 2011/12 expressed as percentage of the figure for 2010/11

a - Delhi NCR data (Shaded Portion) from 1995/96 to 2008/09, Delhi (excluding Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2011/12

Source: HVS Research

Table 12: Key Operating Characteristics Across Major Cities – RevPAR (₹)

	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	2010/11	2011/12	12-Month* Change	Compounded Growth
Agra	758	944	934	884	657	674	620	600	1,216	1,720	2,028	2,777	3,068	2,790	3,227	3,758	3,389	-9.8%	9.8%
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	2,642	2,327	2,426	4.3%	4.6%
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	3,509	3,957	3,635	-8.1%	5.1%
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	3,546	3,785	3,703	-2.2%	2.9%
Delhi^a	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	6,034	5,932	5,133	-13.5%	-7.8%
Gurgaon															5,443	5,023	4,775	-4.9%	-6.3%
NOIDA															5,547	6,256	4,411	-29.5%	-10.8%
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	3,654	4,100	4,493	9.6%	7.7%
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	2,743	2,954	2,885	-9.1%	7.3%
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	2,601	2,722	2,604	-4.3%	7.7%
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	4,108	4,377	4,485	2.5%	5.2%
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	5,268	5,113	5,096	-0.3%	1.3%
Pune								1,848	1,933	3,042	4,084	5,440	5,522	4,661	2,957	2,311	2,220	-3.9%	2.1%

* Change in 2011/12 expressed as percentage of the figure for 2010/11

a - Delhi NCR data (Shaded Portion) from 1995/96 to 2008/09, Delhi (excluding Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2011/12

Source: HVS Research

Table 13: Key Operating Characteristics Across Major Cities – RevPAR (US\$)

	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	2010/11	2011/12	12-Month* Change	Compounded Growth
Agra	23	27	26	23	15	15	13	13	27	38	45	64	76	61	68	82	71	-14.3%	7.2%
Ahmedabad	37	50	36	31	31	34	27	24	33	42	48	55	79	64	55	51	51	-0.9%	2.0%
Bengaluru	51	60	58	48	45	56	51	56	82	135	151	173	160	113	74	87	76	-12.7%	2.6%
Chennai	73	80	75	58	52	55	42	39	48	61	77	92	115	91	74	83	77	-7.0%	0.4%
Delhi^a	67	76	81	60	50	59	49	51	68	90	125	162	192	144	126	130	107	-17.8%	2.9%
Gurgaon															114	110	100	-9.7%	-6.6%
NOIDA															116	137	92	-33.0%	-11.1%
Goa	43	39	37	43	34	39	31	34	40	56	73	97	112	84	77	90	94	4.1%	5.0%
Hyderabad	27	25	24	26	26	36	35	37	46	66	89	99	102	76	58	65	56	-13.6%	4.7%
Jaipur	25	30	35	28	21	36	30	26	38	52	65	79	91	70	55	60	54	-9.1%	5.1%
Kolkata	61	56	67	51	45	52	48	40	41	50	66	91	121	101	86	96	94	-2.6%	2.7%
Mumbai	129	128	111	93	84	80	54	55	66	77	104	156	203	141	110	112	106	-5.3%	-1.2%
Pune								38	42	67	91	125	137	101	62	51	46	-8.7%	2.1%
Exchange Rate	32.4	35.4	36.3	42.2	43.5	44.9	47.2	48.2	46.0	44.9	44.5	43.6	40.2	45.9	47.7	45.6	48.0		

* Change in 2011/12 expressed as percentage of the figure for 2010/11

a - Delhi NCR data (Shaded Portion) from 1995/96 to 2008/09, Delhi (excluding Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2011/12

Source: HVS Research

Unlike Jaipur, its sister-city in the Golden Triangle itinerary, Agra has been unable to establish itself as a MICE destination and obtains demand primarily from the Group Leisure and Individual Leisure (Foreign and Domestic) segments. Growth in the MICE segment has been minimal mainly due to the lack of infrastructure development and limited connectivity to Delhi NCR. However, the recent opening of the six-lane, 165-kilometre long Yamuna Expressway that connects Greater NOIDA to Agra has halved travel time from four hours to approximately two hours. Thus, we anticipate Agra to witness significant growth in demand especially in the MICE and Individual Leisure (Domestic) segments. HVS believes that although demand will continue to grow, the impending supply pressures are likely to keep average rates fairly muted in the next few years.

Ahmedabad witnessed the highest increase in occupancy (10.1%) amongst the cities tracked in the survey despite an 11% increase in supply, which is indicative of the strong increase in demand. Marketwide average rate, however, declined by 5.3%, resulting in RevPAR growth of 4.3%. Demand in Ahmedabad is driven primarily by the commercial segment and largely depends on the project-related business emanating from industrial clusters located along the periphery of the city in Naroda, Vatwa, Changodar, Odhav, Aslali and Sanand, in addition to demand generated from the traditional CBD areas of Ashram Road and CG Road. In the past few years, owing to hectic development in the commercial sector, Sarkhej Gandhinagar Highway is slowly developing into an alternate CBD. Despite several delays, construction is also underway at Gujarat International Finance Tec-city (GIFT). Additionally, the much talked about Sabarmati Riverfront project was completed earlier this year and is expected to add a leisure element to an otherwise business oriented city.

We are currently tracking a proposed supply of 2,550 rooms with only 69% of this supply expected to come online in the next five years. Nearly 50% of the 2,550 rooms is expected in the luxury and upscale space, which in our opinion will help in uplifting the image of the city, as currently Ahmedabad supports only one upscale hotel. Also, the meeting spaces planned within these hotels will help attract MICE

demand as the city has huge potential for the same given the large presence of the pharmaceutical sector in Ahmedabad. With the base inventory expected to more than double in the next few years, we believe hotels in the city will see occupancy pressures. Moreover, we project average rates for the overall Ahmedabad market to decline in the short term as hotels will focus on occupancy levels in a more competitive marketplace.

Bengaluru's hotel market relies heavily on the IT and ITeS sector with a high foreign to domestic guest ratio, making it more vulnerable to global economic changes than most other cities in the country. This exposure to the international markets was one of the primary reasons why the city's hotels witnessed an overall drop of 8.1% in RevPAR in 2011/12. Additionally, a 30% increase in the number of hotel rooms in a single year augmented the pressure on average rates, resulting in most hotels adopting a volume-driven strategy. The distinct micromarkets of the city behaved differently, with the CBD that has the highest concentration of luxury and upscale hotels witnessing the maximum drop in average rates while still maintaining stable occupancies as compared to the previous year. Whitefield and Electronic City, on the other hand, recorded marginal increases in average rates owing to limited new supply entering these markets. 2011/12 also saw two new micromarkets being formed in Bengaluru – the ORR-Sarjapur stretch to the southeast and Yeshwantpur to the northwest of the city centre – increasing pressures on the average rate across the city with the commercial business traveller having more accommodation options to choose from.

Contrary to the common phenomenon of budget and mid market hotels recording higher occupancies than hotels with a higher positioning, Bengaluru continues to witness luxury and upscale hotels performing better on this parameter than the rest of the market owing to the latter facing stiff competition from the parallel unbranded hotel market in the city.

Ranking third in terms of existing supply, Bengaluru is anticipated to witness the highest number of new rooms entering the market over the short-to-medium term (9,716 of which 71% is under active development), a reflection of the continued investor confidence in the city. Bengaluru's

hotel market is expected to become more competitive with around 2,400 new rooms entering the market over the next couple of years, and we expect hotels to focus more on occupancy than average rates across all micromarkets of the city in the short-to-medium term. However, with nearly half of the new supply having an upscale/luxury positioning, we anticipate the marketwide average rates to witness an increase in the long term. There is an increased focus on the MICE segment with it contributing over 20% of the rooms business for most of the newer hotels that opened in the last one year. However, the city still lacks a world-class convention centre, restricting its ability to tap into this lucrative segment.

In 2011/12, **Chennai** witnessed marginal declines in both occupancy and average rates over the previous year, primarily due to the entrance of new supply in the market. In 2012/13, we expect further pressure on occupancy and rates as more than 1,000 new rooms get added to the market, including luxury properties such as the ITC Grand Chola, The Leela Palace and the Park Hyatt.

The micromarket of Old Mahabalipuram Road (OMR) is also expected to experience a drop in occupancy as city hotels and the new properties opening in Guindy actively compete for demand from this area. OMR is expected to witness a large influx of new supply in the next five years; approximately 2,000 rooms have been announced, and 50% of them are actively under development. The micromarkets of Sriperumbudur and Oragadam, where several automobile and manufacturing units are located, continue to present opportunities for hotel development, especially in the budget and mid market segments.

Chennai is expected to witness continued growth in demand from the IT/ITeS, Automobile, and Manufacturing sectors, and the more traditional finance and government sectors. We expect the new iconic properties with large meeting spaces to attract large conferences and events into the city and help in marketing Chennai as a MICE destination. The new international and domestic airport terminals in Chennai are also expected to become operational this year, with the combined capacity of the two terminals increasing to 23 mppa from 12 mppa. We therefore also expect growth in the Airline segment in the city.

Delhi (excluding Gurgaon, Noida and Greater Noida), the second largest hotel market in India after Mumbai, saw a compounded increase in supply of 15% over the past three years. In the same period, supply pressure and the overall state of the economy caused RevPar to decline by a compounded rate of roundly 8%. HVS is currently tracking 5,626 proposed rooms which is an increase of 53% in supply. However, we expect only 87% (4,901 rooms) of them to be developed over the next five years. A majority of this supply is in the Upscale and Mid-Market segment and is concentrated around the DIAL Aero city area which consists of 15 hotels that are either under construction or in advance planning stages. In the short term, Delhi continues to be a strong market and the phased introduction of the DIAL hotels from late 2012 to 2016 is likely to further induce demand for the city. Despite moderate supply pressures in the next few years, Delhi remains a strong market for hotels. Furthermore, the high costs and scarcity of land bodes well for Delhi as it continues to position the city as a high barrier to entry market.

Gurgaon, which forms an integral part of the NCR, is amongst the top performing hotel markets in the country with an existing supply of approximately 3,800 hotel rooms as of 2011/12. The area has seen the addition of approximately 40 million ft² of office space between 2002/03 and 2011/12 and is expected to see a further addition of a near similar quantum over the next 10 years. The city saw the addition of approximately 1,100 rooms in 2010/11 and a further 550 rooms in 2011/12. In spite of these large changes in supply, marketwide occupancy grew by half a percentage point in 2010/11 followed by a marginal dip of approximately two percentage points in 2011/12. Average rates, however, saw some correction during these periods primarily on account of a large portion of the new supply being in the mid market and budget segments of hotels, which negatively impacted marketwide average rates. These drops in occupancy and rate however should not be looked at negatively, but instead as a step towards stabilised growth. Almost 60% of the existing supply in the market belongs to the mid market and budget category of hotels which is bound to bring the overall average rates of the city down.

Going forward, a supply pipeline of approximately 5,800 rooms is planned for development in Gurgaon with only 55% of these under active development. These increases in supply is expected to result in declines in both occupancy and average rates. However, in the medium-to-long term with the continuous large-scale commercial development in the city, hotel performances are expected to be fairly stable.

NOIDA (including Greater NOIDA) recorded the sharpest decline in RevPAR (-29.5%) in 2011/12 primarily due to a significant increase in supply (50%) over that in 2010/11. NOIDA has traditionally supported a very small branded hotel base with the average inventory size ranging from 50-100 rooms. In the case of Greater NOIDA, branded hospitality development is a relatively recent phenomenon as the city only witnessed the entry of branded hotels for the inaugural Formula 1 motor race held at the Buddh International Circuit last year.

NOIDA and Greater NOIDA have steadily grown over the past decade to become hubs of industrial activity. Improvements in infrastructure such as the expansion of roads, development of the six-lane expressway connecting NOIDA with Greater NOIDA, the addition of a power sub-station near the NOIDA Special Economic Zone (NSEZ) and construction of several new housing projects has made the area attractive for investment. Additionally, the recently opened Yamuna Expressway project that connects Greater NOIDA to Agra is expected to boost vehicular movement from Delhi NCR to Greater NOIDA and onward to Agra. Going forth, HVS is tracking a staggering growth of 1,048% in supply with an addition of 5,522 new rooms. However, we expect only 37% (2,053 rooms) of these projects to be built over the next five years. HVS is of the opinion that as new hotels enter the market, NOIDA and Greater NOIDA will evolve into individual micromarkets.

In NOIDA, we anticipate the hotel market to face average rate pressure from new hotels expected to open in the East Delhi and Ghaziabad areas. Hotels in Greater NOIDA are anticipated to focus on shoring up occupancy in the short-to-medium term.

Goa is the only major hotel market in the country that witnessed a year-on-year growth in both average rate and occupancy

in 2011/12. The marginal growth in marketwide occupancy in spite of the recent opening of the Grand Hyatt is indicative of the market's ability to absorb quality branded hotels with relative ease. A near 9% growth in marketwide average rate is a result of a steady growth in room night demand. However, future growth will be influenced by improvements in transportation links, with Goa still awaiting clarity on the upgradation of the Dabolim Airport as well as the development of the proposed Mopa Airport in the Pernem district.

Additionally, the state continues to have high barriers to entry and seeking the relevant approvals and permissions to construct a hotel coupled with the CRZ regulations (some of which are likely to see improvements in the near future) make it difficult for developers to open properties across the shores of Goa.

As stated in previous HVS publications, Goa's lack of clarity regarding land-use norms continues to limit the proposed supply entering the state. Of the 2,422 rooms that are proposed to enter the market, only about 53% are under active development. Almost all of the proposed supply will be centred around the Candolim-Vagator belt of North Goa. Overall, our future outlook for Goa continues to remain positive. We expect the hotel market to successfully absorb the proposed supply and continue to sustain marketwide occupancies in the late 60s to early 70s in the short-to-medium term. Average rates are expected to continue witnessing a steady and sustainable increase in the short-to-medium term as well.

Hyderabad has witnessed a sharp decline in RevPAR over the past five years with a compounded decrease of 10.2%. Supply pressure has kept occupancies and average rates suppressed and the ongoing political disorder clubbed with a slowing global and national economy has further impacted the performance of hotels in the city. Although existing companies have resumed business with a moderate pickup in demand of 3%, new companies and investments are reluctant to consider Hyderabad given the current political uncertainty associated with the city.

Though the immediate outlook for Hyderabad may seem bleak with supply

outpacing demand, the city has proved to be fairly resilient by absorbing a 17% compounded increase in supply over the past five years resulting in a 10.2% compounded drop in RevPAR for the same period.

Hyderabad is scheduled to host one of the biggest international events to be held in India; the International Bio-Diversity Conference in October 2012. The conference is likely to attract 8,000 international delegates, which is a first for the city. The establishing of India's first conventions bureau last year, the Hyderabad Convention Visitors Bureau, is further expected to enhance meeting and conferencing demand for the city in the long-run.

We are currently tracking proposed supply of 5,265 rooms over the next five years with about 74% under active development. A majority of the proposed supply (63.5%) is expected in the upscale and mid market segments. HVS believes that although demand will continue to grow, the impending supply pressures are likely to keep the occupancy and average rates fairly muted in the short-run.

Jaipur continues to be one of the premier leisure destinations in the country given its rich historic flavour, vibrant culture and the marketing efforts of local and international travel trade companies as one of the three key destinations on the famous Golden Triangle itinerary together with Delhi and Agra. In recent times, the city has also become a key MICE destination catering to large incentive tours, corporate residential meetings and weddings. The competitive rates the Jaipur hotel market is able to offer, coupled with the fact that the city also offers an opportunity to use an extra day for leisure activities for corporate groups, serves as an important selling tool. Additionally, the wedding market in the city, which has always been a large contributor to hotel revenues, is also expected to see growth with the concept of destination weddings gaining immense popularity. Jaipur as a city is able to offer the historic splendour and setting making it ideal for grand Indian weddings.

The city witnessed a 3.5% drop in occupancy in 2011/12 over that of the previous year as well as a marginal decline in marketwide average rates. 2011/12 also witnessed the introduction of

approximately 500 new hotels rooms compared to an increase of nearly 82 rooms in the previous year resulting in both occupancy and average rate pressures across the market.

Going forward, approximately 1,000 more hotel rooms are expected to enter the market in 2012 and 2013 making further occupancy and average rate pressures imminent in the short term. In the long term, an additional 2,300 rooms are proposed for development in Jaipur, of which approximately 50% is in the upscale segment. HVS is of the opinion that while the city is seeing almost a doubling of its supply over the next few years, Jaipur will need more mid market and budget accommodation to balance the development of hotels in the upscale space. Development of hotels in the mid market and budget space would also yield better returns for owners and operators, and further strengthen the market by providing accommodation at a competitive price point.

Kolkata is one of the few cities that has witnessed an increase in RevPAR (2.5%) in 2011/12. This is primarily due to minimal new supply (199 rooms) entering the market and increasing demand from developing areas such as Rajarhat, Kolkata's new commercial and industrial district. Historically, business activity was concentrated in the central business district (CBD) of Chowringhee, Esplanade, Dalhousie and Park Street where a large number of PSUs and corporate offices of older companies still exist. However, the past few years have seen rapid development along the city's eastern periphery in areas such as Salt Lake and Rajarhat.

We are currently tracking 3,118 rooms that are proposed for development with 74% of them under active development. Like most other cities, the proposed supply is primarily in the upscale and mid market segments; however, Kolkata is the only mini-metropolitan city that is yet to witness any development of branded budget or extended stay hotels. The extensive development pipeline in New Town, Rajarhat and the eastern part of Kolkata, coupled with its distance from CBD and proximity to the airport, is expected to lead to the creation of a distinct micromarket that will generate its own room night demand and be self-sustaining, going

forward. This new micromarket is expected to put pressure on the existing CBD hotels to sustain their current operating performance and tap other business opportunities.

Overall, our outlook for Kolkata remains positive as we anticipate the city's hotel market to maintain its occupancy level and witness marginal decline in average rates owing to new supply impact in the short-to-medium term.

Mumbai (including Navi Mumbai) witnessed a 2.2% growth in occupancy in 2011/12 over that of the previous year and a 2.5% dip in average rates during the same period. The city also witnessed a 7% (approximately 750 rooms) increase in hotel room supply which was much slower than the 14% growth it witnessed in 2010/11.

The South and Central Mumbai micromarkets have probably been most affected in 2011/12 by a drop in demand with several offices shifting base to the new North Mumbai business districts in Bandra Kurla Complex (BKC), Andheri-Kurla, Malad, Powai and Vikhroli. Lower commercial rentals, state-of-the-art office facilities, the area's proximity to the airport, and the extended travel time from North to South Mumbai have been some of the main reasons for this shift. Further, occupancy and average rate pressures are expected in 2012/13 as well.

The displaced demand from South Mumbai has positively impacted North Mumbai hotels. Almost all hotels in this micromarket have shown stable to marginal growths in occupancy. A majority of the new supply to enter Mumbai in 2011/12 was in the North Mumbai area. Coupled with the additions to supply in 2010/11, the area has witnessed some rate pressures as a result of these new hotels trying to increase their overall market share. Going forward, with supply growth in the short term anticipated to be slower than the previous years, we expect occupancy levels to rise with average rates still coming under pressure as new hotels in the market try to reach a stable level of performance.

The Navi Mumbai micromarket is still largely dependent on unbranded hotels, which continue to form a bulk of the hotel supply in the area. The total number of branded rooms in 2011/12 stood at 562

with another 389 rooms expected to be added in 2012/13. Future supply growth remains slow paced with a lot hinging on the development of the new international airport at Panvel, which has already witnessed several delays and is yet to commence construction. Going forward, with a major portion of the new supply already operational in 2012/13, there is likely to be occupancy and rate pressures in this micromarket in the short term. However, with only limited new supply expected in the medium-to-long term, we expect hotel performances to steadily improve in the future.

Pune saw the second-highest growth in occupancy (8.4%) following Ahmedabad, a first since 2006/07. In the last five years (2007/08-2011/12), the city's hotel supply has witnessed a steep growth of over 320% leading to a decline in occupancy in each year. In 2011/12, growth in demand outpaced supply resulting in the upward movement of occupancy.

Growth was primarily led by the MICE segment as Pune established itself as an alternate location to Mumbai for hosting large-scale events in the western region of the country. However, as hotels focused on building their occupancies, the average rates recorded the highest decline (-11.3%) among all the markets tracked by us in this survey. Despite the declining average rates, HVS believes that the increase in occupancy signals that Pune has left its worst behind and is now clearly on its path to recovery.

Going forth, we are tracking new supply of 4,645 rooms with only 69% under active development. Over 60% of the proposed supply is planned in the mid market and budget segments especially in the industrial pockets of Chakan, Pimpri and Talegaon that are located along the periphery of Pune. As the growth in supply moderates, we expect occupancy levels to continue to improve. With respect to average rates, we anticipate that the CBD hotels will be able to maintain their rates whereas hotels located in the peripheral locations such as Nagar Road, Hinjewadi and Pimpri will witness a decline due to pressure from oversupply of rooms in the short term.

Future Trends

Our analysis of hotel performance data for the past 17 years reveals that except for 2008/09, we have not seen room night demand decline in the country, and any declines in occupancy levels have been a result of supply increasing faster than demand. It is therefore very important to track future supply when projecting future performance for any market. Our current analysis reveals that unlike previous cycles where significant number of hotel rooms entered the markets in very short periods of time, future supply is now more evenly spread out and should have a less detrimental impact on marketwide occupancy levels.

Another trend that we have observed and that will become more relevant in the future is the nature of capital that is now flowing into the Indian hospitality industry. Historically, while a majority of hotel development was funded either by high net-worth individuals or real estate firms, we are now increasingly seeing institutional players invest in the hospitality space, especially in the budget and mid market space. Investment by such players brings with it a disciplined approach to the process, with any investment based on thorough market research and due diligence, generally ensuring that unfeasible projects are not developed on a whim and that new supply is not added to markets indiscriminately. Such an approach will ensure that any development is purely based on Return On Investment (ROI) instead of Return On Ego (ROE) and also inspire confidence amongst lenders and other stakeholders.

While institutional investors are very focused on maximising operational margins, they are just as committed to development costs of the hotels they build. As part of their drive to reduce input costs, investors are questioning the brand standards dictated by hotel companies and the relevance or requirements for some of them. As the industry matures and hotel investors continue to become more knowledgeable and savvy, it is our opinion that hotel brands can no longer simply mandate such requirements, unless they can prove to owners that the additional costs incurred will lead to greater returns. As our industry heads towards critical mass, we believe that hotels will now have to be designed to meet the actual

requirements of guests and not be based solely on a brand's wish list.

For the past couple of years, we have been highlighting the changing nature of ownership in the hospitality industry and predicting a new phase where more hotels are bought and sold in the marketplace. Since our last Trends & Opportunities report, we have seen several transactions in our sector and we expect to see more of them in the future. It is our opinion that the industry is heading into a consolidation phase that will play itself out over the next 12-24 months. Investments made by institutional parties in 2006-2008 in hotel companies are also approaching the end of their investment horizon and will lead to some transaction activity over the next 12 months.

Opportunities

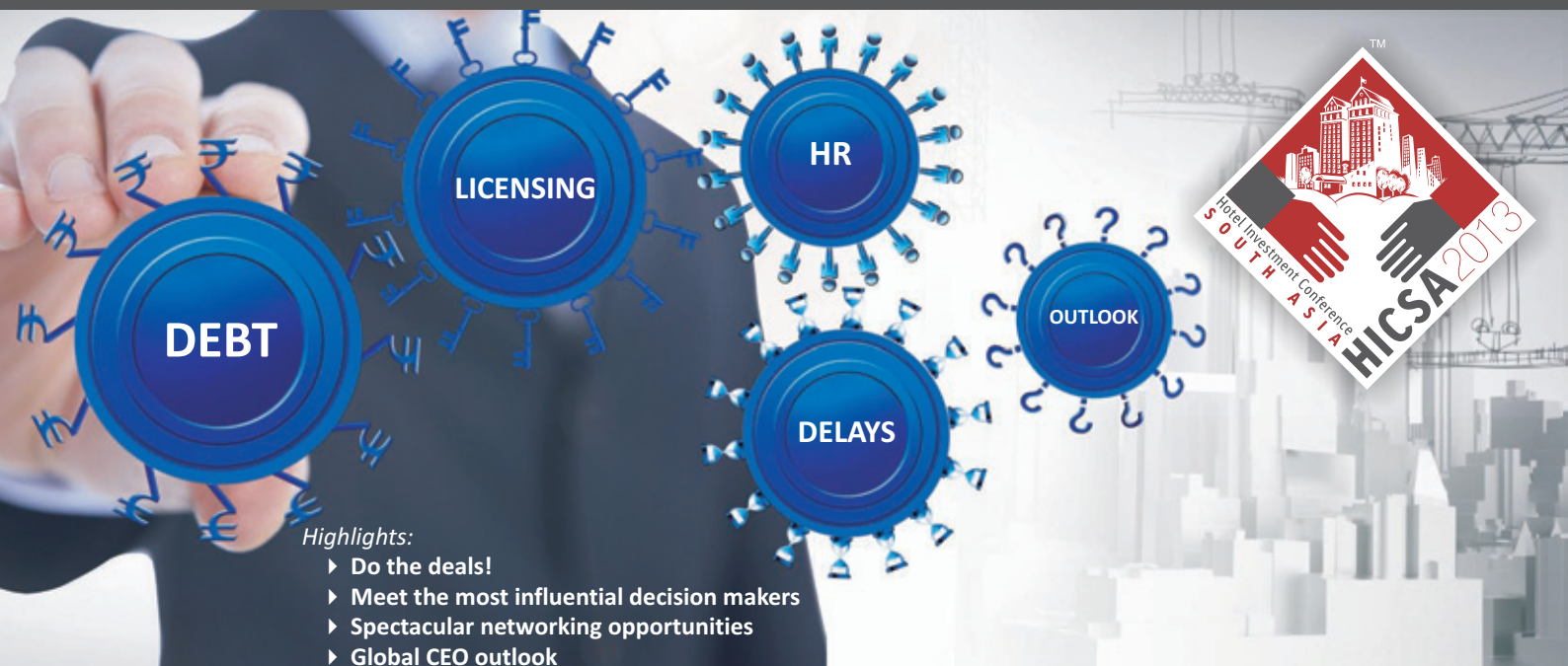
We continue to believe that there are significant opportunities across hotel positionings in the MICE segment. While they wait for the development of full-fledged convention centres across various cities, hotel developers are increasingly taking matters into their own hands and building hotels with extensive meeting and conference facilities. The ITC Grand Chola in Chennai and the Sheraton and Vivanta by Taj in Bengaluru are some examples of this phenomenon. We believe that there is need for meeting and conferencing facilities across Tier 1 and Tier 2 cities and investors should look into the potential of this segment in their respective markets and capitalise on the opportunity.

Environmental sustainability in hotels has quickly transformed from an optional philanthropic activity to one that bears close scrutiny in order to control spiraling operational costs. Where utility costs stand at 7-9% of a hotel's operational expenses, this number is getting bigger given the increasing demand of electricity from power plants and rapidly declining water availability, especially in India. An investment in environmental sustainability is returned several times over in terms of instantaneously reduced operational costs, stable utility rates, and guaranteed availability of resources in the upcoming years. A 10-20% reduction in energy consumption can be readily achieved through no-cost and low-cost measures, and can amount to a hefty 2-4% of the hotel's GOP margin.

An interesting development is currently unfolding for Indian tourist destinations. According to our research and discussion with some of the larger tour operators, HVS is aware that there is a buyer-pressure for India, which is building. With the recent troubles in the Middle East, countries like Egypt, Syria, Lebanon and Jordan that used to attract a fair number of western tourists and also Russians tour groups, are no longer seen as safe destinations for tourism. Thus, these large tour operators are looking for alternate destinations and India possibly could be a beneficiary but for its lack of adequate tourism infrastructure. The basic problem is that hot spots like Goa simply do not have enough capacity to absorb these tourists, as we are talking about a few million tourists that need to be accommodated in a single season. While this may be a temporary phase there is an opportunity to convert this demand into a stable source of business for hotels and make it a long term trend.

Unfortunately, another factor that goes against India is the high cost of air travel within the country on account of very high fuel costs which today account for 50% or more of the operating cost of airlines. In fact if there was one single factor that we believe can continue to adversely impact hotel occupancies in India it would be the high cost of air travel, which is forcing Indians to stop traveling within India and explore cheaper options outside of the country. Even business travel within India is down as airfares have gone up by nearly 100% in the past 12 months.

Traditionally, Goa has been the favourite hot spot for leisure tourism in India. However, a heartening development has been the emergence of Kashmir as a destination for local tourists. Two hotel chains – Vivanta by Taj and LaLiT have opened hotels here and they are both exceeding market expectations. We hope that in times to come, more people will consider developing hotel products in Kashmir as it has tremendous potential and will also help bring normalcy back to the region. In the south in Kerala, Bekal is becoming a new hot destination. Two new hotels, again Vivanta by Taj and the LaLiT, are providing a unique new holiday experience to guest travellers. We believe that developing good upscale hotels in new leisure locations is a growing trend and will help to expand tourism into India.



Highlights:

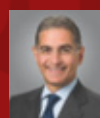
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