2014

HOTELS IN INDIA TRENDS & OPPORTUNITIES

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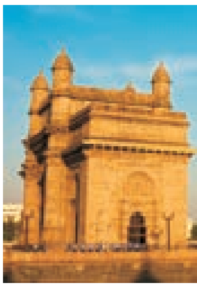

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"A bend in the road is not the end of the road...Unless you fail to make the turn."

– Helen Keller

Introduction

Change is inevitable, continuous and more often than not, required! As we publish this year's edition of the Trends & Opportunities report, it comes on the heels of a historic and monumental mandate that was awarded to the BJP-led National Democratic Alliance by the citizens of India in the recently concluded General Elections. In sharp contrast to last year's greatly subdued outlook for business, there is a general sense of hope, optimism and positivity today.

The Indian hospitality sector may also want to raise a toast to cheer the official count of branded/organised hotel rooms crossing the 100,000 mark this past year. While growth in supply did indeed outpace growth in demand across some markets, early signs of a recovery were equally evident across others. Overall, financial year 2013/14 saw a marginal improvement in nationwide occupancies, thus breaking a three-year downward trend.

We have often written about the inherent cyclical nature of the hospitality business. We have also highlighted the importance of allowing new hotels to live through their gestation years before stakeholders begin demanding performance and financial returns from their investment. It is imperative that both developers and lenders understand and appreciate the uniqueness of the hotel business, if they truly intend to reap benefits from it. In one of our recent publications (Hotels in India – The Story Behind the Numbers) we had detailed the last three cycles that were witnessed by the Indian Hotel sector and had also commented on the likelihood of the next cycle being round the corner. While the following report will provide a thorough analysis of the years gone by as well as an estimation of the years ahead, we thought it important to highlight that, in our view, **the tide is turning!**

The Trends & Opportunities report, based on the results of the Trends & Opportunities Survey conducted by HVS annually, depicts and analyses the key trends in the hotel performance of the country and presents HVS' outlook with special emphasis on 13 major Indian markets. The report also outlines existing and future opportunities in the hospitality industry of specific interest to investors, developers and hotel operators.

The survey participant base has registered a significant rise since 1995/96 from 120 hotels with 18,160 rooms to **a record 814 hotels with a room count of 99,301 in 2013/14**, an increase of an additional 97 hotels and approximately 13,180 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. Moreover, a larger sample set and availability of data for two historical years have led to the 2012/13 figures undergoing a minor change across all parameters.

Similar to previous editions of the Trends & Opportunities report, we have weighted the number of room nights to account for the new supply that was not operational for the entire fiscal in order to compute the overall occupancy and average rate. **The weighted room count for 2013/14 is 95,414, up from 82,512 for 2012/13.** Figure 1 illustrates survey participation for the fiscal years 1995/96 to 2013/14.

The Indian Economic Scenario – An Overview

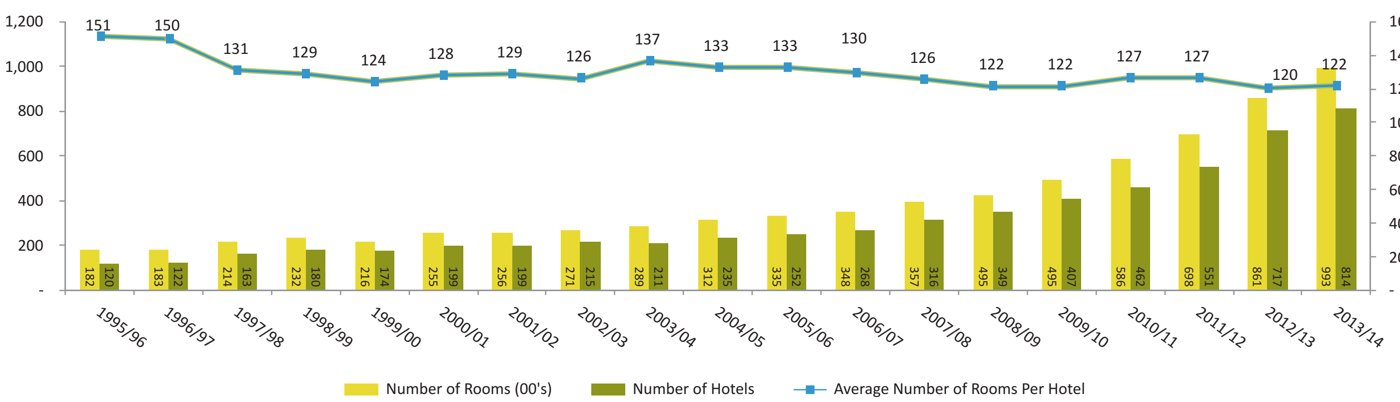
The much anticipated general elections in 2014 saw the National Democratic Alliance (NDA), led by the Bharatiya Janta Party (BJP), secure a convincing majority with 336 seats in the Lok Sabha (Lower House) out of a total of 543 elected seats. The Narendra Modi-led BJP itself secured 282 seats, propelled as they were by their development-centric agenda and a strong anti-incumbency factor against the erstwhile government. With a decisive majority, the new government is expected to focus on strengthening economic fundamentals through necessary policy formulations and amendments and set the platform for inclusive and sustainable growth. It is also expected to focus on creating affable diplomatic ties with neighbouring countries in Southeast Asia. That being said, the recent disconnection of bilateral talks with Pakistan coupled with the repeated cease-fire violations along the Indo-Pak border lead one to question the likelihood of a peaceful future with our neighbours.

The budget for 2014/15, which was announced on 10th July 2014, set the tone for economic expansion with emphasis on development of quality infrastructure and facilitation of entrepreneurship at the rural and urban levels. On the heels of a partial recovery of the global economy, the country recorded a Real GDP Growth of 4.7% in 2013/14, a minor increase over the previous fiscal. The Industrial sector recorded the least growth: 0.65% in 2013/14, lower than the previous year's 0.96% but also substantially lower than the 7.81% recorded in 2011/12. Agriculture, on the other hand, recorded 4.7% growth in 2013/14 – a significant increase over the previous fiscal. The Services sector grew at 7.0% in 2013/14, marginally higher than the 6.9% increase recorded in 2012/13.

India's current account deficit (CAD) narrowed to 1.7% of the GDP in 2013/14 from 4.7% in 2012/13, mainly a result of the contraction in imports, especially that of gold and other non-essential items. After having witnessed a partial decline in 2012/13, the fiscal deficit expanded to 5.2% of GDP in 2013/14 as compared to 4.8% in 2012/13. This was primarily due to expenditure growing at a faster pace than revenue.

The year 2013/14 also saw the rupee being more volatile, depicted in the exchange rate to the US dollar fluctuating significantly, especially between May (₹53.7/US$ on 2nd May 2013) and August (₹68.3/US$ on 28th August 2013), and averaging ₹60.7/US$ for the fiscal year. The rupee's volatility and decline in value has been ascribed to the supply-demand imbalance in the domestic foreign-exchange market on account of slowdown in foreign institutional investors (FII) inflows.

Figure 1: Survey Participation (1995/96 – 2013/14)



Source: HVS Research

Figure 2: GDP Growth, Inflation and Exchange Rate – An Eight-year Trend

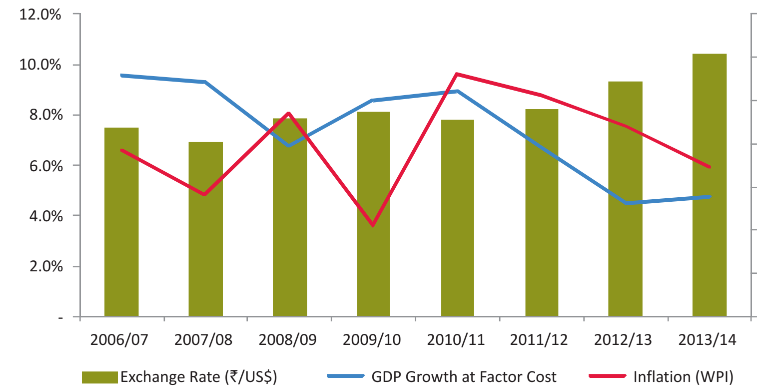


Figure 2 shows GDP Growth, Inflation and Exchange Rate from 2006/07 to 2013/14.

During 2013/14, FDI inflow declined by 31.8% over the previous fiscal, largely due to poor investor sentiment and political uncertainty at the time. Going forward, the Economic Survey of India forecasts India's GDP growth to be in the range of 5.4-5.9% in 2014/15 on account of an expected revival of the Industrial sector, a stabilised current account, steady capital inflows and an expected resurgence in growth from manufacturing. With the previous government having initiated a programme to revitalise some key infrastructure projects across the country and the new government also following suit, economic expansion is expected to maintain steady momentum in the medium-to-long term.

Tourism Overview

Since 2002, when India's National Tourism Policy was revamped, the country has witnessed sustained growth that has consistently outpaced the global tourism industry in terms of growth in the volume of international tourists as well as the overall growth in revenue. The main drivers of this increase have been the burgeoning Indian middle class, growth in high spending foreign tourists, and coordinated government tourism campaigns like “Incredible India”.

The United Nations World Tourism Organisation in its *Tourism Highlights 2014 Edition* reported that the total number of International Tourist Arrivals (ITA) worldwide grew by 5% in 2013, reaching a record 1,087 million arrivals, after topping the 1 billion mark in 2012. Within that, the Asia Pacific region recorded the strongest growth at 6% in 2013.

The total contribution of Travel and Tourism to India's GDP was 6.2% (₹6,631 billion) in 2013 and is projected to rise to 7.3% in 2014, according to the World Travel & Tourism Council's (WTTC's) *Economic Impact 2014 – India* report.

Domestic travel spends generated 80.7% of the direct Travel and Tourism GDP, with domestic tourist visits (1,145 million) registering an increase of close to 10% over 2012. 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 holidays, both within the country and overseas. Rising propensity to spend coupled with the increased proliferation of low-cost carriers has enabled increased domestic travel. The depreciation of the rupee against the US dollar has also made international travel less viable for domestic tourists, who are now substituting foreign vacations with domestic ones. This is evident with leisure destinations such as Agra, Jaipur, Goa, Kerala and Srinagar gaining strong momentum.

International Tourist Arrivals, on the other hand, were recorded at 6.9 million in 2013, an increase of 5.9% over the previous year. Foreign Exchange Earnings (FEE) in US$ also rose by 4.0% during the same period. The top three international source markets for India continued to be USA (15.6%) followed by UK (11.62%) and Bangladesh (7.53%)[1]. Stimuli such as the Tourist Visa on Arrival Scheme (VOA), which is expected to extend from 11 to 180 countries, and the relaxation of the mandatory 60-day gap between consecutive visits by foreign travellers to India, is anticipated to augment growth and bolster inbound travel in the near future.

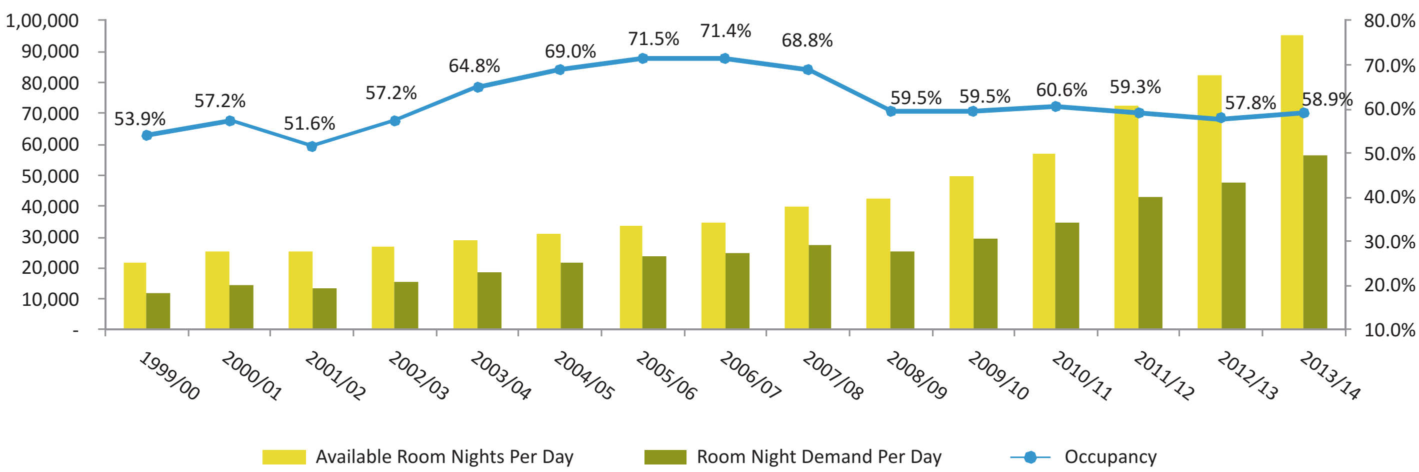
Additionally, the budget announcement regarding the initiation of the electronic travel authorisation (ETA) across nine international airports over the next six months is also a welcome step to generate further tourist activity across the country.

The Tide is Turning

As discussed in our 2013 publication, the four pillars of the hospitality business – Supply, Demand, Occupancy and Average Rate – are key indicators when assessing the past, present and future of any hotel market. On a nationwide basis, branded and/or organised supply grew at a CAGR of 17.8% over the past five years. Demand for these rooms grew at 17.6% for the same period. Resultantly, **India-wide occupancies moved from 59.3% in 2011/12 to 57.8% in 2012/13 and have closed at 58.9% in 2013/14. Average Room Rates, however, have gone from ₹6,032 to ₹5,773 and are now at ₹5,531 for the period of 1st April 2013 to 31st March 2014.** While occupancies have remained range-bound, average rates have declined for several years in a row. Figure 3 shows the nationwide supply and demand trends for a 15-year period.

Figures 4 and 5 present the performance of existing supply vs. the performance of new hotels that have opened over the past five years. HVS has been analysing this data now.

Figure 3: Room Night Demand Vs Available Room Nights (1999/2000 – 2013/14)



Source: HVS Research

[1] Market Research and Statistics Division, Ministry of Tourism, Government of India

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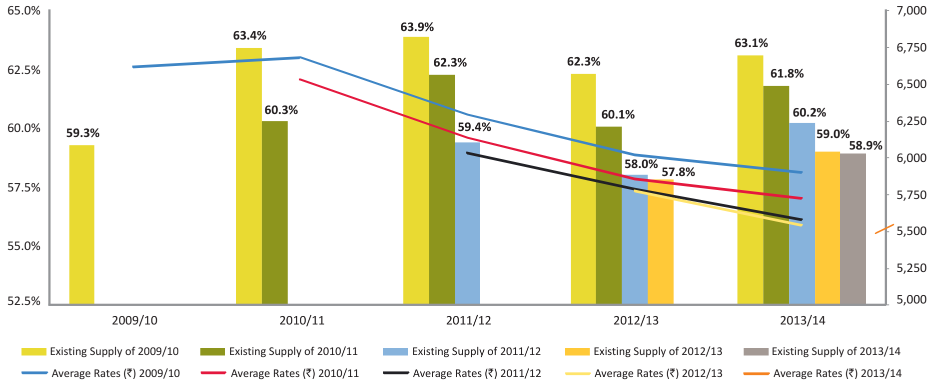
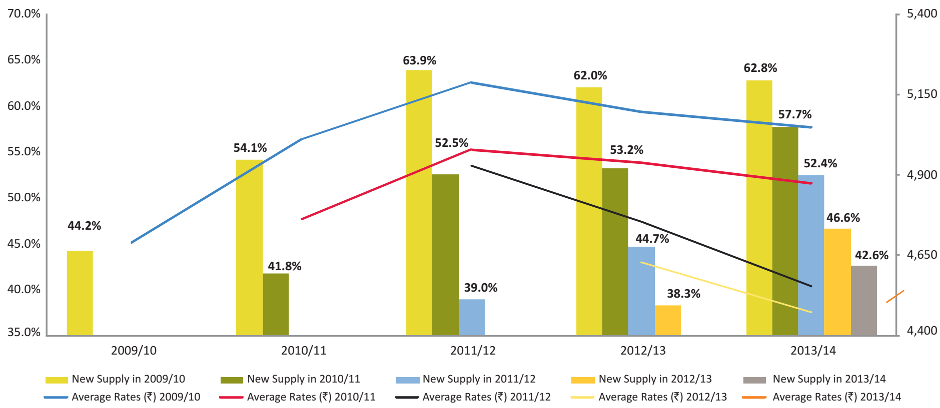
Figure 4: Performance of Existing Hotels (2009/10 – 2013/14)



Source: HVS Research

Figure 5: Performance of New Hotels (2009/10 – 2013/14)



Source: HVS Research

The trend continues to reflect the fact that existing hotels have grown (or at the very least sustained) their occupancies through the so-called down cycle over the past five years. When one studies a market's overall occupancy, it may seem like the numbers are declining; however, it is evident from Figure 4 that the decline is primarily a function of the new supply's lower initial-year occupancies that are in turn pulling down the marketwide average. When looked at independently, not only has existing supply proven its ability to retain and/or grow its occupancy numbers, even new supply continues to show a steady (albeit relatively paced) year on year growth in occupancies, as is visible in Figure 5. However, similar to last year, we continue to see declines in average room rates. While one may partially attribute this to markets having a larger pool of budget and midmarket hotels in their competitive set now, when we study the charts above it is clear that the advent of new supply is also causing existing hotels to cut their rates in a bid to retain business. This knee-jerk reaction is often a short-sighted approach to doing business and we discuss this in more detail in the following paragraphs.

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Back to the Future!

As we look to the future, one must first pay heed to political and economic developments in the last few months. The BJP-led NDA's historic victory has not only captured India's imagination but also reinvigorated overseas interest in India, and one is beginning to witness an overall positivity in the sentiments of people, businesses and nations at large. The Indian stock markets are at their lifetime peak and financial pundits are speculating a continued and sustained bull-run, this time possibly for the medium-to-long term. The recent union budget's approval of additional FDI in the defence and insurance sectors only adds to the already approved FDI limit increases to retail. The likelihood of significant amounts of foreign money pouring into our country is now strong. Stability at the centre is therefore very likely to catalyse overall growth in the Gross Domestic Product (GDP) over the next three-to-five years.

While average room rates have declined across various prominent markets lately, absolute demand in terms of "room nights per day" (RPD) continues to grow. Our research reveals that demand for organised rooms has grown at an average of 11.3% over the past decade. This time period witnessed an up-cycle from 2003 to mid 2008 and a down-cycle from late 2008 to 2013. However, year-on-year demand grew in the double-digits during both cycles. This in itself is testament to the inherent strength of the sector and its continuing potential to grow, even in the face of external adversities. We are of the view that demand is likely to continue growing in the double-digits for the next three-to-five years.

Supply, however, is now going to grow at a slower pace. **India had 103,855 branded/organised hotel rooms as of 31st March 2014. Supply – in the years going forward – is expected to grow by under 10% in 2014, about 12% in 2015 and approximately 11% in 2016.** Given these demand-supply dynamics, coupled with the likelihood of overall economic growth discussed above, HVS feels quite confident in predicting a strong and sustainable upswing in industry performance over the next three-to-five years. While certain markets may take longer than others to reap the benefits of this forecasted upside, overall, the sector should ready itself for the next up-cycle in the near future.

Riding the Wave

Riding a wave is not just about timing the turn of the tide. It is also about employing the most balanced approach for a sustained surf. It is therefore important that various stakeholders of the Indian hotel sector pay heed to the following thoughts. Some of these include correcting errors of the past, while others are new or innovative ways of doing business in an increasingly competitive business environment.

Hotel Operators

In our various conversations with General Managers, Directors of Sales & Marketing and Revenue heads of hotels across brands, we have repeatedly heard them worry about increasing competition and the inevitability of why average room rates just had to be "corrected" if they wanted to retain business. It is evident that hotels across positioning and price points have dropped rates in a bid to gain business over the last two-to-three years and "rate wars" have led to some surprising decisions being made by respectable and globally recognised brands.

While average room rates have declined across various prominent markets lately, absolute demand in terms of "room nights per day" (RPD) continues to grow. Our research reveals that demand for organised rooms has grown at an average of 11.3% over the past decade.

Like last year, we reiterate in this year's publication – India does NOT have a rate problem! If anything, we are often too afraid to charge a fair price for the product and service being offered, because the management feels that they will lose critical business unless they offer the lowest rate in town. As we look towards the advent of an up-cycle in the near future, HVS would like to strongly urge management companies – international and domestic alike – to look one step beyond. Focusing on value creation for your guests rather than simply offering the lowest room rate needs to be the strategy going forward. Today's customer is far more informed and educated about various hotel positioning and is therefore able to appreciate the differences that exist between a budget, midmarket and upscale brand. He or she is also both able and willing to pay what's fair for products offered and services rendered. Now that this maturity is coming about in the profile of guests, may we suggest that hotels be true to their positioning and target consumers with the confidence that they have the ability to appreciate their product and services.

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Additionally, please do not forget MICE! Both corporate and social consumption of hotels for events is on the rise. Hotels across positioning must pay heed to the additional revenue that the meetings and conferences segment can generate for their business. What you may have to give away in room rate could often be mitigated by way of increased F&B spends. Thirdly, domestic leisure is certainly growing and is willing to spend. Target them, encourage them and rely on them – more than you have in the past. Creating packages for the domestic consumer will help hotels across all positioning in today's India. Lastly, since earning customer loyalty is your goal, effective management of your loyalty programs will certainly help in value creation.

Implementing a combination of ideas discussed above will help you in creating value that today's well travelled, educated and discerning consumer will likely appreciate, and dropping average rates may not need to be your primary means of securing business.

Hotel Developers & Investors

Building when a market is in distress so that one may operate when the market picks up makes common sense. However, we are often surprised when developers and investors cite poor market conditions as their primary reason for not wanting to build hotels. If your intent is to build, then commencing work on your project now would be a good idea. It takes anywhere from three-to-five years to construct a hotel in India. **Figures 6 and 7 provide a snapshot of development costs per key and construction tenures for over 200 hotels that have opened in India over the past five years.**

Given the fact that the last three cycles lasted five to six years each, hotels that will start construction now will very likely open in the midst of the next up-cycle. The opportunity to open when market conditions allow for a quick ramp-up of occupancies can help a project in meeting debt service obligations in an effective fashion. Such projects also have a higher chance of breaking even more quickly as a result.

Similarly, if you are in the market to buy rather than build, negotiating deals when a market is in flux is always a better idea than trying to buy assets in a market that is on the up-swing. Given the fact that more than a few hotels across various positioning are available for transacting lately, buyers should look to acquire now. When the tide does turn, you will end up paying a premium for the same asset(s) that you may be able to negotiate for a fairly attractive value today.

Lenders

The hotel sector is either not understood or misunderstood by banks – public and private sector alike – in India. They have traditionally either extended loans based on their prior relationship with a borrower or because they have a mandate to lend a certain amount to a certain sector in a certain year. Of late, they have been shying away from lending to hotel developers because they fear the relatively poor performance of hotels that have not been able to service their debt obligations and have ended up as Non Performing Assets (NPA) in their books.

However, not many lending institutions have recognised the fact that the problem doesn't lie in the hotel sector. Instead, it was their approach to lending (as explained above) that was the primary reason for the situation they find themselves in today. Much like anything else, lending based on the fundamentals of the project, the conditions of the market it will operate in, the reputation of the developer and the viability of its cash flows to service debt should all be the yardsticks for lending. Additionally, rather than fearing the down-cycle, lenders must lend during this period, so that hotels may open by the time the up-cycle arrives.

> As we look towards the advent of an up-cycle in the near future, HVS would like to strongly urge management companies – international and domestic alike – to look one step beyond. Focusing on value creation for your guests rather than simply offering the lowest room rate needs to be the strategy going forward.

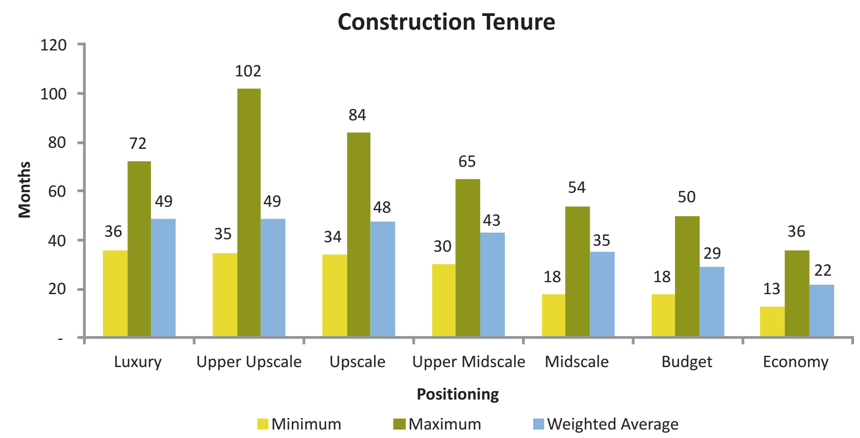
Lending to hotel developers, when done based on due diligence and based on feasibility analyses, is the right approach. Fearing the sector because one doesn't understand it is a folly.

In summary, the Indian hotel sector is very likely on the cusp of its next up-cycle! The demand for quality accommodation will continue to grow and while the inherent cyclical nature of the sector will bring about crests and troughs, the fundamentals of the sector are strong. **To conclude with the surfing analogy, the tide is indeed turning! The question is - are you geared up for an interesting surfing ride?**

Survey Results

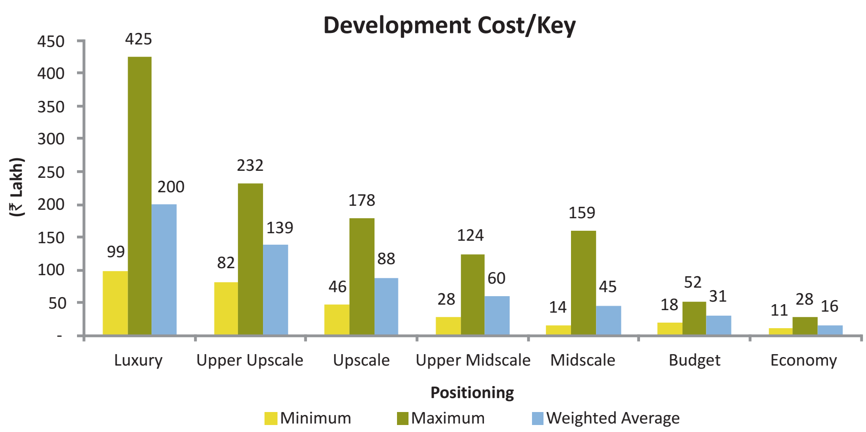
This report presents the results of the *HVS Survey* on the performance of mostly branded hotels, analysed by each star grading, as well as major cities. Moreover, for each city we have presented the new supply, its market orientation and estimated the number of rooms under construction along with the probability of their development over a period of five years.

Figure 6: Construction Tenure (2009/10 – 2013/14)



Source: HVS Research

Figure 7: Development Cost/Key (2009/10 – 2013/14)



Source: HVS Research

Industry Performance According to Star Category

In 2013/14, the overall weighted occupancy across categories (58.9%) increased by 1.9% over 2012/13; however, average rate (₹5,531) dropped by 4.3% over the previous year resulting in a decline in RevPAR by 2.5% to ₹3,260 in the same time period.

Moreover, hotels across all categories witnessed a year-on-year increase in weighted occupancy, except for the four-star segment, which registered a marginal decline of 0.1%. On the other hand, weighted average rate across all categories exhibited a decline apart from the two-star segment, which grew by 7.7%.

Consequently, the nationwide RevPAR decreased in 2013/14 with the four-star segment registering the maximum decline (5.9%), followed by the five-star deluxe segment (1.7%) and three-star segment (1.5%). This downswing could be attributed to these three categories adding close to 65% of the new supply in 2013/14. After registering a drop of approximately 2% in 2012/13 over 2011/12, the two-star category registered the highest RevPAR growth in 2013/14 (12.7% over the previous year), owing to roundly 8% annual increase in average rates, highlighting the acceptance of branded economy and budget hotels across the country.

Figure 8 illustrates hotel occupancy across the star categories in India between 1995/96 and 2013/14. Figures 9 and 10 show average rates for each of the star categories, expressed in Indian rupees and US dollars, respectively. Figures 11 and 12 present the corresponding RevPAR data.

Existing Supply – 2013/14

In 2013/14, branded hotel supply surpassed the 100,000 rooms milestone. Nationwide existing supply recorded 103,855 rooms as of 31st March 2014, an increase of around 10.2% (9,600 branded rooms) over the previous year.

NOIDA (including Greater NOIDA) showed the highest increase in supply in 2012/13 over the previous year (33.1%). This is primarily owing to the small base of hotels in this market. Furthermore, both Pune and Bengaluru witnessed similar growth in supply (15.8% and 15.7%) followed by Gurgaon (13.8%), Chennai (12.2%) and Ahmedabad (12.1%), while Mumbai (1.7%) saw the least.

Mumbai (including Navi Mumbai) maintained its top position with the highest existing supply of branded rooms in the country, followed closely by Delhi (excluding Gurgaon, NOIDA and Greater NOIDA) and Bengaluru, whereas NOIDA (including Greater NOIDA) continued to rank last amongst the major markets with an existing base of only 1,119 branded rooms.

Figure 8: 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	2012/13*	2013/14	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%	59.3%	57.8%	58.9%	1.9%	-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%	59.8%	60.1%	60.5%	0.6%	-1.1%
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%	59.1%	55.4%	58.1%	4.9%	-0.8%
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%	60.3%	60.7%	60.0%	57.9%	57.9%	-0.1%	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%	55.5%	58.5%	56.9%	56.8%	58.4%	2.7%	0.7%
Two-star																	64.8%	59.0%	61.8%	4.7%	-2.3%

* The 2012/13 data has been modified to include the performance of a larger sample set
** Change in 2013/14 expressed as percentage of the figure for 2012/13
Source: HVS Research

Figure 9: 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	2012/13*	2013/14	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	6,032	5,779	5,531	-4.3%	3.4%
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	9,189	8,982	8,774	-2.3%	4.4%
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	6,135	5,881	5,635	-4.2%	4.6%
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	4,905	4,691	4,417	-5.8%	6.5%
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	3,354	3,252	3,119	-4.1%	5.4%
Two-star																	1,714	1,849	1,991	7.7%	7.8%

* The 2012/13 data has been modified to include the performance of a larger sample set
** Change in 2013/14 expressed as percentage of the figure for 2012/13
Source: HVS Research

Figure 10: 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	2012/13*	2013/14	12-Month** Change	Compounded Growth
Overall Average	93	104	110	90	81	83	73	68	78	96	122	162	199	168	136	143	126	106	91	-14.1%	-0.1%
Five-star Deluxe	124	141	155	128	113	114	99	90	102	125	161	224	278	242	194	205	192	165	145	-12.4%	0.9%
Five-star	78	89	91	79	77	77	69	65	73	87	112	149	190	158	134	140	128	108	93	-14.0%	1.0%
Four-star	44	52	70	61	50	53	50	47	56	69	86	117	142	125	97	108	102	86	73	-15.5%	2.8%
Three-star	37	40	43	37	35	37	36	35	36	41	50	69	87	77	68	73	70	60	51	-14.0%	1.8%
Two-star																	36	34	33	-3.4%	-4.2%
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	54.5	60.7		

** The 2012/13 data has been modified to include the performance of a larger sample set*
*** Change in 2013/14 expressed as percentage of the figure for 2012/13*
Source: HVS Research

Figure 11: 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	2012/13*	2013/14	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	3,575	3,343	3,260	-2.5%	2.7%
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	5,715	5,694	5,491	5,398	5,306	-1.7%	3.3%
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	3,626	3,257	3,274	0.5%	3.7%
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	2,942	2,718	2,557	-5.9%	6.5%
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	1,909	1,848	1,821	-1.5%	6.1%
Two-star																	1,110	1,091	1,230	12.7%	5.3%

** The 2012/13 data has been modified to include the performance of a larger sample set*
*** Change in 2013/14 expressed as percentage of the figure for 2012/13*
Source: HVS Research

Figure 12: 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	2012/13*	2013/14	12-Month** Change	Compounded Growth
Overall Average	62	66	63	50	43	48	38	39	50	66	87	116	137	100	81	87	75	61	54	-12.5%	-0.8%
Five-star Deluxe	92	95	96	77	66	69	52	53	66	89	119	164	200	151	120	125	114	99	87	-11.8%	-0.3%
Five-star	53	58	53	44	43	43	36	37	49	62	79	105	128	93	79	87	76	60	54	-9.8%	0.1%
Four-star	25	31	41	34	27	31	26	26	39	49	63	84	98	73	59	65	61	50	42	-15.6%	2.8%
Three-star	19	20	20	18	16	18	18	19	22	23	33	48	56	43	38	43	40	34	30	-11.6%	2.6%
Two-star																	23	20	20	1.1%	-6.4%
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	54.5	60.7		

** The 2012/13 data has been modified to include the performance of a larger sample set*
*** Change in 2013/14 expressed as percentage of the figure for 2012/13*
Source: HVS Research

Figure 13 shows the existing supply for the 13 major cities from 2006/07 to 2013/14. Additionally, Figure 14 presents the total operating inventory for the 20 largest hotel brands in the country as of September 2014.

We would like to highlight that **Taj Hotels, Resorts & Palaces (including Ginger) and ITC Hotels (including Fortune) have retained the top two positions respectively for the last three years.**

Interestingly, since last year's survey, Marriott International has displaced Hyatt Hotels & Resorts to rank number five in terms of existing inventory. Furthermore, Accor has replaced Sarovar Hotels & Resorts to take the seventh position, in addition to Lemon Tree Hotels and Wyndham Hotels & Resorts replacing The Leela Palaces, Hotels & Resorts and Royal Orchid Group to take the 11th and 12th positions respectively.

Figure 13: Existing Supply Across Major Cities (2006/07 – 2013/14)

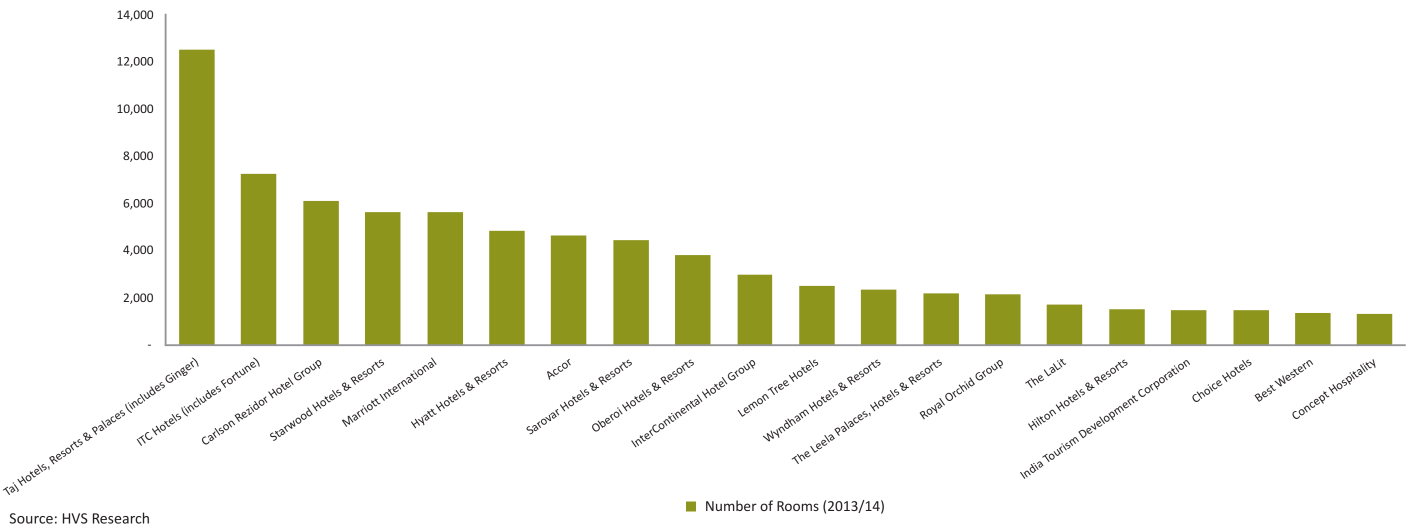
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	12-Month* Change	Compounded Growth
Agra [a]	1,336	1,336	1,419	1,439	1,439	1,739	1,299	1,293	**-0.5%**	**-0.5%**
Ahmedabad	519	675	800	1,521	1,785	1,975	2,477	2,777	**12.1%**	**27.1%**
Bengaluru	2,414	3,456	3,889	5,597	5,947	7,713	8,536	9,877	**15.7%**	**22.3%**
Chennai **	2,442	2,826	3,307	3,806	4,066	4,904	6,330	7,105	**12.2%**	**16.5%**
Delhi ***	7,990	9,019	8,625	8,129	9,111	10,697	11,338	12,025	**6.1%**	**6.0%**
Gurgaon **				1,980	3,246	3,782	4,559	5,190	**13.8%**	**27.2%**
NOIDA**				300	351	527	841	1,119	**33.1%**	**39.0%**
Goa **	2,450	2,768	2,795	3,288	3,375	3,885	4,406	4,553	**3.3%**	**9.3%**
Hyderabad **	1,868	2,554	2,761	3,782	4,036	4,797	5,411	5,900	**9.0%**	**17.9%**
Jaipur **	1,388	1,556	1,683	2,472	2,554	3,054	4,129	4,523	**9.5%**	**18.4%**
Kolkata	1,354	1,396	1,373	1,520	1,588	1,787	2,163	2,243	**3.7%**	**7.5%**
Mumbai	7,402	8,454	7,948	9,877	11,303	12,052	12,807	13,022	**1.7%**	**8.4%**
Pune [b]	777	1,346	1,518	2,672	4,691	5,672	5,317	6,159	**15.8%**	**34.4%**
Other Cities ****	9,345	11,596	12,357	15,412	18,039	21,729	24,642	28,069	**13.9%**	**17.0%**
Total	**39,285**	**46,982**	**48,475**	**61,795**	**71,531**	**84,313**	**94,255**	**103,855**	**10.2%**	**14.9%**

** Change in 2013/14 expressed as percentage of the figure for 2012/13*
*** The 2012/13 data has been modified to include the performance of a larger sample set*
**** Delhi NCR data (Shaded Portion), rest Delhi (without Gurgaon, NOIDA and Greater NOIDA) data*
***** Other Cities (includes all other hotel markets across India)*

a - Supply tracked for Agra in 2013/14 is lower than 2012/13 due to the change in existing inventory in a particular hotel
b - Supply tracked for Pune in 2012/13 is lower than previously reported, due to the removal of Lonavla and Lavasa from the sample set.

Source: HVS Research

Figure 14: Top Twenty Hotel Brands by Existing Inventory – September 2014



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.**

From 114,466 proposed branded rooms in 2007/08 - the highest in the last seven years, the total proposed supply was down to 68,050 rooms as of the close of 2013/14, the lowest since 2006/07. Considering this in conjunction with the 121% growth in existing supply over the same period, one can attribute the decline in proposed supply partially to a substantial number of previously planned rooms commencing operations.

Additionally, delay and suspension of hotel projects on account of the economic downturn, high borrowing costs and tight liquidity are the other major contributors towards this decline. **Here, we would like to highlight that in this year's survey, we have gone a step further and not only identified what the truly active proposed supply is and what is planned but not yet active, but also taken a fine-toothed comb approach and completely removed from the survey inactive supply across the nation that has been carried forward year after year, simply because it was either announced or signed, yet is known to be a dead or an abandoned project.** At least for the five-year horizon that this report addresses, this inactive supply will certainly not see development and we have thus removed it from the proposed supply pipeline.

In Figure 15, we present the existing and proposed supply in each of the 13 major markets and "Other Cities" covered in this report, with indication of the supply under active development (currently under construction or hotels that HVS is confident will open over the next five years).

We have further classified the new supply into its potential positioning of luxury, upscale, midmarket, budget and extended-stay hotels. Figure 16 presents the development trend of the hotel markets across India between 2006/07 and 2013/14.

The "inverse pyramid" with a higher number of existing hotels in the luxury and upscale space, symbolic of India's organised hotel industry for years, is seen tilting with more midmarket and budget hotels being planned across the country (almost 66% of the proposed supply).

The 2013/14 fiscal saw luxury and upscale hotels account for only 30% of the total proposed supply, in keeping with a subdued domestic business sentiment during 2010/11, 2011/12 and 2012/13. In our opinion, such a development will enable the industry to inch closer towards meeting the future room requirement in the country with midmarket and budget hotels coming up quicker and at lower costs than lodging products with a higher positioning.

From 114,466 proposed branded rooms in 2007/08 - the highest in the last seven years - the total proposed supply was down to 68,050 rooms as of the close of 2013/14, the lowest since 2006/07.

Figure 15: Proposed Branded Hotel Rooms Across Major Cities (2013/14 – 2018/19)

	Existing Supply 2013/14	Proposed Supply	Increase in Future Supply	Active Development of Supply	Luxury	Upscale	Midmarket	Budget	Extended Stay
Agra	1,293	990	77%	82%	0.0%	0.0%	82.4%	17.6%	0.0%
Ahmedabad	2,777	1,372	49%	86%	0.0%	43.4%	43.5%	0.0%	13.1%
Bengaluru	9,877	6,911	70%	66%	18.9%	26.5%	24.9%	17.6%	12.1%
Chennai	7,105	3,885	55%	80%	3.9%	5.3%	46.0%	37.9%	6.9%
Delhi	12,025	5,355	45%	71%	8.4%	31.6%	37.0%	18.4%	4.7%
Gurgaon	5,190	3,268	63%	54%	18.4%	11.8%	44.7%	17.7%	7.3%
NOIDA	1,119	2,406	215%	70%	10.4%	55.4%	10.6%	23.6%	0.0%
Goa	4,553	2,291	50%	68%	13.9%	14.6%	39.5%	32.0%	0.0%
Hyderabad	5,900	2,893	49%	78%	0.0%	6.2%	49.3%	39.0%	5.5%
Jaipur	4,523	1,706	38%	82%	3.4%	37.1%	47.4%	12.1%	0.0%
Kolkata	2,243	2,584	115%	72%	17.4%	35.0%	25.3%	22.3%	0.0%
Mumbai	13,022	7,896	61%	49%	23.5%	23.4%	26.7%	22.6%	3.8%
Pune	6,159	2,620	43%	72%	21.4%	0.0%	53.1%	25.6%	0.0%
Other Cities	28,069	23,873	85%	71%	1.5%	17.8%	46.6%	33.0%	1.0%
Total	**103,855**	**68,050**	**72%**	**69%**	**9.3%**	**20.8%**	**39.7%**	**26.4%**	**3.6%**

Source: HVS Research

Figure 16: Distribution of Existing and Proposed Branded Hotel Rooms Across Major Cities (2006/07 – 2013/14)

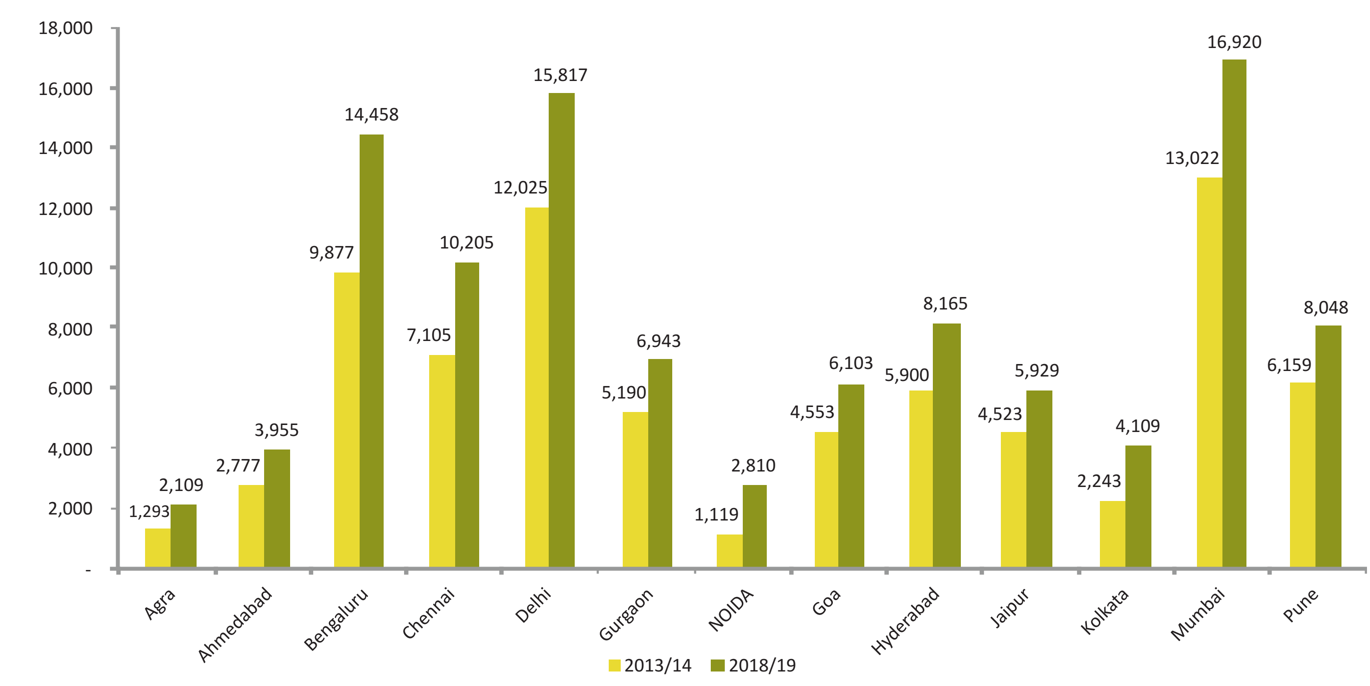
	Existing Supply							
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Agra	1,336	1,336	1,419	1,439	1,439	1,739	1,299	1,293
Ahmedabad	519	675	800	1,521	1,785	1,975	2,477	2,777
Bengaluru	2,414	3,456	3,889	5,597	5,947	7,713	8,536	9,877
Chennai	2,442	2,826	3,307	3,806	4,066	4,904	6,330	7,105
Delhi	7,990	9,019	8,625	8,129	9,111	10,697	11,338	12,025
Gurgaon				1,980	3,246	3,782	4,559	5,190
NOIDA				300	351	527	841	1,119
Goa	2,450	2,768	2,795	3,288	3,375	3,885	4,406	4,553
Hyderabad	1,868	2,554	2,761	3,782	4,036	4,797	5,411	5,900
Jaipur	1,388	1,556	1,683	2,472	2,554	3,054	4,129	4,523
Kolkata	1,354	1,396	1,373	1,520	1,588	1,787	2,163	2,243
Mumbai	7,402	8,454	7,948	9,877	11,303	12,052	12,807	13,022
Pune	777	1,346	1,518	2,672	4,691	5,672	5,317	6,159
Other Cities	9,345	11,596	12,357	15,412	18,039	21,729	24,642	28,069
Total	**39,285**	**46,982**	**48,475**	**61,795**	**71,531**	**84,313**	**94,255**	**103,855**

	Proposed Supply							
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Agra	764	670	400	510	667	650	866	990
Ahmedabad	2,230	3,664	3,058	2,339	2,319	2,550	1,857	1,372
Bengaluru	12,882	15,542	10,784	9,819	12,509	9,716	10,731	6,911
Chennai	6,213	7,147	4,945	5,995	7,819	7,547	5,331	3,885
Delhi	19,423	22,360	16,560	20,021	18,608	5,626	6,144	5,355
Gurgaon						5,818	5,033	3,268
NOIDA						5,522	5,615	2,406
Goa	3,058	3,353	2,178	1,736	2,154	2,422	2,622	2,291
Hyderabad	10,619	8,250	5,884	5,302	5,713	5,265	3,433	2,893
Jaipur	4,012	2,937	3,357	2,664	4,867	3,356	2,859	1,706
Kolkata	3,644	5,965	4,025	3,481	3,612	3,118	3,511	2,584
Mumbai	11,578	10,613	13,386	7,477	12,121	10,896	9,802	7,896
Pune	8,072	8,243	8,054	5,196	5,545	4,645	3,705	2,620
Other Cities	19,476	25,722	21,484	24,909	26,504	26,224	23,141	23,873
Total	**101,971**	**114,466**	**94,115**	**89,449**	**102,438**	**93,355**	**84,650**	**68,050**

	Active Development of Supply							
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Agra	32%	55%	75%	41%	22%	80%	76%	82%
Ahmedabad	60%	47%	71%	69%	73%	69%	66%	86%
Bengaluru	61%	60%	58%	65%	67%	71%	75%	66%
Chennai	68%	71%	67%	72%	57%	58%	65%	80%
Delhi	56%	51%	53%	75%	75%	87%	84%	71%
Gurgaon						55%	53%	54%
NOIDA						37%	28%	70%
Goa	58%	42%	31%	41%	53%	53%	62%	68%
Hyderabad	47%	64%	73%	63%	77%	74%	87%	78%
Jaipur	56%	53%	53%	77%	45%	52%	56%	82%
Kolkata	67%	49%	62%	51%	58%	74%	64%	72%
Mumbai	49%	62%	73%	60%	35%	47%	42%	49%
Pune	77%	66%	52%	67%	56%	69%	67%	72%
Other Cities	58%	60%	60%	65%	56%	48%	55%	71%
Total	**58%**	**58%**	**60%**	**67%**	**60%**	**58%**	**60%**	**69%**

Source: HVS Research

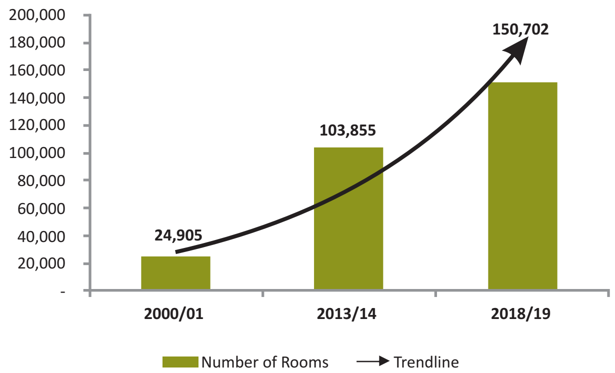
Figure 17: Proposed Branded Hotel Rooms Across Major Cities (2013/14 – 2018/19*)



** The supply for 2018/19 has been computed by adding the active future supply to the existing base of rooms in 2013/14.*

Source: HVS Research

Figure 18: Growth of Room Supply – India (2000/01 – 2018/19)



Source: HVS Research

In comparison to our last year's survey, Mumbai (including Navi Mumbai) displaced Bengaluru with the highest future supply in the country in 2013/14 with a total of 7,896 proposed rooms. However, in terms of active development of supply, Ahmedabad recorded the top position (86%), closely followed by Agra and Jaipur at 82%. Once again, NOIDA (including Greater NOIDA) saw the highest increase in future supply (215%) on an existing base of just 1,119 rooms in 2013/14, followed by Kolkata at 115% on a existing base of 2,243 rooms.

The countrywide active development of supply was lower in 2013/14 when compared to the previous fiscal in absolute terms. We anticipate a little over 45,000 branded rooms to be developed over the next five years, taking the total supply to about 150,700 rooms by 2018/19. Figure 17 displays branded supply across major cities for 2013/14 and 2018/19. Additionally, Figure 18 (on page 10) presents the increase in hotel room supply in India from 2000/01 through 2013/14, and then further illustrates the proposed new supply through 2018/19.

Industry Performance by Major Cities

Overall, **Kolkata retained its position as the best-performing hotel market in terms of occupancy (72.0%) in 2013/14, while Mumbai (including Navi Mumbai) registered the highest average rate (₹7,105) and Goa recorded the highest RevPAR (₹4,778)** amongst the 13 major markets being tracked in this report.

In 2013/14, most hotel markets witnessed an **increase in occupancy** with the exception of **Chennai** and also **Jaipur**, which displayed muted growth. However, on the other hand, hotel markets other than **Goa** and **Agra** witnessed a drop in average rate, a testament to our belief that domestic tourism will be a driving force for the industry going forward. **Agra, NOIDA (including Greater NOIDA)** and **Goa** were the only major hotel markets in the country to record notable RevPAR growths in 2013/14. **Chennai was the only hotel market to have declined in both occupancy (7.5%) and average rate (9.2%) owing to a notable growth in supply (12.2%).**

Even though **NOIDA (including Greater NOIDA)** witnessed the highest growth in supply (33.1%) in 2013/14, it recorded the highest increase in occupancy (21.1%) due to a rise in demand from the MICE segment, consequently resulting in the highest RevPAR growth (7.4%) across the country.

Figure 19 illustrates hotel occupancy for 13 key cities in India between 1995/96 and 2013/14. Figures 20 and 21 show average rates for each of these hotel markets, expressed in Indian rupees and US dollars, respectively. Figures 22 and 23 present the corresponding RevPAR data for each city.

Figure 19: Key Operating Characteristics by 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	2012/13*	2013/14	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%	57.1%	58.9%	60.6%	2.9%	1.3%
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%	59.9%	53.7%	54.2%	0.9%	-0.2%
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%	56.6%	55.6%	58.7%	5.6%	-1.1%
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%	65.7%	60.0%	55.5%	-7.5%	-2.3%
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%	63.8%	61.7%	63.1%	2.2%	-0.7%
Gurgaon															66.0%	66.5%	62.0%	58.0%	59.6%	2.9%	-2.5%
NOIDA															74.0%	80.7%	56.2%	44.4%	53.8%	21.1%	-7.7%
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%	68.5%	68.9%	70.2%	1.8%	0.7%
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%	54.0%	49.3%	53.0%	7.5%	-0.5%
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%	55.2%	54.7%	54.7%	0.0%	0.3%
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%	70.0%	71.5%	72.0%	0.6%	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%	63.7%	64.3%	66.9%	4.0%	-1.1%
Pune								71.0%	68.9%	86.4%	83.1%	83.4%	69.5%	62.2%	50.9%	46.7%	51.3%	58.2%	58.3%	0.2%	-1.8%

** The 2012/13 data has been modified to include the performance of a larger sample set*
*** Change in 2013/14 expressed as percentage of the figure for 2012/13*
[a] Delhi NCR data (Shaded Portion) from 1995/96 to 2008/09, Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2013/14

Source: HVS Research

Figure 20: Key Operating Characteristics by 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	2012/13*	2013/14	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	5,958	6,126	6,254	2.1%	7.9%
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	3,917	3,904	3,614	-7.4%	3.0%
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	6,293	5,960	5,427	-8.9%	4.9%
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	5,524	5,440	4,942	-9.2%	3.2%
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	8,174	7,387	6,943	-6.0%	4.7%
Gurgaon															8,247	7,554	7,639	6,831	6,296	-7.8%	-6.5%
NOIDA															7,496	7,752	7,416	6,724	5,964	-11.3%	-5.6%
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	5,613	6,056	6,162	6,513	6,808	4.5%	6.4%
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	5,026	4,854	4,437	-8.6%	6.2%
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	4,539	4,718	4,727	4,843	4,626	-4.5%	6.4%
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	6,049	6,093	5,639	-7.4%	3.4%
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	7,923	7,550	7,105	-5.9%	1.8%
Pune								2,603	2,805	3,521	4,915	6,523	7,946	7,493	5,810	4,949	4,163	3,861	3,837	-0.6%	3.6%

** The 2012/13 data has been modified to include the performance of a larger sample set*
*** Change in 2013/14 expressed as percentage of the figure for 2012/13*
[a] Delhi NCR data (Shaded Portion) from 1995/96 to 2008/09, Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2013/14

Source: HVS Research

Figure 21: Key Operating Characteristics by 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	2012/13*	2013/14	12-Month** Change	Compounded Growth
Agra	49	52	56	50	38	35	39	41	53	67	81	108	131	116	121	137	124	112	103	-8.4%	4.2%
Ahmedabad	66	76	50	53	62	61	50	45	52	62	70	81	108	104	95	94	82	72	60	-16.9%	-0.6%
Bengaluru	71	89	95	81	70	80	79	78	105	166	197	239	244	207	138	149	131	109	89	-18.3%	1.3%
Chennai	86	100	110	89	79	85	75	67	72	83	98	123	158	145	120	124	115	100	81	-18.5%	-0.3%
Delhi[a]	94	113	135	111	95	101	92	85	93	114	155	211	259	214	185	189	170	136	114	-15.7%	1.1%
Gurgaon															173	166	159	125	104	-17.3%	-12.0%
NOIDA															157	170	155	123	98	-20.4%	-11.1%
Goa	69	66	63	73	63	65	57	57	67	89	108	133	155	137	118	133	128	120	112	-6.2%	2.7%
Hyderabad	46	45	45	39	43	52	51	53	60	84	109	137	156	137	108	114	105	89	73	-18.0%	2.6%
Jaipur	47	52	68	62	45	65	62	57	65	77	99	121	141	130	95	104	99	89	76	-14.3%	2.7%
Kolkata	96	100	109	88	82	82	72	61	66	72	87	121	163	146	128	141	126	112	93	-17.0%	-0.2%
Mumbai	159	176	170	138	130	124	104	87	95	107	136	200	272	233	177	180	165	139	117	-15.6%	-1.7%
Pune								54	61	78	110	150	197	163	122	109	87	71	63	-10.8%	1.4%
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**	**54.5**	**60.7**		

** The 2012/13 data has been modified to include the performance of a larger sample set*
*** Change in 2013/14 expressed as percentage of the figure for 2012/13*
[a] Delhi NCR data (Shaded Portion) from 1995/96 to 2008/09, Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2013/14

Source: HVS Research

Figure 22: Key Operating Characteristics by Major City – 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	2012/13*	2013/14	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	3,400	3,605	3,787	5.0%	9.3%
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	2,347	2,098	1,959	-6.6%	2.8%
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	3,562	3,314	3,186	-3.8%	3.8%
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	3,629	3,263	2,741	-16.0%	0.9%
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	5,212	4,561	4,379	-4.0%	3.9%
Gurgaon															5,443	5,023	4,736	3,958	3,754	-5.2%	-8.9%
NOIDA															5,547	6,256	4,164	2,985	3,206	7.4%	-12.8%
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	4,220	4,488	4,778	6.5%	7.1%
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	2,714	2,394	2,353	-1.7%	5.7%
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	2,609	2,649	2,529	-4.5%	6.7%
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	4,232	4,356	4,058	-6.8%	4.1%
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	5,050	4,856	4,754	-2.1%	0.7%
Pune								1,848	1,933	3,042	4,084	5,440	5,522	4,661	2,957	2,311	2,135	2,248	2,239	-0.4%	1.8%

** The 2012/13 data has been modified to include the performance of a larger sample set*
*** Change in 2013/14 expressed as percentage of the figure for 2012/13*
a Delhi NCR data (Shaded Portion) from 1995/96 to 2008/09, Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2013/14

Source: HVS Research

Figure 23: Key Operating Characteristics by Major City – 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	2012/13*	2013/14	12-Month** Change	Compounded Growth
Agra	23	27	26	23	15	15	13	13	27	38	45	64	76	61	68	82	71	66	62	-5.8%	5.6%
Ahmedabad	37	50	36	31	31	34	27	24	33	42	48	55	79	64	55	51	49	39	32	-16.2%	-0.7%
Bengaluru	51	60	58	48	45	56	51	56	82	135	151	173	159	113	74	87	74	61	53	-13.7%	0.2%
Chennai	73	80	75	58	52	55	42	39	48	61	77	92	115	91	74	83	76	60	45	-24.6%	-2.6%
Delhi[a]	67	76	81	60	50	59	49	51	68	90	125	162	192	144	126	130	109	84	72	-13.8%	0.4%
Gurgaon															114	110	99	73	62	-14.9%	-14.2%
NOIDA															116	137	87	55	53	-3.6%	-17.9%
Goa	43	39	37	43	34	39	31	34	40	56	73	97	112	84	77	90	88	82	79	-4.5%	3.4%
Hyderabad	27	25	24	26	26	36	35	37	46	66	89	99	102	76	58	65	57	44	39	-11.8%	2.1%
Jaipur	25	30	35	28	21	36	30	26	38	52	65	79	91	70	55	60	54	49	42	-14.3%	3.0%
Kolkata	61	56	67	51	45	52	48	40	41	50	66	91	121	101	86	96	88	80	67	-16.4%	0.5%
Mumbai	129	128	111	93	84	80	54	55	66	77	104	156	203	141	110	112	105	89	78	-12.2%	-2.7%
Pune								38	42	67	91	125	137	101	62	51	45	41	37	-10.7%	-0.4%
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**	**54.5**	**60.7**		

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*** Change in 2013/14 expressed as percentage of the figure for 2012/13*
a Delhi NCR data (Shaded Portion) from 1995/96 to 2008/09, Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2013/14

Source: HVS Research

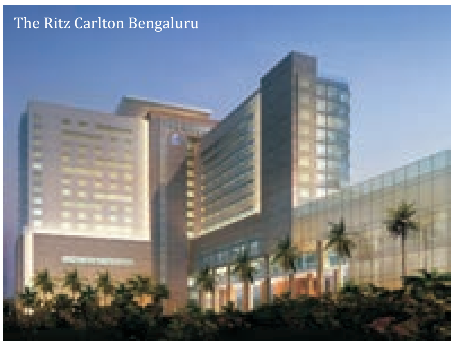
City Trends

A "must-see" leisure destination in India, **Agra** recorded an occupancy of 60.6% in 2013/14 (an increase of 2.9% when compared to the previous year), accompanied by a moderate increase in average rate (2.1%). A city highly dependent on the Leisure segment owing to the presence of three world heritage monuments, **Agra has witnessed a slight change in its customer mix over the last two years. The slowdown in the growth of the Foreign Leisure segment has been cushioned by the rise in the Individual Domestic Leisure and MICE segments courtesy the improved road connectivity to Delhi-NCR.** Going forth, the commencement of electronic travel authorisation (ETA) to citizens of 180 countries is likely to provide a fillip to foreign traffic to Agra, an essential component of the famous "Golden Triangle" itinerary.

Agra remains the only major hotel market that has not witnessed growth in branded hotel supply in 2012/13 and 2013/14. We are tracking a proposed supply of 990 rooms of which 82% is actively under development. A unique feature is that all of this supply is anticipated in the midmarket and budget space. HVS believes that this development trend presents an excellent opportunity for the hotel market to continue to tap demand from the rising Domestic Leisure segment in the country.

Agra remains the only major hotel market that has not witnessed growth in branded hotel supply in 2012/13 and 2013/14.

However, the destination still lacks an international airport. Plans for construction of a new civilian terminal announced in 2013 are yet to see any headway. Overall, the growing middle class and the anticipated boost from the ETA schemes together with the development of suitable hotel products leads us to believe that Agra will continue on its growth trajectory in the long run.


The Ritz Carlton Bengaluru

Ahmedabad witnessed a 12.1% increase in supply in 2013/14 over the previous year. Despite this double-digit growth in supply, the city maintained its occupancy level as a result of robust growth in demand (13.1%). This increase in demand was primarily driven by the emerging business district of SG Highway along with new manufacturing plants being set up in the industrial belt of Sanand-Bol located on the western periphery of the city. However, hotels faced stiff competition causing rate to decline by 7.4% in 2013/14 as compared to 2012/13.

Demand in Ahmedabad is generated mainly in the Commercial segment from the traditional CBD areas of Ashram Road and CG Road together with several Grade A office spaces that have developed along SG Highway. The city also caters to a fair quantum of Extended-Stay demand emanating from the growing industrial clusters of Sanand-Bol and Changodar. HVS believes that in addition to Sanand-Bol, hotels will start focusing on the planned Japanese industrial estate in Vithalapur. Major companies such as Maruti Suzuki, Honda and Mitsubishi Aluminum Company have announced plans to set up new plants at this estate, which is located 65 kilometres northwest of Ahmedabad.

Future supply for Bengaluru is estimated to be approximately 7,000 hotel rooms of which only 66% is being actively developed.

Traditionally, the city's hotels had catered to some demand from the MICE segment generated by large-scale conventions such as the biennial Vibrant Gujarat Summit and related events held at Mahatma Mandir in Gandhinagar. Going forth, in addition to such summits, we expect the new hotels offering medium-to-large-scale meeting facilities to attract several conferences and social events to the city.

With an impending supply of 1,372 rooms (86% of which is actively under construction) likely to enter the market over the next few years, we expect both occupancy and average rates to remain under pressure in the short term. In the long term, as supply pressure eases and the city continues to exhibit strong demand growth, we anticipate the market conditions to improve.

Bengaluru, over the years, has emerged as one of India's most important commercial destinations, home to the offices of several top global conglomerates that have formed large bases in different parts of the city.

Bengaluru is divided into well-defined independent micro-markets with overlap in room-night demand being primarily limited to the Extended-Stay segment. This segment, in fact, has grown substantially over the last two years and we are of the opinion that the city requires more branded Extended-Stay accommodation across different positioning.

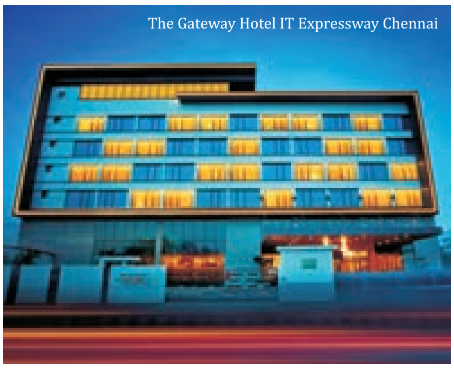
Bengaluru has historically seen a high percentage of upscale room supply; however, this is now changing with an increasing number of Economy and Budget hotels having recently commenced operations. With their no frills service-design and low cost of operations, these hotels are ideally suited to cater to low-paying IT/ITeS demand which the city thrives on. The 2013/14 fiscal saw the addition of approximately 1,350 branded rooms.

Chennai's hotel market is expected to become more competitive with around 3,100 new rooms entering the market over the next two-to-three years, and we expect hotels to focus more on occupancy than average rates across all micro-markets in the short-to-medium term.

However, in spite of such a large increase in supply, occupancy actually grew by 6% in 2013/14 over 2012/13. Average rates, however, have shown decline, dropping by approximately 9% over the previous year. This may primarily be attributed to new supply being of a lower positioning coupled with average rate pressures being faced by older hotels.

Future supply for Bengaluru is estimated to be approximately 7,000 hotel rooms of which only 66% is being actively developed. With overall business sentiment in the city anticipated to further improve in the coming year, we forecast growth in occupancy; however, average rates are expected to remain under pressure in the short term.

Amongst the major hotel markets tracked in this report, **Chennai** recorded the highest decline in RevPAR (16.0%) in 2013/14 when compared to 2012/13. Steep decrease in both average rate and occupancy (9.2% and 7.5% respectively) resulted in the sharpest RevPAR drop the city has witnessed in the last five years. After having witnessed a hefty increase in supply in 2012/13 (29.1%), the city continued to expand its supply base and recorded a double-digit growth (12.2%) in its second consecutive year (2013/14).

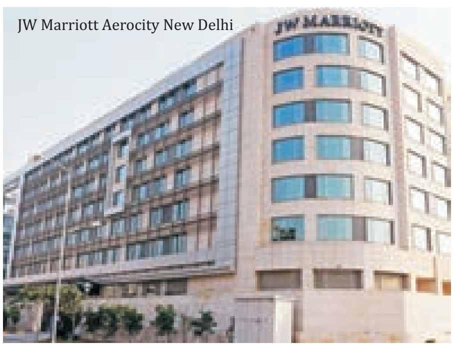

The Gateway Hotel IT Expressway Chennai

Additionally, moderation in the growth of demand (a meagre 3.8% in 2013/14) primarily due to the slowdown in the manufacturing industry, particularly in the automobile sector, augmented the pressure on average rates, with hotels scrambling to maintain occupancy levels in an increasingly competitive space.

With increasing supply, Chennai is segregating into distinct micro-markets. CBD, which has the highest concentration of independently run hotels, saw a significant drop in average rates accompanied by a marginal decrease in occupancy as most hotels focused on adopting a volume-driven strategy. In contrast, Guindy, which witnessed the largest influx of supply, saw an erosion in both occupancy and average rates leading to a sharp decline in RevPAR. OMR, the IT corridor of the city, saw the highest decline in RevPAR amongst all micro-markets in 2013/14, as slow absorption in office space combined with the opening of two new hotels (200-room Gateway by Taj and 215-room Westin) resulted in a highly competitive environment.

Chennai's hotel market is expected to become more competitive with around 3,100 new rooms entering the market over the next two-to-three years, and we expect hotels to focus more on occupancy than average rates across all micro-markets in the short-to-medium term. A majority of this supply (60%) is presently under construction along the OMR belt and is likely to keep the city's occupancy and average rate growth muted over the next two-to-three years. In contrast, the manufacturing hubs of Sriperumbudur and Oragadam, which have seen the announcement of several hotel projects, are yet to see any progress and continue to present opportunities for hotel development.

The main focus of the Delhi (excluding Gurgaon, NOIDA and Greater NOIDA) hotel market over the past year has been the impact of hotels in Delhi Aerocity (DA). With four hotels having commenced operations during the course of last year, the impact has, in fact, been positive. The city actually recorded a 2.2% growth in occupancy in 2013/14 over the previous fiscal.



JW Marriott Aerocity New Delhi

The conclusion of the General Elections and its emphatic result is almost certain to have a positive impact on Delhi, which will now attract increased travel to the city and perhaps see increased diplomatic movements. Furthermore, the new ETA Visa scheme for tourists will also likely bode well for hotels in the city.

Delhi's branded room supply has grown at a CAGR of 10% over the last 5 years of which 42% is spread across the midmarket, budget and economy segment of hotels. The city now provides a healthy mix of high and low positioning branded hotel rooms – a welcome change from previous years where Delhi was dominated by upscale and luxury products. This, however, has led to lowering of marketwide average rates with 2013/14 witnessing a 6% drop over the previous year.

Delhi now provides a healthy mix of high and low positioning branded hotel rooms - a welcome change from previous years where Delhi was dominated by upscale and luxury products.

Room night demand growth, however, has continued to be healthy, growing by a CAGR of 8% over the last 5 years.

Future supply for the city is estimated to be approximately 5,300 hotel rooms of which 71% is being actively developed. A significant portion of this new supply is concentrated in DA and is anticipated to commence operations over the next two years. We, therefore, forecast occupancy and rate pressures in the short term as these new hotels enter the market; however, our medium-to-long term view for Delhi at large remains positive.

While supply for room nights in Gurgaon is expected to increase by 63% over the next five years, a modest 54% of this pipeline is under active development.

Gurgaon (including Manesar) has gained prominence as one of the leading commercial hubs in the country. The growth of its hospitality sector has been closely linked to the economic health of the city and country on the whole. After having witnessed a decline in marketwide parameters in 2012/13, **Gurgaon bounced back in 2013/14 exhibiting a 2.9% increase in marketwide occupancy over the previous fiscal. This, however, was at the cost of a 7.8% decline in average rate.** During this period, owing to economic and political uncertainty coupled with supply pressures, most hotels gave preference to contracted room nights from the relatively low-yielding Airline and MICE segments in order to maintain baseline occupancy levels. Also, to mitigate the occupancy differential between weekdays and weekends, hotels pitched lucrative packages to leisure travellers during the weekend in an attempt to displace demand generated by this segment from hotels in central and south Delhi.

As Central Business District (CBD) areas such as Cyber City and Udyog Vihar become congested and less affordable, various companies have started exploring the other peripheral parts of Gurgaon which offer financially lucrative deals. With the majority of new commercial and residential development taking place in these peripheral parts of the city located along Sohna Road, Golf Course Extension, Southern Periphery Road and parts beyond the Kherki Daula Toll Plaza, we expect the creation of multiple secondary feeder markets for room night demand in the medium-to-long term.

While supply for room nights in the city is expected to increase by 63% over the next five years, a modest 54% of this pipeline is under active development. This ratio, which is significantly lower than the nationwide average, is reflective of developer uncertainty regarding the fate of the hospitality industry in Gurgaon in light of the development of quality branded hotels at Aerocity.

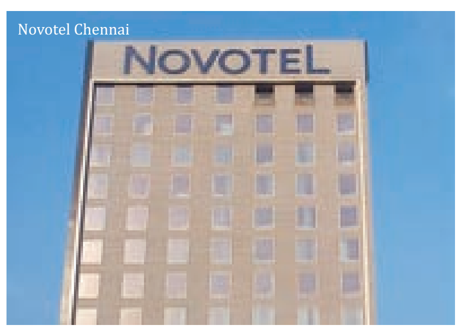
HVS believes that while the development and commissioning of hotels at Aerocity is expected to put some pressure on hotels in Gurgaon, especially in segments such as Airline and Meeting and Conferences, this impact is expected to be short-lived. With the country's economy on the path to recovery, demand for room nights in Gurgaon is expected to outpace its supply in the medium-to-long term. Also, formation of alternate feeder markets within the city is expected to further insulate the market from any external supply threats. All these factors, coupled with the doubling of office supply over the next five to seven years, indicate Gurgaon's potential of becoming one of India's strongest hotel markets.

NOIDA (including Greater NOIDA) suffered the steepest decline in average rate (11.3%) over the previous year, reflecting the trade-off the hotels made in order to record the highest increase in occupancy (21.1%) and RevPAR (7.4%) amongst all the markets tracked by us this year. This can be attributed to the increase in MICE demand within the city, coupled with a decrease in the relatively higher paying commercial demand from the neighbouring pockets of Ghaziabad and East Delhi owing to the opening of branded hotel rooms in those areas.

Keeping in mind NOIDA's highly price-sensitive nature and lack of any substantial growth in demand, we anticipate hotels to have little choice but to further tap the MICE segment.

Moreover, events such as the Auto Expo, Petrotech and Indian Grand Prix - Formula 1 that contributed to the overall MICE demand in the recent past are unlikely to be hosted this year. This, coupled with approximately 1,700 rooms under active development that are anticipated to open over the next five years is worrying, especially as the proposed hotels have large inventories.

Keeping in mind the hotel market's highly price-sensitive nature and lack of any substantial growth in demand, we anticipate hotels to have little choice but to further tap the MICE segment, which includes a limited



Novotel Chennai

number of large-format events scheduled to be hosted at the India Exposition Mart and Buddh International Circuit. In the short-to-medium term, we expect marketwide occupancy and average rate to come under pressure.

Goa holds the distinction of being the only market in the country that has witnessed a continuous increase in RevPAR over the last five years, exhibiting a healthy 6.9% year-on-year growth. Many factors, such as strong growth in charter movements, an upswing in domestic consumption patterns and the promising growth in the Meeting and Conferences segment, have favourably impacted India's most preferred leisure destination.

In 2013/14, on account of a 5.2% growth in demand for room nights along with a 3.3% growth in its supply, both marketwide occupancy and average rate for Goa increased by 1.8% and 4.5%, respectively. Even with a strong base of unbranded supply, the latent demand for branded rooms became apparent during this period with absorption levels of newly commissioned hotels touching the 65% mark, a number that was significantly higher than the nationwide average.

Goa holds the distinction of being the only market in the country that has witnessed a continuous increase in RevPAR over the last five years, exhibiting a healthy 6.9% year-on-year growth.

On the supply front, of approximately 2,291 rooms that are proposed to be developed, about 68% are under active development and are likely to enter the market over the next three-to-four years.

Going forward, as year-on-year growth in demand for room nights is expected to outpace its supply, the uptrend in market performance is likely to continue in the short-to-medium term.

While demand and supply dynamics are anticipated to pan out positively for the hotel market in Goa, a major hurdle in its sustainable growth continues to be the lack of quality infrastructure. Even though the government has taken measures such as the development of a new terminal at Dabolim airport, a lot more needs to be done, especially in light of the increasing competition Goa faces from other beach destinations in India and South Asia.

After continuing to see a drop in room night demand for the last two years, **Hyderabad** witnessed a 7.5% growth in marketwide occupancy in 2013/14. This is indicative of the recovery the city is anticipated to make post the conclusion of Telangana political crisis that had plagued the city for the last few years.

Hyderabad offers some of the country's best infrastructure in terms of road connectivity, airport access and planned developments, especially in its periphery areas like Gachibowli and HITEC City. It is also home to the India's only branded convention centre – Hyderabad International Convention Centre (HICC). The improved political situation should hopefully help HICC, which had witnessed a drastic drop in the number of events hosted over the last two years.

Average rates in Hyderabad, however, continue to witness year-on-year decline. Hotels have opted to adopt volume-based strategies especially in the wake of the slowdown in demand. Furthermore, approximately 60% of the recently opened supply in the city is spread across the midmarket, budget and economy segment of hotels. This has led to a further lowering of marketwide average rates.

Hyderabad is slated to add approximately 2,900 hotel rooms over the next five years of which approximately 78% are under active development. Our forecast for the city in the short term is for occupancy to improve with average rates still being under some pressure. As HICC starts hosting more events and Hyderabad's association with political issues of the past fade from memory, we anticipate overall RevPAR for the city to improve.

Jaipur, one of the top leisure markets in the country and an integral part of the Golden Triangle itinerary, recorded an increase of 9.5% in supply in 2013/14 over the previous year. In contrast to 2012/13, where the city saw the addition of upscale/luxury hotels, it witnessed the introduction of hotels positioned in the economy and budget space such as Ibis, Ginger and Regenta Central in 2013/14. Demand during 2013/14 also increased by 9.5% resulting in the citywide occupancy remaining unchanged over the previous fiscal. The growth in demand was led primarily by the Domestic Leisure and MICE segments. The burgeoning middle class and growth of domestic travellers compensated for the slow increase in the Foreign Leisure segment in the city.

Jaipur continued to grow as a popular weddings and conference destination with hotels such as the Fairmont, Marriott and Radisson BLU playing host to several large-scale events. However, the price sensitive nature of MICE demand coupled with the opening of lower-positioning hotels resulted in a decline in the city's average rate by 4.5% in 2013/14.

Going forward, over the next two-to-three years, we expect an addition of about 1,400 rooms in the city. With an anticipated double-digit growth in supply, occupancy and average rates are likely to remain under pressure in the short term. However, with the continuing growth of the Domestic Leisure segment and the likely impetus in the Foreign Leisure segment from the ETA facility for citizens of 180 countries, we expect Jaipur to continue to grow as a strong Leisure market.

Kolkata is the only city in the country that has recorded occupancy levels northward of 70% in the last three years in spite of a 12% CAGR increase in supply during the same period. This is testament to strong growth in new room night demand coupled with previously unaccommodated demand that was being catered to by the unorganised sector of hotels.

Average rate growth, however, has been muted. While the previous fiscal (2012/13) witnessed negligible growth in average rate, 2013/14 witnessed a sharp decline of approximately 7%. Hotels have felt threatened by the entry of new supply in the past year, almost all of which has been in the midmarket segment. Consequently, in order to maintain their previous occupancy levels, older hotels have dropped average rate.

While areas like Salt Lake have seen a spurt of commercial development and the setting up new offices, other periphery areas like Rajarhat (New Town) remain untapped. There have been plans of developing a large world-class convention centre in Rajarhat; however, currently there has been no progress on this project.

Future supply for the city is estimated to be approximately 2,500 hotel rooms of which 72% are under active development. A large percentage of this new supply is upscale in nature and, therefore, the city now faces a situation of being over-supplied in this segment. Given the nature of demand in the city which primarily stems from the low-paying PSU and IT/ITeS segments, Budget and Economy hotel developments are the need of the hour.

We forecast pressure on both occupancy and average rate for Kolkata in the short term with the entry of six new hotels over the next 2-3 years. As supply pressure eases and areas like Rajarhat start developing, hotel market performances are likely to improve.

Mumbai continues to retain its position as the largest hotel market in the country. As the commercial capital of India, the growth

in year-on-year accommodated demand continues to be robust. Successfully absorbing the CAGR 3.9% increase in supply over the last three years, the city-wide occupancy has grown by 2.5% CAGR during this time. Even though Mumbai achieved the highest average rate (₹7,096) amongst the cities tracked by us in this survey, the city has seen a correction in average rate with most properties giving precedence to occupancy over average rate.

A notable observation is the resurgence of demand amongst the South Mumbai hotels that witnessed an increase in occupancy by approximately 7% over the previous year, whereas average rate exhibited a marginal drop of 0.4% at the same time. This demand stemmed from the Leisure, Social MICE and Commercial segments. In 2013/14, Central and North Mumbai hotels displayed an increase in occupancy of 4% over the previous year; however, average rate witnessed a drop of approximately 7%.

A notable observation is the resurgence of demand amongst the South Mumbai hotels that witnessed an increase in occupancy by approximately 7% over the previous year.

Over the last few years, the various micro-markets in Mumbai have seen continuous additions to office stock that has further fueled demand for hotels. **Majority of the new supply expected to enter the Mumbai market is located in BKC, Andheri, Juhu and Santa Cruz.** In 2013/14, Mumbai recorded the least supply increase across the country, with additions primarily being on account of expansions and renovations at various hotels. However, increase in supply over the short term includes the JW Marriott and the Taj Airport Hotel at the two airports and Radisson Blu Plaza in Kanjurmarg. In the medium-to-long term, there is the likelihood of hotel developments at the Mumbai International Airport, Bandra-Kurla Complex and Lower Parel.

The newly opened Terminal 2 and the proposed convention centre currently being developed near the domestic airport are further expected to augment Airline and MICE demand for the city. Moreover, with improvements in infrastructure such as the development of the Metro and Monorail, up gradation of the existing Airport and opening of the Santa Cruz-Chembur Link Road and Eastern Freeway, our outlook for Mumbai remains optimistic.

Navi Mumbai was developed to facilitate the decongestion of Mumbai and has grown rapidly in the past few years with the proliferation of residential and commercial units in addition to a planned international airport. However, it faces poor connectivity with Mumbai, with only two road links and a single rail line between the cities.

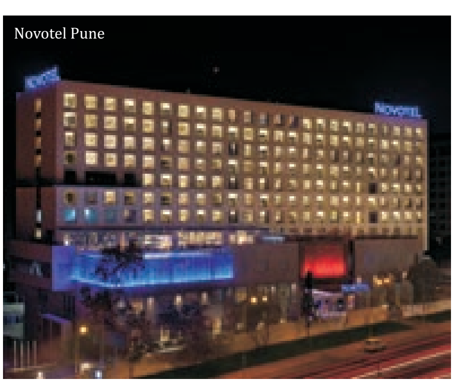
The Navi Mumbai hotel market continues to be dependent on several unbranded hotels with Commercial and Extended-Stay demand contributing over 90% of the accommodated demand. In 2012/13, majority of Navi Mumbai's planned supply entered the market, with the opening of hotels such as the Ibis, Country Inn & Suites and Royal Tulip. The total number of branded rooms recorded in 2013/14 was approximately 1,000 (located in Vashi, CBD Belapur, Kharghar, Mahape, Kopar Khairane, Turbhe and Palm Beach Road). In the next few years, approximately 800 branded rooms ranging from budget to midmarket categories have been proposed; however, their development is expected to be slow paced.

Over the last few years, Navi Mumbai has witnessed a notable increase in commercial activity, with developments such as Jawaharlal Nehru Port (JNPT), Mindspace, Millennium Business Park and the Reliance Technology Park that have heavily contributed to the growth in hotel demand. Going forward commercial development in areas in and around CBD Belapur and the proposed Seawoods project in addition the proposed Exhibition Centre are expected to augment Commercial and MICE demand.

In the long-term, this market's growth largely hinges on the development of the new international airport at Panvel that has already witnessed several delays and is yet to commence construction. In the short-to-medium term, we expect marketwide occupancies to increase; however, we expect average rate to remain under pressure.

Pune, Despite a double-digit growth in supply (15.8%), Pune maintained its occupancy in 2013/14. Moreover, further decline in average rate was arrested in 2013/14, a first since 2009/10 for this otherwise seemingly free-falling market. Healthy growth in demand (15.8%) has aided the city's hotels to grow their occupancy base with minimal rate correction despite increasing supply. This increase in demand has been mainly seen in the MICE, Commercial and Extended-Stay segments.

The city has successfully established itself as a popular MICE destination for large-scale corporate events and weddings in the country over the past few years. Also, despite the slowdown in the auto-manufacturing sector, Commercial and Extended-Stay segments saw strong increases owing to the rising IT/ITeS sector especially in the city's eastern and western parts. Several large companies are choosing to set up their back office operations in Pune, owing to the availability of large floor plates in commercial buildings, lower rentals when compared to Mumbai, relatively good connectivity and a burgeoning talent pool emanating from several educational institutions present in the city. Going forth, we expect this trend to continue. Rise in industrial output in April-May this year also leads us to believe that growth in the manufacturing sector, a major contributor of demand to hotels, is on the anvil.



Novotel Pune

On the supply front, the year 2014/15 is expected to be a unique one for Pune city as no large branded hotel is anticipated to commence operations in the first half of the fiscal. **With a slowdown in supply and a continued increase in demand, we expect occupancy across the eastern and central micro-markets to pick up. We also anticipate average rate to improve gradually as hotels get the much-needed break from new-supply pressure.** Considering over 50% of the proposed supply currently being tracked by us is planned in Hinjewadi, we are of the opinion that over the next two-to-three years, occupancy and rate pressure will shift to the west before stabilising in the long term.

Future Trends & Opportunities

In recent years, we have highlighted various trends and opportunities impacting the Indian Hospitality sector. These have, in the last three-to-five years, included the **beginning of hotel transactions and rebranding of hotels; increased awareness in Indian hotel owners; growth in domestic travel; emergence of institutional hospitality players; growth of the previously untapped MICE segment; the creation of newer Leisure markets and last, but not least, focus on environmental sustainability within hotels.** We conclude this year's publication by drawing attention to a few additional trends and opportunities that every hospitality industry stakeholder must pay heed to.

Social Media

It's an on-line world and has been for some time now. While the emergence of social media may not be a brand-new trend, its impact on the hospitality sector continues to gain momentum with each passing year. **Social media platforms such as Facebook, Twitter, LinkedIn, Instagram, Pinterest, Google+, Zomato, Tripadvisor, etc. are increasingly influencing the decisions that today's consumers are inclined to take.** Not surprisingly therefore, most hotel companies are spending time, money and effort in engaging with their target audience and are keeping them abreast of current happenings via these media.

Social media tools are providing operators a greater and faster out-reach, thereby enabling them to connect with their audience in real-time.

Use of social media to promote Room, F&B and Spa experiences is a rising trend and is expected to grow in the future. While benchmarking a hotel or restaurant's popularity and success may not be entirely possible simply by correlating it to its Tripadvisor ratings just yet, one cannot deny the fact that a vast majority of guests – corporate and leisure alike – do conduct online research before making their hotel stay and/or F&B spend decisions. These tools are providing operators a greater and faster out-reach, thereby enabling them to connect with their audience in real-time. The ability of such platforms to assist hotel owners and operators today – if utilised correctly – is immense.

REITs

The first draft guidelines of Real Estate Investment Trusts (REITs) for India were released in 2008. After years of non-action by the state and central authorities, REITs were formally approved, and that too in this year's budget. REITs have been on the wish-list of the Indian real estate industry for long and are expected to add vibrancy to the sector with a prospective increase in institutional investors and retail buyers. Furthermore, they are likely to bring in globally-accepted practices to real estate funding and revive the interest of both global and domestic investors in the sector.

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Additionally, REITs will provide an alternate source of funding to hotels, which could earlier only look for banks and financial institutions for investments: with the introduction of REITs, funding of new projects and expansions will be made more accessible. We view this as an interesting opportunity for hotel developers of today and tomorrow.

Electronic Travel Authorisation

Electronic Travel Authorisation (ETA), a facility to issue visa on arrival for tourists from 180 countries, is likely to be introduced later this year. The Union government plans to roll out ETA across nine airports: Delhi, Mumbai, Kolkata, Chennai, Hyderabad, Bangalore, Kochi, Thiruvananthapuram and Goa. Presently, India gets less than seven million foreign tourists a year.

We believe the ETA facility will help boost commercial, leisure and MICE tourism across the country. While this presents a strong opportunity for growth in Foreign Tourist Arrivals, this alone may not suffice and larger issues such as safety & security, hygiene & cleanliness, infrastructure development and effective marketing of India as a destination would need to contribute equally in enticing the prospective inbound tourist.

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MICE

We continue to believe that there are significant opportunities in the MICE segment across various hotel positioning. With the announcement of a world-class convention facility to be developed in Goa in the recent union budget, we believe this to be a starting point for other destinations to follow suit.

JW Marriott Aerocity and Kempinski Ambience in Delhi, ITC Grand Chola in Chennai, Sheraton Brigade and Vivanta by Taj in Bengaluru, The Fairmont and the Marriott in Jaipur are a few examples that have contributed to the creation and/or growth of MICE demand across these cities. Mumbai has two large facilities opening shortly at the JW Marriott and Sahara Star located at the two terminals of the airport. India can now aspire to present itself as an interesting MICE destination to consumers from across the world.

The Prime Minister's Five Ts

To build "Brand India", the newly appointed Prime Minister laid out his Five Ts – Tradition, Talent, Tourism, Trade and Technology – as the watchwords for India's future. We are of the view that all these pillars have a direct correlation with the future of India's hospitality sector.

Tradition – Indian hospitality has long been revered for its deep-rooted philosophy of serving with humility and grace. Indeed, hospitality is tradition in India. **As the sector grows in size and scale, staying true to our age-old tradition of "Atithi Devo Bhava" could prove to be one of the differentiators that separate the successful from the not-so-successful hotels of tomorrow.**

Talent – Perhaps the single largest challenge that the Indian Hospitality sector faces today is the lack of trained, experienced and motivated talent. The talent that does exist gets poached and stolen by better-paying alternatives. **The sector will have to take serious and immediate steps towards training, growing and retaining a talent pool if it intends to continue delivering quality service to the guests of tomorrow.** In fact, recognising the urgent need for training, HVS India has recently launched HVS Professional Skills Development, a business divison that aims to provide superior Learning and Development solutions across the hospitality industry.

Tourism – No ruling government in the history of India has put Tourism on their main agenda. With the new government acknowledging India's largely untapped potential as a major tourist destination, we foresee a new ray of hope for the hospitality sector. **Coupled with the ETA, the government has also identified close to 50 tourist circuits that include medical, wellness, religious, beach and archeological tourism.** Tourism is being taken seriously and that in itself is an opportunity for growth!

Trade – Promoting India as an investment destination is an important part of the new government's agenda. Raising the FDI bar across various industries is a welcome step forward. **Encouraging growth in the manufacturing sector with his recent "Make in India" slogan, the Modi Government's plans are targeted at ultimately allowing the nation's economy to work towards a trade surplus.** Clearly this can significantly contribute to the growth and success of the Hotel sector.

Technology – Critical to the nation's growth, technology and its export will continue to play a key role in the economic future of India.

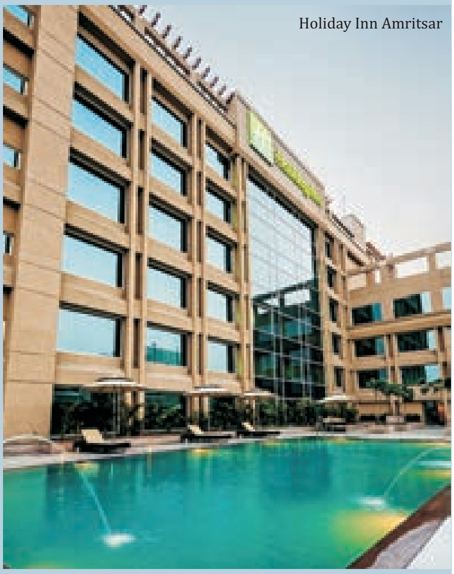
The hotel sector, too, is largely dependent on technology for its success. **From in-room iPads and docking stations to state-of-the-art Point of Sale systems that allow hotel operators to track consumer likes, dislikes and spend behaviors, today's hotels are increasingly using technology in their daily operations.** Making guest experiences more memorable with technology as an aid is a trend that will only grow with time.

A Potential Threat

While the new government has indeed chosen to pay attention to tourism and we find this to be a promising sign for our sector, it is also a little worrisome when **"political adventurism"** sometimes takes precedence over **"common sense"**. The recent talk about prohibition in Kerala or a Goa minister's unnecessary comments about a proposed ban on swimwear are more political gimmicks than real issues at hand. The government of the day would be well advised to move beyond such posturing and hopefully concentrate on issues such as safety of the female traveller so that we may truly see Indian Hospitality flourish.

In Conclusion

To summarise, the decisive outcome of the 2014 elections is expected to improve investor confidence in the country. India's strong economic fundamentals coupled with a stable political situation will help revive growth in the medium–to-long term. **The Indian Hospitality sector is very likely on the cusp of a much awaited growth trajectory and we end this year's publication on a note of hope and optimism.**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