2016
HOTELS IN INDIA
TRENDS & OPPORTUNITIES

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Introduction

The season's first rainfall. A child's first words. Your very first pay check. Beginnings are a cherished feeling! Why should it be any different in the world of hotels?

As HVS celebrates the beginning of its third decade of operations in India, the Indian Hospitality Sector raises a toast to the first year of a much awaited up-cycle. This year's Trends & Opportunities report bears witness to an appreciable increase in nationwide occupancy coupled with a nominal growth in average daily rate (ADR). As markets across most Indian cities Trumped (pun unintended) the previous year's performance, particularly noteworthy is the trend that ADRs increased after four years of consecutive decline, albeit marginally. Here we bring to you a detailed analysis of the year gone by, and the hope is that India's hotel industry stakeholders shall draw inspiration from their own recent performance and tread a path that continues to augment their Best Available Rate (BAR) offering, especially in light of the fact that occupancies are more than likely to further strengthen this year. **Indeed, it is now time to raise the BAR!**

alterations to the sample set of hotels for the two most recent years. Resultantly, figures reported for 2014/15 in this edition have a minor variance from the numbers published for the same period, last year.

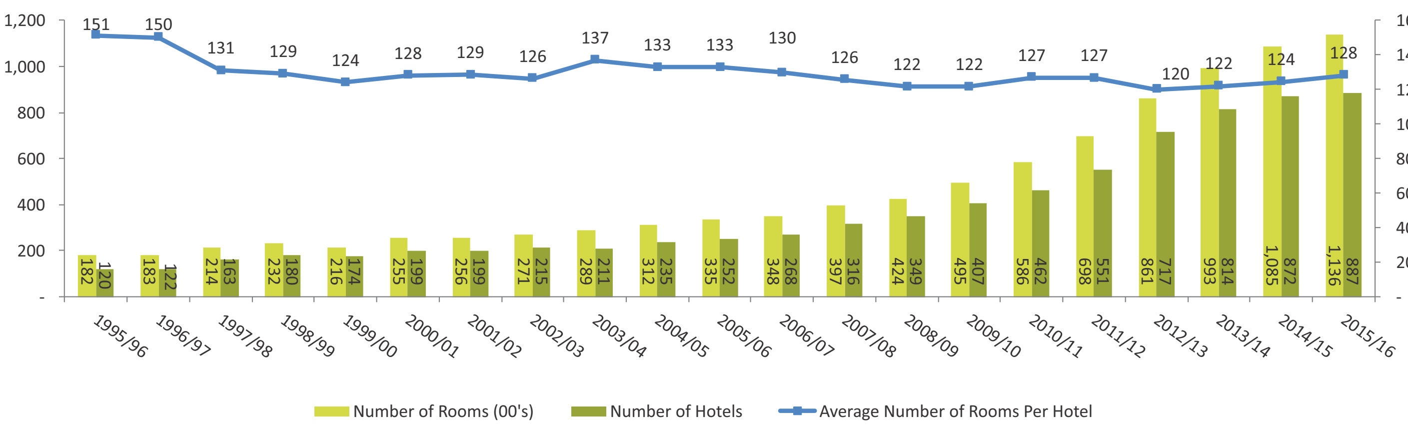
Additionally, as a standard practice, we have weighted the number of room nights in 2015/16 to account for the new supply that was not operational for the entire fiscal in order to compute the overall occupancy and average rate. **The weighted room count for 2015/16 is 1,10,293, up from 100,390 for 2014/15. Figure 1 illustrates survey participation for the last twenty one years till 2015/16.**

The Indian Economy – An Overview

In a volatile global economic environment, India has emerged as one of the better performing economies of the world, owing to relatively strong investor sentiment, domestic absorption and falling oil prices.

The National Democratic Alliance (NDA) led by BJP completed two years in office in May 2016. In 2014/15, the government set the tone for economic growth with emphasis on infrastructure, simplification of tax structure, and facilitation of entrepreneurship at both rural and urban levels. It further focused on creating an investor-friendly climate by fostering competition and streamlining bureaucracy.

FIGURE 1: SURVEY PARTICIPATION (1995/96 – 2015/16)



Source: HVS Research

For over two decades, HVS has collated data related to the hotel performance of the country through the annual *Trends & Opportunities Survey*. This report discusses the key hospitality trends as well as our outlook for the future, highlighting 13 major Indian markets. It further presents opportunities in the hospitality industry of specific interest to investors, developers and hotel operators.

Growing consistently since 1995/96 from just 120 hotels with about 18,000 branded/organised rooms to a record **887 hotels with a room count of 1,13,622 in 2015/16, the survey participant base has witnessed an increase of 5,170 rooms** since the last survey.

In a bid to maintain strict control on the quality of data analysed and presented herein, we have made slight

At the close of 2015/16, the country saw macroeconomic stability owing to a decline in inflation, fiscal deficit and current account deficit. Going forward, the *Union Budget 2016-17* has identified nine pillars that will support economic growth for the country. These include tax reforms, fiscal discipline, investment in infrastructure, ease of doing business, agriculture and farmer welfare, rural sector, social sector, education and job creation.

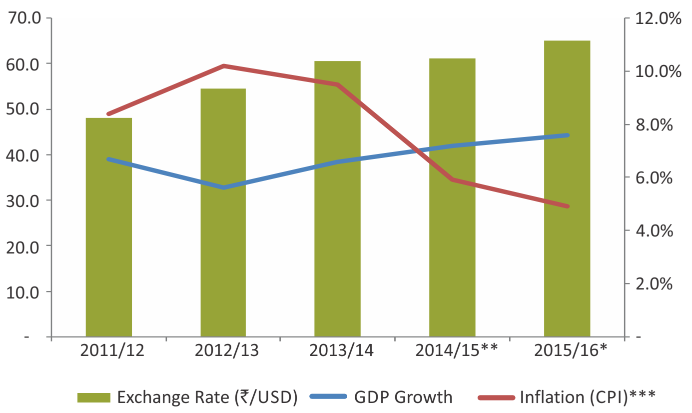
Inflation dropped dramatically in the past couple of years, from 9.5% in 2013/14 to 4.9% in 2015/16[1]. This was largely as a result of decline in crude oil prices and timely management of inflation by the government through buffer stocking and import of select commodities, among other measures.

[1] *Economic Survey of India 2015-16*

Additionally, the country's external balances rose from US$287 billion in July 2013 to US$353 billion in July 2016[2].

As per the revised method of calculating the national accounts with the base year as 2011/12, the *Economic Survey of India 2015-16* estimated a GDP growth of 7.6% for the country, last fiscal. The Services sector continued to serve as the main driver of the economy, recording 9.2% growth over the previous year. Within the Services sector, the subsector comprising Trade, Hotels, Transport, Communication and Broadcasting Services is estimated to have grown by 9% in 2015/16 and more specifically, the growth in Hotels and Restaurants segment is estimated at 21.5%[3] during the same time period.

FIGURE 2: GDP GROWTH, INFLATION AND EXCHANGE RATE – A FIVE-YEAR TREND



** Advance Estimates | ** First Revised Estimates*
**** RBI moved from Wholesale Price Index (WPI) to Consumer Price Index (CPI) in 2014, providing a more accurate indication of inflation*

Figure 2 displays GDP Growth, Inflation and Exchange Rate from 2011/12 to 2015/16.

The last fiscal saw a further deceleration of the rupee against the US dollar, which can be attributed to the latter gaining against all major currencies on account of stronger growth in the US as well as the deterioration in China's growth and currency development. Nonetheless, in comparison to the currencies of most emerging market economies, the rupee withstood the depreciation pressure better. The average exchange rate at the closing of 2015/16 was ₹65.03/US$. Looking ahead, despite India's healthy macroeconomic fundamentals, the devaluation of emerging market currencies and monetary tightening by the Federal Reserve (US central bank) are likely to cause further depreciation of the rupee to the US dollar.

Advantaging GDP growth, 100% Foreign Direct Investment (FDI) has been introduced in trading, e-commerce, broadcasting carriage services, brown field aviation projects and pharmaceuticals, as per the *Union Budget 2016-17*. The total FDI inflow for 2015/16 was US$55,457 million[4], which is 23% higher than the previous year. During the same period, Hotel and Tourism ranked as one of the top ten sectors to attract the highest FDI, contributing 3% of the total inflow.

Moving forward, a landmark tax reform likely to be implemented by the next fiscal is the Goods and Services Tax (GST), which aims at replacing the indirect taxes on all goods and services, making the tax base wider-ranging, transparent and inclusive. While the bill has been passed by the parliament, it is currently under the process of ratification by individual states. We touched upon this in last year's publication as well; however, progress on this front in recent weeks has finally made the possibility of this bill seeing fruition likely.

With respect to the Indian hospitality sector, the current tax structure comprises various levies such as VAT and Luxury Tax (LT), which can be confounding for the end consumer. Moreover, because taxation is a state subject, the quantum and calculation of taxes differ from state to state. At this stage, while the tax percentage is still under debate (and its impact in terms of increased or decreased expenses for the end consumer cannot be ascertained), the implementation of GST may at least bring uniformity in the tax structure for hotels, dispelling the current confusion.

Lastly, Britain's decision to exit the European Union (Brexit) is likely to have an adverse effect on parts of the global economy, consequently impacting the hospitality industry at large. Although subsequent fluctuation on international outbound travel from the UK is unpredictable, we foresee the impact on the Indian hospitality industry to be only marginal. In fact, in the coming years, we expect the Indian hospitality sector to continue exhibiting growth owing to the increased dependence on domestic demand.

Overall, the country's economic outlook remains positive.

Tourism Overview

The Indian Travel and Tourism Industry has been instrumental to the nation's economic growth. Over the years, it has also emerged as a significant source of foreign exchange and a large employment generator.

According to the *World Travel & Tourism Council's Economic Impact 2016 - India* report, the total contribution of Travel and Tourism to the GDP was ₹8,309.4 billion (6.3% of the GDP) in 2015. This is projected to grow by 7.3% to ₹8,913.6 billion in 2016 and eventually reach ₹18,362.2 billion (7.2% of the GDP) by 2026.

The sustained growth of this industry can be attributed to the rising middle class, infrastructural reforms, increase in international tourist arrivals and tourism-friendly visa policies such as the extension of e-Tourist Visa to 150 countries. According to the *World Travel & Tourism Council's (WTTC's) Economic Impact 2016 - India* report, the total contribution of Travel and Tourism to the GDP was ₹8,309.4 billion (6.3% of the GDP) in 2015. This is projected to grow by 7.3% to ₹8,913.6 billion in 2016 and eventually reach ₹18,362.2 billion (7.2% of the GDP) by 2026.

International Tourist Arrivals (ITA) grew by 4.2% in 2015, registering a compounded annual growth rate (CAGR) of

[2] *Reserve Bank of India (RBI)*
[3] *Ministry of Statistics and Programme Implementation (MOSPI), Government of India*
[4] *Department of Industry Policy and Promotion (DIPP), Government of India*

6.2% during the past five years. The top three source markets for India during the period 2013 to 2015 continued to be the US (15.1%), followed by Bangladesh (14.1%) and the UK (10.8%).

A total of 540,396 tourists arrived on an e-Tourist Visa between January and July this year as compared to 147,690 tourists during the same period in 2015 - a whopping 266% increase.

As an initiative to further boost inbound tourism, the Government of India plans to extend the e-Tourist Visa facility to an additional 36 countries after witnessing incremental growth in tourist arrivals in the first quarter of 2016. On acceptance of this proposal, the facility will be available to 186 countries. As per the Ministry of Tourism, a total of 540,396 tourists arrived on an e-Tourist Visa between January and July this year as compared to 147,690 during the same period in 2015 - a whopping 266% increase.

Domestic demand for hotels in the country has historically been higher than inbound demand. A rise in spending capacity along with proliferation of low cost carriers has not only resulted in growth of domestic travel, but has also had a significant impact on the domestic travel spends. In 2015, domestic travel spending generated 82.5% of the direct Travel and Tourism GDP, which is expected to rise by 6.6% in 2016 to ₹6,284.4 billion[5]. Further, as an initiative to enhance regional connectivity and to make air travel more affordable for the growing middle class, the government capped the fare for one-hour flights at ₹2,500 in June 2016.

Although, the majority of demand for hotels originates from commercial activity, there is a large portion of Indians travelling for leisure, both within the country and overseas. In 2015, the WTTC estimates that leisure travel spending (inbound and domestic) generated 83.2% of the direct Travel and Tourism GDP (₹5,945.5 billion) in comparison to 16.8% from business travel spending (₹1,198.9 billion). We touch upon the potential of leisure demand in more detail later in this report.

Thus, acknowledging the vast scope of Travel and Tourism in India, the government has proposed various initiatives such as 'Project Mausam' and 'National Mission on Pilgrimage Rejuvenation and Spiritual Augmentation Drive (PRASAD)'. Furthermore, the *Union Budget 2016-17* allocates ₹1,590 million to the tourism ministry to focus on infrastructure development, promotion and publicity initiatives – all of which bode well for the Indian tourism sector.

PROJECT MAUSAM

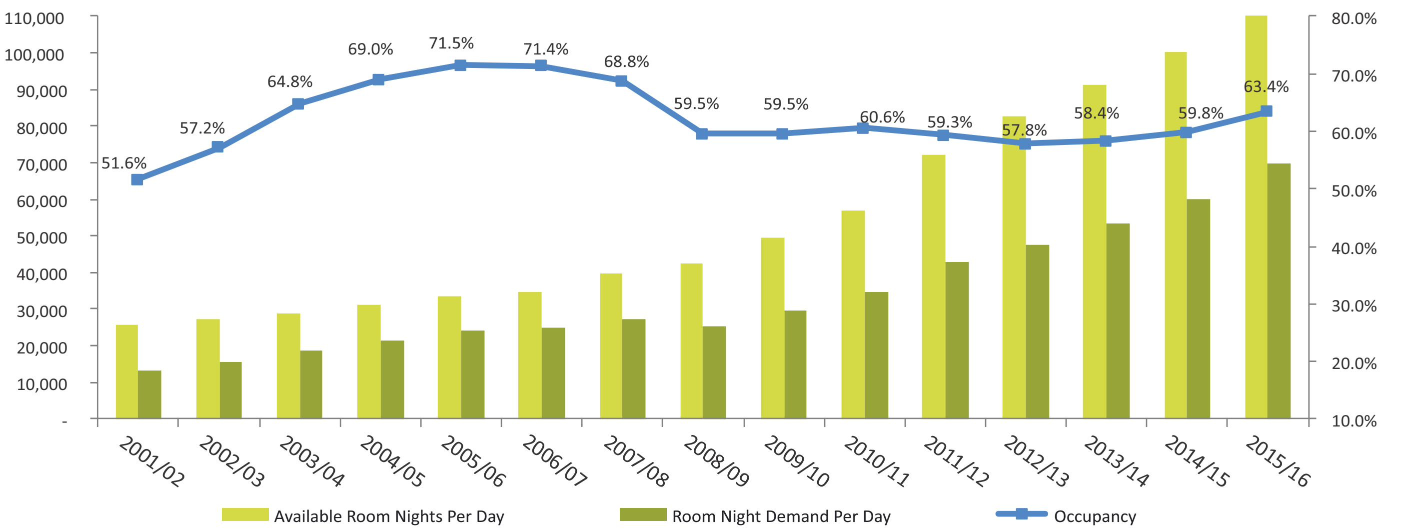
- **Reconnect and re-establish communications between countries of the Indian Ocean world**
- **Enhanced understanding of cultural values and concerns**
- **Understanding national cultures**

Raising the BAR!

On a nationwide basis, new branded and/or organised supply grew by 9.9% last year. Demand outpaced it considerably to increase by almost 16.4% in the same period. The resultant marketwide occupancy of 63.4% in 2015/16 was thus a healthy 6% higher than the preceding year. When broken down by positioning, the improved occupancies are evident across all star-categories. Overall, this is the third consecutive year of occupancy growth. Figure 3, below, presents the nationwide supply and demand trend for a 15-year period.

The average daily rate story deserves a more meticulous review this year. While the absolute increase in ADR may not be something to write home about, the very fact that the weighted average rate for almost 900 branded/organised hotels across varied positioning, geographies and stabilisation statuses showed an enhancement over the preceding year, points to an overall improvement in the health of the hotel sector.

FIGURE 3: ROOM NIGHT DEMAND VS AVAILABLE ROOM NIGHTS (2001/2002 – 2015/16)



Source: HVS Research

[5] *World Travel & Tourism Council's (WTTC's) Economic Impact 2016 - India Report*

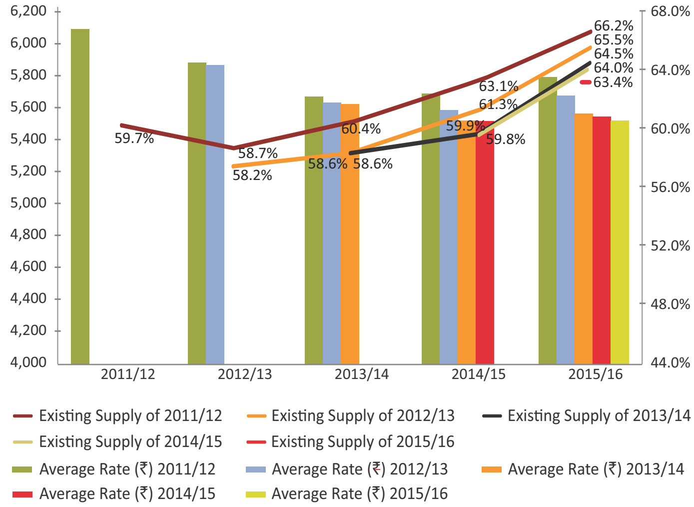
We also analysed year-on-year ADR growth by brand and found that more than 90% of the existing hotel chains (both domestic and international) were able to enrich their net rate across the board. In addition, though a variety of factors can influence a market's ADR growth story, demand outpacing new supply is invariably the first indicator to operators that as occupancy grows, rate can follow – the future addition of supply across most markets is being tracked at sub-10% annually, even as there is no reason to expect a slowdown in the double-digit growth in demand over the next few years. Lastly, all macro-economic factors are pointing squarely toward a general resurgence in the overall environment. Astute hotel operators would take note of these trends and plan their rate strategies accordingly.

While we have given credit where due, it is equally important that we highlight the challenges that have frequently marred the sector when it comes to room rate planning. Most hotel companies make vociferous claims that their global brands are the bee's knees. However, one finds sparse evidence of that in their average rate strategy. A marginal ADR increase in a brawny occupancy environment does not point to an acute understanding of revenue management. Most hotel companies prefer the asset-light, management contract driven path for their growth in India (and the broader Asia Pacific region), and one wonders if they are harnessing the requisite talent that can do justice to the revenue management discipline that is a key influencer in the profitability of hotels. In fact, firms that can offer quality third-party management or hands-on asset management to hotel owners are likely to have an important role in the future.

At the risk of sounding like a broken record, we assert yet again that shying away from a rate-driven strategy is not "being cautious", it is "being scared". It may surprise many to note that less than 2.5% of India's existing supply achieved an ADR of more than US$200 this past year. When compared to most maturing hotel markets across the globe, this number is shockingly low. The fact that we are staring at an up-cycle (unforeseen extremities aside) is hardly a matter of debate. This in itself should be ample reason for hotel operators to take a positive, assertive and optimistic view on their ability to increase ADRs consistently over the next several quarters.

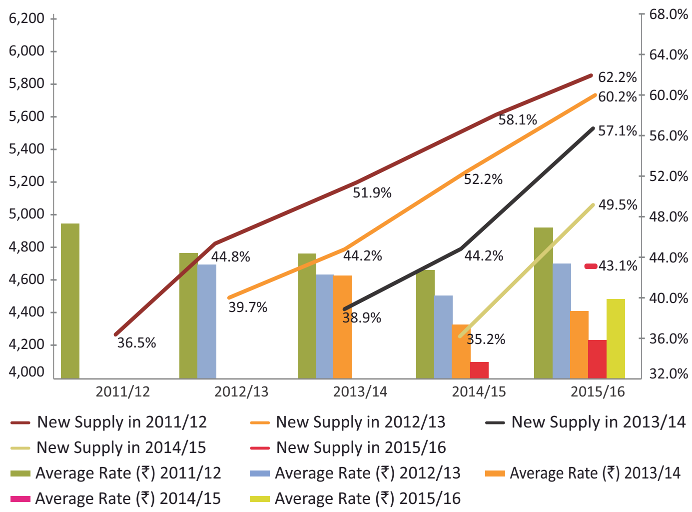
At the risk of sounding like a broken record, we assert yet again that shying away from a rate-driven strategy is not "being cautious", it is "being scared".

FIGURE 4: PERFORMANCE OF EXISTING HOTELS (2011/12 – 2015/16)



Source: HVS Research

FIGURE 5: PERFORMANCE OF NEW HOTELS (2011/12 – 2015/16)



Source: HVS Research

As a recurring theme over the last few publications, we present Figure 4 and Figure 5, and analyse the performance of existing supply vis-a-vis the performance of new/recent supply over the past five years. Figure 4 highlights that while nationwide occupancy for all branded hotels was 63.4% in 2015/16, hotels that have existed since 2011/12, achieved 66.2% occupancy last year. Displaying a similar trend, hotels that have been operating since 2012/13 clocked 65.5% occupancy in 2015/16. On the average rate front, while India's ADR was ₹5,541 in 2015/16, for hotels in existence since 2011/12 the ADR last year was ₹5,815 and for hotels that have been around since 2012/13 it was ₹5,696. Digging deeper, Figure 5 displays performance of only new hotels that have opened over the last five years. While first year occupancy performances of hotels that opened in 2011/12 through 2014/15 were all in the mid-to-late thirties, do note that hotels that opened in 2015/16 averaged 43.1% occupancy in their very first year. Similarly, first year

ADRs were successively lower than respective prior years when one studies data from the previous four fiscals; however, the ADR for hotels that opened in 2015/16 was higher than that of the new hotels that opened in 2014/15 and 2013/14. Relatively strong year one performances are yet another sign that the markets are in the early stages of an upswing.

Finally, we would like to highlight that HVS has been the recipient of several feasibility study requests over the last few months – a clear indication that developers and investors are displaying renewed interest in the sector. Hotel Architects, Interior Design companies, Law Firms, Lending Institutions and Hotel Brands are likely to see the same trend line in the months ahead. Given that we are usually the first point of contact when stakeholders decide to explore investment in the hotel business, the recent spike in queries leads us to further believe that the sector is being seen as an attractive proposition again.

Further analyses of market specific dynamics are rendered later in this report. Overall, we feel fairly certain in asserting that resurgence is evident and hotels that plan their short-to-medium term strategy with an eye at raising the BAR this year, may have much to cheer about.

Survey Results

This report analyses the performance of the branded and organised hotel market in India. The historical information gathered is arranged and interpreted based on star classifications followed by an emphasis on 13 major hotel markets. Moreover, the future supply in each market is analysed based on its positioning, proposed room count and development timeline in order to estimate changes over the next five years.

Industry Performance According to Star Category

Nationwide **RevPAR performance was recorded at ₹3,512 in 2015/16, a significant growth of 6.1% over the preceding fiscal.** The nationwide weighted occupancy (63.4%) swelled 6%, corresponding with a marginal increase of 0.1% in average daily rate (₹5,541). A concurrent increase in occupancy and ADR was last seen in 2010/11.

Figure 6 illustrates hotel occupancy across the star categories in India between 1996/97 and 2015/16. Figures 7 and 8 show average rate and RevPAR for each of the star categories expressed in Indian rupees, respectively, followed by Figures 9 and 10 that present the corresponding data in US dollars.

FIGURE 6: KEY OPERATING CHARACTERISTICS BY HOTEL CLASSIFICATION – OCCUPANCY

	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	2014/15*	2015/16	12-Month** Change	Compounded Growth
Overall Average	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%	58.4%	59.8%	63.4%	6.0%	0.0%
Five-star Deluxe	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%	59.9%	61.7%	64.7%	4.8%	-0.2%
Five-star	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%	55.7%	57.2%	61.1%	6.8%	-0.4%
Four-star	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%	59.1%	61.2%	64.8%	5.9%	0.4%
Three-star	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%	57.9%	59.8%	64.3%	7.6%	1.4%
Two-star																64.8%	59.0%	61.0%	57.7%	60.2%	4.3%	-1.8%

* The 2014/15 data has been modified to exclude the performance of irrelevant supply

** Change in 2015/16 expressed as percentage of the figure for 2014/15

Source: HVS Research

FIGURE 7: KEY OPERATING CHARACTERISTICS BY HOTEL CLASSIFICATION – AVERAGE RATE (₹)

	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	2014/15*	2015/16	12-Month** Change	Compounded Growth
Overall Average	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	5,611	5,532	5,541	0.1%	2.2%
Five-star Deluxe	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	8,727	8,815	8,976	1.8%	3.1%
Five-star	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	5,720	5,559	5,541	-0.3%	3.2%
Four-star	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	4,474	4,361	4,442	1.8%	4.8%
Three-star	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	3,083	3,039	3,123	2.7%	4.2%
Two-star																1,714	1,849	2,063	2,063	2,114	2.5%	5.4%

* The 2014/15 data has been modified to exclude the performance of irrelevant supply

** Change in 2015/16 expressed as percentage of the figure for 2014/15

Source: HVS Research

FIGURE 8: KEY OPERATING CHARACTERISTICS BY HOTEL CLASSIFICATION – REVPAR (₹)

	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	2014/15*	2015/16	12-Month** Change	Compounded Growth
Overall Average	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	3,275	3,310	3,512	6.1%	2.2%
Five-star Deluxe	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	5,231	5,438	5,803	6.7%	2.9%
Five-star	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	3,185	3,178	3,384	6.5%	2.8%
Four-star	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	2,643	2,669	2,877	7.8%	5.2%
Three-star	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	1,786	1,817	2,008	10.5%	5.7%
Two-star																1,110	1,091	1,258	1,190	1,272	6.9%	3.5%

* The 2014/15 data has been modified to exclude the performance of irrelevant supply
** Change in 2015/16 expressed as percentage of the figure for 2014/15

Source: HVS Research

FIGURE 9: KEY OPERATING CHARACTERISTICS BY HOTEL CLASSIFICATION – AVERAGE RATE (US$)

	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	2014/15*	2015/16	12-Month** Change	Compounded Growth
Overall Average	104	110	90	81	83	73	68	78	96	122	162	199	168	136	143	126	106	92	90	85	-5.8%	-1.1%
Five-star Deluxe	141	155	128	113	114	99	90	102	125	161	224	278	242	194	205	192	165	144	144	138	-4.2%	-0.1%
Five-star	89	91	79	77	77	69	65	73	87	112	149	190	158	134	140	128	108	94	91	85	-6.3%	-0.2%
Four-star	52	70	61	50	53	50	47	56	69	86	117	142	125	97	108	102	86	74	71	68	-4.2%	1.4%
Three-star	40	43	37	35	37	36	35	36	41	50	69	87	77	68	73	70	60	51	50	48	-3.4%	1.0%
Two-star																36	34	34	34	33	-3.6%	-2.3%
Exchange Rate	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	61.2	65.0		

* The 2014/15 data has been modified to exclude the performance of irrelevant supply
** Change in 2015/16 expressed as percentage of the figure for 2014/15

Source: HVS Research

FIGURE 10: KEY OPERATING CHARACTERISTICS BY HOTEL CLASSIFICATION – REVPAR (US$)

	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	2014/15*	2015/16	12-Month** Change	Compounded Growth
Overall Average	66	63	50	43	48	38	39	50	66	87	116	137	100	81	87	75	61	54	54	54	-0.2%	-1.0%
Five-star Deluxe	95	96	77	66	69	52	53	66	89	119	164	200	151	120	125	114	99	87	89	89	0.3%	-0.3%
Five-star	58	53	44	43	43	36	37	49	62	79	105	128	93	79	87	76	60	53	52	52	0.1%	-0.6%
Four-star	31	41	34	27	31	26	26	39	49	63	84	98	73	59	65	61	50	43	44	44	1.4%	1.8%
Three-star	20	20	18	16	18	18	19	22	23	33	48	56	43	38	43	40	34	29	30	31	3.9%	2.4%
Two-star																23	20	21	19	20	0.5%	-4.1%
Exchange Rate	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	61.2	65.0		

* The 2014/15 data has been modified to exclude the performance of irrelevant supply
** Change in 2015/16 expressed as percentage of the figure for 2014/15

Source: HVS Research

Each star category registered a year-on-year increase in RevPAR in 2015/16, with the three-star category leading the pack like the year before, recording a 10.5% growth. The improvement in RevPAR across all star categories can be attributed to both occupancy and average rate, with the exception of five-star hotels.

Five-star hotels recorded the second highest growth in occupancy (6.8%); however, this was the only star category that logged a miniscule drop of 0.3% in its average rate last year. In contrast, two-star hotels that had seen a marginal decline in their overall performance in 2014/15, revived to achieve a year-on-year increase of 4.3% in occupancy and 2.5% in average rate in 2015/16. This may be attributed to the gradual escalation of commercial activity in Tier II and Tier III cities as well as increased domestic travel.

Existing Supply – 2015/16

The existing room supply grew by 5.5% in 2015/16 totaling to 113,622 rooms (as of 31 March 2016). **This takes into account 5,619 new rooms that entered various markets during the year, and the rest are an expansion of the sample set being tracked by HVS.** Furthermore, the change in the total existing supply for 2014/15 is largely because of an intentional cleansing of the reported hotels so as to reflect quality branded/organised supply only.

Looking at the 13 markets analysed in this report, Agra saw the highest increase in supply (16%) in 2015/16, adding to the relatively small base of hotels, followed by Ahmedabad (7.1%) and New Delhi (6.4%).

In absolute terms, New Delhi maintained its top position with the largest number of branded hotel rooms in the

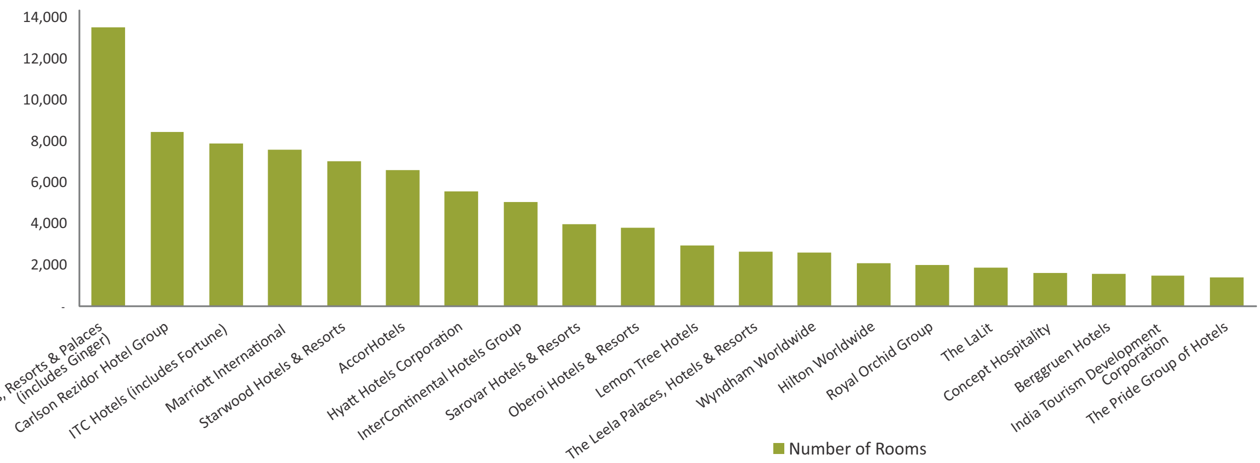
FIGURE 11: EXISTING SUPPLY ACROSS MAJOR CITIES (2006/07 – 2015/16)

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15*	2015/16	12-Month** Change	Compounded Growth
Agra	1,336	1,336	1,419	1,439	1,439	1,739	1,299	1,293	1,755	2,036	16.0%	4.8%
Ahmedabad	519	675	800	1,521	1,785	1,975	2,477	2,777	2,944	3,154	7.1%	22.2%
Bengaluru	2,414	3,456	3,889	5,597	5,947	7,713	8,536	10,162	11,117	11,799	6.1%	19.3%
Chennai	2,442	2,826	3,307	3,806	4,066	4,904	6,330	7,105	7,444	7,787	4.6%	13.8%
New Delhi ***	7,990	9,019	8,625	8,129	9,111	10,697	11,338	12,370	13,193	14,035	6.4%	6.5%
Gurgaon				1,980	3,246	3,782	4,559	5,190	5,323	5,323	0.0%	17.9%
NOIDA				300	351	527	841	1,239	1,322	1,322	0.0%	28.0%
Goa	2,450	2,768	2,795	3,288	3,375	3,885	4,406	4,703	5,298	5,596	5.6%	9.6%
Hyderabad	1,868	2,554	2,761	3,782	4,036	4,797	5,411	5,734	5,954	6,262	5.2%	14.4%
Jaipur	1,388	1,556	1,683	2,472	2,554	3,054	4,129	4,523	4,822	5,040	4.5%	15.4%
Kolkata	1,354	1,396	1,373	1,520	1,588	1,787	2,163	2,243	2,701	2,701	0.0%	8.0%
Mumbai	7,402	8,454	7,948	9,877	11,303	12,052	12,807	13,022	12,865	13,054	1.5%	6.5%
Pune	777	1,346	1,518	2,672	4,691	5,672	5,317	6,159	6,137	6,287	2.4%	26.2%
Other Cities****	9,345	11,596	12,357	15,412	18,039	21,729	24,642	24,657	26,820	29,226	9.0%	13.5%
Total	39,285	46,982	48,475	61,795	71,531	84,313	94,255	101,177	107,695	113,622	5.5%	12.5%

** Supply tracked in 2014/15 has been modified due to the removal of irrelevant supply*
*** Change in 2015/16 expressed as percentage of the figure for 2014/15*
**** Delhi NCR data (Shaded Portion), rest New Delhi (excluding Gurgaon, NOIDA and Greater NOIDA) data*
***** Other Cities includes all other hotel markets across India*

Source: HVS Research

FIGURE 12: TOP 20 HOTEL BRANDS BY EXISTING INVENTORY (AUGUST 2016)



Source: HVS Research

country, closely followed by Mumbai (including Navi Mumbai) and Bengaluru. NOIDA (including Greater NOIDA), continued to be the smallest hotel market among the 13 tracked here in, with an existing base of only 1,322 branded rooms in 2015/16.

Figure 11 shows the existing supply for the 13 major cities from 2006/07 to 2015/16.

Figure 12 presents the total operating inventory for the 20 largest hotel brands in the country as of August 2016.

While Taj Hotels, Resorts & Palaces (including Ginger) continued to lead this group with the largest room inventory in the country, 2015/16 witnessed a shuffle among the other top players in the industry. For the first time in five years, Carlson Rezidor moved to the second position surpassing ITC Hotels (including Fortune), even as The Leela Palaces, Hotels & Resorts outpaced Wyndham Worldwide taking the 12th position. Hilton Worldwide moved up to the 14th rank displacing Royal Orchid Group, and Concept Hospitality swapped places with Berggruen Hotels at the 17th position. The new entrant to the list this year is The Pride Group of Hotels, replacing Choice Hotels at the 20th position.

Moving forward, as part of their expansion plans, the top hotel brands are shifting their focus toward emerging markets in order to target consumers beyond the traditional commercial segments. The smaller Tier II and Tier III Indian cities provide brands with the opportunity to expand their footprint faster with low barriers to entry, and help tap the domestic travel segment while establishing brand recall and loyalty.

Like last year, we also studied the prominent hotel ownership companies in India, presented in Figure 13. It is interesting to note that the owned inventories of the top 15 companies account for almost 34% of the existing branded supply.

Future Supply

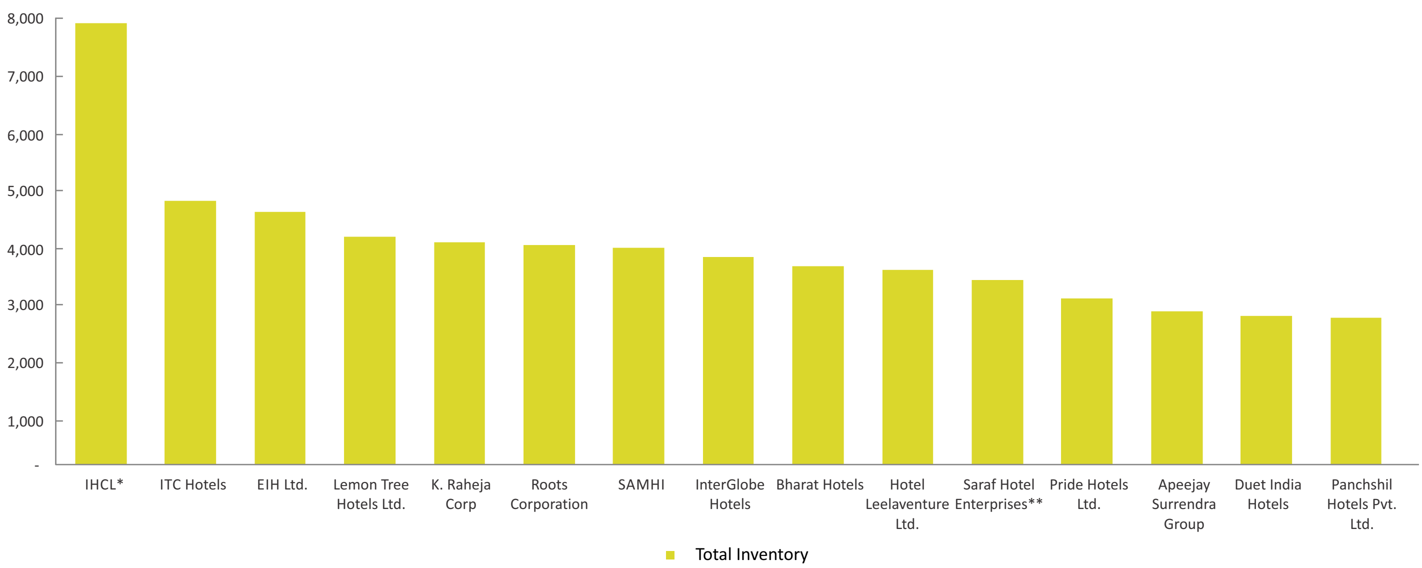
The proposed supply landscape is ever-changing and subject to several external forces that can often delay project openings. Thus, HVS adopts a cautious and comprehensive approach to compute the supply probable to enter the market over the next five years. The information conscientiously gathered throughout the year, as well as via the annual *Trends & Opportunities Survey*, is examined thoroughly by the team. The resultant list of projects omits all superficial statements made to the media or announcements made by real estate developers or owners to promote their brand and get greater visibility. The next step involves filtering the list based on confirmed tie-ups with an operator, planned number of rooms and anticipated date of opening. Substantial amount of time and effort is employed for assessing the probability of completion of each individual project. Therefore, as an unbiased third party, HVS meticulously analyses the future supply in the market.

Following last year's methodology, we have sliced the proposed supply further, contingent on the status of development. Only the late stage-planned and actively under construction supply have been included in the list. The inactive supply, even if announced or signed, has been removed from the five-year horizon if it's known to be delayed or abandoned.

It is noteworthy that the pipeline for proposed supply totaled 1,14,466 rooms back in 2007/08 – the highest in a decade, whereas in 2015/16 it contracted significantly to 56,912 rooms.

Figure 14 (table and chart) illustrates the branded supply across the 13 major markets covered in this report.

FIGURE 13: PROMINENT HOTEL OWNERSHIP COMPANIES BY EXISTING INVENTORY (AUGUST 2016)



** IHCL includes Piem Hotels Ltd., Taj GVK Hotels & Resorts Ltd. and other Joint Venture Companies*

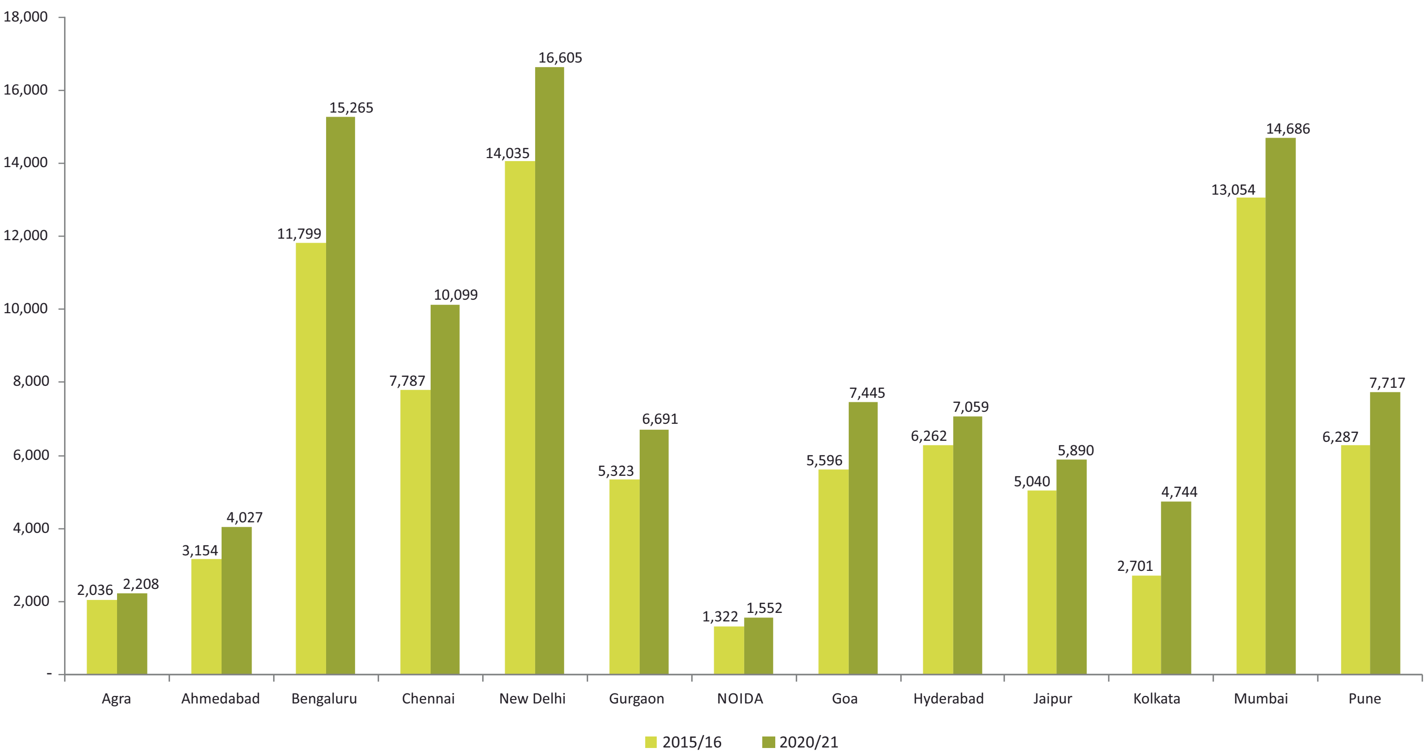
*** Saraf Hotel Enterprises includes Juniper Hotels, Chartered Hotels Pvt. Ltd., Unison Hotels Ltd., Robust Hotels Pvt. Ltd., Asian Hotels (East) Ltd.*

Source: HVS Research

FIGURE 14: PROPOSED BRANDED HOTEL ROOMS ACROSS MAJOR CITIES (2015/16 – 2020/21**)

	Existing Supply 2015/16	Proposed Supply*	Increase in Future Supply	Active Development of Supply	Luxury	Upscale	Mid Market	Budget	Extended Stay
Agra	2,036	622	31%	28%	16.1%	32.2%	0.0%	51.8%	0.0%
Ahmedabad	3,154	1,238	39%	71%	23.7%	33.2%	36.6%	6.5%	0.0%
Bengaluru	11,799	5,209	44%	67%	12.8%	39.0%	28.2%	16.5%	3.5%
Chennai	7,787	2,312	30%	100%	0.0%	0.0%	44.0%	44.4%	11.6%
New Delhi	14,035	2,792	20%	92%	19.6%	48.7%	27.3%	4.4%	0.0%
Gurgaon	5,323	1,959	37%	70%	0.0%	34.8%	30.2%	18.0%	17.0%
NOIDA	1,322	2,561	194%	9%	0.0%	45.6%	31.7%	15.3%	7.4%
Goa	5,596	2,062	37%	90%	0.0%	37.3%	28.6%	34.1%	0.0%
Hyderabad	6,262	2,464	39%	32%	0.0%	14.9%	49.0%	26.5%	9.6%
Jaipur	5,040	960	19%	89%	0.0%	27.4%	64.7%	7.9%	0.0%
Kolkata	2,701	3,209	119%	64%	15.3%	34.1%	26.6%	24.1%	0.0%
Mumbai	13,054	4,166	32%	39%	23.6%	19.9%	32.2%	18.7%	5.6%
Pune	6,287	1,965	31%	73%	25.9%	19.8%	37.2%	17.2%	0.0%
Other Cities	29,226	25,393	87%	71%	0.5%	22.0%	48.7%	25.8%	3.0%
Total	**113,622**	**56,912**	**50%**	**66%**	**6.5%**	**26.6%**	**40.1%**	**22.9%**	**3.9%**

** Proposed Supply includes 4,286 rooms which have been open for less than six months, and therefore, not included in the existing supply*



*** The supply for 2020/21 has been computed by adding the active future supply to the existing base of rooms in 2015/16*

Source: HVS Research

The "Other Cities" accounts for the rest of the markets tracked by HVS. Subsequently, we have indicated the percentage of the pipeline that constitutes Active Development – rooms that recently opened, are currently under construction or likely to enter the market within the next five years. For potential investors, the Active Development column requires scrupulous consideration, since it reflects the actual progress of hotel development in the market.

The overall Active Development ratio has seen an increase from 61% in 2014/15 to 66% in 2015/16. Various hotel projects which were earlier either inactive or

FIGURE 15: DISTRIBUTION OF EXISTING AND PROPOSED BRANDED HOTEL ROOMS ACROSS MAJOR CITIES (2006/07 – 2015/16)

Existing Supply

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Agra	1,336	1,336	1,419	1,439	1,439	1,739	1,299	1,293	1,755	2,036
Ahmedabad	519	675	800	1,521	1,785	1,975	2,477	2,777	2,944	3,154
Bengaluru	2,414	3,456	3,889	5,597	5,947	7,713	8,536	10,162	11,117	11,799
Chennai	2,442	2,826	3,307	3,806	4,066	4,904	6,330	7,105	7,444	7,787
New Delhi*	7,990	9,019	8,625	8,129	9,111	10,697	11,338	12,370	13,193	14,035
Gurgaon				1,980	3,246	3,782	4,559	5,190	5,323	5,323
NOIDA				300	351	527	841	1,239	1,322	1,322
Goa	2,450	2,768	2,795	3,288	3,375	3,885	4,406	4,703	5,298	5,596
Hyderabad	1,868	2,554	2,761	3,782	4,036	4,797	5,411	5,734	5,954	6,262
Jaipur	1,388	1,556	1,683	2,472	2,554	3,054	4,129	4,523	4,822	5,040
Kolkata	1,354	1,396	1,373	1,520	1,588	1,787	2,163	2,243	2,701	2,701
Mumbai	7,402	8,454	7,948	9,877	11,303	12,052	12,807	13,022	12,865	13,054
Pune	777	1,346	1,518	2,672	4,691	5,672	5,317	6,159	6,137	6,287
Other Cities	9,345	11,596	12,357	15,412	18,039	21,729	24,642	24,657	26,820	29,226
Total	39,285	46,982	48,475	61,795	71,531	84,313	94,255	101,177	107,695	113,622

Proposed Supply

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Agra	764	670	400	510	667	650	866	990	503	622
Ahmedabad	2,230	3,664	3,058	2,339	2,319	2,550	1,857	1,372	1,026	1,238
Bengaluru	12,882	15,542	10,784	9,819	12,509	9,716	10,731	6,911	5,317	5,209
Chennai	6,213	7,147	4,945	5,995	7,819	7,547	5,331	3,885	3,311	2,312
New Delhi*	19,423	22,360	16,560	20,021	18,608	5,626	6,144	5,355	2,502	2,792
Gurgaon						5,818	5,033	3,268	2,084	1,959
NOIDA						5,522	5,615	2,406	1,873	2,561
Goa	3,058	3,353	2,178	1,736	2,154	2,422	2,622	2,291	1,743	2,062
Hyderabad	10,619	8,250	5,884	5,302	5,713	5,265	3,433	2,893	2,474	2,464
Jaipur	4,012	2,937	3,357	2,664	4,867	3,356	2,859	1,706	1,119	960
Kolkata	3,644	5,965	4,025	3,481	3,612	3,118	3,511	2,584	2,870	3,209
Mumbai	11,578	10,613	13,386	7,477	12,121	10,896	9,802	7,896	5,561	4,166
Pune	8,072	8,243	8,054	5,196	5,545	4,645	3,705	2,620	2,005	1,965
Other Cities	19,476	25,722	21,484	24,909	26,504	26,224	23,141	23,873	23,882	25,393
Total	101,971	114,466	94,115	89,449	102,438	93,355	84,650	68,050	56,270	56,912

Active Development of Supply

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Agra	32%	55%	75%	41%	22%	80%	76%	82%	43%	28%
Ahmedabad	60%	47%	71%	69%	73%	69%	66%	86%	64%	71%
Bengaluru	61%	60%	58%	65%	67%	71%	75%	66%	52%	67%
Chennai	68%	71%	67%	72%	57%	58%	65%	80%	83%	100%
New Delhi*	56%	51%	53%	75%	75%	87%	84%	71%	87%	92%
Gurgaon						55%	53%	54%	10%	70%
NOIDA						37%	28%	70%	13%	9%
Goa	58%	42%	31%	41%	53%	53%	62%	68%	50%	90%
Hyderabad	47%	64%	73%	63%	77%	74%	87%	78%	61%	32%
Jaipur	56%	53%	53%	77%	45%	52%	56%	82%	92%	89%
Kolkata	67%	49%	62%	51%	58%	74%	64%	72%	70%	64%
Mumbai	49%	62%	73%	60%	35%	47%	42%	49%	33%	39%
Pune	77%	66%	52%	67%	56%	69%	67%	72%	64%	73%
Other Cities	58%	60%	60%	65%	56%	48%	55%	71%	70%	71%
Total	58%	58%	60%	67%	60%	58%	60%	69%	61%	66%

** Delhi NCR data (Shaded Portion), rest New Delhi (excluding Gurgaon, NOIDA and Greater NOIDA) data*

Source: HVS Research

on hold, are now actively under construction, partially explaining the increase. Moreover, this ratio also accounts for recently opened hotels (about 11%) that are too young to be included in existing supply.

> **The highest percentages of supply actively under development are in Chennai (100%), followed by New Delhi (92%) and Goa (90%).**

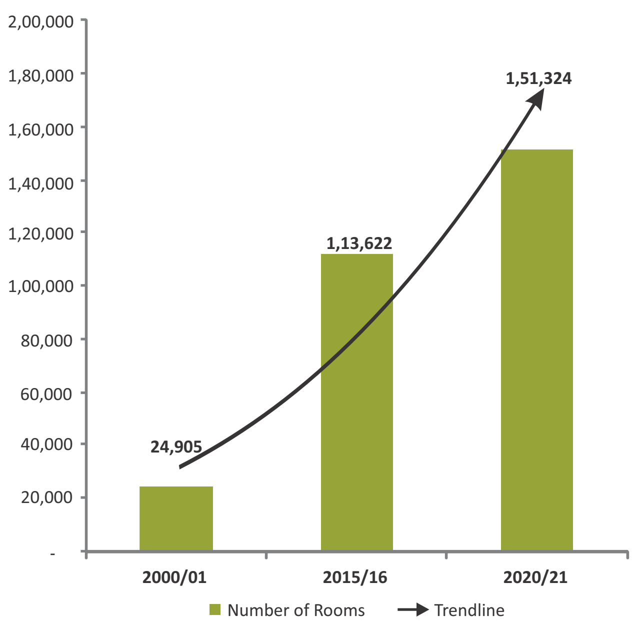
The future supply has further been divided into its potential positioning mix, consisting of luxury, upscale, mid market, budget and extended stay segments. Similar to recent years, the mid market segment has the highest potential additions to supply, followed by the upscale and budget segments.

Figure 15 presents the development trend across all major markets.

Over the next five years, NOIDA (194%) and Kolkata (119%) are anticipated to have the highest increase in future supply among the 13 major cities tracked by HVS. "Other cities" too may have a robust 87% growth in supply during this period. Do note, however, that the absolute number of proposed rooms is higher in Bengaluru and Mumbai owing to them being larger hotel markets. That being said, **the highest percentages of supply actively under development are in Chennai (100%), followed by New Delhi (92%) and Goa (90%).**

As stated earlier, the countrywide active development of supply saw a significant increase in 2015/16 when

FIGURE 16: GROWTH OF ROOM SUPPLY – INDIA (2000/01 – 2020/21)



Source: HVS Research

compared to the previous fiscal. We anticipate a little over 37,500 branded rooms to be developed over the next five years, taking the total supply to 151,324 rooms by 2020/21. Figure 16 presents the hotel room supply in 2000/01, 2015/16, and the likely existing supply in 2020/21.

Industry Performance by Major Cities

Further to analysing the proposed supply across the 13 major markets and other cities, we now dwell deeper into the historical operating performance as well as the year-on-year changes for each of these.

> All hotel markets tracked in our survey witnessed an increase in occupancy, with the exception of Agra.

Overall, all major markets tracked in this report displayed an increase in RevPAR during the year 2015/16, with the exception of Agra that registered a decline of 12%, and Kolkata that maintained near similar RevPAR levels as in the previous year. **The highest year-on-year RevPAR growth was witnessed in Bengaluru (15.3%).**

Similar to the previous fiscal, Mumbai (including Navi Mumbai) continued to top the list both in terms of average rate (₹7,363) as well as occupancy (74.3%). On the other hand, NOIDA (50.9%) ranked the lowest in terms of occupancy and Ahmedabad (₹3,867) recorded the lowest average rate.

> Seven out of 13 cities reported an increase in average rate over the previous fiscal, while the rest continued to wallow in their inability to push the needle just yet.

On the occupancy front, **all hotel markets tracked in our survey witnessed an increase, with the exception of Agra.** The highest growth in occupancy was registered by Bengaluru (14%).

In terms of average rate, seven out of 13 cities reported an increase over the previous fiscal, while the rest continued to wallow in their inability to push the needle just yet. Goa registered the highest year-on-year increase of 4% followed by Pune (3.6%), while Agra saw a sharp decline of 5.2% in average rate in 2015/16.

Figure 17 illustrates hotel occupancy for 13 key cities in India between 1996/97 and 2015/16. Figures 18 and 19 show average rate and RevPAR for each of these hotel markets expressed in Indian rupees, respectively, followed by Figures 20 and 21, illustrating corresponding data in US dollars.

FIGURE 17: KEY OPERATING CHARACTERISTICS BY MAJOR CITIES – OCCUPANCY

	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	2014/15*	2015/16	12-Month** Change	Compounded Growth
Agra	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%	60.4%	61.5%	57.1%	-7.1%	0.5%
Ahmedabad	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%	52.7%	53.9%	54.9%	1.8%	-0.9%
Bengaluru	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%	57.7%	58.1%	66.2%	14.0%	-0.1%
Chennai	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%	55.4%	58.9%	62.7%	6.4%	-1.3%
New Delhi [a]	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%	60.9%	61.7%	66.7%	8.2%	0.0%
Gurgaon														66.0%	66.5%	62.0%	58.0%	58.8%	61.1%	64.1%	4.9%	-0.5%
NOIDA														74.0%	80.7%	56.2%	44.4%	53.5%	48.0%	50.9%	6.2%	-6.0%
Goa	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%	68.7%	69.7%	70.7%	1.4%	1.0%
Hyderabad	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%	51.7%	57.1%	58.1%	1.8%	0.3%
Jaipur	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%	54.3%	54.5%	60.9%	11.7%	0.2%
Kolkata	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%	70.2%	67.8%	68.5%	1.1%	1.1%
Mumbai	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%	67.0%	71.8%	74.3%	3.4%	0.1%
Pune							71.0%	68.9%	86.4%	83.1%	83.4%	69.5%	62.2%	50.9%	46.7%	51.3%	58.2%	57.4%	61.3%	65.7%	7.1%	-0.6%

** The 2014/15 data has been modified to exclude the performance of irrelevant supply*
*** Change in 2015/16 expressed as percentage of the figure for 2014/15*
[a] Delhi NCR data (Shaded Portion) from 1996/97 to 2008/09, New Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2015/16

Source: HVS Research

FIGURE 18: KEY OPERATING CHARACTERISTICS BY MAJOR CITIES – AVERAGE RATE (₹)

	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	2014/15*	2015/16	12-Month** Change	Compounded Growth
Agra	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	6,338	6,488	6,148	-5.2%	6.6%
Ahmedabad	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	3,734	3,753	3,867	3.1%	2.0%
Bengaluru	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	5,379	5,368	5,430	1.2%	2.9%
Chennai	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	5,050	4,825	4,772	-1.1%	1.6%
New Delhi [a]	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	6,941	6,568	6,266	-4.6%	2.4%
Gurgaon														8,247	7,554	7,639	6,831	6,569	6,241	6,242	0.0%	-4.5%
NOIDA														7,496	7,752	7,416	6,724	5,964	5,429	5,280	-2.7%	-5.7%
Goa	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	6,692	6,819	7,094	4.0%	6.0%
Hyderabad	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	4,556	4,535	4,689	3.4%	5.8%
Jaipur	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	4,743	4,743	4,873	2.7%	5.3%
Kolkata	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	5,739	5,734	5,676	-1.0%	2.5%
Mumbai	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	7,158	7,230	7,363	1.8%	0.9%
Pune							2,603	2,805	3,521	4,915	6,523	7,946	7,493	5,810	4,949	4,163	3,861	3,908	3,846	3,985	3.6%	3.3%

** The 2014/15 data has been modified to exclude the performance of irrelevant supply*
*** Change in 2015/16 expressed as percentage of the figure for 2014/15*
[a] Delhi NCR data (Shaded Portion) from 1996/97 to 2008/09, New Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2015/16

Source: HVS Research

FIGURE 19: KEY OPERATING CHARACTERISTICS BY MAJOR CITIES – REVPAR (₹)

	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	2014/15*	2015/16	12-Month** Change	Compounded Growth
Agra	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	3,827	3,988	3,508	-12.0%	7.2%
Ahmedabad	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	1,967	2,024	2,123	4.9%	1.0%
Bengaluru	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	3,104	3,117	3,594	15.3%	2.8%
Chennai	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	2,795	2,844	2,992	5.2%	0.3%
New Delhi [a]	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	4,225	4,052	4,182	3.2%	2.3%
Gurgaon														5,443	5,023	4,736	3,958	3,861	3,815	4,004	4.9%	-5.0%
NOIDA														5,547	6,256	4,164	2,985	3,193	2,604	2,688	3.2%	-11.4%
Goa	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	4,601	4,752	5,013	5.5%	7.1%
Hyderabad	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	2,354	2,589	2,725	5.3%	6.1%
Jaipur	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	2,575	2,586	2,967	14.8%	5.5%
Kolkata	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	4,031	3,889	3,890	0.0%	3.6%
Mumbai	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	4,795	5,194	5,472	5.4%	1.0%
Pune							1,848	1,933	3,042	4,084	5,440	5,522	4,661	2,957	2,311	2,135	2,248	2,243	2,359	2,618	11.0%	2.7%

** The 2014/15 data has been modified to exclude the performance of irrelevant supply*
*** Change in 2015/16 expressed as percentage of the figure for 2014/15*
[a] Delhi NCR data (Shaded Portion) from 1996/97 to 2008/09, New Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2015/16

Source: HVS Research

FIGURE 20: KEY OPERATING CHARACTERISTICS BY MAJOR CITIES – AVERAGE RATE (US$)

	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	2014/15*	2015/16	12-Month** Change	Compounded Growth
Agra	52	56	50	38	35	39	41	53	67	81	108	131	116	121	137	124	112	104	106	95	-10.9%	3.2%
Ahmedabad	76	50	53	62	61	50	45	52	62	70	81	108	104	95	94	82	72	62	61	59	-3.1%	-1.3%
Bengaluru	89	95	81	70	80	79	78	105	166	197	239	244	207	138	149	131	109	89	88	83	-4.9%	-0.3%
Chennai	100	110	89	79	85	75	67	72	83	98	123	158	145	120	124	115	100	83	79	73	-7.0%	-1.6%
New Delhi [a]	113	135	111	95	101	92	85	93	114	155	211	259	214	185	189	170	136	114	107	96	-10.3%	-0.8%
Gurgaon														173	166	159	125	108	102	96	-6.0%	-9.3%
NOIDA														157	170	155	123	98	89	81	-8.6%	-10.4%
Goa	66	63	73	63	65	57	57	67	89	108	133	155	137	118	133	128	120	110	112	109	-2.2%	2.7%
Hyderabad	45	45	39	43	52	51	53	60	84	109	137	156	137	108	114	105	89	75	74	72	-2.8%	2.5%
Jaipur	52	68	62	45	65	62	57	65	77	99	121	141	130	95	104	99	89	78	78	75	-3.4%	1.9%
Kolkata	100	109	88	82	82	72	61	66	72	87	121	163	146	128	141	126	112	95	94	87	-6.9%	-0.7%
Mumbai	176	170	138	130	124	104	87	95	107	136	200	272	233	177	180	165	139	118	118	113	-4.2%	-2.3%
Pune							54	61	78	110	150	197	163	122	109	87	71	64	63	61	-2.6%	1.0%
Exchange Rate	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	61.2	65.0		

** The 2014/15 data has been modified to exclude the performance of irrelevant supply*
*** Change in 2015/16 expressed as percentage of the figure for 2014/15*
[a] Delhi NCR data (Shaded Portion) from 1996/97 to 2008/09, New Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2015/16

Source: HVS Research

FIGURE 21: KEY OPERATING CHARACTERISTICS BY MAJOR CITIES – REVPAR (US$)

	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	2014/15*	2015/16	12-Month** Change	Compounded Growth
Agra	27	26	23	15	15	13	13	27	38	45	64	76	61	68	82	71	66	62	65	54	-17.3%	3.7%
Ahmedabad	50	36	31	31	34	27	24	33	42	48	55	79	64	55	51	49	39	33	33	33	-1.4%	-2.2%
Bengaluru	60	58	48	45	56	51	56	82	135	151	173	159	113	74	87	74	61	51	51	55	8.4%	-0.4%
Chennai	80	75	58	52	55	42	39	48	61	77	92	115	91	74	83	76	60	46	47	46	-1.1%	-2.9%
New Delhi [a]	76	81	60	50	59	49	51	68	90	125	162	192	144	126	130	109	84	70	66	64	-3.0%	-0.9%
Gurgaon														114	110	99	73	64	62	62	-1.3%	-9.8%
NOIDA														116	137	87	55	53	43	41	-2.9%	-15.8%
Goa	39	37	43	34	39	31	34	40	56	73	97	112	84	77	90	88	82	76	78	77	-0.8%	3.7%
Hyderabad	25	24	26	26	36	35	37	46	66	89	99	102	76	58	65	57	44	39	42	42	-1.0%	2.8%
Jaipur	30	35	28	21	36	30	26	38	52	65	79	91	70	55	60	54	49	42	42	46	7.9%	2.2%
Kolkata	56	67	51	45	52	48	40	41	50	66	91	121	101	86	96	88	80	66	64	60	-5.9%	0.4%
Mumbai	128	111	93	84	80	54	55	66	77	104	156	203	141	110	112	105	89	79	85	84	-0.9%	-2.2%
Pune							38	42	67	91	125	137	101	62	51	45	41	37	39	40	4.4%	0.4%
Exchange Rate	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	61.2	65.0		

** The 2014/15 data has been modified to exclude the performance of irrelevant supply*
*** Change in 2015/16 expressed as percentage of the figure for 2014/15*
[a] Delhi NCR data (Shaded Portion) from 1996/97 to 2008/09, New Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2015/16

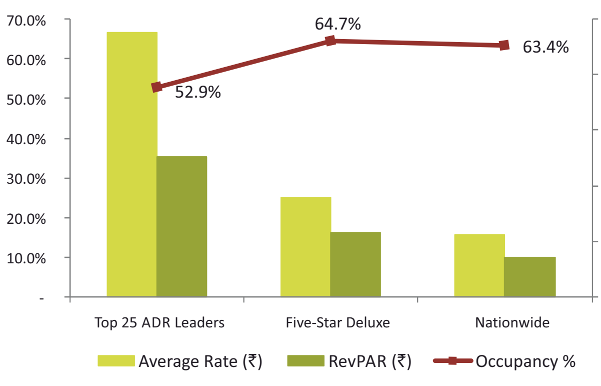
Source: HVS Research

The Business of Leisure in India

Given the detailed analyses that goes into this report, one of the key benefits is that we are able to slice and dice information and extract trends that deserve timely attention by the industry's stakeholders. This year we challenge an industry paradigm that has since long held us back in exploring new avenues for revenue growth – **leisure lacks the ability to make money!**

Fact is that a healthy market for leisure hotels exists in India, and here is why – we took a look at the top 25 ADR leaders in the country, and remarkably, **23 of these operate in leisure markets**. With an average inventory of 68 keys, this sub-set secured a RevPAR of about ₹12,600 last year, which is 3.6 times the national average and 2.2 times that achieved by five-star deluxe hotels. Playing the devil's advocate, some of you may suggest that leisure hotels' ADRs are mostly inclusive of breakfast and a few other charges bundled with the room rate. Even so, we are confident that the gap between this sub-set's performance and the rest would remain wide enough to call attention.

FIGURE 22: ROOMS PERFORMANCE COMPARISON (2015/16)



Source: HVS Research

Now, although ADR is the primary driver of RevPAR in these 25 hotels, **the occupancy of 53% in 2015/16 offers strong evidence of a steady demand for such hotels in India.** Previously, domestic leisure locations were associated with only high-weekend demand, but this appears to be altering with meetings and conferences, weddings and social functions, corporate off-sites and group travel contributing to **room bookings all through the week.** The traditional adage that summer and monsoon months are poor is also being challenged with the reduction of gap between peak and non-peak season occupancies across several leisure markets. Another aspect working in favour of leisure demand is that these hotels do not rely on RFPs per se. Business hotels in India are too dependent on the RFP process to sell their room inventory. This, coupled with inexperienced sales professionals negotiating with the procurement managers of large corporations has systematically brought down ADRs across our hotel markets over the past few years, making it challenging to push the rate back up. Conversely, **leisure hotels focus on FIT business that is more discerning in seeking an experience** and not just a room at a discount. Increasing purchasing power of the Indian middle class, fuelling their propensity to take more vacations further bodes well for hotels operating in this segment.

Besides, it is not news to many that **India in comparison to other Asian countries is a less expensive destination for foreign travelers**, particularly for those arriving from the US and Europe. Even as the Indian media paints a picture of exorbitant hotel pricing, our research reveals that a very small percentage of the occupied rooms in India command an ADR that is commensurate to similar hotel markets globally, making the country extremely competitive for inbound leisure travel. However, the abnormally high taxes on room tariffs somewhat changes this for the end user. Thus, we hope that the state and central governments will take steps to rationalize tax policies, encouraging more visitors to the country.

Yet another takeaway is that over three-fourths of the top 25 ADR leaders discussed above are represented by the pre-eminent domestic Indian brands that have traditionally had a stronghold in this segment. We commend their foresight and commitment in defining Indian hospitality. The Taj Group was instrumental in establishing Goa as the leisure destination of choice almost three decades ago, by opening two seminal properties in Sinquerim. In recent years, their partnerships with hotel developers who have developed Taj properties in Coorg, Bekal and Damdama, displays their continued efforts for the creation and growth of leisure locations. The Oberoi group has repeatedly been recognised for establishing global and unparalleled hospitality standards with their Vilas properties. Also worthy of applause are hotels such as JW Marriott Walnut Grove and Alila Diwa Goa, both of which prove the inherent business sense in building hotels and operating in leisure markets. Their success also challenges the deep-rooted assumption held by many that budget and mid market hotels are the only safe investment bet in India. Instead, numbers prove that experience-led leisure hotels can also qualify as a prudent investment strategy.

In conclusion, it is clear that high ADRs do not mean low occupancies. We are more than convinced that the leisure segment in India holds tremendous potential with diverse destinations waiting to be explored. A paradigm shift is necessary, and the time has come.

Authored by
Manav Thadani
Chairman - Asia Pacific

City Trends

Agra is the only city amongst the major hotel markets being tracked in this survey to have **recorded a decline (-12%) in its RevPAR in 2015/16 as compared to 2014/15.** While the trend appears to be alarming at first sight, a double-digit (16%) increase in supply was the primary cause of this steep fall. During the same period, Agra witnessed a reasonable growth of 7.7% in demand, which somewhat mitigated the brunt of the huge increase in supply. Demand in the city has consistently grown over the last few years especially in the Domestic and MICE segments, bolstered by infrastructure developments such as the Yamuna Expressway and the recently started Gatimaan Express connecting New Delhi and Agra.

Moving forward, infrastructural developments by the state government such as the Tajganj project, Agra-Lucknow Expressway and development of the inner ring road are expected to be completed in the near future. Additionally, planned projects such as the Agra Street Cafe, Agra Heritage Centre, Mughal Museum, Taj Orientation Centre, and a theme park are likely to commence construction shortly. Resultantly, both connectivity to the city and the destination's appeal are anticipated to improve, and we expect tourism to witness sustained expansion, going forward. On the supply front, of the 622 new hotel rooms planned in the city, only 172 are likely to commence operations over the next few years. Thus, with continual infrastructure development and diminishing supply, we believe that the hotel market will gradually improve in the coming years.

Ramada Plaza Agra

Ahmedabad's evolving hotel market witnessed only a marginal increase in occupancy closing at 54.9% in 2015/16, as supply increased by 7.1% with the opening of the 210-room Hyatt Regency. The **average rate increased by 3.1% during the same period**, largely owing to the changing nature of the hotel market, with organised upscale international brands building a base in the city.

The rapid expansion of industrial areas on the western periphery of Ahmedabad has contributed to the hotel market's growth in the recent past. Looking ahead, this area is likely to continue driving business in the city, albeit at a slower pace, as demand from the region is expected to plateau in the short term. The next major impetus to the growth of the twin cities of Ahmedabad and Gandhinagar in the medium-to-long term is likely to be the expansion of Gujarat International Finance Tec-City (GIFT). With state-of-the-art infrastructure and India's first and only International Financial Services Centre (IFSC), GIFT has already attracted major real estate players for the development of office spaces, residences and hotels.

Hyatt Regency Ahmedabad

On the supply side, Ahmedabad is expected to witness an increase of 1,238 rooms over the next five years with 71% of the inventory actively under construction. As more quality branded hotels enter the market with supply evenly paced, we expect the marketwide performance to continue improving in the coming years.

Bengaluru's hotel market performance surged in 2015/16 with the city exhibiting a **15.3% growth in RevPAR – the highest amongst all major markets** analysed in this publication. With branded hotel supply growing at a modest 6.1%, hotels across most micro-markets were able to significantly ramp up occupancy and moderately increase average rate last year. Having one of the highest densities of Grade-A office stock in the country, Bengaluru over the years has consistently witnessed double-digit growth in demand. Average rate growth, however, has been a challenge over the last four years purely on account of new supply growing in

Shangri - La Hotel Bengaluru

tandem with demand during that period. Going forth, focus on average rate growth will likely be the strategy adopted by most hotels in the city.

The past year witnessed the addition of hotels like the Shangri-La, which introduced some fresh F&B concepts to the city. Nonetheless, given the significant corporate base in Bengaluru, its world class international airport, and good airline connectivity, HVS still maintains that Bengaluru requires a truly international-grade convention centre to tap into the burgeoning demand from the MICE segment.

Development activity of new hotels also seems to have picked up pace with approximately 67% of 5,209 new hotel rooms proposed over the next five years being actively constructed. While that might seem to be a significant increase in supply, their entry into the market is anticipated to be in a phased manner allowing them to be successfully absorbed by the growing demand in the city. Overall, HVS remains extremely bullish about Bengaluru's performance with steady increase in RevPAR forecasted over the next three to four years.

Chennai continued on the path to resurgence, recording a **5.2% increase in RevPAR in 2015/16.** This increase was driven primarily by a 6.4% growth in occupancy, which was moderated slightly by a marginal decrease in average rate (1.1%). Commercial demand (especially in the IT/ITeS sector) along with the emerging Meeting and Conference segment grew across the city last year, even though the floods adversely impacted hotel revenues in the second half of the fiscal.


InterContinental Chennai Mahabalipuram Resort

Evaluating the performance of various micro-markets, CBD which accounts for more than half of the city's inventory saw an increase in occupancy (4.4%) while average rate witnessed a marginal decline (1.1%). Guindy, which has established itself as the preferred micro-maket driving MICE business in Chennai, having the highest concentration of upscale/luxury hotels with large inventories, recorded a double-digit growth (14.1%) in occupancy while average rate increased only marginally (0.6%). Old Mahabalipuram Road (OMR) also saw a robust increase in occupancy (13.8%) valiantly absorbing the double-digit increase in supply. However, average rate in OMR, which has witnessed a downward trend since the last three years continued to decline, albeit at a slower pace (1.7%) in 2015/16.

Chennai is expected to see a supply addition of 2,312 rooms over the next five years, with all the developments under active construction. Going forward, OMR, which accounts for more than half of the proposed supply primarily in the mid market and budget segments, will continue to witness pressure on rooms performance while the overall market is expected to augment average rate driven by hotels in Guindy and CBD, as they leverage on their strengthened occupancy.

Goa, the top leisure destination in the country, continued its growth recording a 1.4% increase in occupancy and a 4% increase in average rate in 2015/16. **Goa's key performance metrics, including the RevPAR at ₹5,013, were second only to Mumbai among the top hotel markets in the country.** A change in the nature of demand, with charter movements declining over the past two years, has resulted in a notable alteration in the segmentation and trends in business.


Hyatt Place Goa Candolim

North Goa, which has historically been dominated by hotels with a relatively smaller key count focusing largely on the youthful leisure traveller, witnessed a surge in domestic FIT demand replacing the peak season international charter movement. This resulted in an overall increase in occupancy (4.2%) as well as average rate (4.9%) for the micro-market in 2015/16. On the other hand, South Goa, characterized by large upscale/luxury resorts, also witnessed an increase in domestic demand, but the bigger impetus came from the rising Meeting and Conference segment. Consequently, although South Goa hotels witnessed a marginal drop in occupancy (1.9%), the average rate continued to increase (4%) last year. More specifically, the rate increase may be attributed to a relatively good yield from the growing wedding segment and windfall gains from the Defense Exposition held in South Goa toward the end of the fiscal. Some of the other emerging trends resulting from a shift in business that hoteliers must be cognizant of include the shorter lengths of stay, reducing lead time for bookings, and increasing contribution from OTAs to advance reservations.

From a supply and demand perspective, Goa is expected to remain an upbeat market offering a vibrant experience to the evolving Indian traveler. The total proposed supply in Goa over the next five years across budget to upper upscale categories is 2,062 rooms with most of the supply (90%) actively under development. Proposed infrastructure developments including the construction of the Goa International Airport at Mopa (for which GMR won the bid recently), Electronic city at Tuem, and a convention centre are likely to boost performance going forth. Particularly, the proposed international airport at Mopa, which is expected to have a capacity to handle nine million passengers annually, opens up the opportunity for creating beach/tourism zones in North Goa and Southwest Maharashtra with avenues for lucrative hospitality developments.

Gurgaon, one of the top commercial destinations in North India, witnessed no supply growth in 2015/16. Consequently, **marketwide occupancy grew by 4.9%** during the same period with **average rate maintaining previous year levels**. Hotels in the area mainly opted for a market-share based strategy in order to consolidate their positions with the entry of new hotels in Delhi Aerocity as well as additions to supply in Gurgaon, 2013/14 onwards. The city, which boasts one of the largest quantum of office stock in the country, relies heavily on corporate demand resulting in weak weekend occupancies. However, this is now getting somewhat mitigated with rising Extended Stay demand given the resurgence of the IT/ITeS sector, and project-based demand out of peripheral areas such as Neemrana and Manesar on the rise.

Looking ahead, as areas like Cyber City, Udyog Vihar and Golf Course Road become more saturated, expansions toward new areas like Golf Course Extension Road, Southern Periphery Road and New Gurgaon (south of the Manesar Toll Plaza) are anticipated to continue fuelling demand for hotels in the area. Furthermore, while HVS is tracking approximately 1,900 rooms to be added to the supply of the city, a majority of these is in early stages of construction and is likely to commission in about four to five years' time. We therefore, anticipate both occupancy and average rate to continue improving and marketwide performance to surge in the short term. From an investor's standpoint, it is perhaps the best time to be buying or developing hotels in Gurgaon.

Hyderabad's growth story post the Telangana crisis continued to evolve in 2015/16 with the city witnessing

Hotel Formule1 Hyderabad

steady rises in both occupancy and average rate over the previous fiscal. **An increased pace of corporate travel and a resurgence in the performance of the Hyderabad International Convention Centre (HICC) resulted in augmented room night demand, especially for hotels located in the new CBD (HITEC City and Gachibowli).**

A unique feature of the new CBD is the increasing contribution of the Extended Stay segment to hotel demand, especially in the budget/economy space. Entry level employees working on various projects for extended periods of time contribute close to 25% of the overall demand for budget and economy hotels in the area. Conversely, hotels in the traditional CBD are found increasingly relying on low-paying MICE demand and food and beverage to boost their performances, due to limited additions to office space and fragile organic demand growth.

Hyderabad's branded supply grew by approximately 5% in 2015/16 with the opening of hotels like Oakwood Residences and Sheraton in Gachibowli. HVS is currently tracking around 2,500 more rooms to be added to the branded supply of the city. Of these, only 32% is under active development and expected to be commissioned over the next five years. With demand growth continuing to be robust and supply pace being relatively slow, HVS forecasts steady growth in the city's performance over the next two to three years.

Jaipur recorded a 14.8% increase in RevPAR in 2015/16 over the previous fiscal – the second highest growth amongst all cities being covered in this publication. Popularly known as the "Pink City", Jaipur's rich culture, spectacular forts, palaces, and havelis, continue to attract a large number of tourists from all over the world making it one of the top

Crowne Plaza Jaipur

leisure destinations in the country. Additionally, today, the city has become a major MICE destination well-known for hosting big-ticket 'Destination Weddings' and large conventions. **The addition of the new Jaipur Exhibition and Convention Centre (JECC) and large MICE-focused hotels such as the Crowne Plaza in Sitapura, have further helped strengthen the city's position as a top meetings' destination in North India.** Furthermore, the pace of new hotel supply entering the market has slowed down; 2015/16 saw the city register just a 4.5% growth over the previous fiscal - the lowest in five years, leading to an increase in citywide average rate.

With only 960 rooms proposed until 2020/21, of which 89% is currently under active development, HVS anticipates marketwide occupancies and average rate to continue improving over the short-to-medium term. Furthermore, forward looking state initiatives like – "Resurgent Rajasthan" and the addition of new countries to the e-Tourist Visa (e-TV) scheme are anticipated to provide a further fillip to the city's lodging market. Overall, Jaipur seems to have bounced back strongly from its downward spiral over the last few years and the signs are indeed positive for better performances over the next three to five years.

Kolkata's hotels experienced a negligible change in the marketwide average rate (-1%) and occupancy (1.1%) in 2015/16. Successive additions to supply in 2013/14 and 2014/15 have adversely impacted the city's performance; however, the lack of any new entrant in the market in 2015/16 has helped to contain this downward movement.

Historically, supply in the city has remained concentrated in the luxury and upscale space, and going forward as well, we expect this trend to continue. HVS is tracking an estimated 3,200 rooms that are expected to enter the market over the next five years, of which close to 64% is actively under construction.

Demand in the city has steadily expanded over the last few years, and this increment has primarily been noted in the MICE segment. Being India's 'Gateway to the East', Kolkata's connectivity and infrastructure are able to support MICE-driven demand. Events and weddings comprise a large share of demand for the city, and a lucrative opportunity for hotels lies in this segment. Furthermore, upcoming hotels such as the JW Marriott, Westin and ITC Royal Bengal, which are planned to offer extensive meeting and conferencing facilities, are expected to enhance MICE demand in the city by attracting large events and conferences. However, since all these hotels are anticipated to open in the next two-year horizon, it is likely that marketwide performance may come under some duress. On the whole, even as we believe that the hotels in Kolkata are bracing for a rough ride in the short-to-medium term, we expect the city to absorb the additional supply and position itself as a leading destination for MICE in the long term.

In 2015/16, **Mumbai** achieved the **highest occupancy (74.3%) recorded over the past five years amongst the 13 cities tracked in this survey.** This continued upward trend in occupancy is testament to the inherent strength and robust nature of demand in the market. Additionally, Mumbai recorded the highest average rate (₹7,363) steering it clear as the best performing hotel market in terms of RevPAR too (₹5,472). A further dissection of Mumbai's micro-markets, namely South, Central and North Mumbai that have minimal overlap in room night demand, reveals that all three exhibited an increase in occupancy by 7.8%, 9.7% and 0.9%,


Taj Santacruz

respectively in 2015/16, with simultaneous increases in average rate by 2.5%, 8.9%, and 1.3%, respectively. Many factors, such as strong growth in corporate travel, an upswing in MICE demand and the promising growth in Extended Stay segment have favourably impacted the hotel market in India's financial capital.

HVS is currently tracking a proposed addition of approximately 4,200 rooms to the branded supply of the city. Of these only 39% are under active development and expected to be commissioned over the next five years. In the short term, the majority of supply is in the upscale and luxury positioning, which will likely push the citywide ADR up in the coming years.

In the medium-to-long term, we expect the Mumbai International Airport Limited (MIAL) land-side development that includes several new hotels, commercial and retail complexes, and hospitals, to change the face of the city at large. Meanwhile, in the short-to-medium term, we foresee the planned improvements in infrastructure such as the Coastal Road, extension of the Metro and Monorail, coupled with the proposed convention centre in BKC that is expected to augment MICE demand, to assist in improving hotel performances. In fact**, the active construction of the Reliance Convention Centre, which is touted to be the largest such space built in India yet, is certain to induce further demand into the market.** Notably, HVS has observed that every time Mumbai has done well, most markets across India have followed, and going forward, we forecast steady growth in the city's performance over the next three to five years.

The **Navi Mumbai** micro-market continues to be largely dependent on budget and mid market hotels. There were approximately 1,000 branded rooms recorded in 2015/16 that achieved an occupancy of 82% at an average rate of ₹4,034. The healthy increases of 10.7% and 4.6% in occupancy and average rate over the previous fiscal, respectively, were primarily fuelled by demand arising from Reliance Technology Park and commercial developments located in Airoli, Rabale and Mahape.

Increase in supply is expected to be fairly muted in the short-to-medium term, with inventory additions to the city primarily hinging on the development of the new international airport at Panvel, which has already witnessed several delays and is yet to commence construction. Nevertheless, the development of IT parks and commercial offices in areas such as CBD Belapur, and mixed-use developments such as the Seawoods Grand Central are expected to generate some demand for hotels.

Going forward, due to the high dependence of Navi Mumbai's hotels on inconsistent project-related business, as well as easy accessibility to the city from Mumbai and Pune, we anticipate hotels in this market to have little choice but to tap the MICE segment to maintain occupancy levels. Thus, in the short-to-medium term, we expect average rate to come under pressure, even as our long term outlook remains positive.

New Delhi, the largest branded hotel market in the country, witnessed a **growth of 8.2% in occupancy in 2015/16 over the last fiscal. This is the highest year-on-year increase recorded in the capital in the last five years.** The Aerocity hospitality district has seen an increase in demand in its initial years of operations on account of growth in corporate, transient and MICE demand. Following this trend, we expect these hotels to further add momentum to the growth of room night demand in the city and reach stabilised level of operations within the short term.

Pullman New Delhi Aerocity

The drop in average rate of 4.6% for the most part has been on account of Central, South and East Delhi hotels dipping their rate in an attempt to tackle the supply pressure from the Aerocity hotels. Relocation of large scale events such as Defense Exposition and PetroTech, which had a significant impact on demand for hotels in Delhi and NCR to other Indian cities has further had an adverse impact on the average rate.

New Delhi's hotel market is expected to see a supply addition of approximately 2,600 rooms (active supply) over the next two-to-five years, with the majority of supply being in the upscale and mid market positioning. Going forth, the budget and mid market hotels in the Aerocity District will continue to absorb demand from the unbranded/unorganised segment. Robust demand coupled with moderate supply, provides an opportunity to the hotels in the aforementioned micro-markets to concentrate on increasing average rate. Overall, the outlook for the New Delhi market remains positive.

The **NOIDA (including Greater NOIDA)** hotel market remains one of the poorest performing markets amongst the 13 major cities tracked in the survey, displaying a further decline of 2.7% in average rate last year. Hotels in NOIDA witnessed a moderate recovery in occupancy in 2015/16, after the setbacks faced in 2014/15 due to the moving out of large scale events such as the Defense Exposition and PetroTech from the India Expo Centre and Mart (IEM). The positive change in occupancy was primarily on account of commercial demand arising from Sector 18, Sector 62/63 and areas around the NOIDA–Greater NOIDA Expressway, in addition to the large-scale Automobile Exposition (Autoexpo) that was hosted in 2015.

Presently, HVS is tracking 2,561 rooms that are planned to enter the market over the next five years, of which only 9% is actively under construction on account of a majority of hospitality developments either being deferred or put on hold. The hotels currently under construction belong to the budget, mid market and extended stay positioning.

As highlighted in our previous editions of this publication, the future outlook of NOIDA (including Greater NOIDA) continues to remain dim owing to the market's highly price-sensitive nature along with its dependence on the low-paying MICE segment. Having said that, with the introduction of India's first semi-high-speed train, Gatimaan Express (connecting New Delhi and Agra), the city is expected to witness a favourable impact on overall leisure demand. Looking ahead, even though only limited supply is planned to enter the market, HVS continues to believe occupancy and average rate will remain under pressure considering the increasing demand overlap with neighbouring areas such as Ghaziabad and East Delhi.

The year 2015/16 has been a significant one for the **Pune** hotel market. The city continued to witness a **surge in occupancy (7.1% over 2014/15) and crossed the 65 percent mark.** While this provides considerable reason to cheer, a more noteworthy, albeit small change was a year-on-year increase in average rate (3.6% when compared to 2014/15) signaling that the tide has truly turned for the city. Since 2008/09, Pune played host to a staggering growth of around 400% in its room supply, the highest in the country

Conrad Pune

amongst major hotel markets, resulting in a successive annual downward spiral in both occupancy and average rate performance. During this period, the country underwent an economic downturn weakening the expansion in the city's Manufacturing sector, a key source of demand for Pune's hotels. Due to these reasons, in the last few years, many referred to Pune as a "tough" hotel market. However, contrary to common belief, the city's hotels have witnessed a sturdy double-digit growth in demand every year. In fact, the manner in which Pune has persevered relentlessly, is not only a testament to its strength and resilience, but also indicates its potential going forth. Furthermore, along with serving as a major manufacturing and IT/ITeS hub in the country, Pune has come to be known as an attractive MICE destination.

Going forward, we are tracking 1,965 new rooms of which 1,430 (including the recently opened Conrad) are actively under development. Considering the deceleration in new supply, coupled with the anticipated sustained growth in demand, we believe that the city's hotel market is geared to move full steam ahead in the coming years.

Future Trends & Opportunities

The competitive landscape within the hospitality industry across the world and especially in India has never been as dynamic as it is today. Below we touch upon some key trends and opportunities that are setting the tone for the future of our industry.

Mergers and acquisitions have been part and parcel of business the world over and usually driven by a necessity to consolidate. However, historically, there have been few such activities that have substantially impacted the hospitality industry as a whole, until Marriott International recently announced the acquisition of Starwood Hotels and Resorts Worldwide. This will make Marriott the biggest hotel company in the world, with over 1.1 million rooms under its umbrella. For India, after over a century, Taj Hotels, Resorts and Palaces' preeminent position as the largest hotel chain in the country will be surpassed. Other deals of note that were signed or are in the process of being finalised include AccorHotels acquiring Fairmont Raffles Hotels International (FRHI), and two Chinese conglomerates HNA and Jin Jiang acquiring Carlson Rezidor and Louvre Hotels Group, respectively. Mergers are intended to put hotel brands in a stronger position to negotiate management agreements, gain access to a significantly higher base of loyalty members, flex a stronger distribution muscle, capitalise on a larger marketing footprint and mitigate operating costs across geographies.

Another emerging trend is the reduced focus on **Food and Beverage (specifically restaurants) offerings** in newly constructed upscale and upper-upscale hotels. Traditionally, full-service hotels, especially in larger Tier I cities, have been embellished with multiple restaurants offering various specialty cuisines. However, many of these cities have now seen the proliferation of several standalone setups that are increasingly luring away diners, and therefore, impacting revenues and viabilities of hotel restaurants. Furthermore, with an increasing reliance on MICE, hotels are better suited utilising the extra space consumed by restaurants as meeting venues enabling developers to benefit from better yields per square foot of construction. Conversely, food and beverage outlets at hotels in Tier II and Tier III cities face less competition, as non-hotel F&B offerings in these cities are not as developed and offer limited options to diners.

Closely related to Food and Beverage and the ever growing dependence on MICE at hotels, weddings are grand affairs in India and hotels seem to be cashing in big time from these large-ticket size events. While the concept of **Destination Weddings** is not new, its evolvement over the years is an interesting trend. The Exotic Wedding Planning Conference 2016 held in Goa recently points to the growing demand for Wedding destinations in the country. The Wedding Planning Industry – a little known business concept in the past, has now gained immense popularity, wherein planners not only benefit from fees earned through their clients, but also commissions from hotels and other vendors. 'Big Fat Indian Weddings' are especially common among dollar paying non-resident Indians (NRI) who book luxury resorts in cities like Udaipur, Goa, and Jaipur for these larger than life affairs. There is reason for developers and brands to consider providing space for such concepts centred around weddings, especially in certain locations in North India. For the most part, these events are recession-proof and also help cushion softer shoulder periods during the year.


Fairmont Jaipur

As some Tier I markets reach moderate levels of supply-saturation, hotel brands are increasingly employing the **conversion** route as a means of expansion. Interestingly, this may present an opportunity for both hotel developers and hotel brands to **expand their footprint in Tier II and Tier III cities.** With land costs being relatively more affordable, and connectivity improvements (both by land and air), these locations are becoming more desirable for hotel development. Demand is indeed growing in smaller markets and the first mover's advantage may be sought with the right advice.


Le Méridien Nagpur

Hotels, like any other sector, are increasingly influenced by the needs and wants of the 'Gen Y' demographic. Both guests as well as hotel employees of this young generation are very different from previous generations. Indeed, they form a part of an ever-growing digital community, constantly driven by technology and social media. The smart phone is integral to everyone's lives and decisions are frequently online content driven, seeking advice and opinions from online websites and applications. While we have focused on **Social Media** as an emerging trend in our previous publications, this medium is constantly evolving and it is important for the hotel industry to regularly update itself. Google Adwords, Facebook, and Twitter – all powerful tools – all already passé. New platforms such as Snapchat, Instagram and YouTube are making digital content more interactive and innovative, and consequently far easier and quicker for users to react and discuss their experiences in large online forums. It is therefore, very crucial for hotel chains to adapt quickly and effectively manage their online presence and brand image.

The 'Gen Y' employee forms an influential portion of the hotel's workforce today. This generation is more impatient, quick to lose focus and easily distracted, largely due to the sheer number of opportunities that present themselves to this audience in the hyper-connected global environment. **Employee Retention** is thus a challenge; however, development and implementation of effective recruitment and retention plans can help brands embrace the strengths of new age employees. Long work hours and minimal work-life balance (traditional characteristics of the hotel operations) are one of the primary reasons for diminishing interest of the new generation in the hotel industry. Several hotel brands are, therefore, offering shorter work-weeks, controlled/compulsory leave plans, and significantly better benefits and pay packages. Furthermore, realistic promotion goals, well-defined career paths and recognition of their contribution to the overall development of the company are some of the models brands are employing to retain talent at their hotels. A testament to these changing times is the repeated inclusion of major hotel brands in the 'Top 100 places to Work' surveys in the past few years.

Another notable trend is the surge of **hotel aggregators** that is beginning to have an effect on the branded hotels in the budget and economy space, fuelled primarily by the pricing strategy being employed by the former. OYO Rooms and Airbnb, coupled with a few other players who are also ramping up, it is likely that over 100,000 rooms exist in this new lodging dimension already. The cascading effects of their almost drastic average rate strategy further catalyses the rate problem. However, the bigger predicament is the insistence of hotel brands to not see them as a competition and the resulting vacuum in strategy to tackle the price war. While traditional hotel brands certainly offer a higher standard in consistency and quality of product, ignoring this set of competition can cost some hotels in particular and impact their bottom lines.

Lastly, as the **hotel transactions** environment has started to pick up pace in recent months, it is timely that we call attention to the fact that over US$200 million worth of assets traded hands last year. Rationalisation in sell-side asks coupled with infusion of institutional equity on the buy-side are both signs of a maturing deal-making universe. We do not harbour any false pretence that India will see hundreds of trades in the future, and are simply asserting that fairly priced transactions are on the cards now, more than ever before. HVS is taking this opportunity seriously and we have now built a team around Investment Advisory in India with the focussed purpose of offering solutions to active players in the hotel transaction space.

In addition to the various trends and opportunities discussed above, a small note reminding all of us of the ongoing threat of violence, terrorism and its immediate impact on our sector is in order. Keeping our hotels safe and secure is already top-priority for all the brands and we view their efforts on this front as a necessity that must continue to stay a primary focus at all times.

In Closing

India's hotel sector has now unequivocally entered the next up-cycle. Prudent, measured, yet assertive decision making by the industry's stakeholders is now required. The only thing worse than a bad decision is taking no decision! We conclude this year's report with the hope that hotel owners, operators, lenders and advisors will all jointly appreciate the opportunity ahead and make decisive plans to capitalise on it.

About HVS

HVS is the world's leading consulting and services organisation focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries, celebrated its 35th anniversary in 2015. Established in 1980, the company performs 4500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 40 offices and more than 400 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. **HVS.com**

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HVS South Asia plays host to the annual Hotel Investment Conference - South Asia (HICSA), the leading hotel investment conference in the region and Hotel Operations Summit India (HOSI), the only dedicated forum for hotel operational leaders of today and tomorrow. HVS South Asia also hosted its inaugural Tourism, Hotel Investment & Networking Conference (THINC) Sri Lanka in February 2016.

About the Authors

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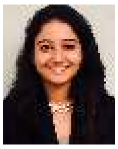

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