



Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

India Hotel Market Review 2018

FEBRUARY 2019

Foreword

This year-end report is a collaboration between STR and Horwath. STR as the global leader in benchmarking has provided the data facts from the 1,100 plus participating properties in India. Operators can receive bespoke performance reports through participation and interested industry stakeholders can access customised reports via STR.

Horwath HTL are leading global hospitality consultants and have performed work in over 100 markets in India. Supporting the market facts, Horwath HTL have contributed the market insights and analysed the market opportunities and challenges for owners, investors, developers and operators. We help clients make Smart Decisions for Lasting Value.



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Introduction

It is 10 years since a downturn began with the global financial crisis. The decade since, with several years of soft general business conditions, has seen chain affiliated inventory go from 44k to 142k rooms; it has also left a trail of stressed financials, debt defaults, asset sales, and development failures. Supply has widened in range and geographic spread within the country; by brands and operators as well.

It is in this context that certain key achievements of 2018 must be highlighted. At all India level, occupancy is the highest for the last 10 years; ADR the highest since 2012. RevPAR for Mumbai, Hyderabad, Pune and Jaipur is the highest of the last 10 years; for Ahmedabad, Bengaluru and Delhi, it's the highest since 2010, 2011 and 2012 respectively. On average, 90k rooms are sold per day. Lemon Tree Hotels led the industry's first IPO since 2009; a second is coming through as this report goes under print. Among cities, Bengaluru now has the largest inventory crossing 14k; as a metropolitan area, Delhi NCR has a significant lead due to its sheer geographic coverage. Chennai is on the threshold of being the fourth city with 10k rooms.

Markets, other than the Key markets have increased supply share from 28% in 2014 to 33% in 2018. These are materially positioned at Up-UpMid and M-E levels – a significant opportunity for brands positioned at these levels and with the ability to work smaller inventories (with F&B and banquet demand) particularly in tier 2 and lower markets.

The leisure sector remains under-served with only 19% inventory share – could meaningful expansion of leisure destinations impact MICE and weddings demand at city hotels?

When you look at the annual numbers however, you wonder what is fuelling recent improvement in the “feel good” factor - occupancy up by only 0.2 pts, 1.77% ADR growth and 2% RevPAR growth. No doubt positive, but barely so; in fact, Upscale-UpMid and M-E segments dropped occupancy.

The answer comes when you look at “same store” numbers; 2018 performance for hotels that were included for reporting analysis in 2017. Occupancy is up + 1.7 pts at 67%; ADR is close to 6k and RevPAR just shy of 4k. Rate and occupancy positivity pervades all segments; M-E ADR grew by 6.62%.

Bengaluru, New Delhi and Pune are the big positives for 2018. All 3 markets achieved over 7% ADR growth. Delhi and Pune gained more than 2 pts occupancy, to join Mumbai at over 70%; both markets achieved over 11% RevPAR growth. While Bengaluru dropped occupancy due to continued supply addition, its RevPAR crossed 4k for the first time since 2010.

Goa and Kochi are markets that lost RevPAR. Goa has dropped occupancy to a small degree for the second year running. While rate improvement (above 8k for the first time) has limited RevPAR damage to less than 1%, the market has lost Rs. 100 as RevPAR over 2 years; not a major worry at this stage but something that needs attention, including from the state government and local tourism authorities.

It's unfortunate that February has only 28 days because it's one of the two best months (typically with November) for business cities – highest RevPAR. Goa and Jaipur do better in December and January, compared to February. Air travel continues to grow, but at a cost – incentive pricing attracts demand, but kills the product and the financials, with severe longer term implications for the sector. Is the push for pax load hurting long-term stability and over-utilising resources that are ultimately finite?

In the same vein, are we giving necessary attention to the balance of tourist numbers and the tourism sustaining ecosystem of the destination?

Goa is struggling; Jaipur is too – volume v/s pricing and value (for the destination and not individual properties) is a much needed balance for long term sustainability of a destination. Several tourism destinations have policies for this; can the industry self-govern itself here, rather than wait for policy, for the longer-term good?

Where is the balance on discounting? Standalone restaurants are already suffering. Must we in the hotel sector learn a lesson from this? What is the goal of disruptive pricing? Disruption is good and challenging, but should be responsible so that it is pursued to the extent it is a positive value add and not for narrow short-term gains.

Are we conscious as to when it becomes an ‘adder’ for the industry? There is now a push-back on OTA commissions; pricing-induced profitability concerns led to reduced driver

earnings causing strikes at Uber and Ola. This may all sound market unfriendly, but long-term fundamentals are equally vital.

F&B and banquets continue to carry significant revenue share, increasing even at lower-tier hotels. MICE and weddings will remain key business elements, although APC levels could harden in the near and medium term.

The power of event-driven demand is now evident in more cities. Ahmedabad gains from specific conventions and conferences, Bhubaneswar gained from hockey and Kolkata from football. Can the positive experience of inbound travel for Dassera festivities in Mysore (or annual festivals that create major travel into Paro and Thimphu in Bhutan) be used as a model to attract foreign leisure for the Diwali festival of lights? To experience the gaiety, participate in the food and festivity (but sans the pollution). Could that be a way to shore up business in a period which hurts hard?

Insolvency and Bankruptcy Code (IBC) is enabling resolution of default assets, either through the process of that code or through negotiated transactions in advance of IBC provisions being invoked. Well-funded Family offices, and institutional investors, could acquire assets at attractive discounts. Operator changes may be less likely, unless the acquirer is itself a chain as happened with the erstwhile Park Hyatt in Goa; the temptation to change operators must be very carefully assessed for its genuine necessity.

Positive amendments to CRZ rules will increase the ability to develop beach resorts closer to the coastline; additional FAR may also be available. The approval process for projects impacted by CRZ rules has been eased. That's really good news – will help beach locations and upcoming island developments.

One hopes that the hotel and tourism industry will avail these positive changes with a sense of responsibility and with full regard to long term sustainability.

The GST Council has set Rs. 7,500 as the level of demerit, God bless their soul. Is it that a guest contributing additional amounts to GDP, is committing an act of demerit and must be penalised? The Council has considered the GST collections impact – but what about economic growth of a sector that can contribute jobs and foreign

exchange? Is it not putting hurdles in the path of profitability, and possibly creating financial distress?

Consider this - if a hotel wants to increase its rate from Rs. 7,000 to Rs. 8,000, its revenue rises by 14.4%; the customer's bill goes up by 24%, as government collection rises 77.8%. If the hotel wants to increase rate by 50%, to Rs. 10,500, the customer's cost rises 62.7% because government collection rises 133.3%. Is this equitable?

Loyalty programs have become key elements for development and operations. Their value as business drivers is significant; an assessment of their true costs is yet somewhat opaque. It is good to see domestic chains launch loyalty programs, although some consolidation – of programs, and not ownership – could create greater real value.

Overall Performance - India and Key Markets



Note: 13 key markets comprise of Mumbai, New Delhi, Gurugram, NCR Residual, Bengaluru, Chennai, Hyderabad, Kolkata, Pune, Ahmedabad, Goa, Jaipur, Kochi

Source: STR

Coverage & Classification

In this report we examine Occupancy (Occ), Average Daily Rate (ADR) and Revenue per Available Room (RevPAR) trends nationally and for several Key markets.

Hotels are classified as Luxury & Upper Upscale (Lux-UpperUp), Upscale & Upper Midscale (Upscale-UpMid) or Midscale & Economy (M-E), consistent with STR classifications.

Our analysis is based on full year Occ, ADR and RevPAR data, reported by hotels to STR and generated per STR guidelines. Supply related data is based on Horwath HTL research. All values are in Indian Rupees.

We have concentrated upon all-India numbers and 13 key markets, which carry 67% of total chain-owned/managed/affiliated inventory.

We have used a performance matrix to report and analyse the results. The horizontal and vertical axis reflect Occ and ADR respectively. Occ below 60% is classified as 'Slow'; 60-70% Occ is considered 'Medium', 70-80% Occ is classified as 'Busy' and 80%+ Occ is Strong.

ADR is classified as 'Soft', 'Moderate', 'Superior' and 'Healthy' per grid scales that vary with the segment being reviewed. For market-wide reporting, comprising all segments, the scales used are Rs. 3k-5k, Rs 5k-7k, Rs. 7k-9k and 9k+ respectively (ADR at 9k+ is considered Healthy).

Thus, a market with over 75% Occ and over 8k ADR will classify as 'busy with superior rate'; a market with 82% Occ and 9.2k ADR would be 'strong and healthy' while a market with <60% Occ and less than Rs. 5k ADR will classify as 'slow-soft' and is an under-performer.

Note that the ADR grid will change for each segment.

Overview Of Performance – India

2018	Occ%	ADR	RevPAR
All India	65.3%	5,846	3,819
Same Store	67.0%	5,920	3,968

Source: STR

At the outset, it must be mentioned that comparisons must be made in the context of the changing supply composition in each market. Segmental performance is based on segmental composition determined by brand positioning; quality standards at individual properties may sometimes differ.

Highlights:

- Occ for three cities is above 70%; all others except Kochi (impacted by Nipah virus and floods) are in mid to high 60's with Hyderabad and Delhi NCR just shy of 70%.
- Mumbai and Goa ADR crossed 8k; Bengaluru joined Delhi, Gurgaon and Delhi NCR above the 6k level.
- From RevPAR perspective, Mumbai crossed 6k; only Goa and Kochi suffered decline (Kochi due to non-market factors).

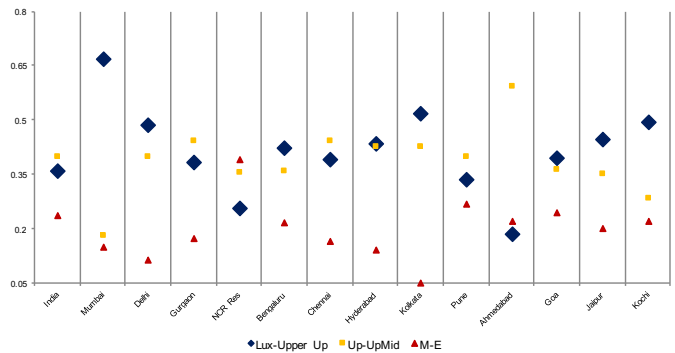
Let's look at the all-India performance summarised in the chart above:

- 'Battle of the Bulge' continues, with no sign of abating; this is a common Indian health issue of being very heavy in the middle. No market is strong and healthy
- The national marker is almost bang centre; six markets above and six markets below, on ADR terms, with Kolkata almost at par.
- In occupancy terms, only three of the main markets are weaker. What it tells us is that several 'other' markets are underperformers – this includes seasonal markets and also other business locations.
- Mumbai is the only hotel at the top-right; Delhi and Pune are Busy but at moderate / soft rates while Goa has superior rates but increasingly medium occupancy.
- Ahmedabad is soft on rates and doesn't even gain on the Occ front. Kerala dropped to the lowest left cell due to external factors - travel decline for a health scare in May, and severe floods with airport shutdown in August and early September.

- Chennai, Hyderabad and Pune moved diagonally up to the right; Kolkata too, but nominally. Gurugram also moved to the right, but downwards as it continued to drop rate.
- Delhi and Bengaluru moved up in similar measure – but Delhi to the right and Bengaluru to the left, again in similar measure.

Segmental Supply

Marketwise Segmental Supply Share



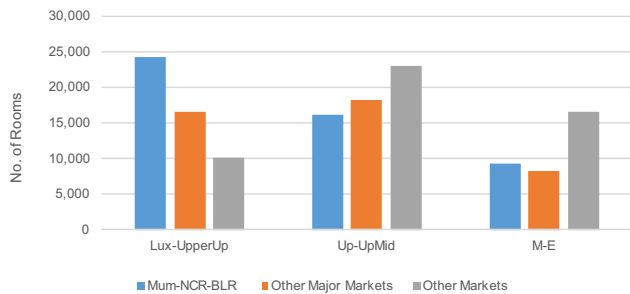
Source: Horwath HTL Research

Supply growth in 2018 was 8.2k rooms (additions 10.4k less deflagging 2.2k rooms); these numbers do not include conversions between chains / brands. Some interesting highlights of new supply in 2018 are:

- 14% of supply growth occurred in Bengaluru
- 46% of supply growth was outside the 13 key markets
- Largest growth was in midscale and upscale segments
- Average inventory per hotel is only 73 rooms; excluding Lux-UpperUp hotels, the average inventory is only 64 rooms – there is a distinct lack of scale.

Segmental supply composition comparing 3 major metros (B-M-NCR), Other key markets and Other markets (rest of India) is reflected in the chart below:

Marketwise Supply Classification



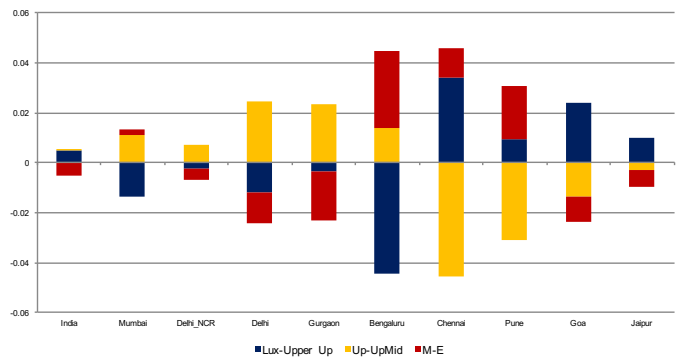
Source: Horwath HTL Research

Some of the key characteristics of the hotel supply include:

- As individual cities, Bengaluru now has the largest supply with over 14k rooms, followed by Delhi and then Mumbai. Mumbai continues to have the largest inventory in Lux-UpperUp segment; from a metropolitan area viewpoint, Delhi NCR is the largest.
- These 3 major metros (Mumbai, Delhi NCR and Bengaluru) comprise 35% of total national inventory.
- Supply share of markets, other than the 13 key markets has risen from 28% in 2014 to 33% in 2018.
- Other markets have limited play in the Lux-UpperUp segment – scattered across multiple cities including Udaipur, Jodhpur, Agra, Lucknow, Chandigarh; supply in Other markets materially comprises Up-UpMid hotels and also M-E hotels.
- Just 19% of total supply is of leisure use / orientation, compared to 17% in 2014; there is major potential for encashing on leisure.
- Several brand conversions during the year represent shift from lesser known domestic brands to more established domestic brands, reflecting the value of scale and brand investment.
- Domestic brands are gaining substantial traction in the M-E and UpMid segment, in all markets and particularly penetrating markets outside the main cities.

Segmental Demand

The chart below compares actual segmental demand with segmental ‘fair-share’ demand. For this purpose, actual total demand for a market is first allocated in proportion to segmental supply; this allocated demand is then compared with actual segmental demand to reflect variations. The comparison throws up some interesting pointers.



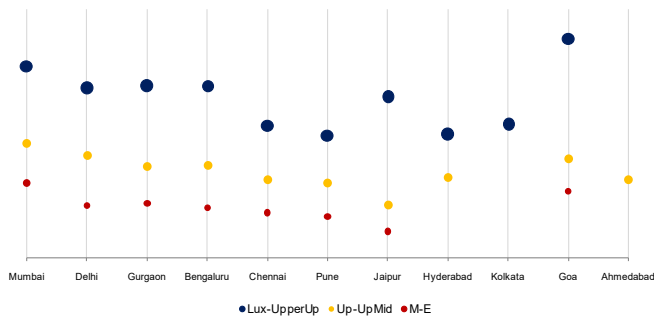
Source: Horwath HTL Research & STR

- The best balance is at the all-India level where Up-UpMid is almost perfectly balanced. This should energise supply creation outside the key markets, where the concentration is Upscale, mid-priced and economy.
- Bengaluru, Delhi, Mumbai (B-D-M) have shortfall of Lux-UpperUp demand which is not necessarily a bad thing as long as the gap keeps narrowing – major international cities need substantial supply of Lux-UpperUp hotels. Only Delhi of these three cities also has a shortfall of M-E demand; as this catches up, ADR dilution could arise.
- Chennai, Goa, Jaipur, and Pune have premium of Lux-UpperUp demand; only Goa is truly capitalising on this in ADR terms. From a “destination value-add” viewpoint, Goa and Jaipur may do well to maintain the shortfall of mid and lower tier demand.
- Gurugram needs more supply, outside M-E segment; possibly in the Up-UpMid segment. This market lacks large Upscale hotels which is a cause for ADR decline in the last 2 years.

Segmental Performance

Luxury hotels remain in the 5-digit ADR positioning, with upscale hotels at half the rates for luxury hotels. Dilution of Upper-Up rates (below Rs. 7k) is creating downward pressure and rate limitation for other segments. Relative segmental rate levels, across key markets, are presented as:

Segmental Rates - Major Cities



Source: STR

Goa has the widest range, Pune the narrowest. At the Lux-UpperUp level, the gap between the highest rate market and the lowest rate market is Rs. 4.3k; such gap halves for the M-E segment and is about Rs. 2.7k for the Upscale-UpMid segment.

Leisure markets have the largest spread between Lux-UpperUp and Upscale-UpMid rates, while the spread for Mumbai, Bengaluru and Gurugram is in a similar band.

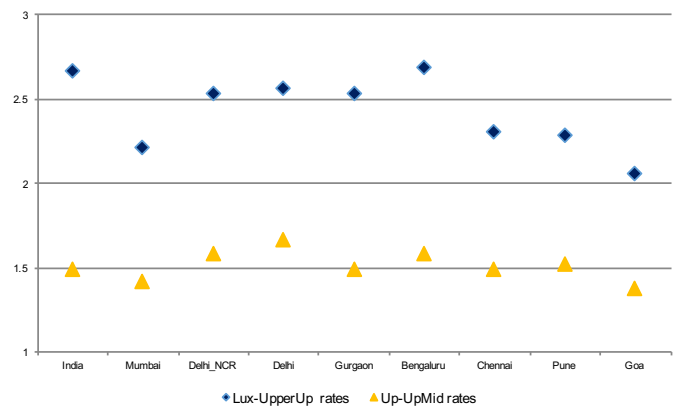
Mumbai, Bengaluru and Gurugram, alongwith Delhi, also have similarity of rate spread between Lux-UpperUp and M-E rates.

M-E rates in Mumbai are close to Upscale-UpMid rates in Chennai, Hyderabad and Ahmedabad, and materially higher than Upscale-UpMid rates for Jaipur. In fact, the latter rates compare with M-E rates in Delhi, Bengaluru and Gurugram. Jaipur needs to examine the true value-add from volumes or low rate business, choking an under-capacity airport and potentially dissuading the top-tier market.

ADR levels across segments, but particularly at the Lux-UpperUp segment, are still much lower than the product quality – no market achieves \$160. Comparative segmental rates should be examined for the reflected achievement and potential for individual markets.

The chart below shows Lux-UpperUp and Up-UpMid rates as a percentage of M-E ADR (taken as the base of 100).

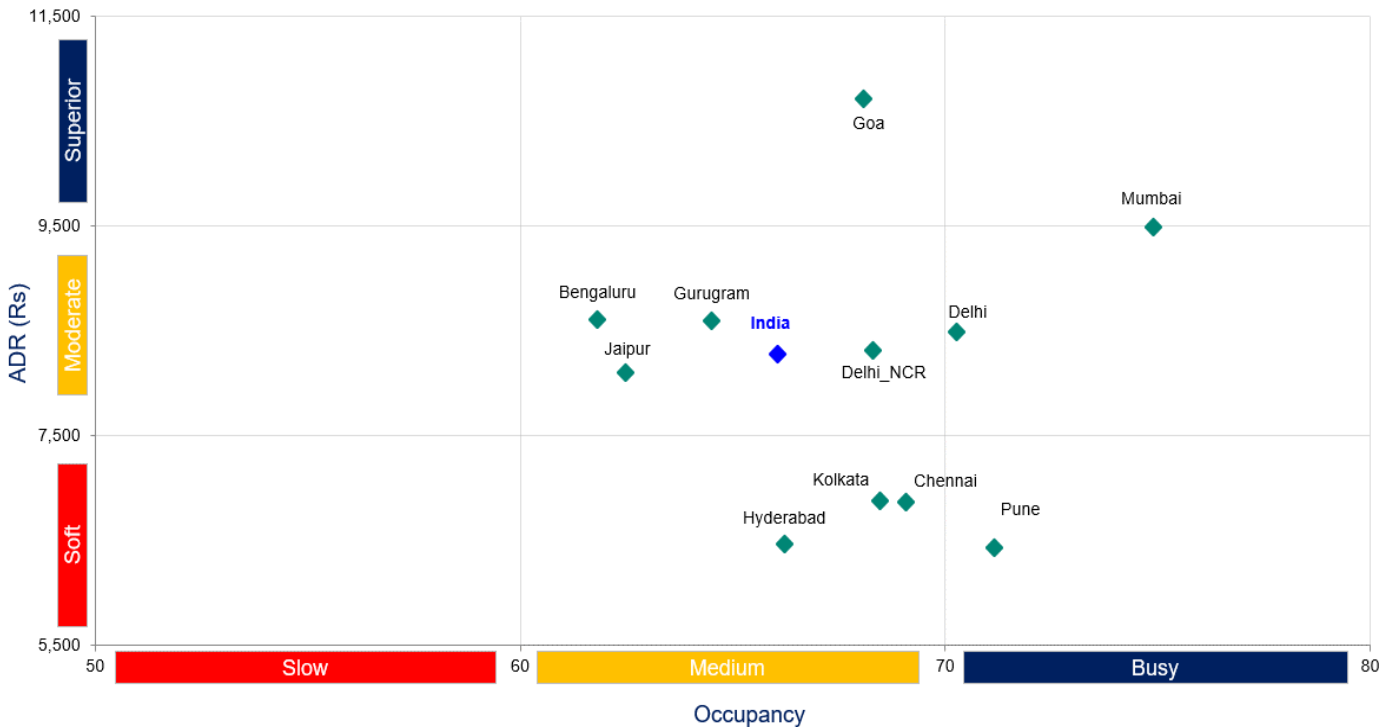
Segmental Rate Comparison



Source: STR

- Higher M-E rates in Mumbai and Goa cause lesser premium percentages for the two higher segments; nevertheless, the spread is smaller than desirable.
- Mumbai is yet unable to increase corporate rates in a material way; limited Upscale-UpMid supply is possibly pushing crew business into UpperUp hotels, causing rate dilution.
- Goa saw a decline in Upscale-UpMid ADR, as supply grew by 28%.
- Delhi and Bengaluru are starting to pull up rates and segmental rate premium, even as M-E rates registered double-digit growth in both cities.
- Pune can be expected to improve, as Occ has crossed 70%, though new supply could dampen rates over 2019 and 2020.
- The top-tier in Chennai remains constrained by combination of lack of new investment in the city and supply surge in the mid and lower tier.

Lux-UpperUp Performance - India and Key Markets



Source: STR

Segmental Performance

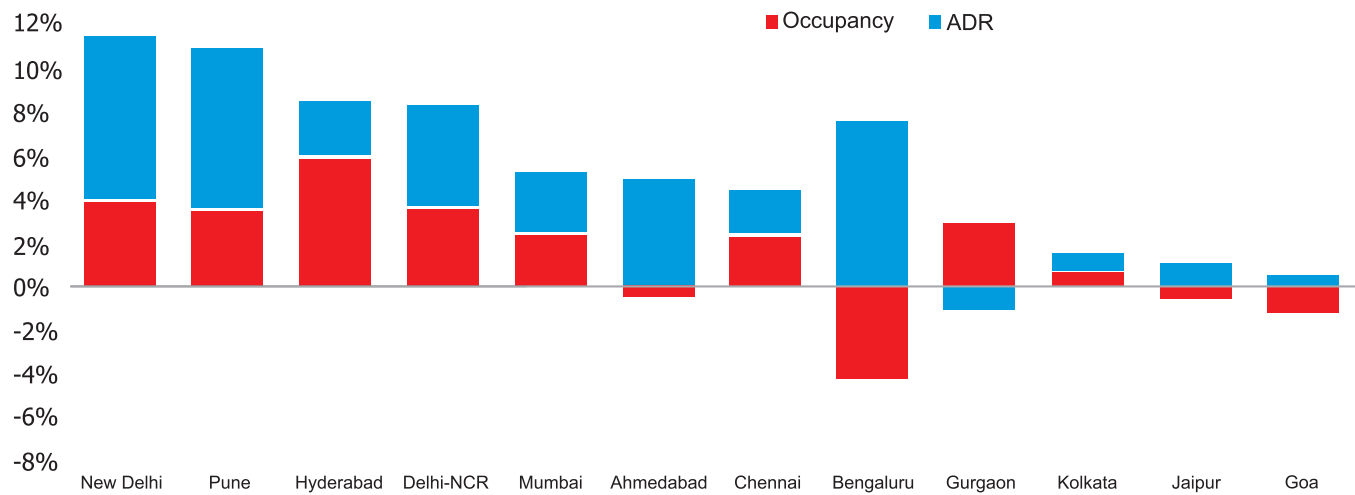
Luxury – Upper Up

Per our reckoning, ITC Kohenur in Hyderabad took Lux-UpperUp supply over the 50k level – aided by new hotels added in 2018 in Bengaluru, Grand Hyatt Bolgatty, and other markets. 83% of segmental supply is in the key markets. 2018 performance for key markets is reflected below:

- The Busy-Superior zone yet remains empty. And nobody is Strong & Healthy.
- Only Goa has Superior rates, but Medium occupancy. Mumbai is busy and on the cusp of Superior rates.
- There is a crowd in the middle as several cities are in the low to mid 8k levels, with only Delhi being 'busy'.
- Chennai, Kolkata, Hyderabad and Pune have catch-up work to do. Pune is the only non-metro city in this and has done very well on the occupancy front, gaining 4.2 pts.
- Having three metros in the Medium-Soft range is not healthy; ideally these need a sharp move upwards to the right, with busy-moderate being an immediate objective.

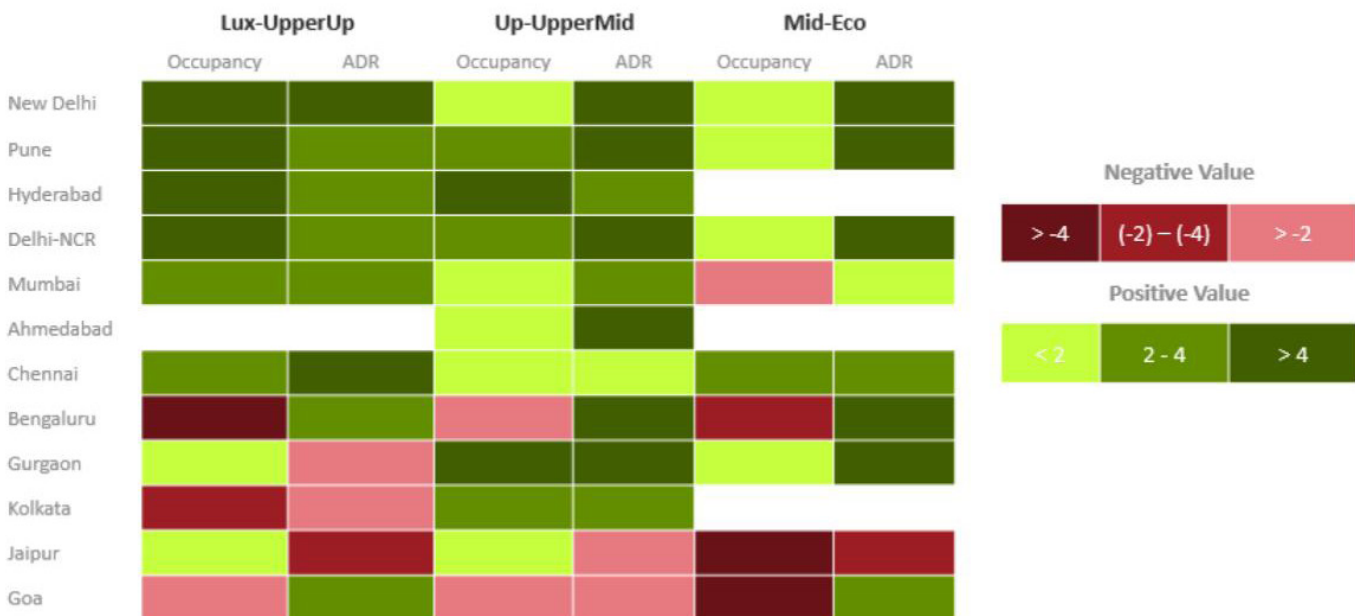
Fortunately, the left column is entirely empty. One looks forward to see the same result in the lowest row.

India Hotel Performance by Key Markets – YoY Occupancy & ADR Growth



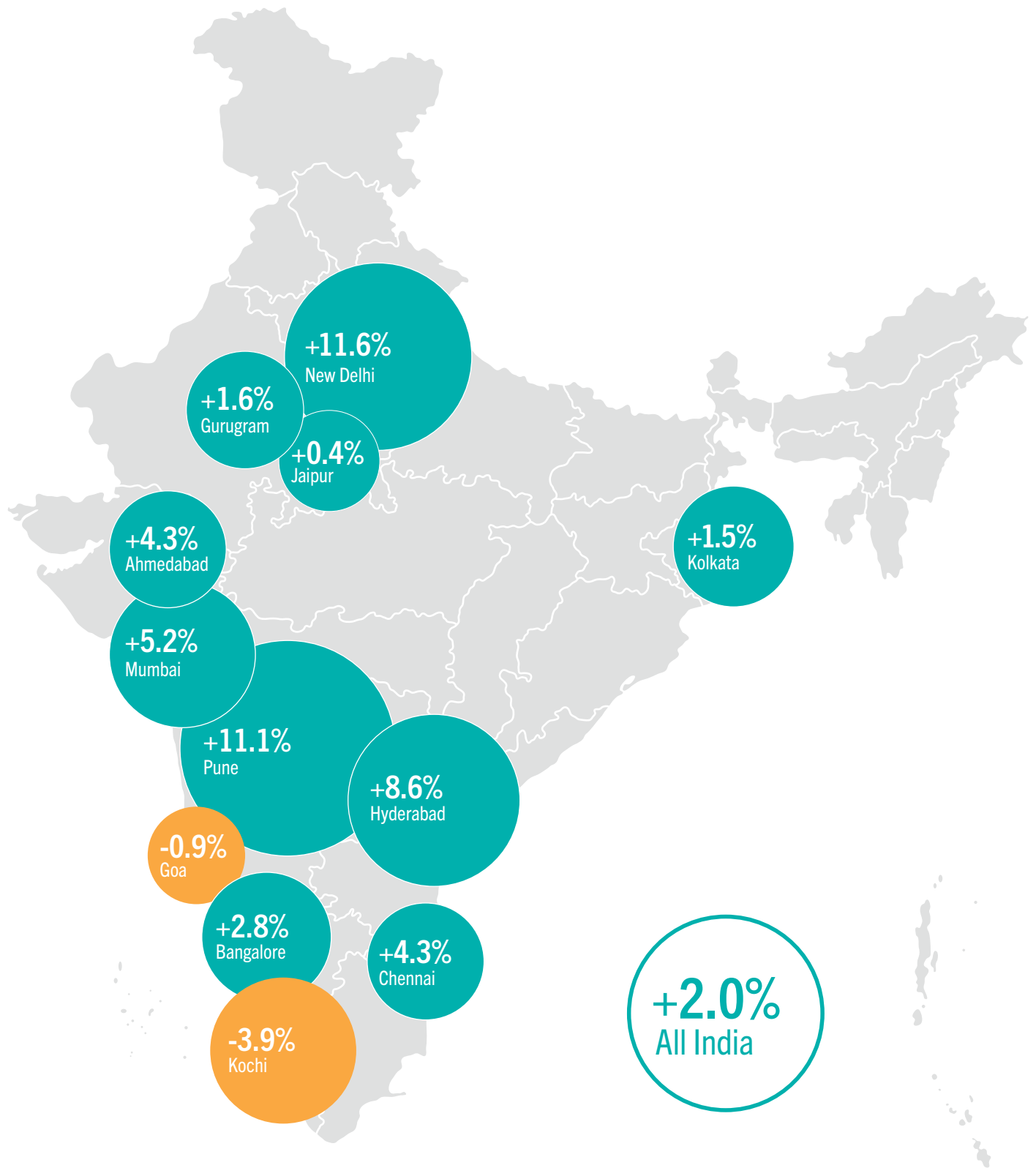
Source: STR

Key Markets – Segmental Performance YoY Occupancy & ADR Growth



Source: STR

India - Major Cities: Y-o-Y RevPAR Change



Source: STR

Upscale-UpMid Performance - India and Key Markets



Source: STR

Segmental Performance

Upscale – Upper Mid

This segment has 57.5k rooms, added about 5k rooms in 2018, and is a vital determinant of overall performance. The segment has performed laboriously – nominal drop in Occ; 3.6% ADR growth and RevPAR increased by Rs. 90.

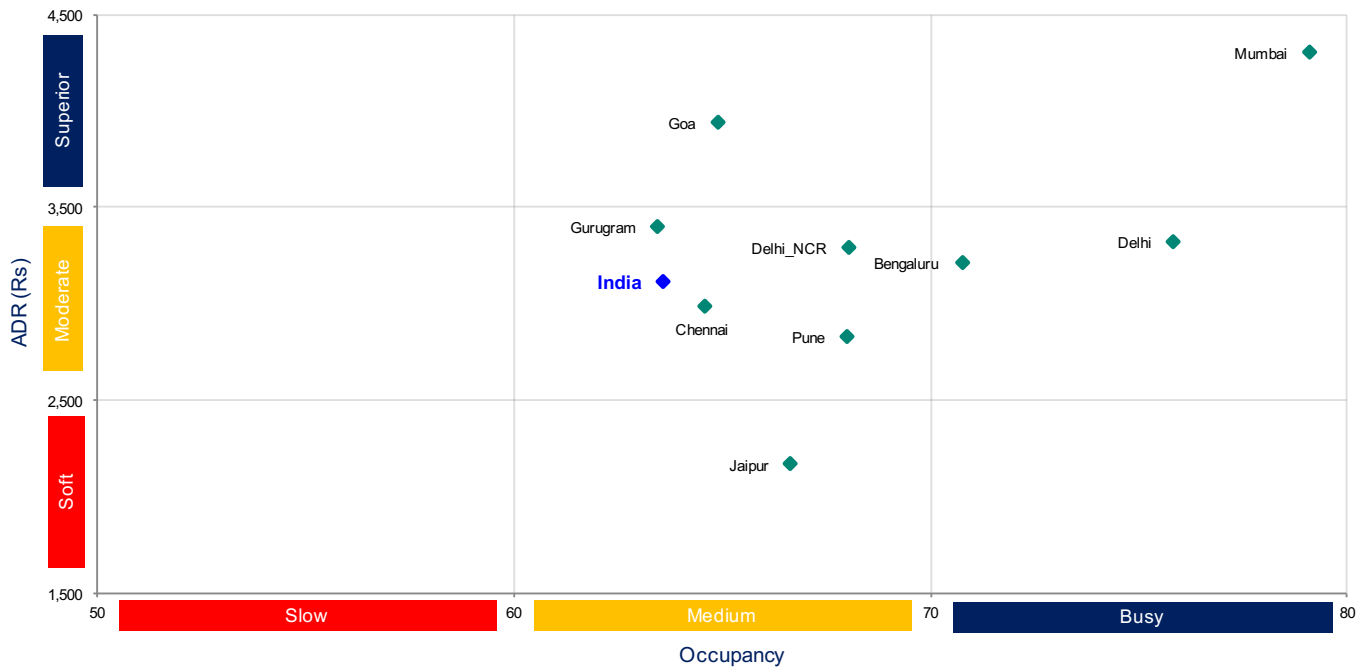
ADR's need to rise more significantly, with Key markets having to lead the way:

- Kudos to Mumbai; strong and substantially superior; in fact the only instance where the Strong classification is applicable for 2018.
- And the Razzie goes to Jaipur; Chennai is runner-up in a tight contest.
- Delhi moved substantially higher on the rate axis, crossing over from Moderate to Superior; its rightward shift for Occ was positive too, but much less substantial.
- Hyderabad, Gurgaon, Pune and Ahmedabad moved in the desired direction; diagonally up, to the right. Chennai too, but more marginally.
- Bengaluru moved up smartly, edging closer to the cusp of Superior rates. However, it shifted to the left, dropping 1 pt in Occ.
- Goa is the only market that has moved in the wrong direction; down, to the left.

Upscale-UpMid segment has become the backbone of the hotel sector, taking over from Lux-UpperUp in terms of scale and spread. Expansion in and outside the Key markets will mainly be driven by this segment, with support from M-E.

This reality brings to fore the criticality of this segment in determining industry results. Half backs must move and feed forward, for strikers to consistently score. Else you end up scoring self-goals.

Midscale-Economy Performance - India and Key Markets



Source: STR

Segmental Performance

Midscale - Economy

This segment has 34k rooms, with 24% of all-India chain affiliated inventory. About 1,500 rooms were added in 2018. 18k rooms in this segment (54% of segmental supply) are in the key markets.

- India-wide Occ is stuck in the low 60's. ADR grew smartly in 2018, crossing 3k for the first time. Yet, the all-India marker is not even at the centre of the chart.
- Mumbai is the only market at the top right hand corner – unfortunately, it fell back from Strong Occ position, without materially gaining in ADR.
- Several occupancy shifts have been in the negative direction. Bengaluru, Goa and Jaipur dropped Occ between 2.7 pts and 4 pts. Bengaluru is particularly surprising because there is no supply growth in this segment.
- Bengaluru and Goa at least made up on the ADR front; the former added over Rs. 300 to comfortable cross the Rs 3k level. Goa ADR growth was more modest but is now pushing the Rs. 4k level.
- Jaipur dropped rate as well – only Rs 60 but that's material when one is in the low Rs 2k level.

- Delhi, Gurugram, Pune and Chennai moved up to the right, gaining both Occ and ADR. Occupancy gains varied from 0.8 pts to 1.5 pts; while ADR gains spread significantly between 3.3% and 12.6%. In money terms, these varied between a modest Rs. 100 and a healthy Rs. 370.

Happily, there is no under-performer on the Occ front although Jaipur does remain a soft rate performer. Improving product quality at the Midscale level (e.g. the revitalised Ginger and Park Inn by Radisson) could enable improve performance for this segment. It really needs Occ growth in Key markets to compensate softer initial period results from smaller cities and towns in which this segment must penetrate. Domestic brands have a major play in this segment, but must also carry the responsibility of improving value-add. This is the segment under stress from Oyo and similar products and the hotel sector has an interesting fight on its hands.

Key Markets

Mumbai

Occ increased to 76.6%, ADR above 8k and RevPAR grew 5.2% to go above 6k. One expected better, from a city which is sold out on several days of the week; new supply was also nominal.

In occupancy terms, the city crossed 80% for 3 months, never dropped below 70% even in the monsoons and had y-o-y decline only in January and November (this due to Diwali).

In ADR terms, only Jan declined by Rs. 52. All other months had growth (including November which, in fact, had the highest monthly ADR for 2018). Feb and Dec transitioned to the 9k level; March and October the 8k level.

RevPAR growth was dampened by M-E segment which dropped Occ and grew ADR by only Rs. 77, thereby diluting 6.6% and 4% RevPAR growth in Lux-UpperUp and Up-UpMid segments respectively.

South and Central Mumbai continues to gain occupancy but its ADR gains have sharply tapered off. Western suburbs also lost ADR momentum as corporate business has been lost to hotels near the airports. Eastern suburban Mumbai (including airport hotels) have absorbed 1100 new rooms added in the last four years, with demand growth of 1300 rooms; yet ADR improvement has only been 4.6%.

Inability to implement corporate rate increases is a challenge. Retail rates and even group rates have improved but hotels have to find a way to improve corporate yields; and reduce reliance on airline crew.

Staycations are a boon, benefitting all hotels, particularly waterfront properties.

Navi Mumbai has been steady in Occ and limited in ADR growth, so that RevPAR grew 2.3%.

The much awaited convention centre is due to open in 2019. This should boost demand and rates – in the normal course; but that normal trend is something Mumbai hotels have defied. Hopefully a change will occur. In the longer term, the expanded metro could redefine some markets by creating fungibility. The coastal road and Navi Mumbai

airport could also change patterns in the longer-term; eastern seaboard development will create longer term opportunities. But the time to encash better conditions is now – and it is pointless to look the gift-horse in the mouth.

Delhi

Delhi has certainly grabbed the opportunity, presented by GST replacing a usurious luxury tax, with both hands – to the detriment of Gurugram. 11.6% RevPAR growth, with Occ rising to 71.7% and ADR by 7.5%. Aerocity hotels have fully dialled in – rooms demand, ADR and banqueting. Corporate, MICE and retail business which chose Gurugram over Delhi because of major tax savings under Luxury tax have shown preference for Delhi once an even playing field was created. Aerocity itself has expanded its commercial spaces. Oberoi New Delhi re-opened with enhanced price capability and positioning.

Lux-UpperUp hotels breached 70% Occ level; all segments grew ADR by double digit percentages with +/- Rs. 400 increases in each segment.

In terms of monthly trends, Occ touched 70% in January and crossed 85% in Feb – both for the first time in last 4 years. Monthly ADR's (barring November, impacted in the first fortnight by Diwali), grew between Rs. 300 for May and Rs. 848 for December.

Upscale-UpMid hotels continue to perform well, having grown RevPAR by nearly a third in the last 2 years; rate enhancements at the Lux-UpperUp level will give space for rate growth in the lower mid and lower tiers thereby benefitting the city.

Delhi hotels should see a healthy future, sans external events; further gains from a renewed Pragati Maidan and the new Dwarka convention centre. Resolution of Taj Mansingh lease will enable much needed renewal of that hotel.

Gurugram

(formerly known and commonly announced as Gurgaon) This market saw better days when known as Gurgaon. The guru has possibly helped it see reality, for longer term structural stability. The market needs to deepen its Upscale-UpMid capacities and create large MICE facilities in that segment. Gurugram has multiple lower tier hotels, each of small inventory.

Occ continued gradual growth since 2013, rising +1.8 pts to 67% for 2018. ADR continued an annual decrease pattern that started in 2010, with 24% lost in this period.

The Upscale-UpMid segment has done well, crossing 70% Occ and Rs. 5k ADR. M-E also did well on ADR, with 11% growth in 2018.

Expanding commercial space near Udyog Vihar should help hotel performance; but large distances with heavy traffic causes diffusion of demand without sufficient critical mass for rate premiums.

Bengaluru

1,164 new rooms including 1,011 rooms in the Lux-Upper Up segment; total city inventory crossing 14k – the first Indian city at this level; therefore digesting 2k new rooms in the last 2 years. Yet, ADR grew 7.4% to Rs. 6.2k and RevPAR grew 2.8% to Rs. 4k. Occ did decline -2.9 pts to mid 60's.

In the year past, Bengaluru hotels fought the odds much better than the visitor's struggle with its traffic. Lux-UpperUp hotels, which added 25% of its inventory in the last 2 years, grew ADR by Rs. 325 even as Occ fell to 61.8%. Upscale-UpMid and M-E segments too grew ADR by 11% each, as they lost some Occ.

On a monthly basis, the city saw Occ decline in each month, other than October which in 2017 was impacted by Diwali. On the other hand, y-o-y ADR grew in every month – by Rs. 400 to Rs. 700, barring Jan and Feb.

Every micro-market has contributed to ADR growth, led by Whitefield and Sarjapur which increased ADR by a sixth. Unfortunately, Occ declined in every micro-market as well – what is important is that it did not cause rate panic.

Bengaluru needs leisure and event demand and a convention centre. It is poised for growth as business travel continues to grow; business demand anchors on growth sectors including IT, aerospace, defence, and biotech; and the airport implements a sizeable capacity expansion by 2021.

Hyderabad

Hyderabad has been a story of restoring and increasing occupancy. 2018 is the fifth consecutive year of market-wide Occ increase, by an overall 20.3 pts over the five years. During this period, segmental growth has been consistent with +20 pts for the Lux-UpperUp segment and +22 pts for Upscale-UpMid segment. Occ increase of 3.9 pts in 2018, inspite of 9.4% inventory addition, is commendable.

ADR improvement, in the last four years, has been more muted, at a modest 9.2% on market-wide basis.

Cyberabad has been a key rate driver with >Rs 700 growth in the last three years; south & central Hyderabad, on the other hand, grew ADR by only Rs. 350 in the last 5 years. The city is seeing sizeable commercial growth with strong space absorption in Cyberabad; this augers well for hotels, particularly as new supply pipeline slows and a re-elected state government pushes development even more rapidly.



Kolkata

For the city as a whole, 2018 has been the best year since 2013 with occupancy at 66.8%. The city added 1,458 new rooms in these five years, which have been reasonably absorbed – city Occ did not fall below 64% in any year.

ADR levels remain muted, as demand has significant share from MICE, weddings, and events such as football. ADR for Lux-UpperUp and Upscale -UpMid is on either side of the city ADR, with premium / discount of Rs. 900 to Rs 1k.

As a city that lacks a strong growth engine for corporate demand, it has shown an ability to generate business opportunities by cultivating new avenues for demand. Its prominence as a regional centre for the east, including for neighbouring countries, has been underscored by the expansion of travel – for MICE, weddings, leisure, healthcare, shopping etc. Crew demand has also deepened. Locals love their food; and serve it generously too, at weddings and events. F&B significantly nourishes the revenue statement of hotels.

Chennai

As it approaches 10k inventory level, the city's hotel sector needs renewed focus – in fact, its business base needs attention and resurgence, to create an environment for investment in the city.

Else its pedestrian performance could remain so for a longer period. Chennai RevPAR is lowest among the six metro cities; lower even than Pune and Jaipur. A premium only over Ahmedabad – now you really don't want to highlight that, do you?

Chennai's Upscale-UpMid ADR is below the all-India average; it is also below Ahmedabad. This metro city's M-E ADR is below 3k and also below the all-India average. Fundamentally, Chennai has been hit by a supply surge at the same time that demand conditions softened. At end December 2011, demand was 60% of supply. Since then 5.7k rooms have been added, while demand has increased by 3.7k rooms. OMR belt has seen large supply creation (mainly mid and lower tier) but new investment in IT and commercial spaces has failed to keep pace, causing micro-market performance to drop drastically.

The city has gained MICE demand, and is improving its upper-tier business – but ever so slowly so that the debt service pain continues. Some drastic changes are needed; given the city's past trend, one may need to hold breath for some years.

Pune

Pune has had a good year, crossing 70% Occ and pushing through over 7% ADR growth to post 11% RevPAR increase. A solid tier 1 business city performance by Pune; helped by MICE and partly by shift of some IPL games to this city.

This is a business travel and MICE market, with 2/3rd inventory in the Upscale-UpMid and M-E segments. An annual occupancy growth trend, which started in 2012, continues.

The city had a good summer – over 70% Occ for each month from April through July. It had the narrowest monthly ADR range (highest month minus lowest month), with a spread of only Rs. 406 as compared to B-D-M. Similarly, monthly Occ swings were in a range of only 10 pts, lower than Bengaluru and Delhi.

Segmentally, its Lux-UpperUp Occ is the second highest among key cities; its M-E Occ only trails B-D-M and its Upscale-UpMid Occ is ahead of Bengaluru, Chennai, Goa and Ahmedabad. Consequently, each segment achieved healthy RevPAR growth.

If anything, one would say that Lux-UpperUp ADR could have been higher, although the reluctance / challenges in pushing up corporate rates is shown even by Mumbai hotels. Upscale-UpMid ADR gained Rs. 450 in 2018 and can do even better once greater space is created at the top. This will also help pull up M-E rates which lie below Rs. 3k. New supply is on the anvil and could dampen Occ and ADR in the immediate term; however, the market is growing and can be handled more efficiently (than mere rate discounting) to create longer term value. Marriott and Hyatt control 35% of the city's chain affiliated inventory and must lead the way.

Ahmedabad

The cycle of alternate year decline in ADR has been broken. The city gained nearly 5% ADR, although Occ declined just a tad by -0.3 pts. At Rs, 4,455, ADR is at its highest in 9 years and Occ almost so.

Yet, among the key markets, Ahmedabad ranks lowest on all parameters (excluding Kochi which suffered several uncontrollable external factors). While overall inventory levels in this city are modest, new supply continues to be created and planned.

Currently, the city does not have a solid and sustained demand generator base – manufacturing, particularly automotive and engineering, is a key element; however demand creation is project based and seems to lack a core. The convention centre, GIFT city and riverfront developments will undoubtedly be beneficial; nevertheless, sustained growth and productivity need a solid core that is missing at the present time. In the meantime, owners will need sustaining ability using food and functions as a vital revenue source.

Goa

In 2018, Goa has been a road construction zone; an airport development zone; a zone impacted by high GST, liquor licensing issues, and recognition of need to push back on “quantity, not quality” approach of recent past years. Growth has slowed. While about 750 rooms were added in the last 2 years, Occ has fallen over 2 points, ADR has grown by only 2% and RevPAR has declined by Rs. 80.

Lux-UpperUp hotels are doing better. These have also dropped Occ by a couple of points but have continued to grow rate, albeit more gradually – 5.3% over the last two years, enabling 2.5% RevPAR growth over these last two years. At Rs. 10.7k, Goa Lux-UpperUp ADR is the highest among Key markets.

However, the mid and lower tiers are a drag – RevPAR declined in both segments as Occ dropped, so did ADR for the Upscale-UpMid segment.

While one can gain satisfaction from the fact that Upscale-UpMid rates are above Rs. 5k and behind only Mumbai and Delhi, the segmental ADR is 50% of the top tier ADR. The market is clearly attracting incentive pricing based volumes. The challenge in Goa is the absence of beach-sites. Resorts therefore get developed in the interiors and release all the guests into the entertainment and food zones, crowding those with mid-market visitors. Upscale-UpMid resorts with beach access would keep guests more contained within their property and possibly earn more from F&B.

In this context, one must accept (while completely disagreeing with the language and tone) that recent concerns for damage to the state’s tourism eco-system have a basis. By all means grow, but meaningful growth is essential.

It is also likely that GST rate structures are driving away the more affording events to other locations, probably outside India, leaving the more price-conscious and lesser exposed visitors to use Goa. A period of consolidation is good – so long as the leak does not become a bigger stream.

Jaipur

Jaipur struggled its way through a poor year. Occ decline, minor rate increase and 0.4% RevPAR growth. All of this in a year where supply did not grow. Lux-UpperUp demand grew by a point, but ADR declined as new supply (mainly new JW Marriott and expansion at Fairmont) tried to gain penetration.

Jaipur is a prime example of inability to push up rates when you start too low. The city has 2 great palaces, an award winning Rajvilas, JW Marriott and Fairmont, all on the luxury side. Yet, Lux-UpperUp ADR is just above Rs. 8k. The issue is with UpperUp hotels; why are they so rate dilutive? Upscale-UpMid ADR is a pathetic Rs. 3.4k. In the last ten years, rate movements have been in a band of Rs. 285.

Although Occ has grown from 55% to 76%, is it worth the while at these rates? Aren’t hotels wearing out too quickly because of such low rate business, probably also bringing inconsistent guest profile?

Jaipur’s Upscale-UpMid segmental ADR is 27% below segmental all-India rate. M-E RevPAR fell 7.1%, although there has been no new supply since 2016.

The city lost Occ in Jan, Feb. October and November – all key months. ADR from May to August was in the mid to high 3k, in a market with >40% inventory in the Lux-UpperUp segment.

The city’s business model clearly needs a revamp. Segmental rates are way too low in summer. Diwali holidays should be pulling business into a leisure destination so November should not have dropped Occ. Yes, there was an impact from the state elections but that still doesn’t explain this performance.

There is lot of work for hotel Operators to do. Surely, their products merit better; their costs are increasing and need better margins? Surely there is a better market out there which can be identified and promoted – for MICE and domestic leisure?



Kochi

The city had a bad year, due to force majeure reasons – some business decline due to health advisories in May and then severe floods and airport closure for 15 days. Several hotels had to shut operations for longer periods due to maintenance work caused by unusual flooding.

Occ has declined to 57% but ADR levels have risen to their highest in the last seven years.

We must commend the efforts of the city's hotels to support and care for guests at the time of this unexpected crisis. And for their diligence in getting hotel operations back on track in a timely way.

Going forward, we expect the new Grand Hyatt and Lulu Convention Centre to be business accretive for other hotels as well. Gathering pace of IT sector activity at Kakkanad Info Park should also be a benefit although opening of the Four Points by Sheraton in Kakkanad will require other city hotels to search for / create new business.

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