



2015

HOTELS IN INDIA TRENDS & OPPORTUNITIES

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Introduction

This year's edition of the Trends & Opportunities report brings forth a fair measure of cautious optimism. In marginal contrast to last year's publication, HVS asserts the view that while the Indian Hotel sector has indeed seen growth in both product and performance, it has come in a paced and moderated fashion. One could even draw comparison to the way the newly formed central government began its tenure in 2014 on a high note, and though its one-year performance has not been spectacular per se, it has been steadily moving in the right direction.

We had drawn attention to the undertones of hope, optimism and positivity in our previous publication; since then, the nation's hotel sector may not have found reasons for exuberance, but it has certainly been witness to a year that outpaced the preceding one on various fronts. What's left to be desired is perhaps the fulfilling of the expectation that growth would not simply be linear or organic, but in fact be driven by external influences that would allow inducement of incremental room night demand. That, unfortunately, has not happened – Yet!

market and the market's size. Furthermore, a larger sample set and availability of data for two historical years, along with the deliberate removal of irrelevant supply by us, have led to the 2013/14 figures undergoing a minor change across all parameters.

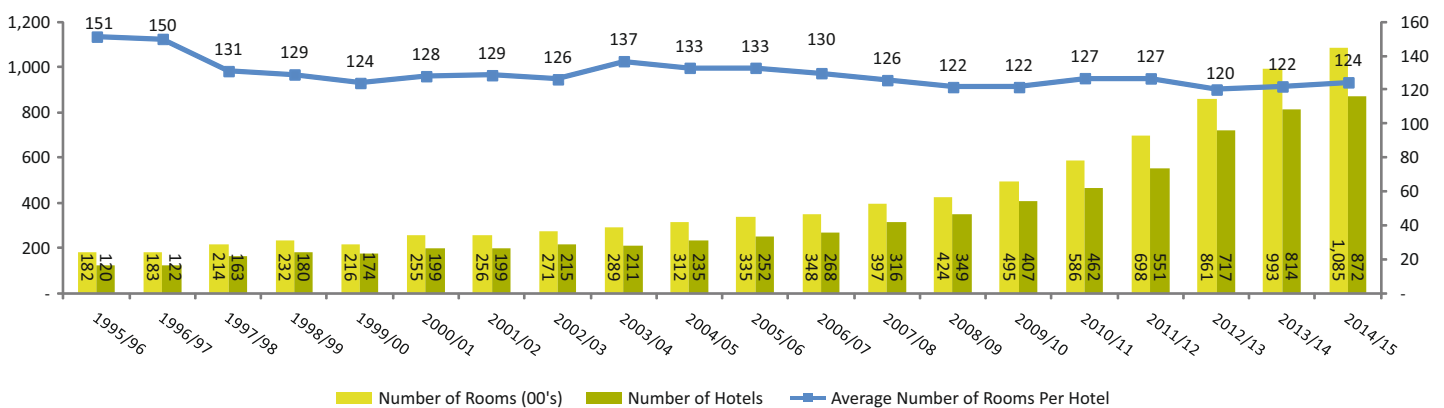
Similar to previous editions of the Trends & Opportunities report, we have weighted the number of room nights to account for the new supply that was not operational for the entire fiscal in order to compute the overall occupancy and average rate. **The weighted room count for 2014/15 is 1,01,305, up from 95,414 for 2013/14.** Figure 1 illustrates survey participation for the fiscal years 1995/96 to 2014/15.

The India Story

As one of the only countries to not suffer a growth downgrade by the IMF, India has emerged as one of the stars of the otherwise modestly growing world economy. The country has escaped Morgan Stanley's "Fragile Five¹" list, being the fastest growing economy among the BRICS nations in 2014/15.

The BJP-led National Democratic Alliance (NDA), in its first year of governance, acknowledged the need for policy reforms and adjustments for the long term, making slow, yet

FIGURE 1: SURVEY PARTICIPATION (1995/96 – 2014/15)



Source: HVS Research

For the past 20 years, HVS has gathered data related to the hotel performance of the country through the annual *Trends & Opportunities Survey*. The resultant Trends & Opportunities Report describes and analyses the key hospitality trends, as well as HVS' outlook, highlighting 13 major Indian markets. The report also presents existing and future opportunities in the hospitality industry of specific interest to investors, developers and hotel operators.

The survey participant base has registered a significant rise since 1995/96 from 120 hotels with 18,160 rooms to a record **872 hotels with a room count of 1,08,452 in 2014/15, an increase of 58 hotels and 9,151 rooms** since the last survey.

The growing number of survey participants over the years demonstrates an increase in both HVS' penetration into the

steady progress in controlling inflation and reasonably limiting the erstwhile escalating fiscal deficits, supported by the decline in global oil prices.

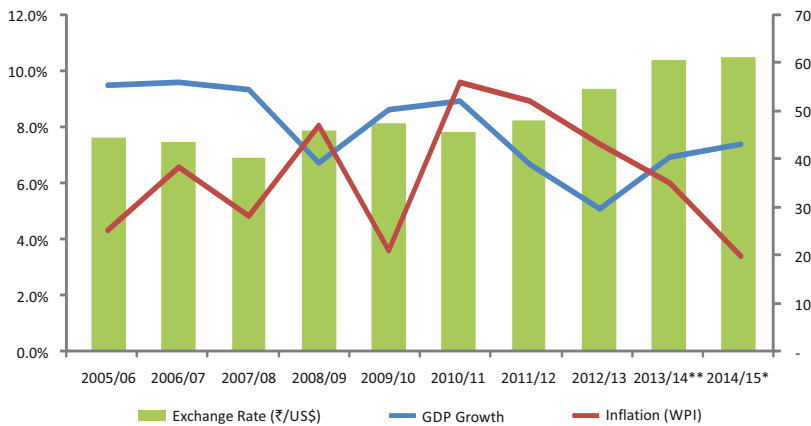
As per the revised method of calculating the national accounts on the new base year 2011/12, the latest *Economic Survey of India* estimates GDP growth at 7.4% in 2014/15. The country's services sector grew at 10.6%, with the trade, hotels & restaurants, transport, and communication sub-sector registering an 8.4% growth rate estimate.

Figure 2 displays the GDP Growth, Inflation and Exchange Rate for the period from 2005/06 to 2014/15.

In the last fiscal, the rupee witnessed some downward volatility vis-à-vis the US dollar, which can be mostly attributed to the Federal Reserve (US Central Bank) ending its

¹ Coined by Morgan Stanley in 2013, the Fragile Five is a group of countries which has high and escalating current account deficits, making them more dependent on foreign capital inflows.

FIGURE 2: GDP GROWTH, INFLATION AND EXCHANGE RATE – A 10-YEAR TREND



*Advance Estimates | ** Revised Estimates

Yet another welcome measure is the likelihood of the introduction of a key tax reform – Goods and Services Tax (GST) – that the incumbent government inherited from its predecessor. By the ambitious deadline of April 2016, the government aims to decide upon supplanting all the indirect taxes on all goods and services with the GST, making the tax base wide-ranging, transparent and inclusive.

Given the government's commitment to restructuring and development, after many years of low economic growth, India has emerged as one of the fastest growing economies in the world in the first quarter of 2015/16, making the outlook for the macroeconomic scenario hopeful.

quantitative easing programme in October 2014. The average exchange rate was estimated at ₹61.15/US\$ for 2014/15. Going forward, as the Federal Reserve raises interest rates, more turbulence is anticipated in India's exchange rate to the US dollar.

At the time of going to print, the rupee witnessed further deceleration, reaching ₹66.35/US\$. That being said, the Reserve Bank of India has contained demand pressures by tightening the monetary policy, creating a buffer against any external shock. Additionally, as the Current Account Deficit (CAD) diminishes to sustainable levels, the rupee becomes that much less susceptible to global capital sentiment. Therefore, when compared to the currencies of other emerging nations, the rupee remains relatively stable, which also has a sobering effect on inflation.

The relative stability in the exchange rate during the year can also be attributed to the influx of Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII) in the Indian equity and bond markets. Major portions of FDI inflows were seen in the Services sector (construction development, telecommunications, computer software and hardware, and hotel and tourism) along with the automobile industry, power and chemical industries.

Another key government reform announced at the onset of 2015 was the replacement of the Planning Commission by the National Institution of Transforming India (NITI Aayog), marking the intention of the government to streamline the process of policy formation and implementation. The purpose of the NITI Aayog is to establish a participative and proactive process for governance across all levels of administration.

Furthermore, several foreign companies have chalked out concrete plans to establish their facilities in the country as a consequence of new government initiatives like "Make in India" and "Digital India".

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|--|---|
| <p>MAKE IN INDIA</p> <ul style="list-style-type: none"> • Advance the manufacturing sector • Raise demand by augmenting purchasing power • Encourage investors | <p>DIGITAL INDIA</p> <ul style="list-style-type: none"> • Develop digital infrastructure • Digital delivery of services • Increase digital literacy |
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Tourism Overview

An essential driver of growth, the Indian travel and tourism industry has emerged as a significant employment generator, a major source of foreign exchange and an integrating factor for the local and host population.

The industry has registered prominent growth over the past few years, supported by the rising purchasing power of the domestic traveller, increase in commercial development and foreign tourist arrivals, a growing airline industry and impetus from government-led initiatives. In 2014, the total contribution of Travel and Tourism to the GDP was ₹7,642.5 billion (6.7% of total GDP). This is projected to grow by 7.5% in 2015, and eventually reach ₹16,587.2 billion (7.6% of total GDP) in a decade's time, according to World Travel & Tourism Council's (WTTC's) *Economic Impact 2015 – India* report.

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The highly populated nation offers a massive potential for outbound as well as domestic travel. Currently, the outbound tourism market is significantly larger when compared to inbound tourism, and given the growth in GDP as well as private financial consumption, the number of departures is forecasted to reach 24.4 million by 2018. On the other hand, International Tourist Arrivals (ITA) grew by 7.1% in 2014 over the previous year, registering a compound annual growth rate (CAGR) of 7% during the past five years².

There is a great deal of scope to expand tourism across India, and as the country improves air travel connections and relaxes visa restrictions, we expect tourist arrivals to witness an incremental growth. The government of India's announcement to extend its e-Tourist Visa (eTV, previously known as Tourist Visa on Arrival, TVoA) facility to citizens of 180 countries along with the initiation of electronic visa authorisation facility across nine international airports, is anticipated to further boost foreign travel to the country as inbound travel to India from short-haul destinations

² Market Research Division, Ministry of Tourism, Government of India

becomes more convenient. As of August 2015, the eTV is available for arrivals from 113 nations, listed in Figure 3.

FIGURE 3: E-TOURIST VISA – ELIGIBLE COUNTRIES (AUGUST 2015)

Andorra	Dominica	Jordan	Solomon Islands
Anguilla	Dominican Republic	Kenya	Spain
Antigua & Barbuda	East Timor	Kiribati	Sri Lanka
Argentina	Ecuador	Laos	Surinam
Armenia	El Salvador	Latvia	Sweden
Aruba	Estonia	Liechtenstein	Taiwan
Australia	Fiji	Lithuania	Tanzania
Bahamas	Finland	Luxembourg	Thailand
Barbados	France	Macau	The Netherlands
Belgium	Georgia	Malaysia	The United Kingdom
Belize	Germany	Malta	Tonga
Bolivia	Grenada	Marshall Islands	Turks & Caicos Islands
Brazil	Guatemala	Mauritius	Tuvalu
Cambodia	Guyana	Mexico	UAE
Canada	Haiti	Micronesia	Ukraine
Cayman Islands	Honduras	Monaco	Uruguay
Chile	Hong Kong	Mongolia	USA
China	Hungary	Montenegro	Vanuatu
Colombia	Indonesia	Montserrat	Vatican City
Cook Islands	Ireland	Mozambique	Venezuela
Costa Rica	Israel	Myanmar	Vietnam
Cuba	Jamaica	Nauru	
Djibouti	Japan	New Zealand	

Source: Ministry of Home Affairs, Government of India

Domestic demand for hotels in India has historically been higher than demand from foreigners. In fact, as per the WTTC, domestic travel spending in the country generated 81.4% of the total direct Travel and Tourism GDP in 2014. Rising spending power coupled with the proliferation of low-cost carriers has enabled increased domestic travel.

The depreciation of the rupee against the US dollar has also made international travel less viable for domestic tourists, who are now substituting foreign vacations with domestic ones. Going forward, domestic tourism is likely to witness strong growth and, according to HVS, will be the real driving force for this industry over the next decade or so. This segment will be supported by the growing wealth base of India's population and increase in hotel room capacity in the long term.

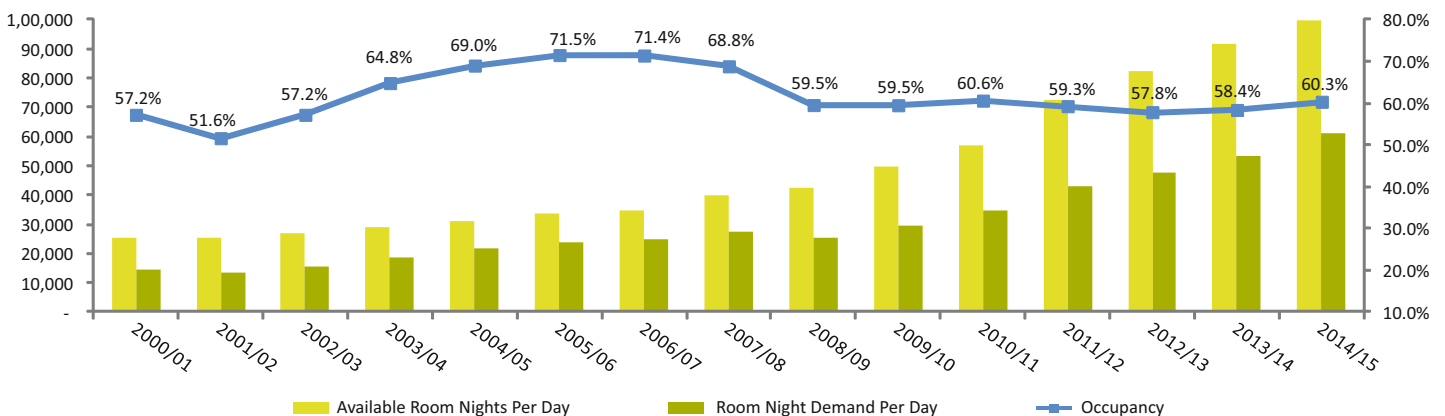
Furthermore, though a large portion of domestic demand originates from commercial activity, an increasing number of Indians are travelling for leisure purposes, both within the country and overseas. In 2014, the WTTC estimates that leisure travel spending (inbound and domestic) contributed 83.5% (₹5,502.3 billion) to the Travel and Tourism industry, in comparison to 16.5% from business travel spending (₹1,085.1 billion).

Crossroads

On a nationwide basis, branded and/or organised supply grew at a CAGR of 15.3% over the past five years. Demand for these rooms grew at 15.5% over the same period. This healthy correlation between demand and supply is testament to the underlying strength of the sector. Resultantly, India-wide occupancy moved from 57.8% in 2012/13 to 58.4% in 2013/14 and has closed two percentage points higher (60.3%) in 2014/15. The last time we breached the 60% threshold was in 2010/11. This is also the second consecutive year of occupancy growth. Figure 4 presents a nationwide supply and demand trend for a 15-year period.

In contrast, average room rates have shown a further small decline. While last year the nationwide average was ₹5,611, it has dropped marginally by ₹101 to close at ₹5,510 in 2014/15. With intent to diagnose the root cause for annual declines in the nationwide average room rates, we conducted a fairly detailed exercise by further slicing and dicing the data this year. From our analysis, it is evident that while rates have declined in varying measures across the different positioning of branded hotels, the quantum of economy, budget and mid market hotels as a percentage of the overall pie has been consistently growing. The resultant weighted average output, therefore, presents a picture that is influenced not only by the inventory that is lower in positioning and consequently room rate, but also the

FIGURE 4: ROOM NIGHT DEMAND VS AVAILABLE ROOM NIGHTS (2000/01 – 2014/15)



Source: HVS Research

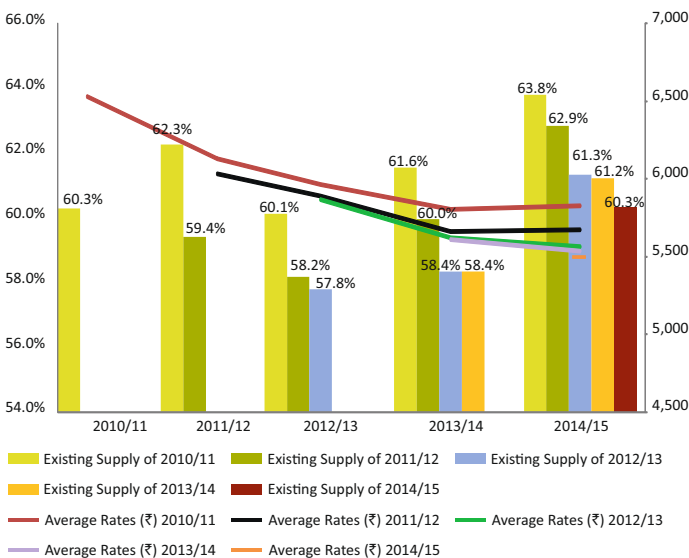
fact that this inventory is largely new, and therefore, has not yet achieved its fair share penetration of average rates. That being said, we reiterate for the third consecutive year that several branded operators in India have been quick to drop their rates in a bid to influence customer loyalty, when they should instead be drawing inspiration from a handful of brands in India who have chosen to make their product and service value proposition the decider of their room rate strategy. In the long run, making value, and not price, the influencer will hold the Indian hotel sector in good stead.

Figures 5 and 6 present further analysis on the performance of existing supply vis-à-vis the performance of new/recent supply in the country, over the past five years. They validate our understanding that overall, existing hotels outperform new hotels in both occupancy and average rate penetration. Nationwide occupancy for all branded hotels was 60.3% in 2014/15, whereas hotels that have existed since 2010/11 closed at 63.8% occupancy in the past year. Displaying a similar trend, hotels that have existed since 2011/12 achieved 62.9% occupancy last year (Figure 5). On the average

Nationwide RevPAR of ₹3,324 was marginally higher than last year's RevPAR of ₹3,275. This is the first in four years where RevPAR has grown!

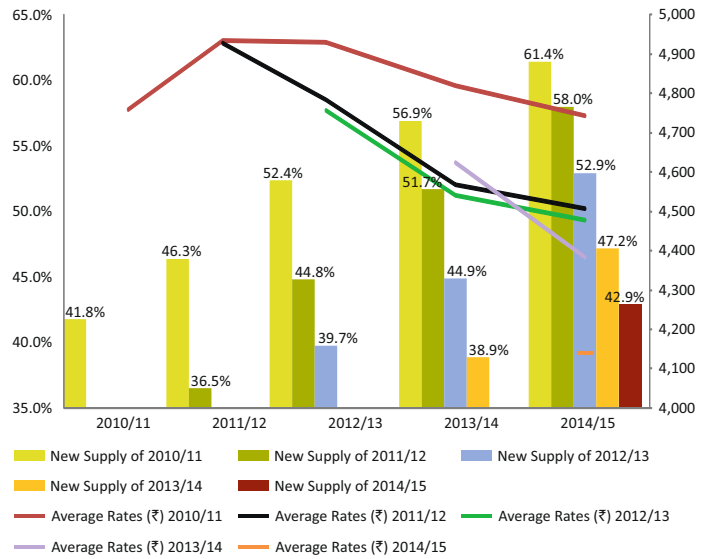
rate front also, while India-wide average rate was ₹5,510 in 2014/15, for hotels in existence since 2010/11, it was ₹5,827 and for those that have existed since 2011/12, it was ₹5,672. Digging deeper, Figure 6 displays the performance of only new hotels that have opened over the last five years. As can be seen, hotels that opened in 2010/11 achieved an average occupancy of 41.8% in their first year of operations. This number was lower for first year performance of hotels that opened in 2011/12

FIGURE 5: PERFORMANCE OF EXISTING HOTELS (2010/11 – 2014/15)



Source: HVS Research

FIGURE 6: PERFORMANCE OF NEW HOTELS (2010/11 – 2014/15)



Source: HVS Research

(36.5%), 2012/13 (39.7%) and 2013/14 (38.9%). However, last year's new hotels clocked 42.9% occupancy in their very first year of operations, reflective of the uptick in demand. Besides, a fair majority of new openings in 2014/15 were in the limited service space that tends to do well in occupancies in the initial years when compared to higher positioned hotels. This is further corroborated by the evidence that first-year average rate performances (as displayed in Figure 6) have been consistently lower than preceding years since 2012/13 – a function of the supply being largely limited service in nature.

One must also pay heed to the overall RevPAR performance of India's organised supply in 2014/15. Nationwide RevPAR of ₹3,324 was marginally higher than last year's RevPAR of ₹3,275. This is the first in four years where RevPAR has grown! Furthermore, the RevPAR growth has been achieved across each and every star category this past year (Figure 9). All in all, as occupancies have risen and the decline in rates seems to have been more or less arrested, RevPAR numbers are showing signs of promise.

For a fair estimation and assessment of the future, it is also important to gain perspective on the likely chance of new supply in the coming years. While we discuss the numbers in greater detail later in this report, it is worthy of note here that the pipeline is smaller than it has been for several years in the past, and if demand were to grow at an even keel as it did historically, it has the potential to outpace supply in the next two years. In conclusion, while the much awaited up-cycle is taking somewhat longer than desired, its advent is fairly certain. After all, patience is a virtue!

Survey Results

This report analyses the results of the annual *Trends & Opportunities Survey* with an aim to provide an insight into the performance of the country's organised hotel market. The increasing number of respondents each year has enabled us to decipher noticeable trends, as well as highlight opportunities that present themselves within the dynamic Indian hospitality landscape.

The historical information gathered is organised and interpreted based on star classification, followed by an emphasis on 13 major hotel markets in the country. Additionally, the future supply in each market is scrutinised with regard to its market positioning, proposed inventory and development timeline in order to estimate changes over the next five years.

Industry Performance According to Star Category

In keeping with the outlook presented in the previous edition of this report, the nationwide **RevPAR performance was recorded at ₹3,324 in 2014/15, a sound growth of 1.5% over that of the preceding fiscal year.** The nationwide weighted occupancy (60.3%) of hotels grew by 3.4%, corresponding with a marginal decline of 1.8% in the weighted average rate (₹5,510). Individually, each star category registered a year-on-year increase in RevPAR, with the hotels in the three-star category recording the highest growth of 3.5%. The improvement in RevPAR is clearly occupancy-led, as the weighted average rates have either declined or remained almost stable across all categories, with the exception of two-star hotels in 2014/15.

The hotels in the two-star category noted a miniscule fall of 0.1% in occupancy, but an increase of 2% in the average rate. In 2013/14, the same category of hotels had grown their occupancy by 3.4% and average rate by 11.6%, pointing towards the favourable reception of budget and economy hotels in the country. The two-star category's performance in 2014/15 indicates that going forward, while it is possible to achieve high growth in average rates, it will more often than not be accompanied by a drop in occupancy in the short term, especially in markets with increasing branded supply.

Figure 7 illustrates hotel occupancy across the star categories in India between 1995/96 and 2014/15. Figures 8 and 9 show average rates and RevPAR for each of the star categories expressed in Indian rupees, respectively, followed by Figures 10 and 11 that present the corresponding data in US dollars.

FIGURE 7: KEY OPERATING CHARACTERISTICS BY HOTEL CLASSIFICATION – OCCUPANCY

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14*	2014/15	12-Month** Change	Compounded Growth
Overall Average	66.5%	62.9%	57.1%	55.4%	53.9%	57.2%	51.6%	57.2%	64.8%	69.0%	71.5%	71.4%	68.8%	59.5%	59.5%	60.6%	59.3%	57.8%	58.4%	60.3%	3.4%	0.5%
Five-star Deluxe	74.0%	67.6%	62.0%	60.2%	58.3%	60.9%	52.2%	59.3%	65.0%	71.4%	73.8%	73.0%	71.7%	62.5%	61.6%	60.9%	59.8%	60.1%	59.9%	61.4%	2.5%	-1.0%
Five-star	67.5%	65.7%	58.5%	56.4%	55.7%	56.1%	51.4%	57.0%	66.8%	71.1%	70.4%	70.2%	67.2%	58.5%	58.6%	61.9%	59.1%	55.4%	55.7%	58.3%	4.6%	-0.8%
Four-star	57.9%	60.5%	58.2%	55.9%	53.2%	58.7%	52.7%	56.4%	68.7%	71.8%	72.7%	71.7%	68.9%	58.5%	60.3%	60.7%	60.0%	57.9%	59.1%	61.4%	4.0%	0.3%
Three-star	51.5%	49.2%	47.0%	48.2%	47.7%	48.8%	49.7%	53.6%	59.6%	56.7%	65.9%	68.9%	64.7%	56.2%	55.5%	58.5%	56.9%	56.8%	57.9%	60.0%	3.6%	0.8%
Two-star																64.8%	59.0%	61.0%	60.9%	60.9%	-0.1%	-2.0%

* The 2013/14 data has been modified to include the performance of a larger sample set

** Change in 2014/15 expressed as percentage of the figure for 2013/14

Source: HVS Research

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

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14*	2014/15	12-Month** Change	Compounded Growth
Overall Average	3,025	3,688	3,986	3,903	3,505	3,731	3,467	3,269	3,569	4,299	5,444	7,071	7,989	7,722	6,489	6,513	6,032	5,779	5,611	5,510	-1.8%	3.2%
Five-star Deluxe	4,019	4,991	5,613	5,572	4,910	5,102	4,668	4,335	4,686	5,606	7,168	9,778	11,200	11,096	9,277	9,350	9,189	8,982	8,727	8,721	-0.1%	4.2%
Five-star	2,515	3,044	3,315	3,516	3,368	3,447	3,277	3,114	3,372	3,897	4,985	6,506	7,652	7,268	6,410	6,380	6,135	5,881	5,720	5,560	-2.8%	4.3%
Four-star	1,418	1,825	2,538	2,296	2,168	2,392	2,368	2,246	2,580	3,088	3,847	5,111	5,722	5,745	4,638	4,905	4,905	4,691	4,474	4,378	-2.1%	6.1%
Three-star	1,212	1,432	1,543	1,457	1,505	1,673	1,696	1,669	1,670	1,830	2,212	3,012	3,488	3,530	3,255	3,348	3,354	3,252	3,083	3,081	-0.1%	5.0%
Two-star																1,714	1,849	2,063	2,105	2,105	2.0%	7.1%

* The 2013/14 data has been modified to include the performance of a larger sample set

** Change in 2014/15 expressed as percentage of the figure for 2013/14

Source: HVS Research

FIGURE 9: KEY OPERATING CHARACTERISTICS BY HOTEL CLASSIFICATION – REVPAR (₹)

	12-Month** Compounded Growth																					
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14*	2014/15		
Overall Average	2,012	2,320	2,276	2,162	1,889	2,134	1,789	1,870	2,313	2,966	3,892	5,049	5,496	4,598	3,861	3,947	3,575	3,343	3,275	3,324	1.5%	2.7%
Five-star Deluxe	2,974	3,374	3,480	3,354	2,863	3,107	2,437	2,571	3,046	4,003	5,290	7,138	8,030	6,933	5,715	5,694	5,491	5,398	5,231	5,357	2.4%	3.1%
Five-star	1,698	2,000	1,939	1,983	1,876	1,934	1,684	1,775	2,252	2,771	3,509	4,567	5,142	4,250	3,756	3,949	3,626	3,257	3,185	3,239	1.7%	3.5%
Four-star	821	1,104	1,477	1,283	1,153	1,404	1,248	1,267	1,772	2,217	2,797	3,665	3,942	3,362	2,797	2,977	2,942	2,718	2,643	2,689	1.7%	6.4%
Three-star	624	705	725	702	718	816	843	895	995	1,038	1,458	2,075	2,257	1,985	1,806	1,959	1,909	1,848	1,786	1,850	3.5%	5.9%
Two-star																1,110	1,091	1,258	1,282		1.9%	4.9%

* The 2013/14 data has been modified to include the performance of a larger sample set

** Change in 2014/15 expressed as percentage of the figure for 2013/14

Source: HVS Research

FIGURE 10: KEY OPERATING CHARACTERISTICS BY HOTEL CLASSIFICATION – AVERAGE RATE (US\$)

	12-Month** Compounded Growth																					
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14*	2014/15		
Overall Average	93	104	110	90	81	83	73	68	78	96	122	162	199	168	136	143	126	106	92	90	-2.6%	-0.2%
Five-star Deluxe	124	141	155	128	113	114	99	90	102	125	161	224	278	242	194	205	192	165	144	143	-0.8%	0.7%
Five-star	78	89	91	79	77	77	69	65	73	87	112	149	190	158	134	140	128	108	94	91	-3.5%	0.8%
Four-star	44	52	70	61	50	53	50	47	56	69	86	117	142	125	97	108	102	86	74	72	-2.9%	2.6%
Three-star	37	40	43	37	35	37	36	35	36	41	50	69	87	77	68	73	70	60	51	50	-0.8%	1.6%
Two-star																36	34	34	34		1.2%	-1.2%
Exchange Rate	32.4	35.4	36.3	42.2	43.5	44.9	47.2	48.2	46.0	44.9	44.5	43.6	40.2	45.9	47.7	45.6	48.0	54.5	60.7	61.2		

* The 2013/14 data has been modified to include the performance of a larger sample set

** Change in 2014/15 expressed as percentage of the figure for 2013/14

Source: HVS Research

FIGURE 11: KEY OPERATING CHARACTERISTICS BY HOTEL CLASSIFICATION – REVPAR (US\$)

	12-Month** Compounded Growth																					
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14*	2014/15		
Overall Average	62	66	63	50	43	48	38	39	50	66	87	116	137	100	81	87	75	61	54	54	0.8%	-0.7%
Five-star Deluxe	92	95	96	77	66	69	52	53	66	89	119	164	200	151	120	125	114	99	87	88	1.1%	-0.2%
Five-star	53	58	53	44	43	43	36	37	49	62	79	105	128	93	79	87	76	60	53	53	0.5%	0.0%
Four-star	25	31	41	34	27	31	26	26	39	49	63	84	98	73	59	65	61	50	43	44	2.3%	2.9%
Three-star	19	20	20	18	16	18	18	19	22	23	33	48	56	43	38	43	40	34	29	30	2.5%	2.5%
Two-star																23	20	21	21		0.2%	-3.2%
Exchange Rate	32.4	35.4	36.3	42.2	43.5	44.9	47.2	48.2	46.0	44.9	44.5	43.6	40.2	45.9	47.7	45.6	48.0	54.5	60.7	61.2		

* The 2013/14 data has been modified to include the performance of a larger sample set

** Change in 2014/15 expressed as percentage of the figure for 2013/14

Source: HVS Research

Existing Supply – 2014/15

The existing rooms supply tracked by HVS in the organised hotel market grew by 11% in 2014/15 over the previous year totaling to 1,12,284 rooms as of 31 March 2015. **This takes into account 9,588 new openings 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 2013/14 is attributed to a deliberate filtration by us to display only quality branded supply.

With regard to the 13 major markets highlighted in this report, Agra saw the highest increase in supply (32.9%), adding to the relatively small base of hotels in 2013/14. It should be noted that the city still remains the second smallest hotel market in the country. Gurgaon witnessed a supply

growth of 17.3% in 2014/15, followed by Kolkata (12.8%) and Bengaluru (11.4%).

In absolute terms, New Delhi currently has the largest number of branded hotel rooms (13,277), closely followed by Mumbai (including Navi Mumbai) and Bengaluru. We would like to highlight that in Figure 12, Mumbai depicts a negative year-on-year change in supply not because of de-growth of the inventory, but due to the conscious effort on our part to filter supply that is irrelevant to the branded hotel market. NOIDA (including Greater NOIDA), with 1,322 branded rooms, retains its position as the smallest major hotel market in India.

Figure 12 shows the existing supply for the 13 major cities from 2006/07 to 2014/15.

FIGURE 12: EXISTING SUPPLY ACROSS MAJOR CITIES (2006/07 – 2014//15)

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	12-Month* Change	Compounded Growth
Agra	1,336	1,336	1,419	1,439	1,439	1,739	1,299	1,293	1,719	32.9%	3.2%
Ahmedabad	519	675	800	1,521	1,785	1,975	2,477	2,777	2,991	7.7%	24.5%
Bengaluru **	2,414	3,456	3,889	5,597	5,947	7,713	8,536	10,162	11,317	11.4%	21.3%
Chennai	2,442	2,826	3,307	3,806	4,066	4,904	6,330	7,105	7,464	5.1%	15.0%
New Delhi ***	7,990	9,019	8,625	8,129	9,111	10,697	11,338	12,370	13,277	7.3%	6.6%
Gurgaon				1,980	3,246	3,782	4,559	5,190	6,088	17.3%	25.2%
NOIDA **				300	351	527	841	1,239	1,322	6.7%	34.5%
Goa **	2,450	2,768	2,795	3,288	3,375	3,885	4,406	4,703	4,909	4.4%	9.1%
Hyderabad ^b	1,868	2,554	2,761	3,782	4,036	4,797	5,411	5,734	5,875	2.5%	15.4%
Jaipur	1,388	1,556	1,683	2,472	2,554	3,054	4,129	4,523	5,018	10.9%	17.4%
Kolkata	1,354	1,396	1,373	1,520	1,588	1,787	2,163	2,243	2,530	12.8%	8.1%
Mumbai ^a	7,402	8,454	7,948	9,877	11,303	12,052	12,807	13,022	12,731	-2.2%	7.0%
Pune ^c	777	1,346	1,518	2,672	4,691	5,672	5,317	6,159	6,197	0.6%	29.6%
Other Cities ^{b ****}	9,345	11,596	12,357	15,412	18,039	21,729	24,642	24,657	30,846	25.1%	16.1%
Total	39,285	46,982	48,475	61,795	71,531	84,313	94,255	1,01,177	1,12,284	11.0%	14.0%

* Change in 2014/15 expressed as percentage of the figure for 2013/14

** The 2013/14 data has been modified to include the performance of a larger sample set

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

**** Other Cities (includes all other hotel markets across India)

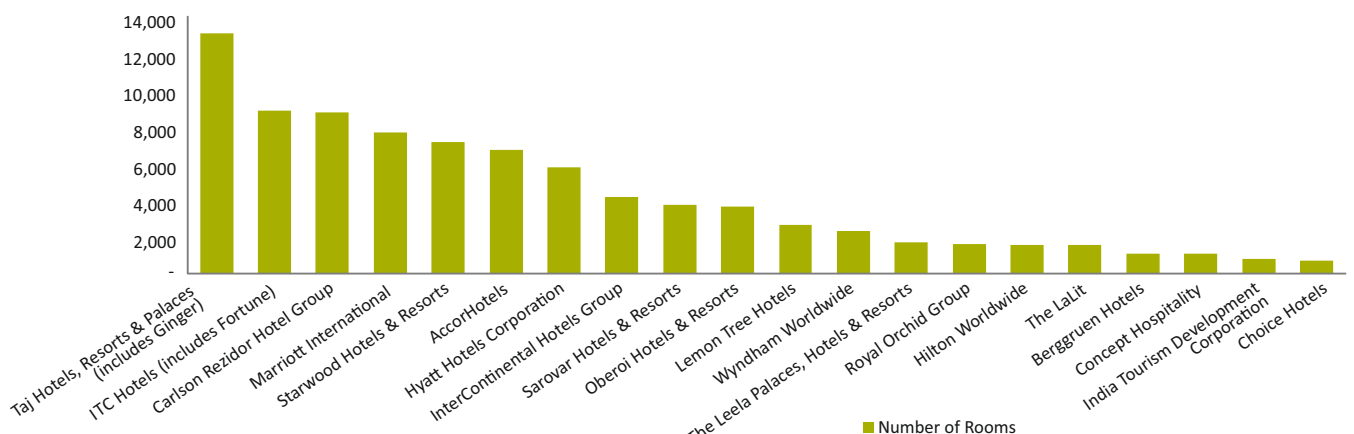
a - Supply tracked for Mumbai in 2014/15 is lower than that of 2013/14 due to the removal of irrelevant branded supply

b - Supply tracked in 2013/14 has been modified due to the removal of irrelevant supply

c - Supply tracked for Pune in 2012/13 is lower than that of 2011/12 due to the removal of Lonavala and Lavasa from the sample set

Source: HVS Research

FIGURE 13: TOP 20 HOTEL BRANDS BY EXISTING INVENTORY (AUGUST 2015)



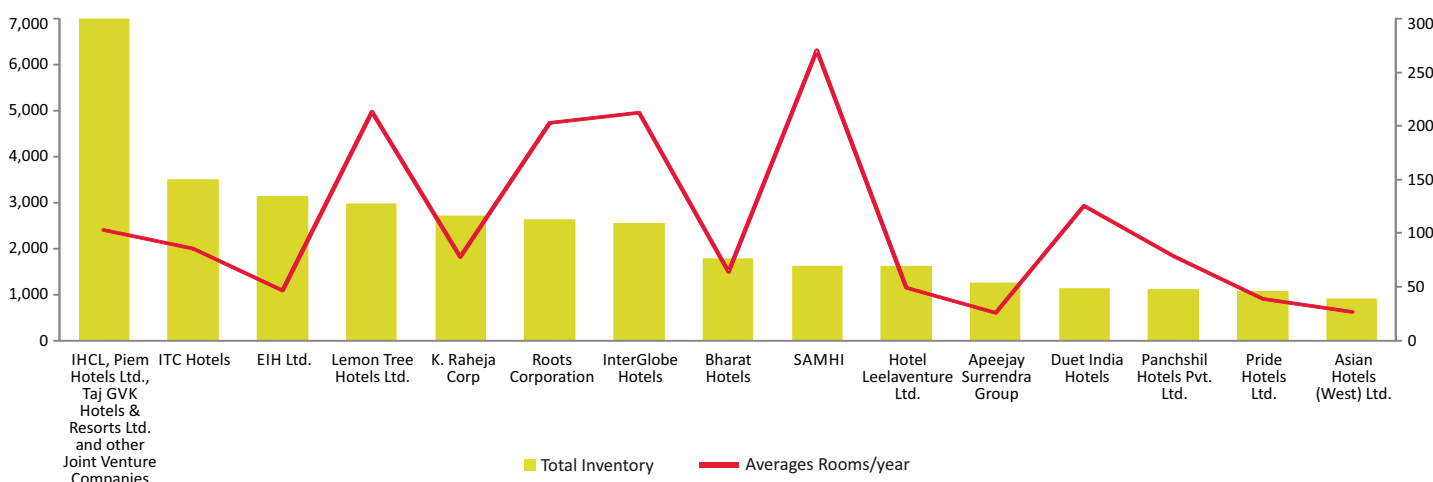
Source: HVS Research

Figure 13 presents the total operating inventory for the 20 largest hotel brands in the country as of August 2015.

While Taj Hotels, Resorts and Palaces (including Ginger), ITC Hotels (including Fortune) and Carlson Rezidor Hotel Group remain the top three hotel companies with the largest inventories in the country, 2015 witnessed a shuffle among the other players. Marriott International has moved to the 4th position, overtaking Starwood Hotels & Resorts, and AccorHotels has surpassed Hyatt Hotels Corporation to assume the 6th rank. Interestingly, InterContinental Hotels Group also edged ahead of both Sarovar Hotels & Resorts and Oberoi Hotels & Resorts to occupy the 8th position. Moreover, as Concept Hospitality inched up the list to occupy the 18th position, the new entrant in the top 20 this year has been Berggruen Hotels as the 17th largest hotel group in the country.

The Indian hospitality market still proves to be a complex and lucrative marketplace for the international hotel companies to maintain their foothold. With the objective of scaling up, the top players have launched extensive expansion plans, not just into the major cities, but also the emerging markets in order to target consumers beyond the commercial segments. The smaller cities have enabled the companies to harness the potential of the domestic traveller, and also establish brand recollection and loyalty by introducing their signature brands.

FIGURE 14: PROMINENT HOTEL OWNERSHIP COMPANIES BY EXISTING INVENTORY (AUGUST 2015)



Source: HVS Research

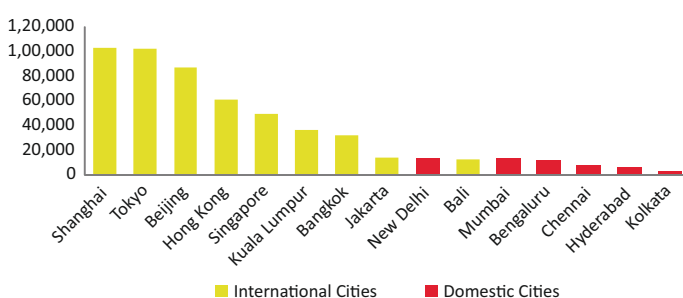
Going forward, the success and longevity of the companies will depend on their ability to structure a distinguished, yet flexible brand portfolio, especially with brands catering to the budget and mid market segments. With the Indian hotel companies modifying their expansion models as well, building and managing relationships with property owners, developers, and their distribution channels becomes even more pertinent.

For the purpose of analysing the existing supply further, we also took a look at the prominent hotel ownership companies in India. Accounting for almost one-third of the existing branded supply, the owned inventories of 15 companies has been charted in Figure 14. The average rooms per year

depicts the simple average, calculated by dividing the total owned inventory by the number of years for which the company has existed. For the sake of parity, we have only included rooms opened post 1947.

Figure 15 presents the existing branded rooms supply for six Indian cities and other major hotel markets in the Asia Pacific region. It is apparent that cities such as Shanghai, Tokyo and Beijing have significantly higher supply of branded hotel rooms when compared to the Indian markets. In fact, the branded supply in Shanghai is only a few thousand rooms lesser than the total branded supply in India. New Delhi

FIGURE 15: COMPARISON BY EXISTING BRANDED INVENTORY: INDIAN METROS WITH SELECT ASIA PACIFIC CITIES (2014/15)



Source: HVS Research

marginally surpasses Bali, which has a thriving unbranded hotel market not tracked in this report, while the rest of the Indian markets, including Mumbai, trail far behind their Asia Pacific counterparts in terms of existing supply. Therefore, contrary to popular opinion, the Indian hotel market is certainly not over-supplied.

That being said, the nation's hotel supply has almost kept pace with the decadal growth in the demand for room nights, and as the economic and political scenarios of the country improve, the demand for quality branded hotels will only increase. Thus, it becomes essential to evaluate the rooms supply pipeline.

Future Supply

Given the dynamic nature of the Indian hospitality industry and the historical trends available, HVS follows a cautious, comprehensive process in order 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 and Opportunities Survey*, is sifted through with a fine-toothed comb. The resultant list of projects omits all superficial statements made to the media, or announcements made by real estate developers/owners to promote their brand and get greater visibility. The next step involves filtering the list based on confirmed tie-ups with an operator, stage of development, planned number of rooms and anticipated date of opening. Considerable time and effort are 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.

Parallel to 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 pipelines have been included. 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.

The pipeline for proposed supply totaled 1,14,466 rooms in 2007/08. With a 139% growth in existing supply since then, the proposed supply was down to 56,270 rooms at the close of 2014/15 (Figure 17). The growth in existing supply corresponding with the decline in the proposed pipeline is a clear indication of the substantial number of previously announced rooms essentially commencing operations. Furthermore, a number of projects announced during that period were shelved or delayed due to the economic downturn, soaring borrowing costs and unyielding liquidity.

Figure 16 presents the existing and proposed supply across the 13 major markets covered in this report. The “Other Cities” row 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 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 fallen from 69% in 2013/14 to 61% in 2014/15. The existing as well as new investors are exercising caution and prudence by providing funds for already operating or under construction assets rather than building hotels from the ground up. This, in turn, has resulted in slowing down the new supply entering the marketplace, giving the existing hotels a chance to ramp up their operations. On the other hand, seasoned players in the hospitality industry can view this as a favourable environment for initiating fresh projects, as the proposed supply is clearly diminishing in the immediate future.

The future supply has also been divided into its potential positioning mix, consisting of luxury, upscale, mid market, budget and extended stay segments. Clearly, the mid market segment has the highest potential additions to supply, followed by the upscale and budget segments (Figure 16).

The promise of steady governance and economic development, coupled with our rapidly growing population, has resulted in the propagation of the middle class domestic traveller. Therefore, it is essential that the branded supply offers competitively priced alternatives for the consumer, who is currently enticed by the disorganised economical hospitality sector. Consequently, India is still far from saturation of the branded market, predominantly on the

FIGURE 16: PROPOSED BRANDED HOTEL ROOMS ACROSS MAJOR CITIES (2014/15 – 2019/20)

	Existing Supply 2014/15	Proposed Supply	Increase in Future Supply	Active Development of Supply	Luxury	Upscale	Mid Market	Budget	Extended Stay
Agra	1,719	503	29%	43%	0.0%	0.0%	56.3%	43.7%	0.0%
Ahmedabad	2,991	1,026	34%	64%	0.0%	57.0%	25.4%	0.0%	17.5%
Bengaluru	11,317	5,317	47%	52%	20.9%	35.2%	19.2%	19.4%	5.3%
Chennai	7,464	3,311	44%	83%	3.2%	0.0%	47.2%	41.4%	8.1%
New Delhi	13,277	2,502	19%	87%	0.0%	34.7%	58.2%	7.1%	0.0%
Gurgaon	6,088	2,084	34%	10%	0.0%	11.5%	52.4%	24.6%	11.5%
NOIDA	1,322	1,873	142%	13%	13.3%	35.2%	35.0%	5.2%	11.2%
Goa	4,909	1,743	36%	50%	6.0%	13.5%	53.5%	27.0%	0.0%
Hyderabad	5,875	2,474	42%	61%	0.0%	13.9%	44.9%	24.3%	16.9%
Jaipur	5,018	1,119	22%	92%	0.0%	45.9%	41.8%	12.2%	0.0%
Kolkata	2,530	2,870	113%	70%	15.7%	42.5%	30.8%	11.0%	0.0%
Mumbai	12,731	5,561	44%	33%	16.3%	24.8%	39.8%	18.7%	0.4%
Pune	6,197	2,005	32%	64%	25.5%	19.5%	35.8%	19.3%	0.0%
Other Cities	30,846	23,882	77%	70%	1.8%	21.0%	49.8%	25.6%	1.8%
Total	1,12,284	56,270	50%	61%	6.9%	23.7%	43.6%	22.2%	3.6%

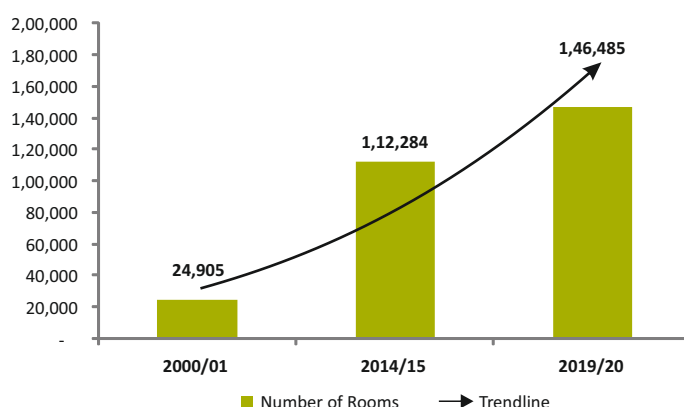
Source: HVS Research

budget and mid market side. In addition to the encouraging market dynamics, hotels of such positioning also boast of shorter construction time, lesser development cost and therefore, a higher return-on-investment.

When considering the year-on-year increase in potential supply, NOIDA (142%) and Kolkata (113%) reflect the highest growths in hotel development among the 13 cities owing to their small existing supply bases. In absolute numbers, the rooms under development in these two cities are far fewer than those in Mumbai and Bengaluru. On the other hand, **the highest percentages of “actively” under development hotels are in Jaipur, followed by New Delhi and Chennai.**

The development trend across markets has been illustrated in Figure 17.

FIGURE 19: GROWTH OF ROOMS SUPPLY – INDIA (2000/01 – 2019/20)



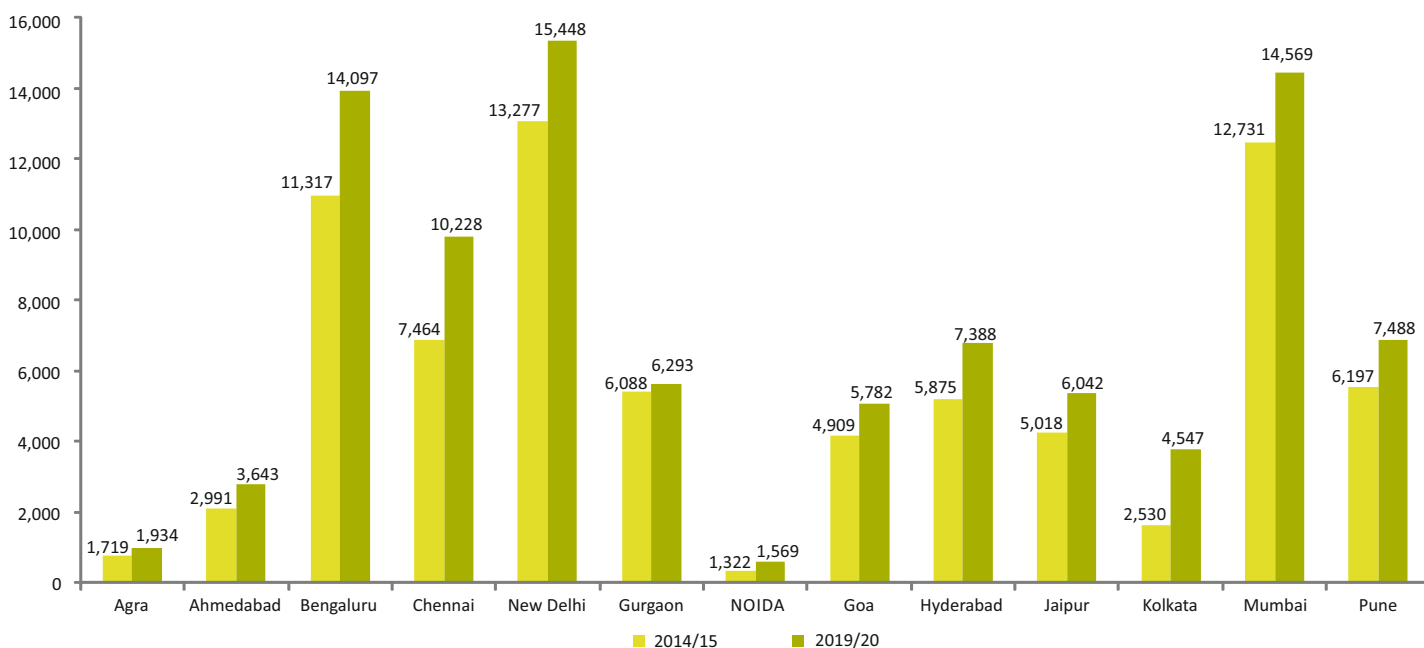
Source: HVS Research

FIGURE 17: DISTRIBUTION OF EXISTING AND PROPOSED BRANDED HOTEL ROOMS ACROSS MAJOR CITIES (2007/08 – 2014/15)

	Existing Supply								Proposed Supply								Active Development of Supply							
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Agra	1,336	1,419	1,439	1,439	1,739	1,299	1,293	1,719	670	400	510	667	650	866	990	503	55%	75%	41%	22%	80%	76%	82%	43%
Ahmedabad	675	800	1,521	1,785	1,975	2,477	2,777	2,991	3,664	3,058	2,339	2,319	2,550	1,857	1,372	1,026	47%	71%	69%	73%	69%	66%	86%	64%
Bengaluru	3,456	3,889	5,597	5,947	7,713	8,536	10,162	11,317	15,542	10,784	9,819	12,509	9,716	10,731	6,911	5,317	60%	58%	65%	67%	71%	75%	66%	52%
Chennai	2,826	3,307	3,806	4,066	4,904	6,330	7,105	7,464	7,147	4,945	5,995	7,819	7,547	5,331	3,885	3,311	71%	67%	72%	57%	58%	65%	80%	83%
New Delhi	9,019	8,625	8,129	9,111	10,697	11,338	12,370	13,277	22,360	16,560	20,021	18,608	5,626	6,144	5,355	2,502	51%	53%	75%	75%	87%	84%	71%	87%
Gurgaon			1,980	3,246	3,782	4,559	5,190	6,088					5,818	5,033	3,268	2,084					55%	53%	54%	10%
NOIDA			300	351	527	841	1,239	1,322					5,522	5,615	2,406	1,873					37%	28%	70%	13%
Goa	2,768	2,795	3,288	3,375	3,885	4,406	4,703	4,909	3,353	2,178	1,736	2,154	2,422	2,622	2,291	1,743	42%	31%	41%	53%	53%	62%	68%	50%
Hyderabad	2,554	2,761	3,782	4,036	4,797	5,411	5,734	5,875	8,250	5,884	5,302	5,713	5,265	3,433	2,893	2,474	64%	73%	63%	77%	74%	87%	78%	61%
Jaipur	1,556	1,683	2,472	2,554	3,054	4,129	4,523	5,018	2,937	3,357	2,664	4,867	3,356	2,859	1,706	1,119	53%	53%	77%	45%	52%	56%	82%	92%
Kolkata	1,396	1,373	1,520	1,588	1,787	2,163	2,243	2,530	5,965	4,025	3,481	3,612	3,118	3,511	2,584	2,870	49%	62%	51%	58%	74%	64%	72%	70%
Mumbai	8,454	7,948	9,877	11,303	12,052	12,807	13,022	12,731	10,613	13,386	7,477	12,121	10,896	9,802	7,896	5,561	62%	73%	60%	35%	47%	42%	49%	33%
Pune	1,346	1,518	2,672	4,691	5,672	5,317	6,159	6,197	8,243	8,054	5,196	5,545	4,645	3,705	2,620	2,005	66%	52%	67%	56%	69%	67%	72%	64%
Other Cities	11,596	12,357	15,412	18,039	21,729	24,642	24,657	30,846	25,722	21,484	24,909	26,504	26,224	23,141	23,873	23,882	60%	60%	65%	56%	48%	55%	71%	70%
Total	46,982	48,475	61,795	71,531	84,313	94,255	1,01,177	1,12,284	1,14,466	94,115	89,449	1,02,438	93,355	84,650	68,050	56,270	58%	60%	67%	60%	58%	60%	69%	61%

Source: HVS Research

FIGURE 18: PROPOSED BRANDED HOTEL ROOMS ACROSS MAJOR CITIES (2014/15 – 2019/20*)



* The supply for 2019/20 has been computed by adding the active future supply to the existing base of rooms in 2014/15

Source: HVS Research

As mentioned earlier, the nationwide active development of supply slowed down in 2014/15 when compared to the previous fiscal. We anticipate a little over 34,000 branded rooms to be developed over the next five years, taking the total supply to 1,46,485 rooms by 2019/20. Figure 19 presents the increase in hotel rooms supply in India from 2000/01 through 2014/15, and then further illustrates the proposed new supply through 2019/20.

Industry Performance by Major Cities

Overall, the major markets tracked in this report displayed an increase in RevPAR during the year 2014/15, with the exception of NOIDA, New Delhi, Kolkata and Bengaluru. **The highest year-on-year RevPAR growth was depicted by hotels in Hyderabad (9.3%).**

Mumbai (including Navi Mumbai) led the way in terms of occupancy (71.6%) as well as average rate (₹7,194), while NOIDA registered the lowest occupancy (48%) and Ahmedabad the lowest average rate (₹3,785) in 2014/15.

Diving deeper, it is significant to emphasise the year-on-year changes for each of the markets. For the most part, the cities witnessed an increase in occupancy, with the exception of NOIDA, Kolkata and Agra. The highest growth in occupancy was registered by Hyderabad (9.1%), followed by Pune (8.4%).

The cities tracked by HVS witnessed an increase in occupancy, with the exception of NOIDA, Kolkata and Agra.

The average rates reveal a more diverse narrative, with six of the 13 cities reporting an increase or almost stable rates over the previous fiscal year, while the rest portray a moderate to considerable decline. Hotels in Goa improved their average rates by 3.5%, whereas the hotels in NOIDA saw a sharp decline of 8.4% in the past year.

Moreover, NOIDA was the only market in the country to record a decline in both occupancy and average rates at the close of 2014/15. A few years ago at the annual Hotel Investment Conference - South Asia (HICSA) 2011, HVS had suggested that NOIDA also be an acronym for “No Interest in Developing Anything”. At the time, we were criticised by both the real estate developers and the brand community, which eventually led to at least half of the hotel projects being shelved. Today, we feel we did the right thing as the development and opening of those hotels would have led to a serious case of over-supply. Almost all these projects were planned in tandem with the proposed residential development by the real estate community, and brands, in their eagerness to sign deals, did so without any thought to the feasibility of the project or assessing the real demand for rooms.

Figure 20 illustrates hotel occupancy for 13 key cities in India between 1995/96 and 2014/15. Figures 21 and 22 show average rates and RevPAR for each of these hotel markets expressed in Indian rupees, respectively, followed by Figures 23 and 24, illustrating corresponding data in US dollars.

FIGURE 20: KEY OPERATING CHARACTERISTICS BY MAJOR CITIES – OCCUPANCY

	12-Month** Compounded Growth																						
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14*	2014/15	Change	Growth	
Agra	47.6%	51.7%	46.1%	46.4%	40.1%	42.5%	33.7%	30.7%	50.0%	57.1%	56.0%	58.9%	58.3%	52.4%	55.9%	60.2%	57.1%	58.9%	60.4%	59.1%	-2.1%	1.1%	
Ahmedabad	55.7%	65.8%	71.8%	58.0%	50.8%	55.8%	53.2%	53.8%	63.2%	68.3%	69.1%	67.9%	73.3%	61.2%	58.2%	54.3%	59.9%	53.7%	52.7%	54.7%	54.7%	3.8%	-0.1%
Bengaluru	71.3%	67.2%	61.2%	59.0%	64.4%	69.8%	64.3%	72.0%	78.5%	81.4%	76.7%	72.5%	65.3%	54.6%	53.2%	58.4%	56.6%	55.6%	57.7%	57.9%	0.3%	0.3%	-1.1%
Bennai	84.6%	80.2%	68.4%	64.7%	65.3%	64.6%	56.5%	58.3%	66.6%	72.9%	78.2%	74.7%	72.8%	63.1%	62.1%	67.2%	65.7%	60.0%	55.4%	58.9%	6.4%	6.4%	-1.9%
New Delhi*	71.7%	67.3%	60.2%	54.1%	52.9%	58.9%	53.3%	60.4%	73.1%	79.1%	80.8%	76.9%	73.9%	67.3%	68.3%	68.7%	63.8%	61.7%	60.9%	62.3%	2.4%	2.4%	-0.7%
Gurgaon															66.0%	66.5%	62.0%	58.0%	58.8%	63.3%	7.6%	7.6%	-1.1%
NOIDA															74.0%	80.7%	56.2%	44.4%	53.5%	48.0%	-10.3%	-10.3%	-8.3%
Goa															65.1%	67.7%	68.5%	68.9%	68.7%	70.3%	2.3%	2.3%	0.7%
Hyderabad															65.1%	67.7%	68.5%	68.9%	68.7%	70.3%	2.3%	2.3%	0.7%
Jaipur															65.1%	67.7%	68.5%	68.9%	68.7%	70.3%	2.3%	2.3%	0.7%
Kolkata															65.1%	67.7%	68.5%	68.9%	68.7%	70.3%	2.3%	2.3%	0.7%
Mumbai															65.1%	67.7%	68.5%	68.9%	68.7%	70.3%	2.3%	2.3%	0.7%
Pune															65.1%	67.7%	68.5%	68.9%	68.7%	70.3%	2.3%	2.3%	0.7%

* The 2013/14 data has been modified to include the performance of a larger sample set

** Change in 2014/15 expressed as percentage of the figure for 2013/14

* Delhi NCR data (Shaded Portion) from 1995/96 to 2008/09, New Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2014/15

Source: HVS Research

FIGURE 21: KEY OPERATING CHARACTERISTICS BY MAJOR CITIES – AVERAGE RATE (₹)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14*	2014/15	12-Month** Compounded Change	Growth				
Agra	1,593	1,826	2,027	1,906	1,638	1,586	1,840	1,954	2,431	3,012	3,622	4,715	5,262	5,322	5,773	6,243	5,958	6,126	6,338	6,509	2.7%	7.7%				
Ahmedabad	2,132	2,678	1,833	2,220	2,705	2,736	2,354	2,164	2,410	2,787	3,111	3,526	4,351	4,754	4,540	4,285	3,917	3,904	3,734	3,785	1.4%	3.1%				
Bengaluru	2,300	3,136	3,451	3,254	3,025	3,602	3,735	3,752	4,832	7,470	8,762	10,406	9,827	9,495	6,597	6,776	6,293	5,960	5,379	5,356	-0.4%	4.5%				
Chennai	2,779	3,540	3,977	3,600	3,424	3,796	3,535	3,224	3,323	3,714	4,357	5,378	6,340	6,677	5,710	5,632	5,524	5,440	5,050	4,794	-5.1%	2.9%				
New Delhi *	3,054	4,007	4,913	4,626	4,115	4,526	4,338	4,089	4,269	5,103	6,909	9,192	10,429	9,811	8,834	8,634	8,174	7,387	6,941	6,564	-5.4%	4.1%				
Gurgaon															8,247	7,554	7,639	6,831	6,569	6,198	-5.6%	-6.9%				
NOIDA															7,496	7,752	7,416	6,724	5,964	5,462	-8.4%	-6.1%				
Goa	2,220	2,347	2,303	2,863	2,727	2,914	2,676	2,754	3,086	3,985	4,804	5,801	6,255	6,271	5,613	6,056	6,162	6,513	6,692	6,924	3.5%	6.2%				
Hyderabad	1,499	1,604	1,646	1,579	1,867	2,316	2,414	2,541	2,774	3,772	4,870	5,962	6,271	6,297	5,146	5,173	5,026	4,854	4,556	4,564	0.2%	6.0%				
Jaipur	1,518	1,836	2,473	2,533	2,514	2,902	2,949	2,728	2,980	3,461	4,407	5,285	5,664	5,982	4,539	4,718	4,727	4,843	4,743	4,701	-0.9%	6.1%				
Kolkata	3,104	3,556	3,951	3,888	3,557	3,698	3,409	2,917	3,021	3,240	3,887	5,288	6,575	6,686	6,087	6,408	6,049	6,093	5,739	5,762	0.4%	3.3%				
Mumbai	5,137	6,229	6,169	6,297	5,661	5,555	4,932	4,184	4,356	4,822	6,041	8,738	10,932	10,679	8,428	8,194	7,923	7,550	7,158	7,194	0.5%	1.8%				
Pune															2,603	2,805	3,521	4,915	6,523	7,946	4,163	3,861	3,908	3,809	-2.5%	3.2%

* The 2013/14 data has been modified to include the performance of a larger sample set

** Change in 2014/15 expressed as percentage of the figure for 2013/14

° Delhi NCR data (Shaded Portion) from 1995/96 to 2008/09, New Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2014/15

Source: HVS Research

FIGURE 22: KEY OPERATING CHARACTERISTICS BY MAJOR CITIES – REVPAR (₹)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14*	2014/15	12-Month** Compounded Change	Growth						
Agra	758	944	934	884	657	674	620	600	1,216	1,720	2,028	2,777	3,068	2,790	3,227	3,758	3,400	3,605	3,827	3,845	0.5%	8.9%						
Ahmedabad	1,188	1,762	1,316	1,288	1,374	1,527	1,252	1,164	1,523	1,904	2,150	2,394	3,189	2,908	2,642	2,327	2,347	2,098	1,967	2,070	5.2%	3.0%						
Bengaluru	1,640	2,107	2,112	1,920	1,948	2,514	2,402	2,701	3,793	6,081	6,720	7,544	6,417	5,181	3,509	3,957	3,562	3,314	3,104	3,100	-0.1%	3.4%						
Chennai	2,351	2,839	2,720	2,329	2,236	2,452	1,997	1,880	2,213	2,708	3,407	4,017	4,616	4,210	3,546	3,785	3,629	3,263	2,795	2,824	1.0%	1.0%						
New Delhi *	2,190	2,697	2,958	2,503	2,177	2,666	2,312	2,470	3,121	4,036	5,582	7,069	7,707	6,600	6,034	5,932	5,212	4,561	4,225	4,092	-3.1%	3.3%						
Gurgaon															5,443	5,023	4,736	3,958	3,861	3,920	1.5%	-7.9%						
NOIDA															5,547	6,256	4,164	2,985	3,193	2,624	-17.8%	-13.9%						
Goa	1,379	1,371	1,363	1,678	1,453	1,766	1,434	1,666	1,830	2,491	3,257	4,223	4,516	3,829	3,654	4,100	4,220	4,488	4,601	4,868	5.8%	6.9%						
Hyderabad	871	879	879	1,042	1,144	1,600	1,642	1,751	2,105	2,969	3,993	4,299	4,120	3,515	2,743	2,954	2,714	2,394	2,354	2,573	9.3%	5.9%						
Jaipur	792	1,072	1,279	1,155	1,182	1,596	1,424	1,225	1,752	2,326	2,895	3,462	3,665	3,234	2,601	2,722	2,609	2,649	2,575	2,596	0.8%	6.4%						
Kolkata	1,980	1,988	2,442	2,247	1,949	2,326	2,264	1,908	1,897	2,236	2,970	3,992	4,859	4,648	4,108	4,377	4,232	4,356	4,031	3,939	-2.3%	3.7%						
Mumbai	4,161	4,547	4,028	4,257	3,651	3,589	2,565	2,653	3,036	3,472	4,603	6,807	8,155	6,473	5,268	5,113	5,050	4,856	4,795	5,151	7.4%	1.1%						
Pune															1,848	1,933	3,042	4,084	5,522	4,661	2,957	2,311	2,135	2,248	2,443	2,369	5.6%	2.1%

* The 2013/14 data has been modified to include the performance of a larger sample set

** Change in 2014/15 expressed as percentage of the figure for 2013/14

° Delhi NCR data (Shaded Portion) from 1995/96 to 2008/09, New Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2014/15

Source: HVS Research

FIGURE 23: KEY OPERATING CHARACTERISTICS BY MAJOR CITIES – AVERAGE RATE (US\$)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14*	2014/15	12-Month** Compounded Change	Growth
Agra	49	52	56	50	38	35	39	41	53	67	81	108	131	116	121	137	124	112	104	106	1.9%	4.2%
Ahmedabad	66	76	50	53	62	61	50	45	52	62	70	81	108	104	95	94	82	72	62	62	0.6%	-0.3%
Bangaluru	71	89	95	81	70	80	79	78	105	166	197	239	244	207	138	149	131	109	89	88	-1.2%	1.1%
Chennai	86	100	110	89	79	85	75	67	72	83	98	123	158	145	120	124	115	100	83	78	-5.8%	-0.5%
New Delhi ^a	94	113	135	111	95	101	92	85	93	114	155	211	259	214	185	189	170	136	114	107	-6.1%	0.7%
Gurgaon											173	166	159	125	108	101	101	101	101	101	-6.4%	-10.1%
NOIDA											157	170	155	137	118	113	123	120	110	113	2.7%	-10.7%
Goa	69	66	63	73	63	65	57	57	67	89	108	133	155	137	118	133	128	120	110	113	2.7%	2.6%
Hyderabad	46	45	45	39	43	52	51	53	60	84	109	137	156	137	108	114	105	89	75	75	-0.6%	2.6%
Jaipur	47	52	68	62	45	65	62	57	65	77	99	121	141	130	95	104	99	89	78	77	-1.7%	2.6%
Kolkata	96	100	109	88	82	82	72	61	66	72	87	121	163	146	128	141	126	112	95	94	-0.4%	-0.1%
Mumbai	159	176	170	138	130	124	104	87	95	107	136	200	272	233	177	180	165	139	118	118	-0.3%	-1.6%
Pune											110	150	197	163	122	109	87	71	64	62	-3.3%	1.2%
Exchange Rate	32.4	35.4	36.3	42.2	43.5	44.9	47.2	48.2	46.0	44.9	44.5	43.6	40.2	45.9	47.7	45.6	48.0	54.5	60.7	61.2		

* The 2013/14 data has been modified to include the performance of a larger sample set
 ** Change in 2014/15 expressed as percentage of the figure for 2013/14

^a Delhi NCR data (Shaded Portion) from 1995/96 to 2008/09, New Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2014/15

Source: HVS Research

FIGURE 24: KEY OPERATING CHARACTERISTICS BY MAJOR CITIES – REVPAR (US\$)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14*	2014/15	12-Month** Compounded Change	Growth
Agra	23	27	26	23	15	15	13	13	27	38	45	64	76	61	68	82	71	66	62	63	1.3%	5.4%
Ahmedabad	37	50	36	31	31	34	27	24	33	42	48	55	79	64	55	51	49	39	33	34	3.0%	-0.5%
Bangaluru	51	60	58	48	45	56	51	56	82	135	151	173	159	113	74	87	74	61	51	51	-1.1%	0.0%
Chennai	73	80	75	58	52	55	42	39	48	61	77	92	115	91	74	83	76	60	46	46	0.8%	-2.3%
New Delhi ^a	67	76	81	60	50	59	49	51	68	90	125	162	192	144	126	130	109	84	70	67	-4.1%	0.0%
Gurgaon											114	110	99	73	64	64	64	64	64	64	0.6%	-10.8%
NOIDA											116	137	87	55	53	43	43	43	43	43	-18.4%	-18.1%
Goa	43	39	37	43	34	39	31	34	40	56	73	97	112	84	77	90	88	82	76	79	4.4%	3.3%
Hyderabad	27	25	24	26	26	36	35	37	46	66	89	99	102	76	58	65	57	44	39	42	7.7%	2.4%
Jaipur	25	30	35	28	21	36	30	26	38	52	65	79	91	70	55	60	54	49	42	43	0.3%	2.9%
Kolkata	61	56	67	51	45	52	48	40	41	50	66	91	121	101	86	96	88	80	66	64	-2.9%	0.3%
Mumbai	129	128	111	93	84	80	54	55	66	77	104	156	203	141	110	112	105	89	79	84	6.7%	-2.2%
Pune											91	125	137	101	62	51	45	41	37	38	4.7%	0.0%
Exchange Rate	32.4	35.4	36.3	42.2	43.5	44.9	47.2	48.2	46.0	44.9	44.5	43.6	40.2	45.9	47.7	45.6	48.0	54.5	60.7	61.2		

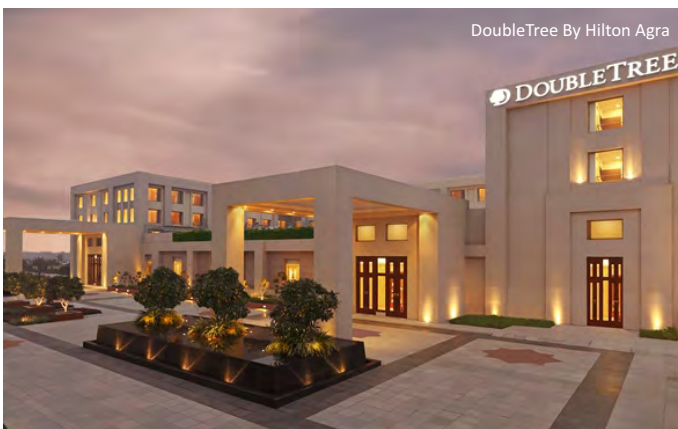
* The 2013/14 data has been modified to include the performance of a larger sample set
 ** Change in 2014/15 expressed as percentage of the figure for 2013/14

^a Delhi NCR data (Shaded Portion) from 1995/96 to 2008/09, New Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2014/15

Source: HVS Research

City Trends

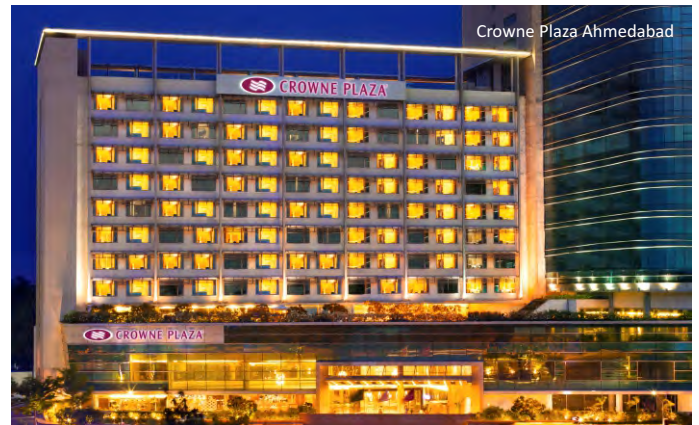
Agra, an integral part of the famous Golden triangle itinerary, is a leisure market that presents huge opportunities for hotel development. The city recorded a marginal growth in RevPAR (0.5%) in 2014/15 mainly on account of an increasing room rate (2.7%) accompanied by a drop in occupancy (-2.1%). On closer inspection, it is evident that existing older hotels have continued to exhibit a steady growth in occupancies annually, and the overall drop in this parameter is a function of lower initial year penetration by the considerable new supply. Furthermore, **in 2014/15, the city achieved the highest average rate in the past five years.**



The commission of the Yamuna Expressway has resulted in a surge in domestic visitation and also spurred the growth in the Meetings and Events segment for the city's hotels. This has been a significant game changer for the market, which was traditionally associated with mainly foreign visitation. Moreover, the state government is continuing to focus on developing infrastructure. Projects currently underway include the Taj Ganj Project (up-gradation of the area surrounding the Taj Mahal), construction of the Outer Ring Road linking the city to the Yamuna Expressway, development of the Agra-Lucknow Expressway (302 km-long highway connecting Agra, Kanpur and Lucknow) and the impending introduction of Gatimaan Express, the country's first semi-high-speed train from New Delhi to Agra.

We are tracking over 500 rooms that will be added to the city's supply over the next three years (including the recently opened Courtyard by Marriott and the Four Points by Sheraton). In the short term, this may result in pressures on both the occupancy and average rate. Nonetheless, HVS still believes that the development of these hotels along with supporting infrastructure is a positive sign that the sleepy city is waking up to change. Overall, we remain optimistic about the market.

Ahmedabad, on the back of rapid industrial growth, has become an important commercial hotel market in recent years and has witnessed the influx of a number of international brands. **In 2014/15, the market recorded a 3.8% growth in occupancy despite an almost 8% increase in supply, including the opening of two hotels**

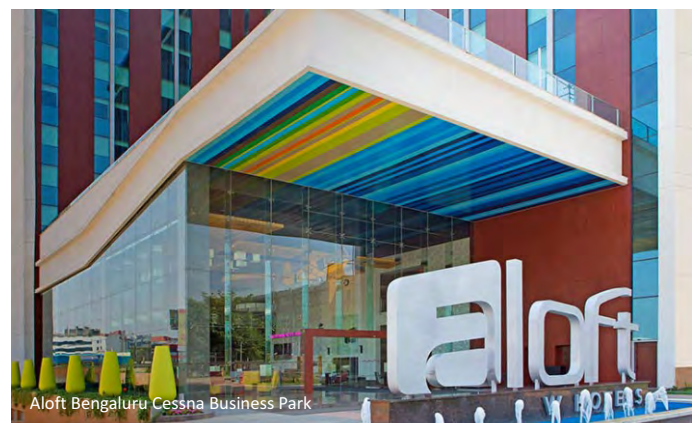


with large inventories (Eastin and Crowne Plaza). In fact, excluding the new openings, the marketwide occupancy increased by almost 10% and the year ended on a high note, with city sold out events such as Vibrant Gujarat and the PlastIndia Conference. Ahmedabad also recorded a 1.4% increase in average rate primarily due to the exceptional performance in the last quarter of 2014/15.

Commercial demand, emanating from Ashram Road, SG highway and the industrial estates on the periphery of the city, is the main driver for business in Ahmedabad. With presence of a host of pharmaceutical companies and large scale conferences, events and weddings, MICE is a growing segment which has created the need for a professionally managed convention centre attached to a sizeable room inventory in the city.

In future, Commercial demand is likely to increase further with the expansion of the Sanand-Bol GIDC Industrial Estate together with the new factory setups by Honda and Suzuki in Vithalapur. On the supply side, there are 1,026 rooms proposed to enter the market over the next five years, of which 64% are actively under development. With a relatively limited supply and strong historical and anticipated demand growth in Ahmedabad, we foresee a marked improvement in the city's hotel market performance in the medium-to-long term.

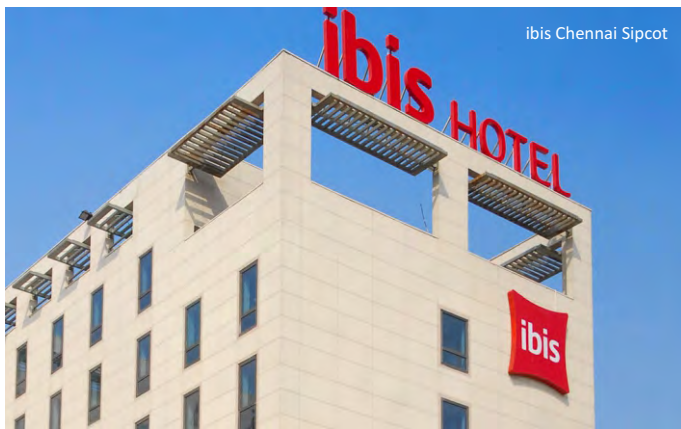
Bengaluru's hotel market continued to remain resilient in spite of an 11.4% increase in supply in 2014/15. Passenger arrivals at Bengaluru International Airport (BIAL) witnessed strong growth with international and domestic arrivals



growing by 11% and 22%, respectively. As expected, this has positively impacted demand for hotels across the city, with occupancy and average rate both holding steady from the previous year.

While the Commercial (corporate travel) segment continues to be the largest contributor to room night demand in the city, Extended Stay and MICE have both shown substantial growth over the previous year as well. As we have highlighted in our earlier editions of this report, Bengaluru requires quality extended stay accommodation, especially at lower price points catering to the ever-growing IT/ITeS industry. **Furthermore, with the city being one of the most important business destinations of South India, a large scale world-class convention centre would immensely boost demand for the lodging market.** There have been talks and propositions for such a development near BIAL; however, we are yet to see its fruition.

The city is expected to add a further 2,780 rooms (active supply) over the next five years. The CBD and Outer Ring Road (Sarjapur) areas are anticipated to witness the majority of short-term increase in new rooms. We, therefore, forecast both these micro markets to witness some occupancy and average rate pressures over the next two-three years. Other parts of Bengaluru are anticipated to witness moderate-to-steady growth over the short-to-medium term.



Chennai, which recorded a 14.3% decline in RevPAR in 2013/14, resurged with a 1% increase in RevPAR in 2014/15. This was primarily due to a 6.4% increase in occupancy as supply grew moderately at 5.1% after the aggressive growth recorded in the previous two years (29.1% in 2012/13 and 12.2% in 2013/14). Average rate, however, continued to decline (5.1%) across the city.

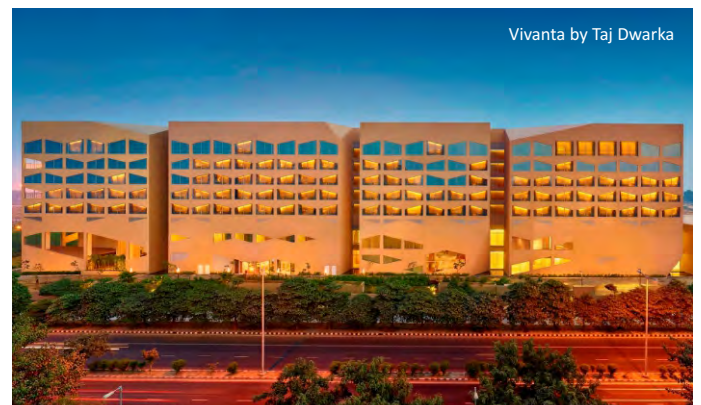
Chennai benefits from a wide demand base with contribution from both the manufacturing and services sectors. The city has witnessed a growth in demand with the banking, financial services and insurance (BFSI) and pharmaceutical industries showing an increase in project-related demand, while the IT/ITeS and automotive industries are undergoing a slow recovery. Moreover, in recent years, Chennai has seen a substantial increase in the MICE segment, playing host to a number of large scale residential conferences related to the pharmaceutical and manufacturing sectors, even as demand from weddings and other social events continue to grow.

In 2014/15, the city's CBD saw occupancy levels strengthen; however, average rates saw a marginal decrease, largely due to the changing demand composition with an increased contribution from the MICE segment. OMR, the IT corridor of the city continued to see supply pressures with the opening of the Novotel-Ibis Siruseri, despite an overall growth in demand, whereas the ECR stretch remained largely stagnant with increased competition from city-centre hotels such as ITC Grand Chola, resulting in a shift in MICE business.

Looking forward, Chennai's hotel market is expected to see supply additions of approximately 3,300 rooms over the next three-to-five year period, with 83% under active development. Majority of this supply is in the budget and mid market segments (88.7%) and primarily located along the peripheral districts of Chennai including OMR, ECR and Sriperumbudur. Consequently, hotel performance in these micro markets is likely to be restricted by supply growth in the short term. While average rate performance across the Chennai hotel market continues to be a concern, demand levels can be expected to rise further with the key sectors now seeing a gradual revival, coupled with the city's growing importance as a MICE destination.

New Delhi hotels, in the thick of the dynamic hotel landscape of the National Capital Region (NCR), witnessed a growth of 2.4% in overall occupancy in 2014/15 compared to the previous fiscal year. Given the 7.3% increase in supply, primarily in the mid market segment and marginal correction of room rates by the existing hotels, the average rate across the largest hotel market in the country recorded a decline of 5.4%.

Amid a reviving Indian economy, the city remains resilient, despite the slow first half of 2014/15 and the considerable increase in rooms supply over the past two years. The CBD hotels in the city continue to capture demand that is driven by the banking, law, diplomatic missions and e-commerce sectors as well as by the increasing public sector travel. Going forward, the launch of the "Make in India" campaign that has led to increased FDI interest in the country, is anticipated to drive a large number of visits from heads of states and foreign investors having a favourable impact on the city's hotel market. Furthermore, as a result of the relaxation of visa restrictions and application, New Delhi, as the gateway to the tourist circuits of North India, is likely to see increased Leisure demand as well.



In the past year, within the Aerocity hospitality district, the branded budget and mid market hotels successfully absorbed demand that was previously catered to by the unorganised market. However, peripheral micro markets such as East Delhi, Dwarka and West Delhi saw limited RevPAR growth in the absence of a strong Commercial demand base, and continued to be largely dependent on MICE and low-paying Leisure business.

New Delhi's hotel market is expected to see supply additions of approximately 2,200 rooms (active supply) over the next two-to-five years, with proposed additions spread across the upscale, mid market and budget segments. The future supply is mainly in the Aerocity hospitality district, given the high barriers to entry in the city. Therefore, the moderate supply growth coupled with the likelihood of the burgeoning Indian economy bodes well for the nation's capital, making our outlook for the New Delhi hotel market positive.

Gurgaon, with over 6,000 rooms, continued to improve marketwide performance in 2014/15, displaying a robust growth of 7.6% in occupancy albeit with a correction in average rates. The 5.6% decline in overall average rate can be attributed to the 17.3% increase in rooms supply, mainly in the budget and mid market space. Additionally, the existing hotels in the city are still inclined towards low-paying MICE and Group Leisure demand in order to maintain occupancies and address the disparity between weekday and weekend vacancies.



Approximately 6 million square feet of commercial space entered the Gurgaon market in 2014 at high absorption rates. The next five years look buoyant, with rapid development of areas such as Sohna Road, Golf Course Extension, Sector 82, Southern Peripheral Road and Manesar that are anticipated to relieve the congestion from the existing CBD (Cyber City, Udyog Vihar and MG Road). The commercial development is also linked to improvements in infrastructure such as the rapid metro and multi-lane expressways. These will lead to the formation of multiple demand generating areas for the Gurgaon hotel market, shielding the city from neighbouring micro markets in NCR.

Contrary to the growing demand, the future supply in the city has slowed down. HVS is tracking proposed supply of 2,084 rooms, of which a mere 10% are actively under development.

Given the resilience of the market, the emerging commercial micro markets and stalled hotel supply, the dwindling developer confidence in Gurgaon seems unfounded. Our outlook towards the city remains optimistic.

NOIDA (including Greater NOIDA) over the last six years, has displayed dismal performance as a hotel market, with occupancy and average rate declining at a CAGR of 8.3% and 6.1%, respectively. Compared to the previous year, the market suffered the steepest decline in occupancy (10.3%) and average rate (8.4%) in 2014/15, and recorded the lowest occupancy (48%) across all major markets tracked in this survey, although it only witnessed an expansion of less than 100 rooms in the past one year. This is a clear reflection of the weak nature of hotel demand within the market, in addition to ongoing displacement of Commercial and Leisure demand to neighbouring areas such as Ghaziabad and East Delhi.

HVS is tracking fewer than 1,900 rooms that are announced to enter the market within the next five years; however, only 13% of this supply is under active development, owing to various hospitality projects being put on hold or delayed.

As highlighted in our previous report, the future outlook of NOIDA and Greater NOIDA continues to be challenging owing to the market's almost exclusive dependence on MICE demand typically generated by the India Exposition Mart and Buddh International Circuit, lack of substantial growth in Commercial demand, absence of base demand such as Airline crew, and the market's highly price-sensitive nature. As a result, despite limited supply increases in the next few years, HVS expects occupancy and average rate to remain under pressure.

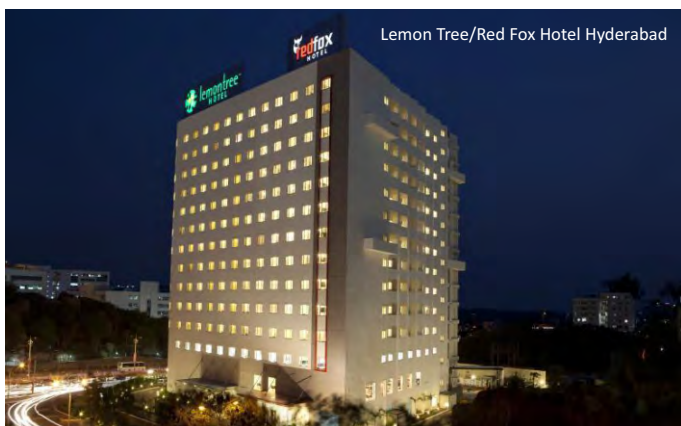
Goa hotel market exhibited approximately 2.3% increase in occupancy and 3.5% increase in average rate in 2014/15 over 2013/14, maintaining the uptrend in marketwide RevPAR performance for the fifth year in a row. **While the overall demand and supply dynamics remained in line with historical trends, what was noticeable was the change in nature of demand and its segmentation.** The geo-political crisis in Russia (with Ukraine) coupled with weak business sentiment in the Eurozone resulted in a decline in charter movements and Foreign Individual Travel to the state. This unfavourable socio-economic environment in its feeder markets adversely impacted baseline occupancies for most hotels in Goa, especially in the peak season. However, a quick



shift in focus to the ever-buoyant and higher-paying domestic segment cushioned this situation and drove RevPAR for the market. We don't believe this to be a one-off occurrence, but a gradual change in direction for the long term.

Going forward, while we don't expect any challenges from a demand-supply standpoint, what continues to be a major hurdle for sustainable growth of the market is lack of quality infrastructure. A lot needs to be done on this front if Goa is to keep pace with other upcoming beach destinations in Sri Lanka, Vietnam and Indonesia. While the state government has announced big ticket projects such as the development of Goa International Airport in Mopa and a stand-alone convention facility, the progress and completion timelines on the same continue to remain uncertain. That said, the Goa Tourism Development Corporation (GTDC) is promoting experiential travel in off-beat locations in the state in order to further improve Goa's recall as India's preferred leisure destination. Additionally, GTDC's measures to encourage hospitality by way of easing licensing and procedural requirements as well as public private partnerships have greatly improved investor confidence in the state.

Hyderabad continued on its bounce-back trend post the political turmoil that had adversely affected the hotel market in the city over the past few years. Both major micro markets – the traditional CBD, and the new CBD (HITEC City and Gachibowli) – witnessed upward movements in occupancy resulting in an annual growth of 9.1% in 2014/15 over 2013/14. Average rate remained almost steady, showing a 0.2% growth over the previous year; this was expected to be the case with hotels opting for volume-based strategies, especially as the city tries to claw back from the slowdown in demand from the previous years.

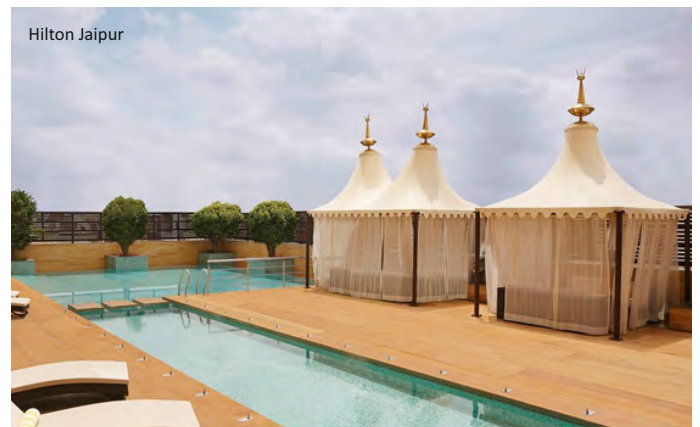


A major reason for improvement in hotel performance of the city, other than the increase in overall business travel, was the growth in performance of the Hyderabad International Convention Centre (HICC). Previously relying largely on social events to increase usage of the facility during the years of political instability, 2014/15 saw a rapid growth in business meetings, conferences and large scale marquee events, and therefore, resulted in increased room night demand for the city.

Supply increase in Hyderabad is witnessing a gradual slowdown with approximately 1,500 rooms (active supply)

anticipated to be added to the existing inventory of rooms over the next five years. The busy 2016 event calendar for the HICC also bodes well for the city, and we therefore, anticipate steady increase in both occupancy and average rate in the short-to-medium term.

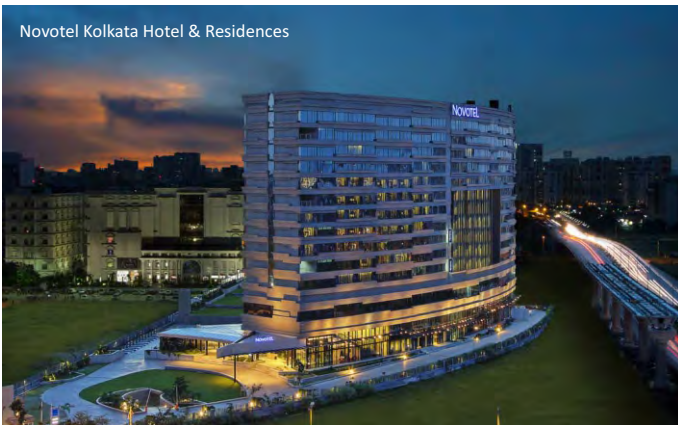
Jaipur hotel market has been relatively stable in recent years, with the RevPAR exhibiting minimal variance. This state of equilibrium can be attributed to a strong growth in demand in spite of an almost 18% CAGR in supply over the past five years. **In 2014/15, occupancy level for the Jaipur market increased by approximately 1.7%, whereas the average rate witnessed a modest decline to the tune of 0.9%.** A notable trend has been the increase in demand from the Domestic Leisure and MICE segments. Jaipur, however, still lacks a strong Corporate segment, which makes the market vulnerable to seasonality in the absence of a Commercial/Extended Stay base.



The rising popularity of MICE can be gauged from the performance of hotels in Kukas and the airport area, which recorded an 8.2% year-on-year growth in occupancy in 2014/15 over the previous fiscal. These hotels, drawing a majority of the MICE demand in the city due to their large inventories and meeting spaces, outperformed city hotels that witnessed a 3.8% decline in occupancy. MICE demand is expected to be further augmented with the opening (and ongoing expansion) of the Jaipur Exhibition & Convention Centre (JECC) located in the industrial hub of Sitapura. The facility also includes a 241-room hotel to be managed by Accor under their Novotel brand.

On the supply side, a pipeline comprising approximately 1,119 rooms is expected to enter the market over the next five years. While most of these rooms are likely to commission by 2017/18, we maintain a positive outlook for Jaipur especially in the face of a strong growth in Leisure demand, and focus on domestic tourism and MICE.

Kolkata hotel market witnessed a **double-digit growth in rooms supply (12.8%), coupled with only a 2.3% decline in RevPAR due to a corresponding drop in overall occupancy in 2014/15.** With the average rate holding strong, the city's CBD hotels continue to cater to Commercial demand stemming from the PSUs, manufacturing and medical industries, while the eastern peripheral areas of

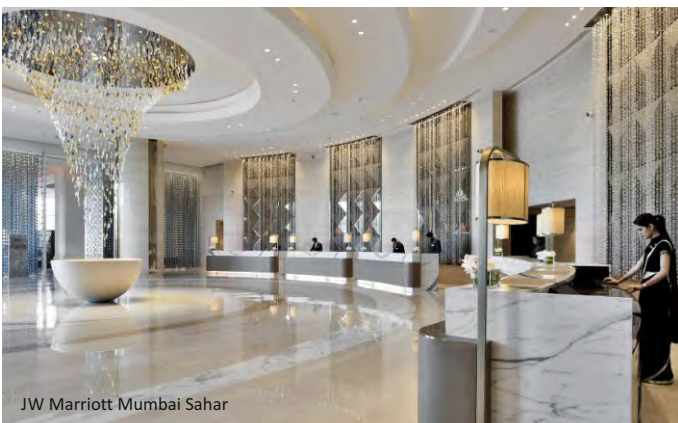


Rajarhat and Salt Lake generate demand from the IT/ITes, engineering and telecom sectors. Fueled by improving airline and road connectivity, as well as the large banqueting facilities offered by the existing hotel supply, Kolkata also continues to benefit from growth of the MICE segment.

Although the city retains its position as one of the smallest hotel markets in the country, only surpassing NOIDA and Agra, the next two-to-three years are likely to see a significant increase in supply. HVS is tracking over 2,800 hotel rooms, 70% of which are under active development. The future supply is largely concentrated in the emergent commercial and residential areas of Rajarhat, Salt Lake and EM Bypass, a majority of which (73.3%) is positioned in the upscale and mid market space. As mentioned in the previous edition of this report, the price-sensitive nature of the demand in these areas necessitates development of budget and economy hotels.

In the short-to-medium term, we expect both occupancy and average rates to be under supply pressure. Nevertheless, given the active, albeit slow commercial and infrastructural development of the city, HVS expects Kolkata to absorb the additional hotel rooms and gradually improve its performance in the long term.

Mumbai recorded the highest occupancy (71.6%) and average rate (₹7,194) across all major markets tracked in this survey in the past year. This can be primarily attributed to the limited rooms supply that entered the city in 2014/15. Over the years, the Mumbai hotel market has developed into three micro markets, namely South, Central and North Mumbai,



with minimal overlap in room night demand. A notable observation for the South Mumbai micro market is the strong growth in average rate that witnessed an increase of 6.9% in 2014/15 over the previous year, whereas occupancy displayed a meager decline of 0.4% during this time. This increase in average rate stemmed primarily from the high-paying Leisure and Social MICE segments. On the other hand, Central Mumbai hotels displayed a staggering increase of 19% in occupancy last year over 2013/14, whereas average rate witnessed a marginal increase of 0.6%. Simultaneously, North Mumbai witnessed an increase in occupancy and average rate by 5.8% and 0.3%, respectively, over the previous year. The upward trend across the micro markets is primarily due to the continuous addition and absorption of office stock within the respective areas that has further fueled demand for hotels.

Future supply for Mumbai is estimated to be 5,561 rooms over the next five years, of which only 33% is being actively developed. In the short term, majority of the supply in Mumbai is expected to be within the upscale and mid market positioning. Recently, North Mumbai welcomed the city's second JW Marriott at the International Airport Terminal (T2). Going forward, the newly-built Taj Hotel at the Domestic Airport Terminal (T1) and Radisson Blu Plaza at Kanjurmarg are expected to begin operations, in addition to the recent conversion of The Palladium Hotel to the country's first St. Regis at Lower Parel. With the planned improvements in infrastructure such as the Coastal Road, extension of the Metro and Monorail, together with the proposed convention centre in BKC that is expected to further induce MICE demand, our outlook for Mumbai remains optimistic.

Navi Mumbai houses approximately 950 branded rooms, positioned as either budget or mid market, though the lion's share of demand is still captured by several unbranded hotels. Commercial and Extended Stay segments continue to be the largest contributors to room night demand in the city. In 2014/15, the hotels witnessed a staggering growth of 21.6% in occupancy over the previous fiscal, but at the cost of an almost 8.9% decline in the average rate. This anomaly can be credited to the major role played by the low-paying project-related business that has thrived in the area.

Over the next five years, HVS is tracking approximately 1,100 rooms that are announced to enter the market across various positioning. However, only 27% of these proposed rooms are under active development. The future supply growth is slow paced and contingent to the development of the IT parks and commercial offices in areas such as CBD Belapur, mixed-use developments such as the Seawoods Grand Central, and the still greenfield international airport project in Panvel.

Due to the high dependence on inconsistent project-related businesses, as well as easy accessibility from Mumbai and Pune, we anticipate hotels to have little choice but to tap the MICE segment to maintain occupancy levels in Navi Mumbai. Thus, in the short-to-medium term, we expect the average rate to come under pressure; although, our long-term outlook for the Navi Mumbai hotel market remains positive.

For **Pune**, 2014/15 has been a year of dual firsts. To begin

with, the city did not witness a double-digit growth in new supply, a first since 2008/09. Furthermore, Pune crossed the 60% mark, another first in the past five years, closing 2014/15 with 62.2% marketwide occupancy and recording a year-on-year increase of 8.4%. While it is evident that limited increase in supply has provided the much-needed breathing space to the existing hotels in the city, this feat has been accomplished mainly on account of steady and continual growth in demand. Having successfully established itself as a reasonably priced hotel market with quality product offerings for hosting weddings, events and conferences in Western India, Pune continued to witness an increase in the influx of events hosted by its hotels. Additionally, its mainstay segments, Commercial and Extended Stay, have recorded sturdy increases driven by the rapid absorption of the city's office space supply primarily by the IT/ITeS sector. This, in fact, has cushioned the otherwise sluggish growth demonstrated by the manufacturing sector, typically, a large demand generator for the city's hotels. Average rate, on the other hand, exhibited a marginal decline (2.5%), thereby limiting the annual RevPAR growth to 5.6%.

Leisure demand for hotels. Therefore, HVS continues to emphasise the **shift towards the mid market and budget segments** across markets, and the opportunities this brings. Hotel companies with established brands in these segments can harness this trend to create a presence in the emerging business and leisure destinations in the country. However, it continues to be difficult to differentiate between brands in these segments and hotels must prioritise on executing consistent, value driven propositions to attract consumers.

While on the subject of budget and economy hotels, it would be a fallacy to not discuss the **development of hotel aggregators** in the budget space in the year 2014/15. Recognising the massive unorganised hotel market, companies such as Oravel Stays (OYO Rooms), Zostel Hospitality (Zostel and Zo Rooms), WudStay, FabHotels and Treebo have partnered with standalone hotels and guesthouses in order to provide marketing, distribution and quality assessments to them. Riding on the back of technology and providing App-based convenience to the consumers, these new-age brands intend to consolidate the unorganised hotel market. It may be too soon to gauge whether these companies will disrupt the branded budget market in India, but the aggregator industry was witness to steady activity over the past year, with the aforementioned companies raising venture funding and implementing ambitious expansion plans. In order for them to be a sustainable business model however, the aggregators will need to give preference to establishing standardisation across their offerings and building enduring bonds with the hotel owners, over aggressively expanding their inventories.

Clearly, as optional leisure and business travel budgets undergo cuts, value-for-money offerings are on the rise. Nevertheless, the luxury and upscale market is expected to recover by shifting focus to domestic demand while simultaneously building international brand recognition. Additionally, hotel companies are now carving a niche market by promoting their luxury properties as destinations that provide a unique experience. The recently opened ITC Grand Bharat in Gurgaon and the JW Marriott Walnut Grove Resort & Spa in Mussoorie are examples of such **destination resorts**. Given the variety of untapped leisure locations in the country, this trend provides a lucrative opportunity for investment in the hospitality sector.

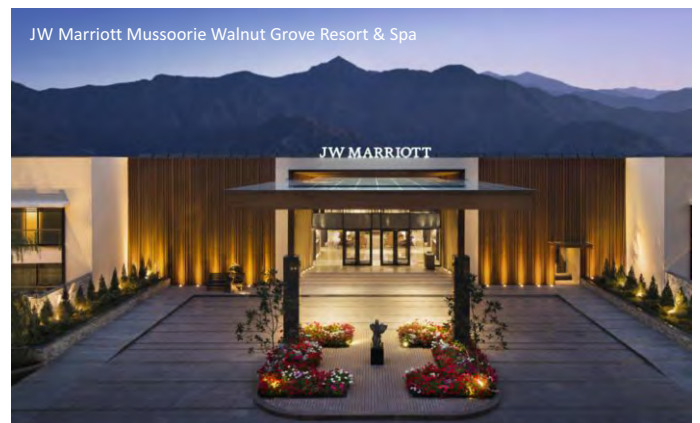


Over the next few years, we expect the slowdown in supply to continue in Pune with approximately only 1,300 rooms under active development. A majority of this supply is anticipated in the Hinjewadi micro market, and thus, occupancy and average rate here are likely to remain muted in the short term. For the remaining city, slackening pace of new supply along with steadily growing demand is anticipated to result in a continued trajectory of increasing occupancies accompanied by a much-awaited (albeit moderate) growth in average rates.

Future Trends & Opportunities

We conclude the 2015 edition of this report with a look to the future. Supported by our analysis of the previous year's performance, we would like to highlight the trends prevalent in the Indian hospitality industry, as well as the opportunities they bring forth for all stakeholders.

In order to enhance the global competitiveness of the country, the Indian government recognised a shortage of branded hotel supply, with most of the scarcity lying in the budget segment. Additionally, the noteworthy rise of the middle class resulted in an increase in both Commercial and



Another trend that continues to garner force is the increase of **brands targeted towards Generation Y travellers**. We anticipate that brands such as Red Fox, Aloft, Radisson RED and Hyatt Place will continue to expand their presence within the country as their capacity to attain a strong RevPAR will interest both operators and owners. With constantly changing consumer patterns, the key to success for all brands going forward will be their ability to proficiently connect with their consumers and clearly distinguish their product. Furthermore, operators and owners have to face the challenge of keeping their moderately-priced lifestyle brands relevant, while simultaneously gaining economies of scale.

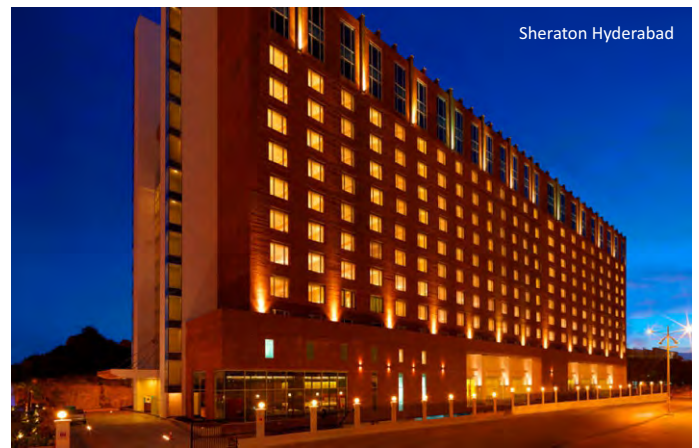
Featured in the *2014 Hotels in India: Trends & Opportunities* report as a trend that is gaining momentum, **social media** has accurately become embedded in every step of the decision-making process for consumers. This can be viewed as both an opportunity and a threat for the hospitality industry. Any disparity between a brand promise and its execution is immediately brought to the forefront, given the transparency of the medium. Furthermore, the knowledgeable customer is now able to “unbundle” the entire travel itinerary, as the internet provides abundant clarity about guest experiences and unrestricted price comparisons between products.

Congruous with this trend is the **use of technology** at all consumer touch-points. From exploration of options and choice to customer reviews and satisfaction, technology is gradually becoming the center of client-consumer interactions. Despite offering an abundance of opportunities for personalisation, endorsement and loyalty, investment in technology by hoteliers is still inadequate. For example, the use of mobile technology such as smart phones or tablets present ample opportunities for hoteliers to connect with consumers and streamline operations, but it is still grossly under-utilised. On the other hand, investing in complicated technologies for in-room features proves to be detrimental for the brand. Therefore, in order to adapt to technology savvy consumers, owners and operators need to strike a balance to provide comfort, rather than cause a disruption.

Furthering the theme of enhancing consumer experience, the most important variable for delivering a company's brand promise is the talent in charge of conveying it. Still, the average staff turnover in the industry remains north of 30%. The evident connection between staff retention and client satisfaction, and high staffing costs accentuates the need for **talent management**. Operators have the opportunity to guarantee guest satisfaction by developing the best methods to employ, compensate and preserve talent within their organisations. The present economic recovery will generate financially attractive options for employees, and most operators today need strategic plans to hold on to their critical workforce. In an attempt to do our part to help the cause, HVS Professional Skills Development division categorically designs innovative programmes to connect

employees with the brand, facilitating the delivery of unflinching standards of customer service across platforms.

Another notable trend that emerged in 2014/15 was the rise in the **transaction activity** and the increasing number of **conversions of existing hotels**. Keen investors need not limit their options to purely greenfield projects, and can acquire existing assets to stimulate their expansion plans. Additionally, the 10% drop in active development of future supply in comparison to the previous year supports that this trend will continue. Thus, the need for developing stable, long-term relationships with committed local partners is stronger than ever. As far as conversions are concerned, the



Sheraton Hyderabad

hotel companies with flexible mainstream brands stand to gain ground due to the comparative ease of transforming existing properties.

The aforesaid growth in transactions and conversions strongly points towards the rising significance of **asset management** within the hospitality industry. Valuations of the existing properties have corrected and the well-informed owners today do not shy away from being involved in decisions that impact their returns, or from divesting the loss-making investments. Therefore, consummate yield management is the need of the hour, coupled with improved cost management. As the owner's representative, an asset manager plays a critical role in ensuring robust top lines, stronger bottom lines and consistent growth trajectory, along with liaising with the brand. This well established practice in mature markets is increasingly becoming the need of the hour in the Indian context as well.

In Closing

The Indian Hospitality landscape has been witness to green shoots this past year. The recovery has been subtle, yet evident. As future supply tapers, future demand improves and recent entrants stabilise, we are likely to see further growth in the performance of the sector in the months and years ahead. While the overall tone is indeed one of cautious optimism, like last year, our view is that the graph is moving steadily in the right direction.



About HVS

HVS is the world's leading consulting and services organisation focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries, celebrates its 35th anniversary this year. 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 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. HVS.com

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About the Authors



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