



2017

HOTELS IN INDIA TRENDS & OPPORTUNITIES

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Sleep is Silver, but Money is Gold!
 - City of Djinns, William Dalrymple

Introduction

As the 6AM alarm blares at dawn, who doesn't find delight in pressing the snooze button ever so often? After all, sleep is silver. However, brushing aside the slumber, the active mind sketches tasks ahead and one leaps into the daily bustle. Crafting ideas, plotting schedules and planning conquests, the business of life and livelihood comes into play. While catching forty winks every now and then may be acceptable, one usually wouldn't trade the job of making money with the liberty to indulge in daily afternoon siestas. After all, money is gold!

The Indian hospitality sector has woken up after a longish nap and, it is now time to set the cash registers ringing. While an assortment of influences had repressed the sector's endeavours to grow from 2009 to 2015, last year provided sufficient evidence that the next up-cycle was in the offing. Resultantly, 2016/17 played witness to a year, that has in no uncertain terms been positive on all fronts. Nationwide occupancy was the highest since 2008, countrywide average room rates clocked a clear and measurable increase over several preceding years and the overall supply-demand scale is now tilted squarely in favour of growth in demand outpacing new supply. The time to reap has arrived and industry stakeholders must not lose cognizance of the fact that the inherent cyclical nature of the hotel business would allow this opportunity only for a finite period. Lest we choose to doze off again, it is time for us hoteliers to truly elevate the sectoral performance to the next level. **Indeed, Sleep is Silver, but Money is Gold!**

For over 20 years, HVS has gathered data pertaining to the hotel performance of the country through the annual Trends & Opportunities Survey. The resultant report depicts and analyses key hospitality trends, and presents HVS' outlook, with an emphasis on 13 major Indian markets. It further outlines existing and future opportunities of specific interest to investors, developers and hotel operators.

The survey participant base has registered a momentous growth since 1995/96 from 120 hotels with 18,160 rooms to **record 941 hotels with 1,19,219 rooms in 2016/17**, an increase of 54 hotels and 5,597 rooms over the previous survey.

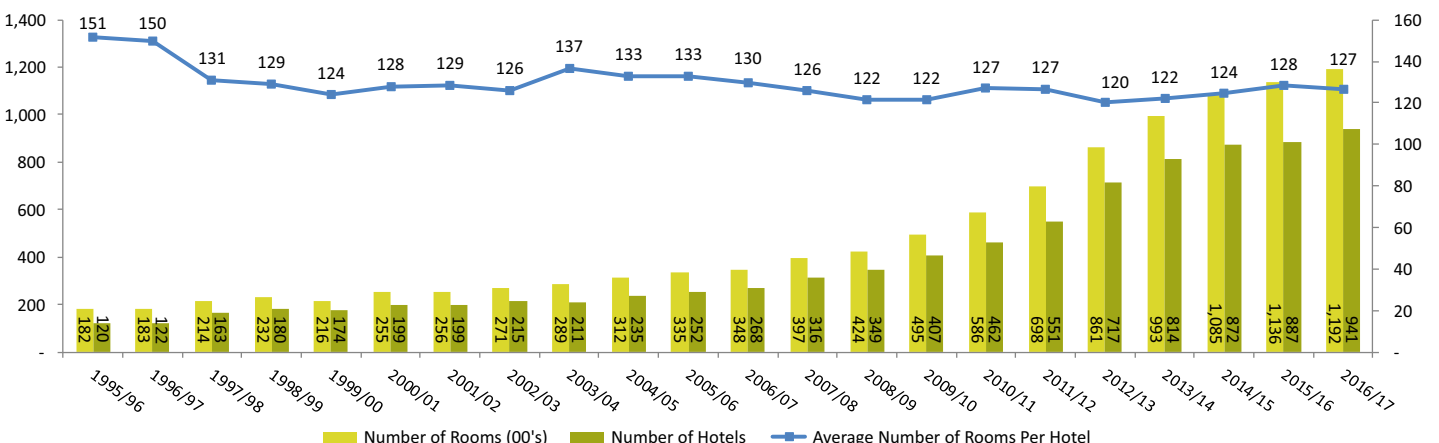
The growing number of survey participants each year demonstrates a rise in both HVS' penetration into the market, as well as the market's size. Moreover, we have made minor alterations to the sample set for the two most recent years in an attempt to remove unorganised supply. This in turn has led to the 2015/16 figures undergoing a minor change across all parameters.

Additionally, like last year, we have weighted the number of room nights to account for the new supply that was not operational for the entire fiscal year to compute the overall occupancy and average rate. **The weighted room count of the survey base for 2016/17 is 1,15,044, up from 1,08,682 for 2015/16.** Figure 1 illustrates the survey participation for the fiscal years 1995/96 to 2016/17.

The Indian Economy – An Overview

India is one of the fastest growing major economies in the world. The acceleration of investment friendly policies, structural reforms and low commodity prices has provided a strong impetus for growth. The central

FIGURE 1: SURVEY PARTICIPATION (1995/96 – 2016/17)



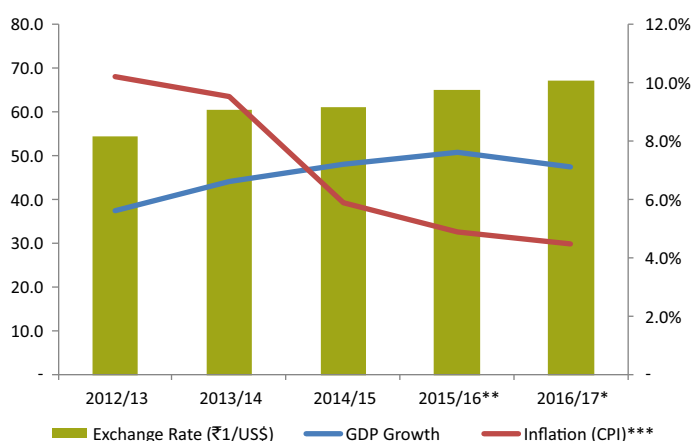
Source: HVS Research

government, despite some criticisms, has introduced several programmes over the past year, including ones to augment the ease of doing business, encourage digitalisation, reduce skill insufficiencies, foster entrepreneurship and boost urban development. These deregulation measures, both current as well as foreseeable, have boosted Foreign Direct Investments (FDI), which registered a growth of 8.0% in 2016/17¹ over the preceding year.

According to the *Economic Survey of India 2016/17*, the buoyancy in the country's GDP remains unchanged in recent years, with 2015/16 ending at a 7.6% growth and 2016/17 witnessing a GDP growth of 7.1%. In particular, the country's services sector grew at 7.7% last year, with the trade, hotels, transport and storage subsector registering a 7.8% growth estimate.

Figure 2 displays the GDP Growth, Inflation, and Exchange Rate for the period from 2012/13 to 2016/17.

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



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

In 2016/17, the average exchange rate of the Indian rupee vis-à-vis the US dollar was ₹67.09:1US\$, displaying a depreciation from the previous year. However, the rupee appreciated in the last quarter of the fiscal year on account of broad-based weakening of the US dollar after the result of the US presidential elections was greeted with skepticism by foreign-exchange markets. On the domestic front, inflows by Foreign Institutional Investors (FII), and a narrower Current Account Deficit (CAD) in the first half of 2016/17, gave room for the rupee to move up further. At the time of going to print, the average exchange rate was ₹64.02:1US\$.

The Prime Minister announced the 'demonetisation' of 500 and 1,000-rupee notes on 8 November 2016, with the intention of curbing corruption, counterfeiting, the accumulation of black money, and the use of higher denomination notes for illegal and terrorist activities – an important development for the entire economy. While the move caused a short-term cash crunch, its larger political and economic impacts (both positive and negative) will only be seen in due time.

Furthermore, other institutional reforms that are in various stages of execution, such as the Goods and Services Tax (GST), the four Labour codes, the Arbitration and Conciliation Act, and Insolvency and Bankruptcy Act 2016, are likely to be significant contributors to the country's economic growth, going forward.

Notably, the much-awaited GST was rolled out on 1 July 2017, under which the Indian hospitality industry stands to benefit from homogeneous and uniform taxes, in addition to easy utilisation of Input Tax Credit (ITC).

FIGURE 3: GOODS AND SERVICES TAX SLABS

Average Room Rate (₹)	GST
Below 1,000	Not applicable
1,001-2,500	12%
2,501-7,500	18%
Above 7,500	28%

In the past, the taxes that were applied on inputs, such as raw materials, food, cleaning supplies, and amenities, could not be adjusted against the output without multiple complications. This will now be much easier under the GST regime. Other advantages of the new taxation include administrative ease and clarity for end consumers. Now, although, the GST at 28% for rooms averaging a rate greater than ₹7,500 is still the highest in the region, the overall impact of this indirect tax on the Indian hotel sector is likely to be favourable. All in all, with the robust growth in demand outpacing that of supply, our outlook for the nation's hospitality industry remains optimistic, despite the initial hiccups during the GST implementation.

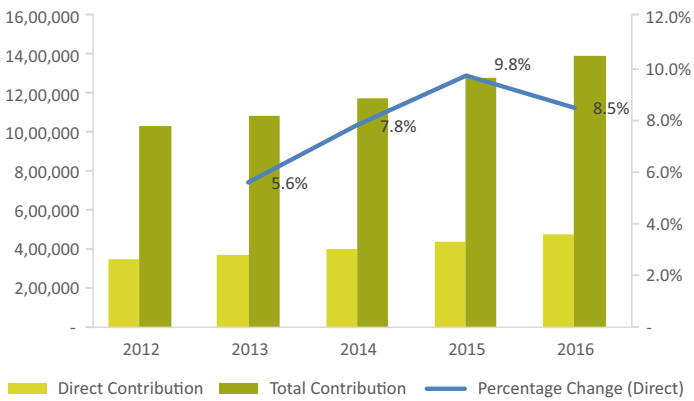
Travel & Tourism – Facts and Figures

The Travel & Tourism industry has been a major contributor to the economic growth of India, and is fundamental in creating employment and generating income for both skilled and unskilled labour. Tourism in India has witnessed steady growth over the past few years, aided by the rising purchasing power of the expanding middle class and the shift from foreign to domestic tourism. The industry contributed 9.3% of

¹ Department of Industrial Policy and Promotion

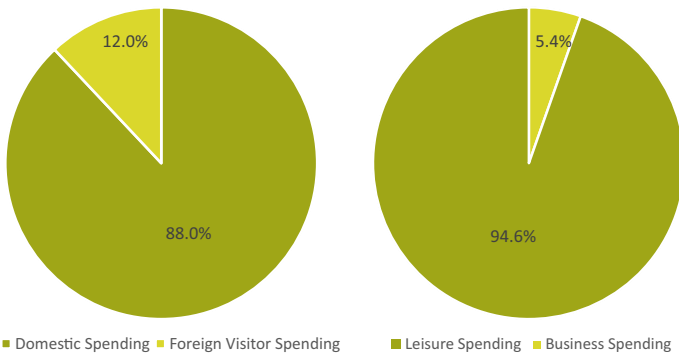
the total employment (both direct and indirect) in 2016². India's Travel & Tourism sector was also the fastest growing among the G20 countries, growing by 8.5% in 2016³. The following matrices highlight the performance of the Travel & Tourism industry in India.

FIGURE 4: TRAVEL & TOURISM CONTRIBUTION TO INDIA'S GDP (2012 – 2016, ₹ CRORE)



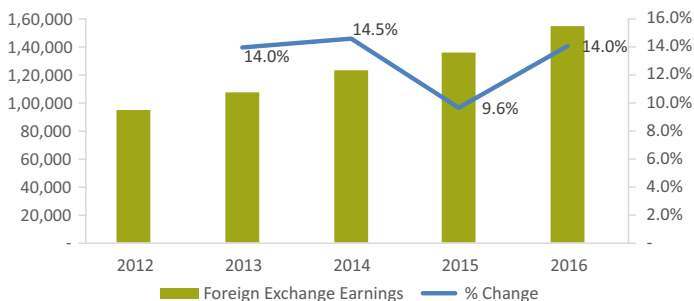
Source: World Travel & Tourism Council's Economic Impact 2017 – India Report

FIGURE 5: SPENDING PATTERNS – CONTRIBUTION TO INDIA'S DIRECT TRAVEL & TOURISM GDP (2016)



Legend: Domestic Spending, Foreign Visitor Spending, Leisure Spending, Business Spending

FIGURE 6: INDIAN TRAVEL & TOURISM SECTOR – FOREIGN EXCHANGE EARNINGS (2012 – 2016, ₹ CRORE)



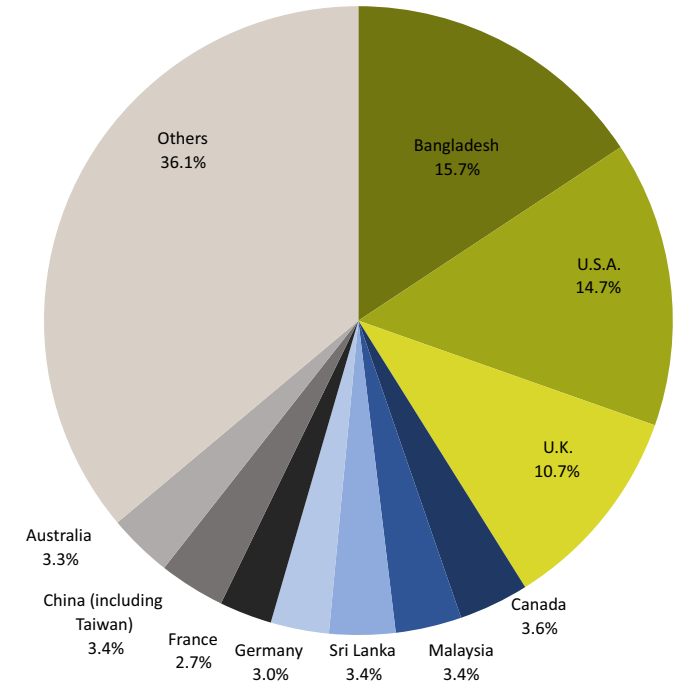
Source: India Tourism Statistics 2015 – Ministry of Tourism, Government of India State/UT - Wise Domestic and Foreign Tourist Visits, 2015-2016, Ministry of Tourism Government of India

FIGURE 7: FOREIGN TOURIST ARRIVALS AND DOMESTIC VISITATION TRENDS (2007 – 2016, IN LAKH)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Foreign Tourist Arrivals	50.8	52.8	51.7	57.8	63.1	65.8	69.7	76.8	80.3	88.0
% change	-	4.0%	-2.2%	11.8%	9.2%	4.3%	5.9%	10.2%	4.5%	9.7%
Domestic Tourist Visits	5,267.0	5,630.3	6,688.0	7,477.0	8,645.3	10,450.5	11,425.3	12,828.0	14,319.7	16,135.5
% change	-	6.9%	18.8%	11.8%	15.6%	20.9%	9.3%	12.3%	11.6%	12.7%

Source: Ministry of Tourism, Government of India

FIGURE 8: FOREIGN TOURIST ARRIVALS BY SOURCE COUNTRIES (2016)



Source: Ministry of Tourism, Government of India

FIGURE 9: TOP 15 BUSIEST AIRPORTS IN INDIA BY PASSENGER TRAFFIC (2015/16 – 2016/17, IN LAKH)

	2015/16	2016/17	% Change
Delhi (DIAL)	484.2	577.0	19.2%
Mumbai (MIAL)	416.7	451.5	8.4%
Bengaluru (BIAL)	189.7	228.8	20.6%
Chennai	152.2	183.6	20.7%
Kolkata	127.6	158.2	24.0%
Hyderabad (GHIAL)	123.9	151.0	21.9%
Cochin (CIAL)	77.5	89.6	15.6%
Ahmedabad	64.8	74.1	14.3%
Goa	53.8	68.6	27.5%
Pune	54.2	67.7	25.0%
Lucknow	32.4	39.7	22.4%
Thiruvananthapuram	34.7	38.8	11.8%
Guwahati	27.8	37.9	36.1%
Jaipur	28.9	37.8	31.0%
Kozhikode	23.1	26.5	15.0%

Source: Airports Authority of India

The Government of India has launched several branding and marketing initiatives such as 'Incredible India' and 'Athiti Devo Bhava', which have provided a focused drive to growth. It has also made serious efforts to boost investments in the tourism sector by allowing 100% FDI through the automatic route. Moreover, 'Incredible India 2.0' aims at showcasing the country as a spiritual and wellness destination; with this, the country is poised to emerge as an important wellness destination in South Asia.

Up, Up and A-Wait for it?

On a nationwide basis, new branded and organised supply (when weighted for days open in 2016/17) grew by merely 5.9% over the preceding year. Overall demand increased by 9.6% in the same period. Marketwide occupancy of 65.6% was consequently 3.5% higher than the 2015/16 performance of 63.3%. It is pertinent to note that the last time India registered a nationwide occupancy that was north of 65% was in 2007/08.

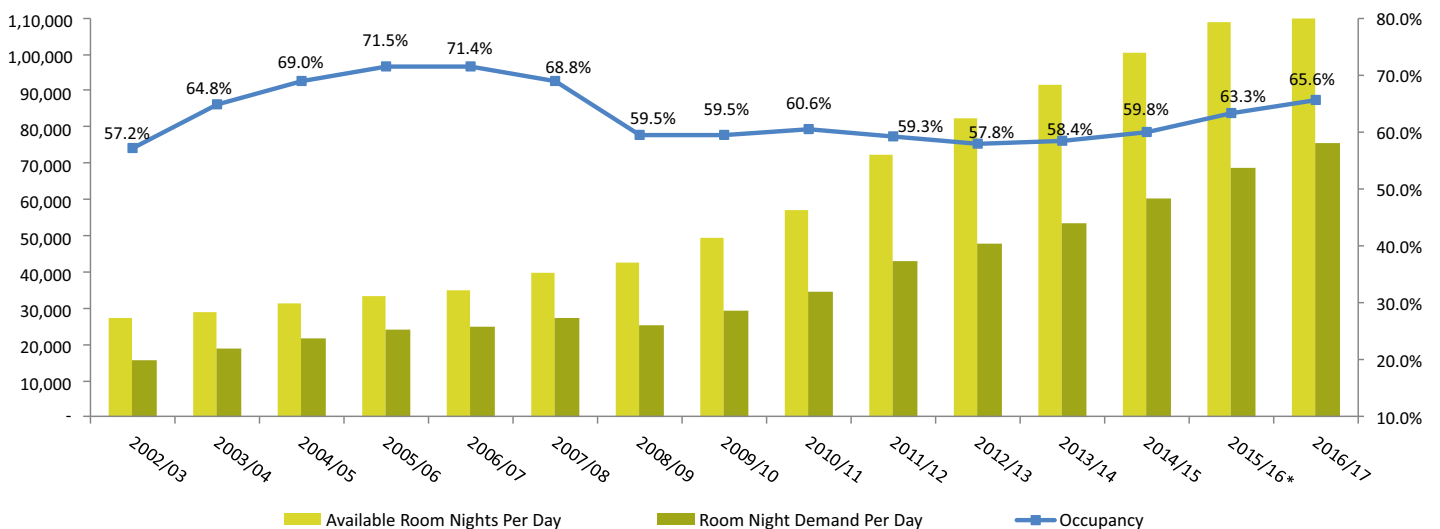
When viewed by positioning, Five-Star Deluxe and Three-Star hotels clocked 66.5% occupancy each in 2016/17, while Four-Star hotels achieved 65.6% occupancy. Five-Star hotels were just shy of the 65% mark and closed at a nationwide occupancy of 64.6%, whereas Two-Star hotels managed 62.7%. Therefore, it is apparent that hotels across all positioning benefited from the supply-demand gap this past year. Figure 10, below, offers the

Marketwide occupancy was recorded at 65.6% in 2016/17. It is pertinent to note that the last time India witnessed a nationwide occupancy that was north of 65% was in 2007/08!

nationwide supply and demand performance for a 15-year period.

Average Room Rates (ARRs) too have shown promise as the nationwide numbers appreciated by 2.4% in 2016/17 over last fiscal and were the highest in four years. Though this increase was expected to occur, the degree to which rates have grown continues to be marginal. We have been analysing the average rate movement closely for the past several editions of this publication and have commented at length about the sector's inability to move the needle on the ARR front. We reiterate the need for recognising the fact that the demand-supply equation today as well as in the next 48-60 months is more than likely to present an opportunity for substantial average rate enhancement and, hotel operators that draft strategies to seize this occasion will have a clear advantage. Indeed, the planning for rate improvements must happen now and while some may choose to seek comfort in the fact that their rates are no longer declining, others will realise that a 2.4% nationwide increase in ARR is still sub-inflationary growth. Given the almost certain elevation of occupancy over the next few years, enhancing ARR significantly only makes business sense. We had mentioned last year that only 2.5% of India's branded supply averaged a year-round rate of more than US\$200. That number was at 3.1% in 2016/17. So, even though the needle is moving in the right direction, its pace could do with some improvement. India has some of the finest hotels in this part of the world – both in urban as well as leisure destinations; their inability to earn a net room rate that is commensurate to their product and service offering is unfortunate.

FIGURE 10: ROOM NIGHT DEMAND VS AVAILABLE ROOM NIGHTS (2002/03 – 2016/17)



* 2015/16 data has been modified to remove the performance of irrelevant supply
Source: HVS Research

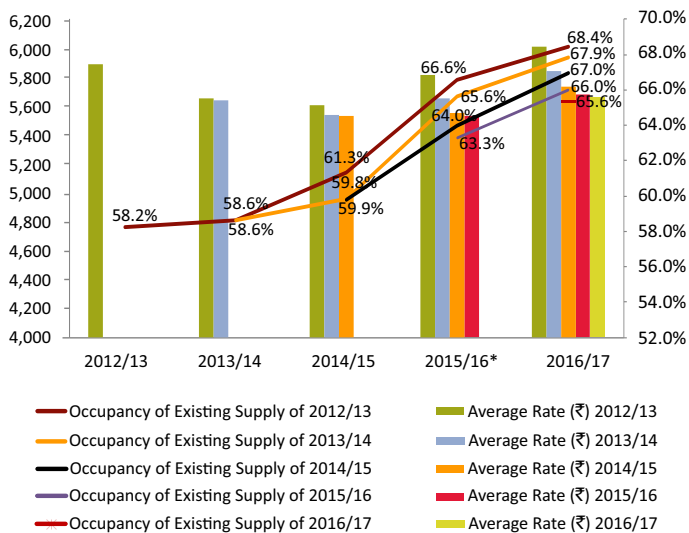
Keeping with what has now become tradition, we provide a more comprehensive analysis of the performance of existing supply vis-a-vis the performance of recently opened hotels over the past five-years in Figures 11 and 12 ahead. Figure 11 highlights the fact that although nationwide occupancy for all branded hotels was 65.6% in 2016/17, hotels that have existed since 2012/13 achieved 68.4% occupancy last year. Similarly, hotels that have been operating since 2013/14 clocked 67.9% occupancy in 2016/17. On the average rate front, while India's ARR was ₹5,658 in 2016/17, for hotels in existence since 2012/13, the ARR last year was more than ₹6,000.

Figure 12 provides the performance of only new hotels that have opened over the last five years. Despite the

fact that the first-year occupancy of hotels that opened in 2012/13 through 2014/15 were all in the mid-to-late thirties, do note that hotels that opened in 2015/16 averaged 42.7% and, new openings of 2016/17 averaged 45.9% occupancy in their very first year. Similarly, while first year ARRs were successively lower than their preceding years from 2012/13 to 2014/15, the ARRs for hotels that opened in 2015/16 and 2016/17 have seen an increase in comparison to their preceding years.

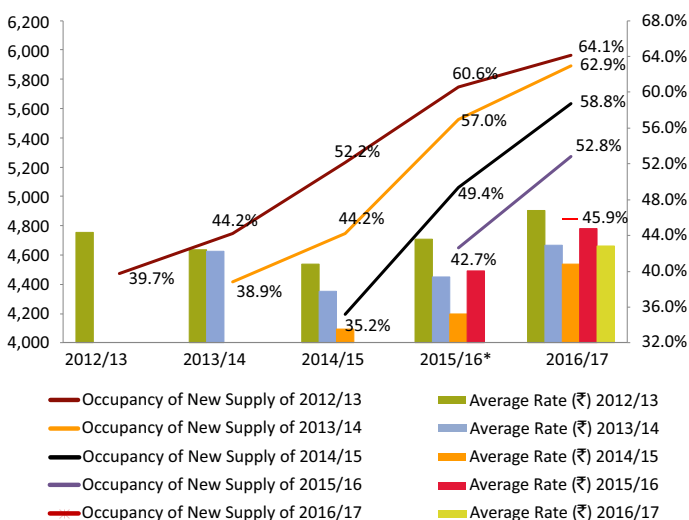
Both these figures, coupled with the demand-supply outlook for the next sixty-months (discussed later in this publication), further corroborate our view that most markets in India are at a point where both occupancy and ARRs can substantially improve. The question is whether the sector's stakeholders will truly manage to capitalise on the evident opportunity, or do we still need to live by the adage: **Up, Up and A-Wait for it?**

FIGURE 11: PERFORMANCE OF EXISTING HOTELS (2012/13 – 2016/17)



* The 2015/16 data has been modified to exclude the performance of irrelevant supply
Source: HVS Research

FIGURE 12: PERFORMANCE OF NEW HOTELS (2012/13 – 2016/17)



* The 2015/16 data has been modified to exclude the performance of irrelevant supply
Source: HVS Research

Survey Results

This report analyses the results of the annual Trends & Opportunities survey, offering an insight into the performance of the branded and organised hotel market in India. The historical data gathered has been arranged and interpreted based on star classification and 13 major hotel markets within the country. The existing supply has been reviewed, followed by an analysis of the future supply in each market based on positioning, proposed inventory and development timeline to estimate changes over the next five years.

Industry Performance According to Star Category

Nationwide occupancy crossed the 65% mark for the first time since 2007/08, with hotels clocking an overall weighted occupancy of 65.6% in 2016/17, an increase of 3.5% over the previous fiscal. The increase in occupancy was complimented with an increase of 2.4% in weighted average rate (₹5,658) during the same period. **The growth in both occupancy and average rate resulted in the nationwide RevPAR rising by 6.0% over the previous fiscal to reach ₹3,709.**

Figure 13 illustrates hotel occupancy across the star categories in India between 1997/98 and 2016/17. Figures 14 and 15 show average rates and RevPAR for each of the star categories expressed in Indian rupees, respectively, followed by Figures 16 and 17 that present the corresponding data in US dollars. Individually, each star category registered a year-on-year growth in RevPAR, with the Five-Star category displaying the highest increase of 8.5% over 2015/16. Following close behind were the Two-Star and Four-Star categories, recording RevPAR growth of 7.4% and 7.2%, respectively.

FIGURE 13: KEY OPERATING CHARACTERISTICS BY HOTEL CLASSIFICATION – OCCUPANCY

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16*	2016/17	12-Month** Change	Compounded Growth
Overall Average	57.1%	55.4%	53.9%	57.2%	51.6%	57.2%	64.8%	69.0%	71.5%	71.4%	68.8%	59.5%	59.5%	60.6%	59.3%	57.8%	58.4%	59.8%	63.3%	65.6%	3.5%	0.7%
Five-star Deluxe	62.0%	60.2%	58.3%	60.9%	52.2%	59.3%	65.0%	71.4%	73.8%	73.0%	71.7%	62.5%	61.6%	60.9%	59.8%	60.1%	59.9%	61.7%	64.3%	66.5%	3.4%	0.4%
Five-star	58.5%	56.4%	55.7%	56.1%	51.4%	57.0%	66.8%	71.1%	70.4%	70.2%	67.2%	58.5%	58.6%	61.9%	59.1%	55.4%	55.7%	57.2%	61.2%	64.6%	5.5%	0.5%
Four-star	58.2%	55.9%	53.2%	58.7%	52.7%	56.4%	68.7%	71.8%	72.7%	71.7%	68.9%	58.5%	60.3%	60.7%	60.0%	57.9%	59.1%	61.2%	64.2%	65.6%	2.2%	0.6%
Three-star	47.0%	48.2%	47.7%	48.8%	49.7%	53.6%	59.6%	56.7%	65.9%	68.9%	64.7%	56.2%	55.5%	58.5%	56.9%	56.8%	57.9%	59.8%	64.8%	66.5%	2.6%	1.8%
Two-star																					3.9%	-0.6%

FIGURE 14: KEY OPERATING CHARACTERISTICS BY HOTEL CLASSIFICATION – AVERAGE RATE (₹)

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16*	2016/17	12-Month** Change	Compounded Growth
Overall Average	3,986	3,903	3,505	3,731	3,467	3,269	3,569	4,299	5,444	7,071	7,989	7,722	6,489	6,513	6,032	5,779	5,611	5,532	5,527	5,658	2.4%	1.9%
Five-star Deluxe	5,613	5,572	4,910	5,102	4,668	4,335	4,686	5,606	7,168	9,778	11,200	11,096	9,277	9,350	9,189	8,982	8,727	8,815	8,881	9,098	2.4%	2.6%
Five-star	3,315	3,516	3,368	3,447	3,277	3,114	3,372	3,897	4,985	6,506	7,652	7,268	6,410	6,380	6,135	5,881	5,720	5,559	5,484	5,638	2.8%	2.8%
Four-star	2,538	2,296	2,168	2,392	2,368	2,246	2,580	3,088	3,847	5,111	5,722	5,745	4,638	4,905	4,905	4,691	4,474	4,361	4,424	4,639	4.9%	3.2%
Three-star	1,543	1,457	1,505	1,673	1,696	1,669	1,670	1,830	2,212	3,012	3,488	3,530	3,255	3,348	3,354	3,252	3,083	3,039	3,155	3,265	3.5%	4.0%
Two-star																					3.4%	5.1%

FIGURE 15: KEY OPERATING CHARACTERISTICS BY HOTEL CLASSIFICATION – REVPAR (₹)

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16*	2016/17	12-Month** Change	Compounded Growth
Overall Average	2,276	2,162	1,889	2,134	1,789	1,870	2,313	2,966	3,892	5,049	5,496	4,598	3,861	3,947	3,575	3,343	3,275	3,310	3,499	3,709	6.0%	2.6%
Five-star Deluxe	3,480	3,354	2,863	3,107	2,437	2,571	3,046	4,003	5,290	7,138	8,030	6,933	5,715	5,694	5,491	5,398	5,231	5,438	5,715	6,051	5.9%	3.0%
Five-star	1,939	1,983	1,876	1,934	1,684	1,775	2,252	2,771	3,509	4,567	5,142	4,250	3,756	3,949	3,626	3,257	3,185	3,178	3,355	3,640	8.5%	3.4%
Four-star	1,477	1,283	1,153	1,404	1,248	1,267	1,772	2,217	2,797	3,665	3,942	3,362	2,797	2,977	2,942	2,718	2,643	2,669	2,840	3,044	7.2%	3.9%
Three-star	725	702	718	816	843	895	995	1,038	1,458	2,075	2,257	1,985	1,806	1,959	1,909	1,848	1,786	1,817	2,044	2,170	6.2%	5.9%
Two-star																					7.4%	4.4%

* The 2015/16 data has been modified to exclude the performance of irrelevant supply

** Change in 2016/17 expressed as percentage of the figure for 2015/16

Source: HVS Research

FIGURE 16: KEY OPERATING CHARACTERISTICS BY HOTEL CLASSIFICATION – AVERAGE RATE (US\$)

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16*	2016/17	12-Month** Change	Compounded Growth
Overall Average	110	90	81	83	73	68	78	96	122	162	199	168	136	143	126	106	92	90	85	84	-0.8%	-1.4%
Five-star Deluxe	155	128	113	114	99	90	102	125	161	224	278	242	194	205	192	165	144	144	137	136	-0.7%	-0.7%
Five-star	91	79	77	77	69	65	73	87	112	149	190	158	134	140	128	108	94	91	84	84	-0.3%	-0.4%
Four-star	70	61	50	53	50	47	56	69	86	117	142	125	97	108	102	86	74	71	68	69	1.6%	-0.1%
Three-star	43	37	35	37	36	35	36	41	50	69	87	77	68	73	70	60	51	50	49	49	0.3%	0.7%
Two-star															36	34	34	34	33	33	0.2%	-1.8%
Exchange Rate	36.3	42.2	43.5	44.9	47.2	48.2	46.0	44.9	44.5	43.6	40.2	45.9	47.7	45.6	48.0	54.5	60.7	61.2	65.0	67.1		

FIGURE 17: KEY OPERATING CHARACTERISTICS BY HOTEL CLASSIFICATION – REVPAR (US\$)

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16*	2016/17	12-Month** Change	Compounded Growth
Overall Average	63	50	43	48	38	39	50	66	87	116	137	100	81	87	75	61	54	54	54	55	2.7%	-0.7%
Five-star Deluxe	96	77	66	69	52	53	66	89	119	164	200	151	120	125	114	99	87	89	88	90	2.6%	-0.3%
Five-star	53	44	43	43	36	37	49	62	79	105	128	93	79	87	76	60	53	52	52	54	5.2%	0.1%
Four-star	41	34	27	31	26	26	39	49	63	84	98	73	59	65	61	50	43	44	44	45	3.9%	0.6%
Three-star	20	18	16	18	18	19	22	23	33	48	56	43	38	43	40	34	29	30	31	32	2.9%	2.6%
Two-star															23	20	21	19	20	21	4.1%	-2.4%
Exchange Rate	36.3	42.2	43.5	44.9	47.2	48.2	46.0	44.9	44.5	43.6	40.2	45.9	47.7	45.6	48.0	54.5	60.7	61.2	65.0	67.1		

* The 2015/16 data has been modified to exclude the performance of irrelevant supply

** Change in 2016/17 expressed as percentage of the figure for 2015/16

Source: HVS Research

Existing Supply – 2016/17

The fiscal year 2016/17 saw the existing rooms supply grow by 6.8% over the previous year, resulting in the nationwide existing supply totaling 1,19,219 rooms. **This takes into account 6,289 new openings during the year, while the remaining are expansions of the sample set being tracked by HVS.** Furthermore, the change in the data for 2015/16 can be attributed to the removal of unorganised supply by us in an effort to display only quality branded supply.

We would like to highlight that Kolkata saw the highest growth in supply (18.4%) last year, adding to its relatively small base of hotels, when compared to other cities. Goa and Chennai recorded the second- and third-highest growth in supply at 14.8% and 9.8%, respectively.

In absolute terms, New Delhi continues to have the largest base of hotel rooms (14,296), followed by Mumbai (including Navi Mumbai) and Bengaluru, with 13,494 and 11,995 rooms, respectively. NOIDA (including Greater NOIDA) maintains its position as the smallest major hotel market in India with 1,422 rooms despite an increase of 7.6% in supply in 2016/17.

Figure 18 shows the existing supply for the 13 major cities from 2007/08 to 2016/17 and Figure 19 presents the total operating inventory for the 20 largest hotel brands in the country as of August 2017.

With the merger of Marriott International and Starwood Hotels and Resorts, Marriott has outpaced Taj Hotels Palaces Resorts Safaris (including Ginger) to claim the number one rank of the largest inventory in the country. Consequently, Carlson Rezidor Hotel Group slipped to third place, while AccorHotels has surpassed ITC Hotels (including Fortune) to occupy the fourth position this year. Oberoi Hotels & Resorts remains at the 10th position, despite the closure of The Oberoi New Delhi for renovation. Meanwhile, Lemon Tree Hotels has moved up to the 8th rank, overtaking Sarovar Hotels & Resorts, and Royal Orchid Hotels has inched up to the 11th position from its previously 15th rank. Choice Hotels, once again, has resumed a spot in this list of 20, surpassing ITDC and The Pride Group of Hotels to occupy the 18th position.

In India, demand is not a problem. While the branded supply has almost doubled from 2009/10 to 2016/17, the growth in demand has kept pace with (if not overtaken) the growth in supply. This strengthens our belief that there is still unaccommodated demand, at least in Tier II and Tier III Indian cities, which is

currently being tapped by the unbranded/unorganised inventory.

Going forward, brands must be cognizant of the markets they are entering. Over the past few years, due to the surge in domestic tourism, hotel companies have shifted their focus toward budget and mid market positioned hotels in Tier II and Tier III cities to cater to the lower paying domestic traveler and to capture the previously untapped demand that exists in these cities.

Future Supply

Given the dynamic nature of the hospitality industry and the ever-changing proposed supply landscape, it is impossible to determine with absolute certainty the exact timeline for hotel openings. There are a number of external forces which can delay projects for various reasons. Over the years, HVS has followed a cautious and comprehensive approach for tracking new hotel developments that are likely to enter markets over the next five years. The information, that is systematically

FIGURE 18: EXISTING SUPPLY ACROSS MAJOR CITIES (2007/08 – 2016/17)

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16**	2016/17	12-Month* Change	Compounded Growth
Agra	1,336	1,419	1,439	1,439	1,739	1,299	1,293	1,755	2,036	2,092	2.8%	5.1%
Ahmedabad	675	800	1,521	1,785	1,975	2,477	2,777	2,944	3,054	3,117	2.1%	18.5%
Bengaluru	3,456	3,889	5,597	5,947	7,713	8,536	10,162	11,117	11,539	11,995	4.0%	14.8%
Chennai	2,826	3,307	3,806	4,066	4,904	6,330	7,105	7,444	7,585	8,332	9.8%	12.8%
New Delhi***	9,019	8,625	8,129	9,111	10,697	11,338	12,370	13,193	14,142	14,296	1.1%	5.3%
Gurugram			1,980	3,246	3,782	4,559	5,190	5,323	5,117	5,263	2.9%	15.0%
NOIDA			300	351	527	841	1,239	1,322	1,322	1,422	7.6%	24.9%
Goa	2,768	2,795	3,288	3,375	3,885	4,406	4,703	5,298	5,574	6,400	14.8%	9.8%
Hyderabad	2,554	2,761	3,782	4,036	4,797	5,411	5,734	5,954	5,992	6,254	4.4%	10.5%
Jaipur	1,556	1,683	2,472	2,554	3,054	4,129	4,523	4,822	4,931	5,058	2.6%	14.0%
Kolkata	1,396	1,373	1,520	1,588	1,787	2,163	2,243	2,701	2,701	3,199	18.4%	9.7%
Mumbai	8,454	7,948	9,877	11,303	12,052	12,807	13,022	12,865	13,054	13,494	3.4%	5.3%
Pune	1,346	1,518	2,672	4,691	5,672	5,317	6,159	6,137	6,108	6,445	5.5%	19.0%
Other Cities****	11,596	12,357	15,412	18,039	21,729	24,642	24,657	26,820	28,445	31,852	12.0%	11.9%
Total	46,982	48,475	61,795	71,531	84,313	94,255	1,01,177	1,07,695	1,11,600	1,19,219	6.8%	10.9%

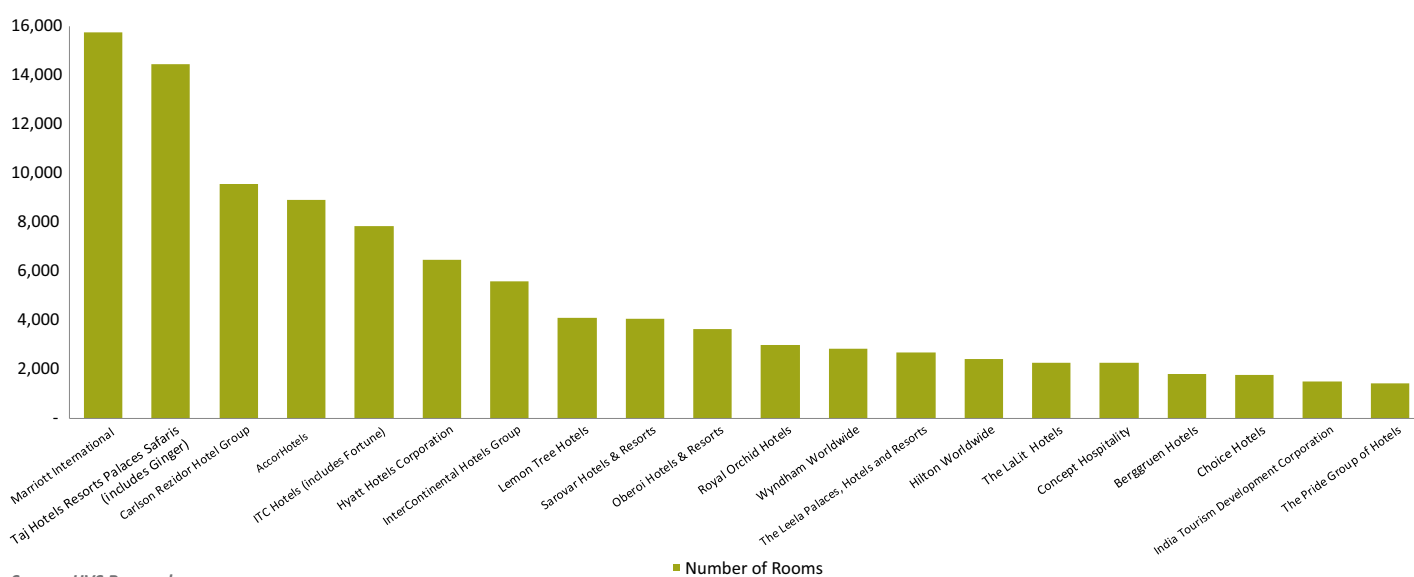
* Change in 2016/17 expressed as percentage of the figure for 2015/16

** Supply tracked in 2015/16 has been modified due to the removal of irrelevant supply

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

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

FIGURE 19: TOP 20 HOTEL BRANDS BY EXISTING INVENTORY (AUGUST 2017)



Source: HVS Research

gathered throughout the year as well as via the annual Trends & Opportunities survey, is sifted through with a fine-toothed comb. Firstly, we omit any flippant statements made to the media, or announcements made by real estate developers or owners to promote their brand and garner 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. A considerable amount of time and effort is employed for assessing the probability of completion of each individual project. They are analysed rationally, through the prism of an unbiased third party, to arrive at the probability factor of their development within the next five years.

Similar 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 supply has been included. The inactive supply, even if announced or signed, has been removed from the five-year horizon if it is known to be delayed or abandoned.

The proposed supply pipeline has reduced significantly from 2007/08, when it was at its peak (1,14,466 rooms). In 2016/17, the number stands at 47,067, a decrease of approximately 10,000 rooms from 2015/16. The increase in existing supply, coupled with the decline in proposed supply is indicative of a substantial number of previously announced rooms having entered the market in the last fiscal.

In Figure 21, we present the existing and proposed

supply in each of the 13 major markets and the 'other cities' tracked in this report. Subsequently, we have indicated the percentage of the pipeline that constitutes Active Development – rooms that recently opened, are currently under construction, or likely to enter the market within the next five years. For potential investors, the Active Development column requires scrupulous consideration, since it reflects the actual progress of hotel development in the market. Figure 23 reflects the growth over a five-year period by quantifying the number of hotel rooms currently under construction or those that HVS is confident will open by March 2022. **The overall Active Development ratio has witnessed a decline from 66% in 2015/16 to 64% in 2016/17.** Today, investors are keener on investing in brownfield projects, or existing and operational assets in comparison to greenfield projects due to the lower risks involved. In fact, there are several projects, which were actively under construction for a few years, but have been lying inactive thereafter due to the owner or developer running out of funds. Some of these, however, have now recommenced construction. Lastly, this ratio also accounts for recently opened hotels (about 17%) that are too young to be included in the existing supply.

We have further classified the new supply as per its potential positioning mix, encompassing the luxury, upscale, mid market, budget and extended stay segments. The mid market segment continues to dominate the new supply pipeline accounting for 44.1% of the proposed rooms. Also, the luxury segment, which for the past few years consistently

FIGURE 20: PROPOSED BRANDED HOTEL ROOMS ACROSS MAJOR CITIES (2016/17 – 2021/22)

	Existing Supply 2016/17	Proposed Supply*	Increase in Future Supply	Active Development of Supply	Luxury	Upscale	Mid Market	Budget	Extended Stay
Agra	2,092	754	36%	34%	33.2%	39.4%	13.3%	14.2%	0.0%
Ahmedabad	3,117	1,345	43%	47%	22.8%	14.9%	37.6%	11.3%	13.4%
Bengaluru	11,995	4,418	37%	72%	11.7%	30.3%	22.5%	23.2%	12.3%
Chennai	8,332	1,767	21%	94%	0.0%	6.6%	47.0%	31.1%	15.2%
New Delhi	14,296	1,715	12%	62%	12.7%	14.4%	38.8%	25.6%	8.5%
Gurugram	5,263	1,743	33%	23%	0.0%	32.5%	29.4%	18.9%	19.2%
NOIDA	1,422	1,043	73%	18%	24.4%	12.5%	35.7%	9.2%	18.2%
Goa	6,400	2,870	45%	48%	5.2%	28.6%	45.8%	20.4%	0.0%
Hyderabad	6,254	1,475	24%	89%	30.2%	0.0%	27.8%	30.0%	12.0%
Jaipur	5,058	1,713	34%	51%	0.0%	55.3%	44.7%	0.0%	0.0%
Kolkata	3,199	2,194	69%	64%	22.3%	33.7%	16.0%	27.9%	0.0%
Mumbai	13,494	3,680	27%	37%	25.8%	1.1%	46.9%	26.2%	0.0%
Pune	6,445	1,308	20%	47%	15.1%	41.3%	17.2%	26.4%	0.0%
Other Cities	31,852	21,042	66%	75%	1.2%	14.3%	56.9%	25.3%	2.2%
Total	1,19,219	47,067	39%	64%	8.5%	19.1%	44.1%	23.3%	4.9%

* Proposed Supply includes 5,197 rooms which have been open for less than six months, and therefore, not included in the existing supply
Source: HVS Research

FIGURE 21: DISTRIBUTION OF EXISTING AND PROPOSED BRANDED HOTEL ROOMS ACROSS MAJOR CITIES (2007/08 – 2016/17)

	Existing Supply							Proposed Supply							Active Development of Supply																
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	
Agra	1,336	1,419	1,439	1,439	1,739	1,299	1,293	1,755	2,036	2,092	670	400	510	667	650	866	990	503	622	754	55%	75%	41%	22%	80%	76%	82%	43%	28%	34%	
Ahmedabad	675	800	1,521	1,785	1,975	2,477	2,777	2,944	3,054	3,117	3,664	3,058	2,339	2,319	2,550	1,857	1,372	1,026	1,238	1,345	47%	71%	69%	73%	69%	66%	86%	64%	71%	47%	
Bengaluru	3,456	3,889	5,597	5,947	7,713	8,536	10,162	11,117	11,539	11,995	15,542	10,784	9,819	12,509	9,716	10,731	6,911	5,317	5,209	4,418	60%	58%	65%	67%	71%	75%	66%	52%	67%	72%	
Chennai	2,826	3,307	3,806	4,066	4,904	6,330	7,105	7,444	7,585	8,332	7,147	4,945	5,995	7,819	7,547	5,331	3,885	3,311	2,312	1,767	71%	67%	72%	57%	58%	65%	80%	83%	100%	94%	
New Delhi	9,019	8,625	8,129	9,111	10,697	11,338	12,370	13,193	14,142	14,296	22,360	16,560	20,021	18,608	5,626	6,144	5,355	2,502	2,792	1,715	51%	53%	75%	75%	87%	84%	71%	87%	92%	62%	
Gurugram	1,980	3,246	3,782	4,559	5,190	5,323	5,117	5,263			5,818	5,033	3,268	2,084	1,959	1,743															
NOIDA	1,396	1,373	1,520	1,588	1,787	2,163	2,243	2,701	2,701	3,199	5,965	4,025	3,481	3,612	3,118	3,511	2,584	2,870	3,209	2,194	49%	62%	51%	58%	74%	64%	72%	70%	64%	64%	
Goa	2,768	2,795	3,288	3,375	3,885	4,406	4,703	5,298	5,574	6,400	3,353	2,178	1,736	2,154	2,422	2,622	2,291	1,743	2,062	2,870	42%	31%	41%	53%	53%	62%	68%	50%	90%	48%	
Hyderabad	2,554	2,761	3,782	4,036	4,797	5,411	5,734	5,954	5,992	6,254	8,250	5,884	5,302	5,713	5,265	3,433	2,893	2,474	2,464	1,475	64%	73%	63%	77%	74%	87%	78%	61%	32%	89%	
Jaipur	1,556	1,683	2,472	2,554	3,054	4,129	4,523	4,822	4,931	5,058	2,937	3,357	2,664	4,867	3,356	2,859	1,706	1,119	960	1,713	53%	53%	77%	45%	52%	56%	82%	92%	89%	51%	
Kolkata	1,346	1,518	2,672	4,691	5,672	5,317	6,159	6,137	6,108	6,445	5,965	4,025	3,481	3,612	3,118	3,511	2,584	2,870	3,209	2,194	62%	73%	60%	35%	47%	42%	49%	33%	39%	37%	
Mumbai	8,454	7,948	9,877	11,303	12,052	12,807	13,022	12,865	13,054	13,494	10,613	13,386	7,477	12,121	10,896	9,802	7,896	5,561	4,166	3,680	66%	52%	67%	56%	69%	67%	72%	64%	73%	47%	
Pune	1,1596	12,357	15,412	18,039	21,729	24,642	24,657	26,820	28,445	31,852	8,243	8,054	5,196	5,545	4,645	3,705	2,620	2,005	1,965	1,308	60%	60%	65%	56%	48%	55%	71%	70%	71%	75%	
Other Cities	46,982	48,475	61,795	71,531	84,313	94,255	1,01,177	1,07,695	1,11,600	1,19,219	1,14,466	94,115	89,449	1,02,438	93,355	84,650	68,050	56,270	56,912	47,067	58%	60%	67%	60%	58%	60%	69%	61%	66%	64%	

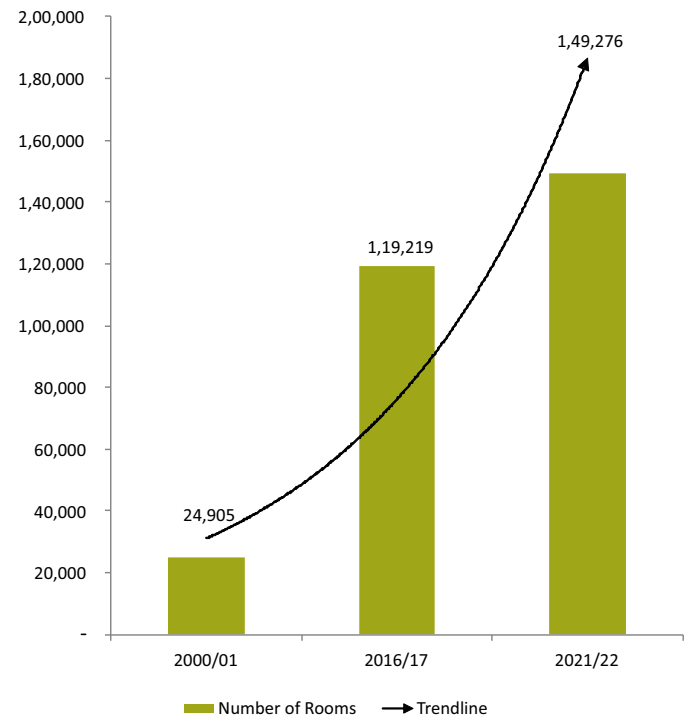
* Delhi NCR (Shaded Portion), rest New Delhi (excluding Gurugram, NOIDA and Greater NOIDA) data
Source: HVS Research

represented about 6.5% of the proposed supply, has now shown an increase for the first time since 2013/14.

Analysing the year-on-year growth in potential supply across the 13 markets, we observe that NOIDA (including Greater NOIDA) and Kolkata continue to showcase the highest anticipated increase in supply, largely due to their small base of rooms. In absolute terms, Bengaluru, followed by Mumbai, are anticipated to have the highest number of rooms added to their existing inventories in the five-year horizon.

Figure 22 depicts the growth of room supply across India over a 20-year period.

FIGURE 22: GROWTH OF ROOM SUPPLY – INDIA (2000/01 – 2021/22)

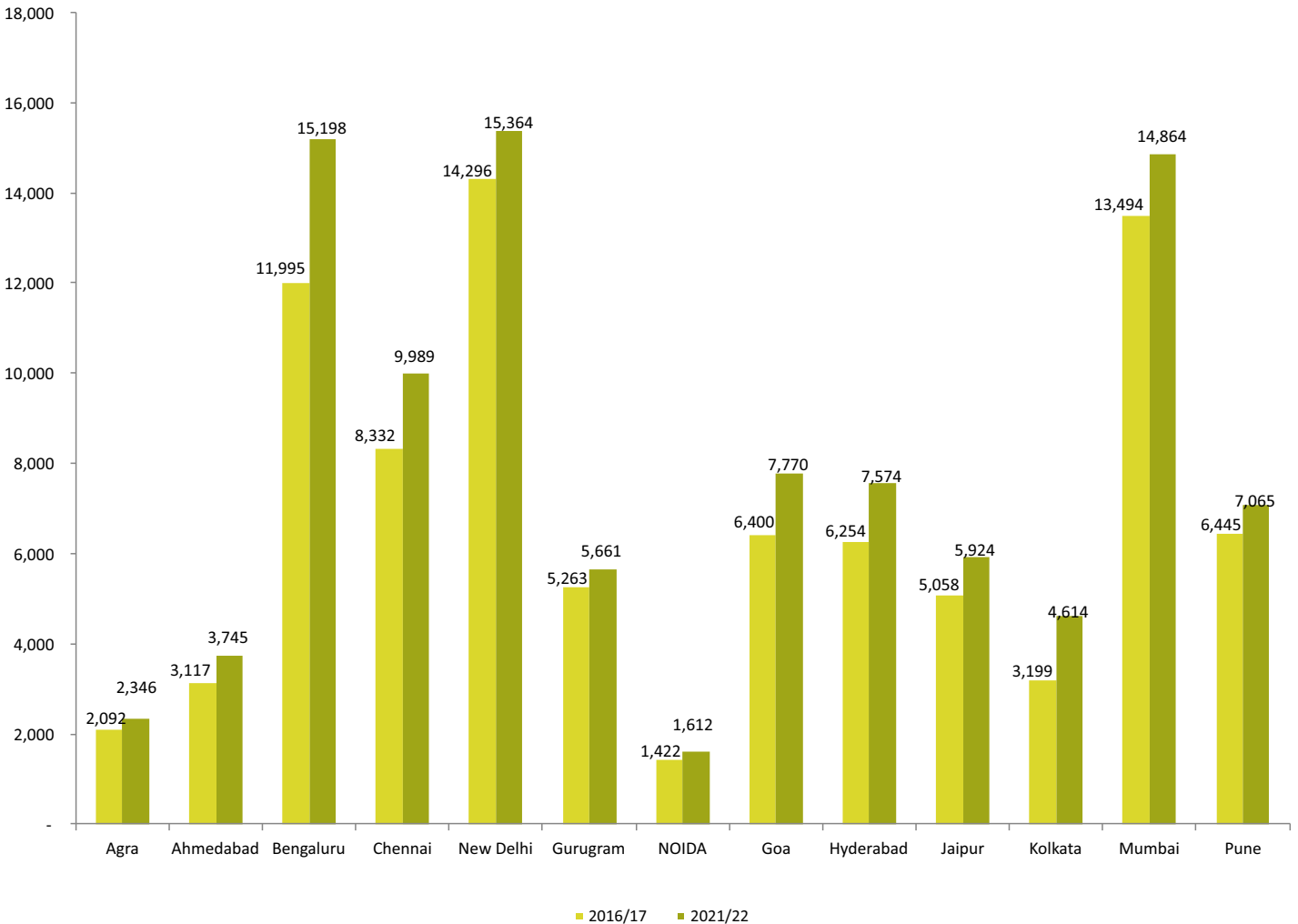


Source: HVS Research

As highlighted earlier, the active development of supply in India saw a slight decline in 2016/17 when compared to 2015/16. We anticipate a little over 30,000 branded hotel rooms to be developed over the following five years, taking the total anticipated branded supply to 1,49,276 rooms by 2021/22. Figure 22 illustrates the growth in hotel room supply from 2000/01 to 2016/17, and anticipated existing supply in 2021/22.

The highest percentages of supply actively under development are in Chennai (94%), followed by Hyderabad (89%) and Bengaluru (72%).

FIGURE 23: PROPOSED BRANDED HOTEL ROOMS ACROSS MAJOR CITIES (2016/17 – 2021/22*)



* The supply for 2021/22 has been computed by adding the active future supply to the existing base of rooms in 2016/17
 Source: HVS Research

Industry Performance by Major Cities

As expected, in the second year of the up-cycle, all major markets tracked in this report witnessed an increase in RevPAR in 2016/17 except for Agra. Interesting to note, NOIDA (including Greater NOIDA) saw the highest year-on-year growth in RevPAR (16.0%), followed by Hyderabad (11.4%) and Ahmedabad (10.7%).

Mumbai continues to lead in terms of both occupancy (74.2%) and average rate (₹7,693) for the third year running. NOIDA displayed the lowest occupancy (56.9%), and Ahmedabad, the lowest average rate (₹3,840).

All 13 hotel markets depicted an increase in occupancy leaving Pune (-0.7%), even as some markets saw a lower growth (Bengaluru and Mumbai at 0.4% and 0.6%, respectively) compared to others (Ahmedabad

and NOIDA at 12.0% and 11.7%, respectively).

In 2016/17, only two cities showed a decline in average rates - Agra, which witnessed a steep decline of 8.9% over 2015/16 and, Ahmedabad, which witnessed a minor decline of 1.1%. Goa registered the highest year-on-year increase of 7.3% in average rate, followed by Pune (5.7%).

Figure 24 illustrates hotel occupancy for the 13 key cities tracked in this report between 1997/98 and 2016/17. Figures 25 and 26 highlight average rates and RevPAR for each of these hotel markets expressed in Indian rupees, followed by Figures 27 and 28, that present corresponding data in US dollars.

FIGURE 24: KEY OPERATING CHARACTERISTICS BY MAJOR CITIES – OCCUPANCY

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16*	2016/17	12-Month** Change	Compounded Growth		
Agra	46.1%	46.4%	40.1%	42.5%	33.7%	30.7%	50.0%	57.1%	56.0%	58.9%	58.3%	52.4%	55.9%	60.2%	57.1%	58.9%	60.4%	61.5%	57.7%	61.2%	61.1%	6.1%	1.5%	
Ahmedabad	71.8%	58.0%	50.8%	55.8%	53.2%	53.8%	63.2%	68.3%	69.1%	67.9%	73.3%	61.2%	58.2%	54.3%	59.9%	53.7%	52.7%	53.9%	55.6%	62.3%	62.0%	12.0%	-0.7%	
Bengaluru	61.2%	59.0%	64.4%	69.8%	64.3%	72.0%	78.5%	81.4%	76.7%	72.5%	65.3%	54.6%	53.2%	58.4%	56.6%	55.6%	57.7%	58.1%	65.7%	65.9%	65.9%	0.4%	0.4%	
Chennai	68.4%	64.7%	65.3%	64.6%	56.5%	58.3%	66.6%	72.9%	78.2%	74.7%	72.8%	63.1%	62.1%	67.2%	65.7%	60.0%	55.4%	58.9%	62.7%	65.4%	62.7%	4.3%	-0.2%	
New Delhi^a	60.2%	54.1%	52.9%	58.9%	53.3%	60.4%	73.1%	79.1%	80.8%	76.9%	73.9%	67.3%	68.3%	68.7%	63.8%	61.7%	60.9%	61.7%	66.7%	70.3%	66.6%	5.5%	0.8%	
Gurugram													66.0%	66.5%	62.0%	58.0%	58.8%	61.1%	63.7%	66.6%	66.6%	4.5%	0.1%	
NOIDA^b													74.0%	80.7%	56.2%	44.4%	53.5%	48.0%	51.0%	56.9%	11.7%	11.7%	-3.7%	
Goa	59.2%	58.6%	53.3%	60.6%	53.6%	60.5%	59.3%	62.5%	67.8%	72.8%	72.2%	61.1%	65.1%	67.7%	68.5%	68.9%	68.7%	70.2%	72.3%	72.3%	3.0%	3.0%	1.1%	
Hyderabad	53.4%	66.0%	61.3%	69.1%	68.0%	68.9%	75.9%	78.7%	82.0%	72.1%	65.7%	55.8%	53.3%	57.1%	54.0%	49.3%	51.7%	59.3%	57.1%	63.6%	72.3%	7.2%	0.9%	
Jaipur	51.7%	45.6%	47.0%	55.0%	48.3%	44.9%	58.8%	67.2%	65.7%	64.7%	54.1%	57.3%	57.7%	57.7%	55.2%	54.7%	54.3%	54.5%	60.8%	65.0%	6.9%	6.9%	1.2%	
Kolkata	61.8%	57.8%	54.8%	62.9%	66.4%	65.4%	62.8%	69.0%	76.4%	75.5%	73.9%	69.5%	68.3%	70.0%	71.5%	70.2%	67.8%	69.3%	70.2%	70.2%	1.4%	1.4%	0.7%	
Mumbai^c	65.3%	67.6%	64.5%	64.6%	52.0%	63.4%	69.7%	72.0%	76.2%	77.9%	74.6%	60.6%	62.5%	62.4%	63.7%	64.3%	67.0%	71.8%	73.7%	74.2%	0.6%	0.7%	0.7%	
Pune	71.0%	68.9%	86.4%	83.1%	83.4%	83.4%	83.4%	83.4%	83.4%	83.4%	83.4%	83.4%	83.4%	83.4%	83.4%	83.4%	83.4%	83.4%	83.4%	83.4%	83.4%	83.4%	83.4%	-0.6%

FIGURE 25: KEY OPERATING CHARACTERISTICS BY MAJOR CITIES – AVERAGE RATE (₹)

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16*	2016/17	12-Month** Change	Compounded Growth	
Agra	2,027	1,906	1,638	1,586	1,840	1,954	2,431	3,012	3,622	4,715	5,262	5,322	5,773	6,243	5,958	6,126	6,338	6,488	6,083	5,541	5,541	-8.9%	5.4%
Ahmedabad	1,833	2,220	2,705	2,736	2,354	2,164	2,410	2,787	3,111	3,526	4,351	4,754	4,540	4,285	3,917	3,904	3,734	3,753	3,884	3,840	3,840	-1.1%	4.0%
Bengaluru	3,451	3,254	3,025	3,602	3,735	3,752	4,832	7,470	8,762	10,406	9,827	9,495	6,597	6,776	6,293	5,960	5,379	5,368	5,392	5,596	5,596	3.8%	2.6%
Chennai	3,977	3,600	3,424	3,796	3,535	3,224	3,323	3,714	4,357	5,378	6,340	6,677	5,710	5,632	5,524	5,440	5,050	4,825	4,767	4,785	4,785	0.4%	1.0%
New Delhi^a	4,913	4,626	4,115	4,526	4,338	4,089	4,269	5,103	6,909	9,192	10,429	9,811	8,834	8,634	8,174	7,387	6,941	6,568	6,211	6,332	6,332	1.9%	1.3%
Gurugram													8,247	7,554	7,639	6,831	6,569	6,241	6,253	6,404	6,404	2.4%	-3.5%
NOIDA^b													7,496	7,752	7,416	6,724	5,964	5,429	5,484	5,484	5,484	3.9%	-4.4%
Goa	2,754	2,863	2,727	2,914	2,676	2,541	2,774	3,772	4,870	5,962	6,271	6,255	5,613	6,056	6,162	6,513	6,692	6,819	7,020	7,534	7,534	7.3%	6.4%
Hyderabad	1,646	1,579	1,867	2,316	2,414	2,928	3,461	4,407	5,285	5,664	5,982	6,417	5,146	5,173	5,026	4,854	4,556	4,535	4,741	4,927	4,927	3.9%	5.9%
Jaipur	2,473	2,533	2,514	2,902	2,949	2,917	3,021	3,240	3,887	5,288	6,575	6,686	6,087	6,408	6,049	6,093	5,739	5,734	5,607	5,818	5,818	3.8%	3.6%
Kolkata	3,951	3,888	3,557	3,698	3,409	4,184	4,356	4,822	6,041	8,738	10,932	10,679	8,428	8,194	7,923	7,550	7,158	7,230	7,353	7,693	7,693	4.6%	1.2%
Mumbai^c	6,169	6,297	5,661	5,555	4,932	2,603	2,805	3,521	4,915	6,523	7,946	7,493	5,810	4,949	4,163	3,861	3,908	3,846	3,922	4,147	4,147	5.7%	3.4%

FIGURE 26: KEY OPERATING CHARACTERISTICS BY MAJOR CITIES – REVPAR (₹)

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16*	2016/17	12-Month** Change	Compounded Growth		
Agra	934	884	657	674	620	600	1,216	1,720	2,028	2,777	3,068	2,790	3,227	3,758	3,400	3,605	3,827	3,988	3,510	3,393	3,393	-3.3%	7.0%	
Ahmedabad	1,316	1,288	1,374	1,527	1,252	1,164	1,523	1,904	2,150	2,394	3,189	2,908	2,642	2,327	2,347	2,098	1,967	2,024	2,159	2,390	2,390	10.7%	3.2%	
Bengaluru	2,112	1,920	1,948	2,514	2,402	2,701	3,793	6,081	6,720	7,544	6,417	5,181	3,509	3,957	3,562	3,314	3,104	3,117	3,540	3,689	3,689	4.2%	3.0%	
Chennai	2,720	2,329	2,236	2,452	1,997	1,880	2,213	2,708	3,407	4,017	4,616	4,210	3,546	3,785	3,629	3,263	2,795	2,844	2,990	3,130	3,130	4.7%	0.7%	
New Delhi^a	2,958	2,503	2,177	2,666	2,312	2,470	3,121	4,036	5,582	7,069	7,707	6,600	6,034	5,932	5,212	4,561	4,225	4,052	4,140	4,451	4,451	7.5%	2.2%	
Gurugram													5,443	5,023	4,736	3,958	3,861	3,815	3,986	4,264	4,264	7.0%	-3.4%	
NOIDA^b													5,547	6,256	4,164	2,985	3,193	2,604	2,692	3,123	3,123	16.0%	-7.9%	
Goa	1,363	1,678	1,453	1,766	1,434	1,666	1,830	2,491	3,257	4,223	4,516	3,829	3,654	4,100	4,220	4,488	4,601	4,752	4,928	5,449	5,449	10.6%	7.6%	
Hyderabad	879	1,042	1,144	1,600	1,642	1,751	2,105	2,969	3,993	4,299	4,120	3,515	2,743	2,954	2,714	2,394	2,354	2,589	2,812	3,133	3,133	11.4%	6.9%	
Jaipur	1,279	1,155	1,182	1,596	1,424	1,225	1,752	2,326	2,895	3,462	3,665	3,234	2,601	2,722	2,609	2,649	2,575	2,586	2,872	3,143	3,143	9.4%	4.8%	
Kolkata	2,442	2,247	1,949	2,326	2,264	1,908	1,897	2,236	2,970	3,992	4,859	4,648	4,108	4,377	4,232	4,356	4,031	3,889	3,885	4,085	4,085	5.2%	2.7%	
Mumbai^c	4,028	4,257	3,651	3,589	2,565	2,653	3,036	3,472	4,603	6,807	8,155	6,473	5,268	5,113	5,050	4,856	4,795	5,194	5,420	5,705	5,705	5.3%	1.8%	
Pune																							5.0%	2.7%

* The 2015/16 data has been modified to exclude the performance of irrelevant supply

** Change in 2016/17 expressed as percentage of the figure for 2015/16

^a Delhi NCR data (Shaded Portion), rest New Delhi (excluding Gurugram, NOIDA and Greater NOIDA) data

^b NOIDA data includes Greater NOIDA

^c Mumbai data includes Navi Mumbai

Source: HVS Research

FIGURE 27: KEY OPERATING CHARACTERISTICS BY MAJOR CITIES – AVERAGE RATES (US\$)

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16*	2016/17	12-Month** Change	Compounded Growth
Agra	56	50	38	35	39	41	53	67	81	108	131	116	121	137	124	112	104	106	94	83	-11.7%	2.1%
Ahmedabad	50	53	62	61	50	45	52	62	70	81	108	104	95	94	82	72	62	61	60	57	-4.2%	0.7%
Bengaluru	95	81	70	80	79	78	105	166	197	239	244	207	138	149	131	109	89	88	83	83	0.6%	-0.7%
Chennai	110	89	79	85	75	67	72	83	98	123	158	145	120	124	115	100	83	79	73	71	-2.7%	-2.3%
New Delhi ^a	135	111	95	101	92	85	93	114	155	211	259	214	185	189	170	136	114	107	96	94	-1.2%	-1.9%
Gurugram													173	166	159	125	108	102	96	95	-0.7%	-8.1%
NOIDA ^b													157	170	155	123	98	89	81	82	0.7%	-8.9%
Goa	63	73	63	65	57	57	67	89	108	133	155	137	118	133	128	120	110	112	108	112	4.0%	3.1%
Hyderabad	45	39	43	52	51	53	60	84	109	137	156	137	108	114	105	89	75	74	73	73	0.7%	2.6%
Jaipur	68	62	45	65	62	57	65	77	99	121	141	130	95	104	99	89	78	78	73	72	-0.7%	0.3%
Kolkata	109	88	82	82	72	61	66	72	87	121	163	146	128	141	126	112	95	94	86	87	0.6%	-1.2%
Mumbai ^c	170	138	130	124	104	87	95	107	136	200	272	233	177	180	165	139	118	118	113	115	1.4%	-2.1%
Pune						54	61	78	110	150	197	163	122	109	87	71	64	63	60	62	2.5%	1.0%
Exchange Rate	36.3	42.2	43.5	44.9	47.2	48.2	46.0	44.9	44.5	43.6	40.2	45.9	47.7	45.6	48.0	54.5	60.7	61.2	65.0	67.1		

FIGURE 28: KEY OPERATING CHARACTERISTICS BY MAJOR CITIES – REVPAR (US\$)

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16*	2016/17	12-Month** Change	Compounded Growth
Agra	26	23	15	15	13	13	27	38	45	64	76	61	68	82	71	66	62	65	54	51	-6.3%	3.6%
Ahmedabad	36	31	31	34	27	24	33	42	48	55	79	64	55	51	49	39	33	33	33	36	7.3%	0.0%
Bengaluru	58	48	45	56	51	56	82	135	151	173	159	113	74	87	74	61	51	51	54	55	1.0%	-0.3%
Chennai	75	58	52	55	42	39	48	61	77	92	115	91	74	83	76	60	46	47	46	47	1.5%	-2.5%
New Delhi ^a	81	60	50	59	49	51	68	90	125	162	192	144	126	130	109	84	70	66	64	66	4.2%	-1.1%
Gurugram													114	110	99	73	64	62	61	64	3.7%	-8.0%
NOIDA ^b													116	137	87	55	53	43	41	47	12.4%	-12.3%
Goa	37	43	34	39	31	34	40	56	73	97	112	84	77	90	88	82	76	78	76	81	7.2%	4.2%
Hyderabad	24	26	26	36	35	37	46	66	89	99	102	76	58	65	57	44	39	42	43	47	8.0%	3.6%
Jaipur	35	28	21	36	30	26	38	52	65	79	91	70	55	60	54	49	42	42	44	47	6.1%	1.5%
Kolkata	67	51	45	52	48	40	41	50	66	91	121	101	86	96	88	80	66	64	60	61	1.9%	-0.5%
Mumbai ^c	111	93	84	80	54	55	66	77	104	156	203	141	110	112	105	89	79	85	83	85	2.0%	-1.4%
Pune						38	42	67	91	125	137	101	62	51	45	41	37	39	40	40	1.8%	0.4%
Exchange Rate	36.3	42.2	43.5	44.9	47.2	48.2	46.0	44.9	44.5	43.6	40.2	45.9	47.7	45.6	48.0	54.5	60.7	61.2	65.0	67.1		

* The 2015/16 data has been modified to exclude the performance of irrelevant supply

** Change in 2016/17 expressed as percentage of the figure for 2015/16

^a Delhi NCR data (Shaded Portion), rest New Delhi (excluding Gurugram, NOIDA and Greater NOIDA) data

^b NOIDA data includes Greater NOIDA

^c Mumbai data includes Navi Mumbai

Source: HVS Research

City Trends

Agra witnessed a decline of 3.3% in RevPAR primarily on account of a de-growth in the average rate (8.9%). **However, occupancy grew by 6.1% on the back of an increase in MICE demand.** Over the last couple of years, the city has seen improved connectivity to Delhi NCR, Lucknow and Kanpur, with the help of the Gatimaan Express, Yamuna Expressway and, Agra Lucknow Expressway (currently under construction), making it a popular day-destination.



P L Palace Lords Inn Agra

While on one hand, hotels servicing MICE demand (corporate and social) have benefitted from this improved connectivity, on the other, there has also been a displacement of the lower paying leisure segment to other cities in the Golden Triangle.

Agra has a pipeline of 754 rooms over the next five years; however, only 34% are under active development. Given this limited increase in supply over the next few years, HVS expects occupancies to grow, while average rates will remain under pressure.

Among the major hotel markets tracked in this report, **Ahmedabad** recorded the highest increase (12.0%) in occupancy in 2016/17 versus the previous fiscal. Micro markets such as Sanand and GIFT City continue to attract investments, and generate room nights for hotels in the city. However, the city hotels witnessed a marginal correction (1.1%) in average rates over the previous year. HVS is tracking approximately 1,345 rooms of proposed supply, with around 47% actively under construction and likely to open in the next five



Lemon Tree Premier; The Atrium Ahmedabad

years. Despite the additions to supply, the demand forecast for Ahmedabad, linked to project-based business and increased investments in the city, remains buoyant.

Bengaluru, one of the strongest commercial markets in South India, **witnessed a 4.2% growth in RevPAR in 2016/17 over the previous fiscal, consequent of a noteworthy 3.8% ARR growth unlike the sub 1% increases of the last three fiscals.** Moreover, despite a 4% increase in the existing inventory, the citywide occupancy for 2016/17 has marginally grown to 65.9%, clearly pointing out that the Bengaluru's ever growing commercial and MICE demand segments have absorbed the increased room supply. The city's micro markets have become largely self-sustained and have started concentrating on achieving ARR efficiencies.

Additionally, with Grade-A office inventory increasing by 9.8 million ft² in the last year, Bengaluru has tremendous commercial demand potential from IT/ITeS, manufacturing, financial and related industries. Extended stay demand too has witnessed improvement from project-based businesses moving to the Northern and Eastern parts of the city.

The development of new hotels has also picked up steam with 4,418 rooms proposed in the next five years, of which 72% are under active development. Overall, HVS forecasts a stable and sustained growth in the city's performance over the next two to three years.

Chennai witnessed an occupancy growth of 4.3% in 2016/17, accompanied with a minor increase of 0.4% in average rate. **The CBD hotels recorded the highest growth in occupancy (8.2%), whereas Guindy hotels recorded the highest increase in average rate (6.6%). OMR also enjoyed an increase in occupancy to the tune of 5.5%; however, average rate here saw a slight correction of 0.5%.** HVS is currently tracking 1,767 rooms that are proposed in the next five years, with 94% of these under active development. Looking ahead, we expect the city to witness steady growth in occupancy and average rates (barring the OMR micro market) in the short-to-medium term. OMR will continue to struggle due to supply pressure, with approximately 900 rooms slated to open within the next one year alone.

Last year was a record year of sorts for **New Delhi**, the largest branded hotel market in the country. **The city witnessed an increase in average rate (1.9%) for the first time in eight years. This growth was complimented by a 5.5% growth in occupancy, resulting in it crossing the 70% mark for the first time in nine years.** Within the micro markets, Central

Delhi hotels witnessed the highest growth in occupancy (7.2%), whereas the Aerocity hotels witnessed the highest growth in average rate (15.4%). HVS believes that average rate and occupancy will further grow in conjunction with each other, owing to an overall increase in corporate, transient and MICE demand in the city.



Going forth, the capital is expected to see supply additions of approximately 1,715 rooms over the next three to five years, with the majority spread across the mid market and budget categories (64.4%). Robust demand coupled with moderate supply growth, makes our outlook for the New Delhi hotel market positive.

The **Gurugram** hotel market displayed an upward performance trend in 2016/17 for the third consecutive year, with occupancy growing to 66.6%, average rate rising to ₹6,404, and RevPAR crossing the ₹4,000 mark for the first time since 2011/12. While the city's south-westward development toward Golf-Course Extension Road, Sohna Road and Manesar continues, the pace of development of hotels in Gurugram has witnessed a decline. In 2015/16, approximately 1,370 rooms of the proposed supply were under active development. However, due to continuous delays of numerous hotel projects, in 2016/17, only around 400 rooms are realistically expected to achieve completion within a five-year horizon. Improving market performance, bolstered by a dwindling supply pipeline, poses an opportunity for hotels in the city to take advantage of the industry up-cycle fearlessly. Thus, our outlook for the market remains positive, going forward.

NOIDA (including Greater NOIDA), which displayed a lamentable performance over the past years, witnessed a modest recovery in 2016/17. **The market has seen growth across all parameters this past fiscal (occupancy at 11.7%, average rate at 3.9% and RevPAR at 16.0%), resulting in the increase in RevPAR to be the highest among the major markets tracked in this survey.** This positive change can be attributed to the large-scale Automobile Exposition

that was hosted by the city in 2016, together with the commercial demand arising from Sector 18, Sector 62 and the bordering areas of Ghaziabad and East Delhi.

HVS is tracking 1,043 rooms that are planned to enter the market in the next five years; however, only 18% of this supply is actively under construction. Nevertheless, looking ahead, one must be cautious about developing more hotels in NOIDA, as the marketwide occupancy and average rate will continue to remain under pressure given the price sensitive nature of the market and the continuous increase in demand overlap with neighbouring areas.

Riding the wave of the industry up-cycle, **Goa** – the country's leading leisure destination, recorded an occupancy of 72.3% and an ARR of ₹7,534, yielding a RevPAR of ₹5,449 – second only to Mumbai. **Despite a 14.8% increase in supply, a noteworthy 10.6% RevPAR growth over 2015/16 was achieved on the back of booming domestic tourism, coupled with improved spending capacities of the aspiring middle class.** Over the next five years, an estimated 2,870 rooms are expected to enter the market of which 48% are currently under active development. Construction of new supply has witnessed a decline from 90% in 2015/16, due to the addition of approximately 830 rooms in 2016/17. In fact, the resilience Goa has exhibited with year-on-year performance improvements despite additions to supply, is indicative of the buoyancy of this market and, we remain positive that it will continue its upward trend, going forward.



Hyderabad city hotels recorded a double-digit increase in RevPAR (11.4%) in 2016/17 over the previous year as a result of robust growth in demand and, a slowdown in new supply. Hotels located in micro markets, such as Gachibowli and HITEC City, continue to reap benefits of the high absorption rate and new development of commercial spaces, in addition to the surging investments in IT, e-commerce and digital industries established in the area. Furthermore, the Hyderabad International Convention Centre had its

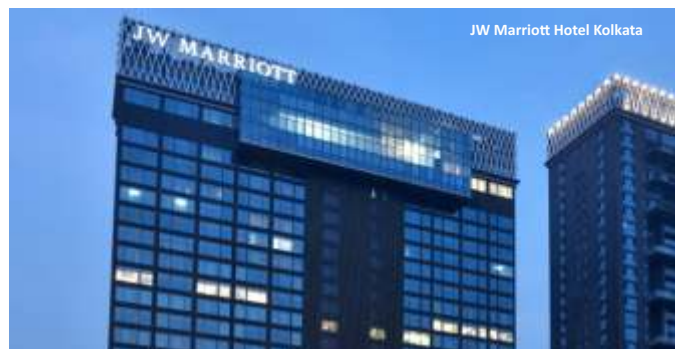
best year in 2016/17, playing host to 29 large-scale events, with over 34,000 delegates. The hotels located in the CBD witnessed moderate growth, with demand for room nights driven mainly by pharmaceuticals, banking and public-sector companies. **With a dwindling supply pipeline of approximately 1,500 rooms, and no indication of deceleration in commercial activity, the outlook for the Hyderabad hotel market is encouraging.**

The **Jaipur** hotel market witnessed a **9.4% rise in RevPAR over the previous fiscal**. As supply grew by only 2.6% in 2016/17, the city's hotels clocked a weighted average occupancy of 65.0%, reaching this threshold for the first time in a decade. Moreover, Jaipur, which continues to be one of the country's leading leisure markets and a popular MICE destination, is seeing a gradual slowdown in supply, with approximately 1,713 rooms expected to enter the market in the next five years (of which 51% are actively under construction). Looking ahead, HVS forecasts steady growth in the city's performance over the next three to five years.



Kolkata, exhibiting a **5.2% RevPAR growth in 2016/17, witnessed its first positive RevPAR growth in four years following the industry up-cycle**. Despite an 18.4% increase in supply, the city registered an occupancy of 70.2% and an average rate of ₹5,818. Kolkata's eastward expansion has enabled the creation of distinct micro markets, dividing room supply between the CBD at one end and, Salt Lake City, Rajarhat and the EM Bypass at the other, leading to redistribution of demand within the city. Consequently, market performance, in the face of new supply, has been shielded. The next five years are set to witness the addition of approximately 2,200 rooms, of which 64% are under active development. Going forward, as connectivity to and within the city improves, micro market distinction streamlines demand patterns and, developments like the Kolkata International Convention Centre establish themselves, we anticipate the city to achieve some balance between demand and supply. That being said, short to medium term pressure

on occupancy is likely.



In 2016/17, **Mumbai (including Navi Mumbai)** recorded the highest occupancy (74.3%) for the third consecutive year, and the highest average rate (₹7,693) and RevPAR (₹5,705) for the fifth consecutive year among all major markets tracked in this survey. This continual uptick in performance is testament to the inherent strength and robust nature of the market, fuelled by strong growth in corporate travel and promising MICE and extended stay segments.

HVS is tracking approximately 3,680 proposed rooms, with only 37% under active development. The majority of the supply is expected to be at the mid market positioning and is planned within the North Mumbai micro market.

The Mumbai International Airport Limited (MIAL) landside development that includes several new hotels, commercial and retail complexes in addition to the proposed convention centre in BKC, are expected to change the face of Mumbai at large. Moving forward, our outlook for the city remains optimistic.

The **Navi Mumbai** hotel market exhibited approximately 6.6% drop in occupancy, although average rate grew by 6.3% in 2016/17. This can be attributed to the slowing of large-scale project related travel, which was replaced by higher paying demand arising from Reliance Technology Park and other commercial developments located in Airoli, Rabale and Mahape. The recently opened L&T Seawoods complex is expected to further fuel demand for the city.

Moreover, after several years of muted supply growth, Navi Mumbai is expected to witness an addition of approximately 300 rooms within the next 24 months, which is likely to put pressure on the performance of the hotels. However, the future outlook of this market majorly hinges on the development of the new international airport in Panvel, phased developments at the Jawaharlal Nehru Port Trust (JNPT) in addition to development of IT parks and commercial complexes in and around areas such as CBD Belapur. Thus, our long-

term outlook for Navi Mumbai remains positive.

Often regarded as the 'comeback city', **Pune** achieved an occupancy of 65.2% in 2016/17, recording a CAGR of 5.7% in demand over the last seven years. Additionally, **Pune witnessed an average rate increase of 5.7% in 2016/17**. The manner in which the city has endured persistently, is not only demonstrative of its strength and resilience, but also indicates its potential going forth. Furthermore, along with serving as a major IT/ITeS and manufacturing hub of the country, Pune now, is also an attractive MICE destination of Western India.

Going forward, we are tracking 1,308 new rooms, of which 47% are under active development. Considering the diminishing supply pipeline, anticipated continual growth in demand and, further emergence of hotel micro markets across the city, we believe hotel performances shall witness sustainable growth in Pune.

Future Trends & Opportunities

We conclude the 2017 edition of the Trends & Opportunities report with a look to the future. The hospitality industry is now in its second year of the much-awaited up-cycle and, it is time for industry stakeholders and investors to grab the opportunity and boost performance. To this effect, we would like to highlight the prevalent trends in the industry as well as the opportunities they bring forth.

As highlighted in the previous edition, hotels in **leisure markets** command some of the highest average rates in the country. True to this, the top fifteen ARR in 2016/17 were achieved by hotels located in leisure destinations. The rising purchasing power of the Indian middle class has aided the exponential growth of domestic tourism, and helped in narrowing the gap between lean and peak seasons. Further, today's discerning travellers do not shy away from spending on upscale or luxury hotels in such destinations. However, the mindset of developers and owners presumes that leisure hotels are rarely profitable, which is clearly not the case. Leisure markets do have the ability to make money, and a lot of it; the growing demand for the same has been reflected in key leisure hotels witnessing stable occupancies and year-on-year growth in average rates over the past five years.

India is home to a myriad of tourist destinations which offer scenic beauty, forts, palaces, temples, assorted flora and fauna, festivals, art and culture. The individual states have executed specific marketing campaigns that highlight their strengths and attract a number of

tourists. However, there is a lack of a **comprehensive marketing campaign** at the central level, which captures the essence of the country and all its unique offerings. In order to appeal to the international audiences, the country needs to develop a wholesome brand, and leverage the diverse experiences available. Incredible India 2.0, which will be launched later this year, focuses on India as a wellness and spiritual destination. While this will provide a fillip to a select few destinations in the country, it does not do justice to several others that have a host of other attractions to offer. A concerted, organised and well-strategised 'go-to-market' strategy is sorely needed and it would perhaps be a good idea to draw from the experiences of other regional nations such as UAE, Malaysia and Singapore, all of whom have very successfully managed to become globally recognised destinations in the past many years.



Cities such as Chennai, Bengaluru, Pune, and Hyderabad, housing primarily project, training and research-based businesses, regularly witness large volumes of extended stay demand at lower price points. Yet, there is a dearth of suitable **extended stay hotels/serviced apartments in the branded space at the budget/economy level** in these cities. Consequently, this high volume of room night demand is being captured by the unbranded guesthouses and apartments. Thus, an opportunity clearly exists in these cities for development of budget hotels, with an extended stay product to accommodate guests staying for longer periods of time. In the same vein, long-stay products at the upper midscale and upscale positioning too have room for growth in India. Overall, it is our view that both, developers and brands, should give this segment more serious consideration.

Another notable trend is the increasing use of **Hotel Project Planners** from the concept design stage of the project itself. Hotel development is complex in nature and solid expertise is needed, especially in the early stages of planning and development, the lack of which can result in cost over-runs and ultimately poor

financial returns for the project. Several project post-mortem discussions highlight that complex and long projects, such as hotel development, require a sound understanding of the end product. The absence of this leads to certain key aspects inevitably being overlooked, which are difficult to knit together once the project is completed. Over the past decade, the industry has witnessed many failed hotel projects due to a number of reasons ranging from inadequate funding, poor design, to being overtly leveraged and horribly mismanaged. Insufficient planning is singlehandedly the most common reason behind these failures. It will be imprudent to expect that one will be able to plan to perfection and, unanticipated changes will not occur during the lifecycle of the project. Nonetheless, having a team that has the foresight to plan and build in such contingences, will position the project to deliver, despite unforeseen events. Shockingly, most projects start construction without completing the design and budget phase. The reckoning of 'cost over-runs' only takes place later in the construction process, when most of the costs have already been allocated in the areas designed. This late 'wake-up call' typically leads to a hurried re-design of interior spaces, delays in award of works, idle contractors for lack of drawings, purchase of sub-standard materials, and most importantly award of works to unqualified contractors at unsustainable rates. The project begins to witness a downward spiral of poor quality and delays. As a result, the owner is left with an asset with exorbitant interest during construction (IDC) that it cannot service, leading to a potentially non-performing asset (NPA). It is, therefore, time that developers take notice of the benefits of cohesive project planning and designing to limit the number of unfeasible projects that have already been floating in the market.

Sub-optimal performance of hotel assets in the last few years has frustrated owners across various products and positioning. Consequently, a growing number of hotels, especially in the luxury and upscale branded space, with less than five years of operating history, are opting to use the services of professional **Hotel Asset Management companies**. Hotel owners are realising that while troubled hotels do need focused on-ground assistance, even profitable and well-managed hotels could benefit from a fresh perspective coming from experts. Institutional capital invested into hotel real estate is already conversant with the model of 'sweating' the asset with external assistance. So, what should a hotel owner expect from an Asset Manager? That they would get someone to look out for their interest when it comes to areas like hotel operations,

sales, revenue management, online and offline marketing, real estate finance, cost centre optimisation, working relationship with operator, management agreements, annual budgeting exercise and manpower allocation. The asset manager's singular objective is to achieve optimised returns from the investment. We, at HVS, are cognizant of a void in the market that was hitherto being fulfilled by independent consultants, retired hoteliers and generic finance professionals. HVS Asset Management has set up a dedicated team, which has been working for its clients to transform under-performing assets into performing ones.

In Closing

The markets are looking strong; the proposed supply is minimal and, demand is more than likely to continue growing. We are in an up-cycle! While the irrational exuberance of the last up-cycle in the mid-2000s may have taught us all that treading with caution is a virtue, it is equally important to keep reminding ourselves that the basic nature of our business is cyclical and the sector must use this time to elevate its revenue. Specific micro market sensitivities and anomalies aside, the nationwide hotel sector would be well advised to make hay while the sun shines.

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About the Authors



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