



2013

HOTELS IN INDIA TRENDS & OPPORTUNITIES

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The only thing we learn from History is that we learn nothing from History.

– Georg Wilhelm Friedrich Hegel

Introduction

As we go to press with this year's edition of the Trends & Opportunities report, we do so against a backdrop of reduced GDP growth, a plummeting rupee, increased economic and political uncertainty and a general sentiment that India has lost its way. Resultantly, most stakeholders seem to be playing a wait-and-watch game until the general elections next year. Industries and sectors across the spectrum such as automobile, FMCG, and residential real estate have reported slowing sales and even declines in some cases. While the overall economic scenario has also had an impact on the hospitality industry, it is important to remember that hospitality, like many other industries, is cyclical in nature and that while we are in the down cycle right now, things will improve and markets and investors will start seeing positive momentum in the next 12-18 months. People seem to have forgotten that our industry has been through such downturns before and has always bounced back stronger, with periods of slow growth being followed by strong occupancy and average rate performance.

It is, therefore, very important for us to get beyond the over-simplified commentary in the press and closely examine the four parameters that impact overall hotel industry performance, namely **supply, demand, occupancy and average rate**. In this year's report, we have shown how and why these parameters have changed in recent years and also how we expect them to change going forward. Through our analysis later in this report, we aim to present a balanced account on what is well with the hotel industry in India and where we have challenges, so that stakeholders can make informed decisions based on an understanding of ground realities and not just perceptions.

The Trends & Opportunities report, based on the results of the *Trends & Opportunities Survey* conducted by HVS annually, depicts and analyses the key trends in the hotel performance of the country and presents

HVS' outlook with special emphasis on 13 major Indian markets. The report also outlines existing and future opportunities in the hospitality industry of specific interest to investors, developers and hotel operators.

The survey participant base has registered a significant rise since 1995/96 from 120 hotels with 18,160 rooms to a **record 717 hotels with a room count of 86,122 in 2012/13** (a majority of them being in the branded space): an increase of an additional 166 hotels and approximately 16,200 rooms since the last survey. The growing number of survey participants over the years demonstrates an increase in both HVS' penetration into the market and the market's size, further validated by the unprecedented response we received from the branded hotels in the budget and economy space this year. As a result, we have **introduced a 'two-star category' in the relevant tables** of the report. Moreover, a larger sample set and availability of data for two historical years have led to the **2011/12 figures undergoing a minor change across all parameters**.

Additionally, like last year, this year too 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 2012/13 is 82,512, up from 72,267 for 2011/12**. Exhibit 1 illustrates survey participation from the fiscal years 1995/96 to 2012/13.

The Indian Economic Scenario – An Overview

The Indian economy recorded its lowest **GDP growth rate** in a decade at 5.0% in 2012/13; a stark departure from the 9.3% growth rate achieved a couple of years ago. Successive cuts to key lending rates to control inflation, a consequent rise in borrowing costs, poor availability of overseas credit, sluggish industrial output and weak private-sector investment were the key reasons behind this deceleration.

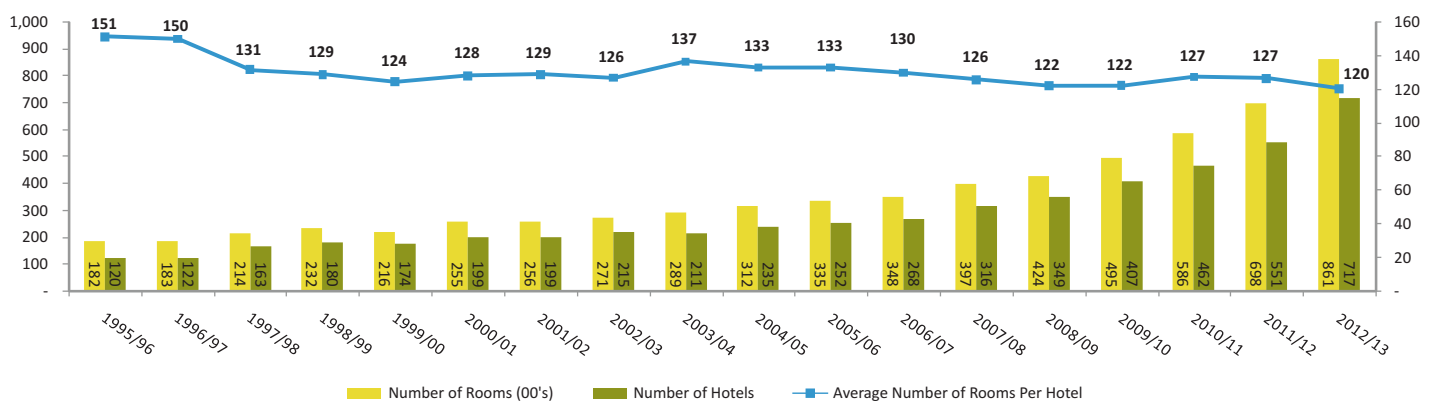
The country's **current account deficit** stood at 4.8%¹ of the GDP in 2012/13 as against 4.2% in the previous year, on the back of declining government and private savings; excessive spending on gold, coal and oil; and a fall in exports. The deficit widened to a record high of 6.7% of GDP in the third quarter of the fiscal on account of high imports, even though exports remained stable. On the other hand, the country's **fiscal deficit** was contained at 4.9% of the GDP for 2012/13, down from 5.8% in 2011/12.

Inflation, which has been a major worry for the Indian economy for many years due to its adverse effects on investments and savings, and ultimately growth, showed a favourable downswing in 2012/13. The Wholesale Price Inflation (WPI), India's benchmark indicator of price rises, averaged 7.4%, down from 8.9% in the previous fiscal.

The rupee was volatile, depicted in the **exchange rate to the US dollar** fluctuating significantly in 2012/13. This has been ascribed to the supply-demand imbalance in the domestic foreign exchange market on account of slowdown in Foreign Institutional Investment inflows. Domestic factors such as high inflation and an increasing current account deficit have caused the rupee to plummet. Overall, the monthly average exchange rate in 2012/13 remained largely in the range of US\$1 = ₹54-56 with select stray cases. Exhibit 2 shows the comparison between GDP Growth, Inflation and Exchange Rate from 2006/07 to 2012/13.

In line with these conditions, Standard & Poor in May 2013 retained its negative outlook for India over the next 12 months with a one in three chance of a downgrade highlighting the major risk areas to be a high fiscal deficit and heavy government borrowing. Moody's, on the other hand, has a stable outlook on the country's sovereign rating, expecting infrastructure investments to increase over the next 12-18 months.

Exhibit 1: Survey Participation (1995/96 – 2012/13)



Source: HVS Research

Exhibit 2: Comparison – GDP Growth, Inflation and Exchange Rate

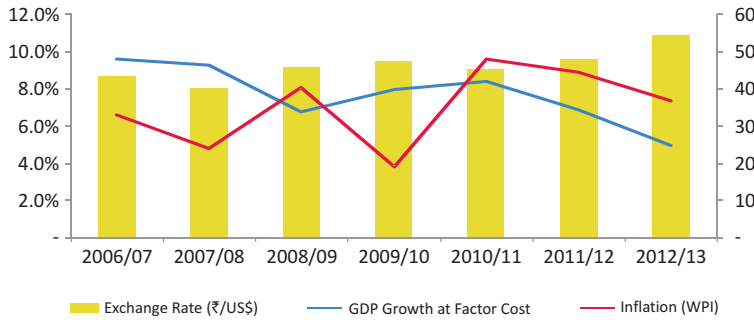
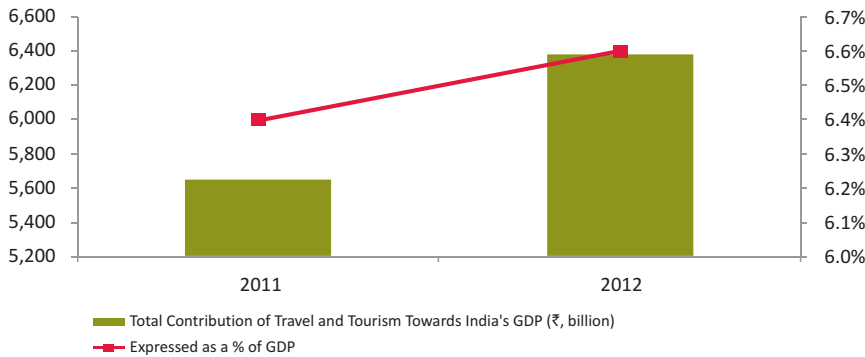


Exhibit 3: Contribution of Travel and Tourism Towards India's GDP (2011 and 2012)



Source: WTTC Travel & Tourism Economic Impact 2013 - India

In spite of the challenging macroeconomic conditions, HVS does **not** expect a major negative impact on India's Travel and Tourism Industry. Domestic tourism, as presented in the next section, is rising steadily upwards; this has become very evident in many leisure locations across India, which are beginning to see a high growth in visitation from domestic travellers.

Tourism Overview

United Nations World Tourism Organization (UNWTO) in its *Tourism Highlights 2013 Edition* reports that the total number of international tourist arrivals worldwide surpassed the one billion mark for the first time in history in 2012, touching 1.04 billion from 995 million in 2011. The Asia Pacific region recorded the strongest growth at 7.0% during this period.

The total contribution of Travel and Tourism to India's GDP was 6.6% (₹6,385 billion) in 2012 and is projected to rise to 7.3% in 2013, according to World Travel & Tourism Council's (WTTC's) *Economic Impact 2013 - India* report (Exhibit 3). Domestic travel spends generated 80.3% of the direct Travel and Tourism GDP, with domestic tourist visits (1,036 million) registering an increase of close to 20% over 2011. International Tourist Arrivals, on the other hand, were recorded at 6.6 million in 2012, an increase of 4.3% over the previous year. Foreign Exchange Earnings also rose by 7.1% over the same period. The top three international source markets for India continued to be USA (15.8%) followed by UK (11.9%) and Bangladesh (7.4%)².

The Travel and Tourism industry has shown a sturdy resilience in the face of global economic uncertainties in the past; we

expect this to be the case in the future as well. UNWTO forecasts 2013 to record similar growth in international tourist arrivals as in 2012, with prospects being strongest for the Asia Pacific region. In case of India, domestic demand for hotels has historically been higher than demand from foreigners. Though a large portion of this demand originates from commercial activity, an increasing number of Indians are taking holidays within the country, thanks to the increased propensity to spend of India's "middle class", and the growing affluence of India's upper-middle and high-income segments. Domestic travel has also been boosted by competitive air fares and, more recently, by the depreciating rupee, which has prompted Indians to vacation within rather than outside the country. Going forward, domestic tourism is likely to witness strong growth, especially in leisure markets such as Goa, Jaipur, Agra and Kerala, and we anticipate it to be the real driving force for this industry over the next decade or so. According to WTTC estimates, in 2013, domestic travel spending will grow by 6.1%, while international visitor spending will rise by 8.7%. Besides, the newly launched *Incredible India* campaigns – "Find What You See" for foreign tourists and "Go Beyond" for domestic tourists – in addition to the relaxation of tourist visa rules and a significant increase in the fund allocation for tourism in the 12th Plan Period (2012-2017), are expected to yield favourable results.



Looking Beyond the Obvious

As mentioned earlier in the introduction to this report, we have performed a detailed analysis on the **supply, demand, occupancy and average rate** that impact the overall performance of the hotel industry with an aim to present an unbiased third-party account of the actual status.

Supply

India had about 25,000 hotel rooms in the organised sector at the turn of the century. This number has almost quadrupled to over 93,000 at the end of 2012/13, which represents a compounded annual growth rate (CAGR) of 11.4% during this period. If we look at a more recent period from 2008/09 to 2012/13, we note that supply increased by a CAGR of 17.8%, one of the strongest increases for any hotel market in the world.

As a result of such aggressive increases in supply, a majority of the branded hotels in the country are less than five years old, which basically means that **a majority of our hotel room inventory came online during the five years of the worst financial crisis the world has seen since the Great Depression**. Interestingly, a large part of this supply was proposed in 2006 and 2007 when a shortage of hotel rooms led to a sharp increase in occupancy and average rate in different markets, and led investors of all kinds to jump headlong into the sector, with the belief that such results could be consistently attained irrespective of the amount of new supply that was being added. However, the opening of these new projects coincided with the economic downturn and further exacerbated the impact of new supply across markets.

We have also seen a major shift in the basic nature of our industry in the last decade, with **budget and mid market hotels** increasingly forming a larger percentage of the total inventory and **now accounting for nearly half of all hotel rooms in the country**. This more equitable distribution of room supply among the different segments is, we believe, here to stay; and is a clear sign of a maturing hotel market.

While we saw significant supply increase in the past, our analysis of the proposed projects on the ground reveals that not only have the number of announced projects dropped since last year, but also about 40% of those proposed projects may never see light of day. Additionally, investors looking to enter the hospitality industry today are certainly more cautious: they are seeking to put their money in operating and under-construction assets at attractive prices rather than in building a new hotel from scratch, which will further reduce new supply growth. We, therefore, believe that **the next cycle will be strong** and put to rest any lingering doubts about the hotel industry.

Demand

India does not have a demand problem! If there is one single statement we would like you to remember from our report, this is it!

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

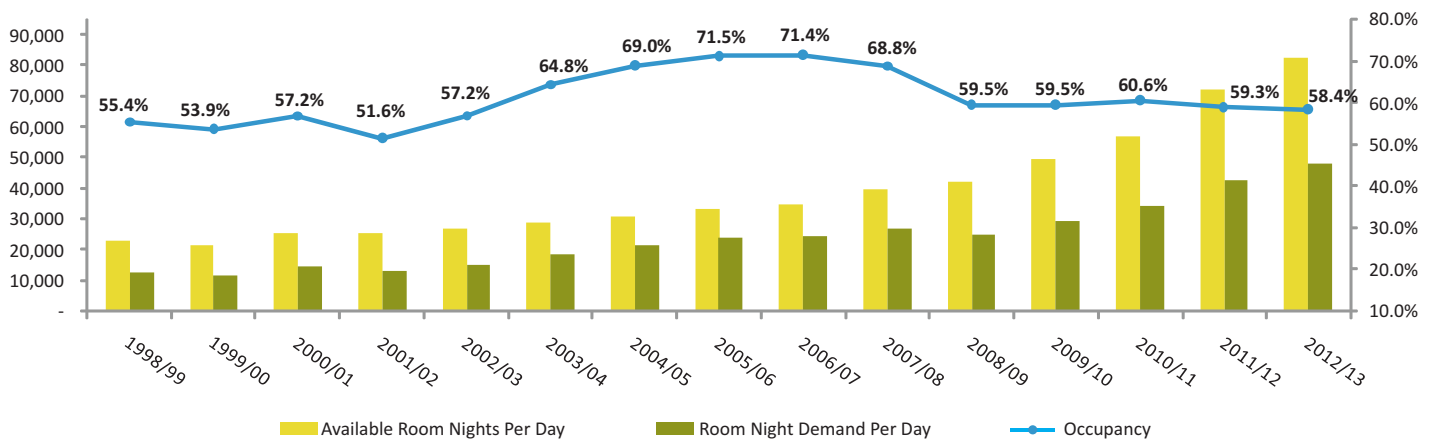
In the 18 years of data we have amassed at HVS, we have seen demand drop only once, in late 2008, due to the collapse of the global economy following the Lehman debacle and then due to the terrorist attacks on Mumbai. Since then, demand has surged again, increasing by a CAGR of 17.3% over the last five years. We would venture to say that irrespective of what you are selling and where you are selling it, **if demand for your product increased more than 17% every year on an average during the global financial crisis, then you are in the right market selling the right product.** Demand increased by 9.2% even in the last 12 months, highlighting how the industry has

convention and tourist destinations in addition to being commercial capitals, and we will need to do the same to our cities. Such transition will obviously not happen without the support of the government, and we will, therefore, need to have constructive sustained consultations with the right people to make any progress in this matter.

Having looked at supply and demand movements on a nationwide level, which are important and can reveal some significant trends, we also looked at these across various cities in the country. Table 1, below, presents these trends. As evident, there is a strong correlation between supply and

Moreover, since our markets consist of a significant number of recently opened hotels that have not yet attained stabilised levels of operations and are, therefore, reducing the marketwide **occupancy**, we conducted additional analyses. We took the hotels that were operational as of 2009/10 across the country and tracked their occupancy and average rate levels from 2009/10 through 2012/13 to measure the impact, if any, of the new supply that opened during these years. We similarly examined the performance of the existing base of hotels in 2010/11 and 2011/12 and tracked their annual performance till 2012/13. The results are presented in Exhibit 5. Notably, the average

Exhibit 4: Room Night Demand Vs Available Room Nights (1998/99 – 2012/13)



Source: HVS Research

been quietly treading along despite the various challenges it is facing on a macro level.

Furthermore, a very interesting trend to note is the strong correlation between supply and demand growth, with supply growing at 17.8% CAGR and demand growing at a 17.3% CAGR between 2008/09 and 2012/13. We have always believed that a significant amount of unaccommodated demand exists in our country due to the lack of hotel rooms at the right price. With the increasing availability of budget and mid market hotels across the country, we have been able to successfully tap into this demand and will see long-term benefits from it. Exhibit 4, above, shows the nationwide supply and demand trends for a 15-year period.

While growth in demand is obviously critical, the types and mix of demand is also very important. One problem we have in our country is that as much as 90% of our demand, if not more, comes from companies. Hotels further split this demand into various segments such as Corporate Transient, Extended Stay and MICE, but **the challenge is that most of this demand starts on a Monday and disappears on a Friday morning.** Thus, while majority of our hotels and our markets may do well during these four days, they struggle with very low occupancy levels during the remaining three days of the week. Going forward, our focus has to be to create additional demand during the weekend. Other countries have been very successful in making their cities great

demand increases across most of the markets discussed individually in this report. While cities such as **Pune** and **Ahmedabad** previously received a lot of negative press for being overbuilt and were pronounced dead, they **actually saw a CAGR demand increase of 37.5% and 30.1% respectively**, which highlights how vibrant their demand base really is. Even larger markets with a much bigger existing base have seen strong double-digit growth in demand over the last five years.

occupancy of hotels that were open in 2009/10 actually increased in both 2010/11 and 2011/12 and remained almost stable in 2012/13, despite strong increases in supply during this period. The same trend was observed in the case of hotels that were operational in 2010/11 and in 2011/12. In addition to the analysis presented in Exhibit 5, we decided to go a step further and also examine the performance of new hotels that opened from 2009/10 through 2012/13 to understand how they performed in terms of

Table 1: Supply and Demand Trends Across Major Cities (2008/09 – 2012/13)

	Compounded Growth 2008/09 - 2012/13				2012/13	
	Supply	Demand	Occupancy	Average Rate	Occupancy	Average Rate
Agra	-2.2%	0.7%	2.9%	4.6%	58.8%	6,380
Ahmedabad	32.7%	30.1%	-1.9%	-5.1%	56.7%	3,863
Bengaluru	21.7%	22.4%	0.5%	-10.8%	55.8%	6,007
Chennai ^a	16.5%	16.2%	-0.3%	-5.3%	62.4%	5,380
Delhi ^b	7.1%	5.3%	-1.6%	-6.4%	63.0%	7,539
Gurgaon ^c	31.2%	26.2%	-3.8%	-5.9%	58.7%	6,870
NOIDA ^d	40.7%	19.3%	-15.2%	-3.7%	45.1%	6,704
Goa	11.4%	14.8%	3.0%	0.6%	68.8%	6,423
Hyderabad	17.8%	14.8%	-2.6%	-6.3%	50.3%	4,861
Jaipur	23.2%	23.2%	0.0%	-4.8%	54.1%	4,917
Kolkata	12.0%	12.0%	0.0%	-2.3%	69.5%	6,093
Mumbai ^e	12.7%	14.1%	1.3%	-8.0%	63.8%	7,646
Pune	39.9%	37.5%	-1.8%	-14.6%	58.0%	3,992
Nationwide	17.8%	17.3%	-0.5%	-6.9%	58.4%	5,803

Note

Supply tracked for **Agra** in 2012/13 is lower than 2011/12 due to the removal of unbranded hotels from the sample set in light of adequate branded supply reporting

Existing Supply tracked for **NOIDA** in 2012/13 is significantly higher than 2011/12 owing to a larger sample set and new supply entering the market

For all tables

a - Chennai (includes Sriperumbudur and Oragadam)

b - Delhi NCR data in 2008/09, Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2012/13

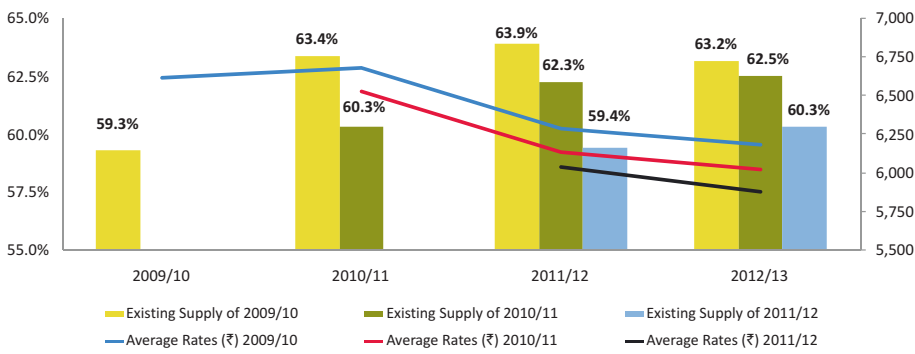
c - Gurgaon (including Manesar) data from 2009/10 to 2012/13

d - NOIDA (including Greater NOIDA) data from 2009/10 to 2012/13

e - Mumbai (includes Navi Mumbai)

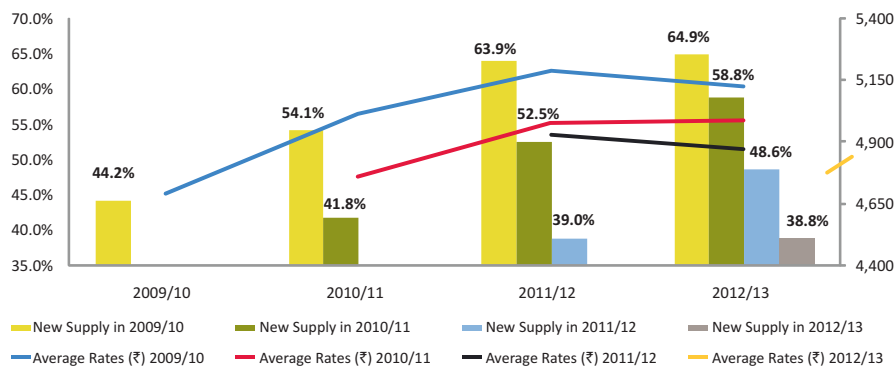
Source: HVS Research

Exhibit 5: Performance of Existing Hotels (2009/10 – 2012/13)



Source: HVS Research

Exhibit 6: Performance of New Hotels (2009/10 – 2012/13)



Source: HVS Research

occupancy and average rate in their initial years of operation and if their performance was impacted by the turbulent economic environment they opened in. As presented in Exhibit 6, above, hotels that opened in 2009/10 consistently increased their occupancy over the next three years. The same trend was observed in the case of hotels that opened in 2010/11 and 2011/12. While new hotels are taking longer to improve their occupancy levels as a result of the economic downturn and increased supply in the market, what is obvious is that they are enjoying consistent increases in occupancy levels after opening.

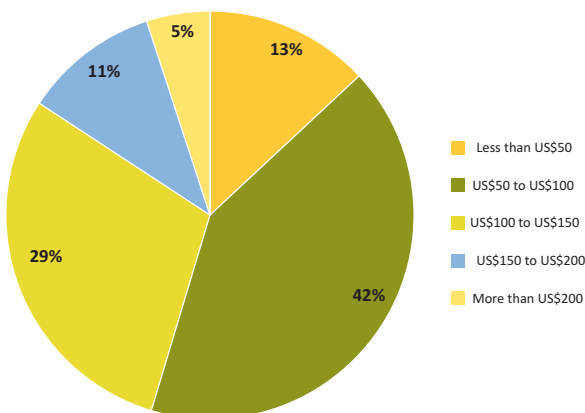
Thus, despite such strong increases in supply, demand kept pace and nationwide occupancy remained nearly stable over the past five years. While current occupancy levels are still lower than those attained between 2005 and 2008,

demand growth is expected to remain strong, and we remain bullish about occupancy levels in the next few years.

However, the occupancy situation is, unfortunately, only part of the story. As new supply entered the various markets, our hotels seem to have panicked and dropped rates pretty much across the board, even in markets where occupancy levels remained stable or even increased during the last five years! This trend holds true even when we analyse **average rates** by positioning to negate out the impact of a greater proportion of budget and mid market hotels opening across these markets. Given the nervousness amongst the hotels, nationwide average rate exhibited a CAGR of -6.9% during the last five years.

The scenario is also sobering when we look at the larger picture. As shown in Exhibit 7,

Exhibit 7: Average Rate Performance (2012/13)



Source: HVS Research

55% of our branded hotels attained an average rate below US\$100 (US\$1=₹54.45) in 2012/13. Only 5% of our hotels attained an average rate of over US\$200 and **no city hotels in the country attained an average rate in excess of US\$300.**

These data points lead to two easy conclusions. The first is that contrary to popular belief, Indian hotels are not expensive when compared to other hotel markets across the world. **The second is that as an industry, we have a problem.**

As we speak to hundreds of Sales Managers and General Managers across the country, the general feedback is that companies have become very price-sensitive and that it is difficult to increase rates if one wants to retain the account. While revenue management is extremely important, giving your rooms away at ridiculously low rates is not revenue management. Anyone can sell a product that is being offered at a half-off sale and hotel owners don't need our trained professionals for the same. The goal has to be to first understand the value of your product and the rate that you actually deserve for the product, and for the service you offer as a professional. **Customers will always be price-sensitive, and hotel management companies need to work harder to make them look beyond the price. The objective when selling any product is to earn the loyalty of the consumer, and dropping rates constantly is unfortunately not the right way to earn it.** We have now created and fuelled a mindset where the client is focused only on the rate offered and is primed to jump when offered a lower rate elsewhere. The school of thought that revenue lost by lowering the room rate is compensated by guest spending on F&B and other services has also been proven wrong – the guest will stay at your upscale/luxury hotel but eat elsewhere at more affordable places.

So, we now have upscale hotels competing with mid market hotels, and mid market hotels competing with budget hotels, and budget hotels competing with unbranded hotels. Obviously something needs to give! As hotel owners battle increasing land costs, construction costs, financing costs, and operating costs, hotel companies really have no choice but to go back to the drawing board and redo their rate strategies. The

While revenue management is extremely important, giving your rooms away at ridiculously low rates is not revenue management. Anyone can sell a product that is being offered at a half-off sale and hotel owners don't need our trained professionals for the same. The goal has to be to first understand the value of your product and the rate that you actually deserve for the product, and for the service you offer as a professional.

days when owners looked at hotels as fashion accessories that enhanced their social status are fast becoming history. The new generation of owners is very savvy and increasingly focused on financial returns. Having built hotels to the exact specifications and demands of the hotel brands, the owners will now hold them responsible for delivering the returns that were implied, if not necessarily promised at the time of signing the management contract.

Survey Results

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

Industry Performance According to Star Category

The nationwide RevPAR recorded a 5.2% drop in 2012/13 over the previous year with the five-star segment registering the maximum decline (8.7%), followed by the three-star segment (4.0%). This downswing could be attributed to these two categories witnessing close to 60% of the new supply in 2012/13. Conversely, the newly introduced two-star category registered the highest RevPAR growth (10.4%) on the back of a 14.7% increase in average rate. This is important to note as it highlights the acceptance of branded economy and budget hotels by travellers, especially domestic business travellers, despite the stiff competition these products face from the parallel unorganised sector prevalent in most major Indian cities.

Table 2 illustrates hotel occupancy across the star categories in India between 1995/96 and 2012/13. Tables 3 and 4 show average rates for each of the star categories, expressed in Indian rupees and US dollars, respectively. Tables 5 and 6 present the corresponding RevPAR data.

Existing Supply – 2012/13

Fiscal year 2012/13 saw the addition of around 9,000 branded rooms resulting in a nationwide existing supply of 93,479 rooms, an increase of around 11% over the previous year and 138% since 2006/07. We would like to highlight that in Table 7 (on Page 8) NOIDA (including Greater NOIDA) shows the highest increase in supply in 2012/13 over the previous year (58.6%). This is primarily owing to a larger number of hotels reporting their data for 2012/13, the highest since we have been tracking this market separately, and not simply because of the new supply entering the market. In reality, Jaipur witnessed the largest growth in supply of branded rooms in 2012/13, followed by Ahmedabad and Chennai, while Agra saw no new branded hotel open that year. Mumbai (including Navi Mumbai) maintained its top position with the highest existing supply of branded rooms in the country, followed closely by Delhi (excluding Gurgaon, NOIDA and Greater NOIDA) and Bengaluru, whereas NOIDA (including Greater NOIDA) continued to rank last amongst the major markets with an existing base of only 836 branded rooms. Table 7 shows the existing supply for the 13 major cities from 2006/07 to 2012/13.

Exhibit 8 (on Page 8) presents the total operating inventory for the 20 largest hotel brands in the country as of July 2013.

Table 2: 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	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%	58.4%	-1.5%	-0.8%
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%	59.9%	0.3%	-1.2%
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%	56.6%	-4.2%	-1.0%
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%	59.8%	-0.2%	0.2%
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%	56.1%	-1.4%	0.5%
Two-star																	64.8%	62.3%	-3.7%	NA

* The 2011/12 data has been modified to include the performance of a larger sample set
 ** Change in 2012/13 expressed as percentage of the figure for 2011/12

Source: HVS Research

Table 3: 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	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	5,803	-3.8%	3.9%
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	8,948	-2.6%	4.8%
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	5,843	-4.8%	5.1%
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	4,794	-2.3%	7.4%
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	3,267	-2.6%	6.0%
Two-star																	1,714	1,966	14.7%	NA

* The 2011/12 data has been modified to include the performance of a larger sample set
 ** Change in 2012/13 expressed as percentage of the figure for 2011/12

Source: HVS Research

Table 4: Key Operating Characteristics by Hotel Classification – Average Rate (US\$)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12*	2012/13	12-Month** Change	Compounded Growth
Overall Average	93	104	110	90	81	83	73	68	78	96	122	162	199	168	136	143	126	107	-15.3%	0.8%
Five-star Deluxe	124	141	155	128	113	114	99	90	102	125	161	224	278	242	194	205	192	164	-14.2%	1.7%
Five-star	78	89	91	79	77	77	69	65	73	87	112	149	190	158	134	140	128	107	-16.1%	1.9%
Four-star	44	52	70	61	50	53	50	47	56	69	86	117	142	125	97	108	102	88	-13.9%	4.2%
Three-star	37	40	43	37	35	37	36	35	36	41	50	69	87	77	68	73	70	60	-14.2%	2.9%
Two-star																	36	36	1.0%	NA
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		

* The 2011/12 data has been modified to include the performance of a larger sample set
 ** Change in 2012/13 expressed as percentage of the figure for 2011/12

Source: HVS Research

Table 5: Key Operating Characteristics by Hotel Classification – RevPAR (₹)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12*	2012/13	12-Month** Change	Compounded Growth
Overall Average	2,012	2,320	2,276	2,162	1,889	2,134	1,789	1,870	2,313	2,966	3,892	5,049	5,496	4,598	3,861	3,947	3,575	3,388	-5.2%	3.1%
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	5,361	-2.4%	3.5%
Five-star	1,698	2,000	1,939	1,993	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	3,309	-8.7%	4.0%
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	2,869	-2.5%	7.6%
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	1,832	-4.0%	6.5%
Two-star																	1,110	1,226	10.4%	NA

* The 2011/12 data has been modified to include the performance of a larger sample set
 ** Change in 2012/13 expressed as percentage of the figure for 2011/12

Source: HVS Research

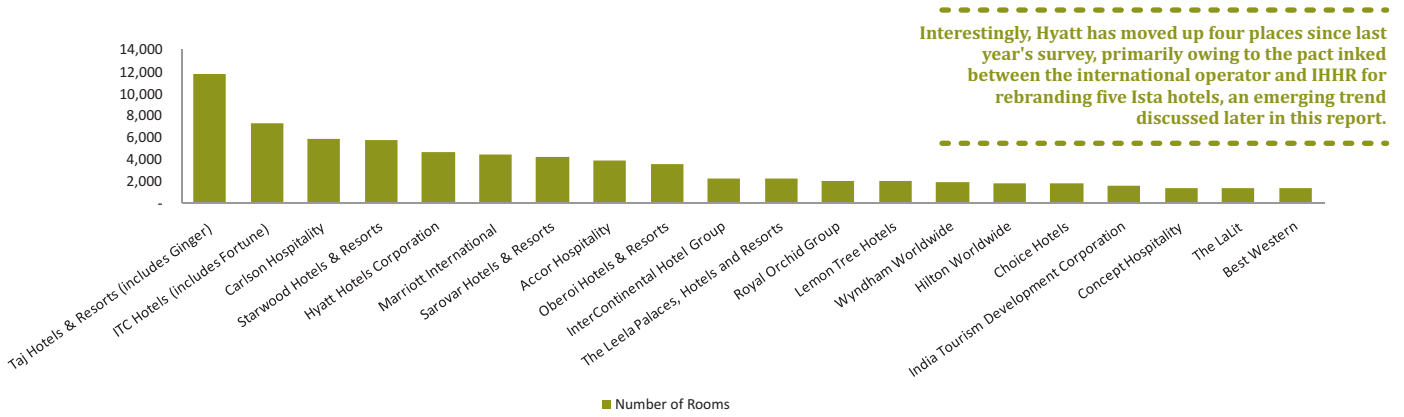
Table 6: Key Operating Characteristics by Hotel Classification – RevPAR (US\$)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12*	2012/13	12-Month** Change	Compounded Growth
Overall Average	62	66	63	50	43	48	38	39	50	66	87	116	137	100	81	87	75	62	-16.5%	0.0%
Five-star Deluxe	92	95	96	77	66	69	52	53	66	89	119	164	200	151	120	125	114	98	-14.0%	0.4%
Five-star	53	58	53	44	43	43	36	37	49	62	79	105	128	93	79	87	76	61	-19.6%	0.8%
Four-star	25	31	41	34	27	31	26	26	39	49	63	84	98	73	59	65	61	53	-14.1%	4.4%
Three-star	19	20	20	18	16	18	18	19	22	23	33	48	56	43	38	43	40	34	-15.4%	3.4%
Two-star																	23	23	-2.7%	NA
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		

* The 2011/12 data has been modified to include the performance of a larger sample set
 ** Change in 2012/13 expressed as percentage of the figure for 2011/12

Source: HVS Research

Exhibit 8: Top Twenty Hotel Brands by Existing Inventory – July 2013



Interestingly, Hyatt has moved up four places since last year's survey, primarily owing to the pact inked between the international operator and IHHR for rebranding five Ista hotels, an emerging trend discussed later in this report.

Source: HVS Research

Future Supply

Over the years, HVS has followed a comprehensive approach for tracking new hotel development. We would like to state that a lot of effort goes into collating this data and then verifying many of these projects across various cities in terms of their development stage. Our tracking omits any flippant statements made to the media or announcements made by real estate developers to promote their brand and, therefore, get greater visibility. Thus, as we do each year, we have put together a list of developments under construction or those announced in each market that have a confirmed tie-up with an operator. Such developments have been analysed rationally, through the prism of an unbiased third party, for the probability factor of their development within the next five years.

From 1,14,466 branded rooms in 2007/08, the highest in the last seven years, the total proposed supply was down to 84,650 rooms in 2012/13. Considering this in conjunction with the 138% growth in existing supply over the same period, one can attribute the decline in proposed supply partially to a substantial number of previously planned rooms becoming operational. Additionally,

Table 7: Existing Supply Across Major Cities (2006/07 – 2012/13)

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	12-Month* Change	Compounded Growth
Agra ^a	1,336	1,336	1,419	1,439	1,439	1,739	1,299	—	—
Ahmedabad	519	675	800	1,521	1,785	1,975	2,477	25.4%	29.8%
Bengaluru	2,414	3,456	3,889	5,597	5,947	7,713	8,536	10.7%	23.4%
Chennai	2,442	2,826	3,307	3,806	4,066	4,904	6,086	24.1%	16.4%
Delhi**	7,990	9,019	8,625	8,129	9,111	10,697	11,338	6.0%	6.0%
Gurgaon				1,980	3,246	3,782	4,472	18.3%	31.2%
NOIDA ^b				300	351	527	836	58.6%	40.7%
Goa	2,450	2,768	2,795	3,288	3,375	3,885	4,309	10.9%	9.9%
Hyderabad	1,868	2,554	2,761	3,782	4,036	4,797	5,322	10.9%	19.1%
Jaipur	1,388	1,556	1,683	2,472	2,554	3,054	3,875	26.9%	18.7%
Kolkata	1,354	1,396	1,373	1,520	1,588	1,787	2,163	21.0%	8.1%
Mumbai	7,402	8,454	7,948	9,877	11,303	12,052	12,807	6.3%	9.6%
Pune	777	1,346	1,518	2,672	4,691	5,672	5,817	2.6%	39.9%
Other Cities***	9,345	11,596	12,357	15,412	18,039	21,729	24,142	11.1%	17.1%
Total	39,285	46,982	48,475	61,795	71,531	84,313	93,479	10.9%	15.5%

* Change in 2012/13 expressed as percentage of the figure for 2011/12

** Delhi NCR data (shaded portion), rest Delhi (without Gurgaon, NOIDA and Greater NOIDA) data

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

a - Supply tracked for Agra in 2012/13 is lower than 2011/12 due to the removal of unbranded hotels from the sample set in light of adequate branded supply reporting

b - Existing supply tracked for NOIDA in 2012/13 is significantly higher than 2011/12 owing to a larger sample set and new supply entering the market

Source: HVS Research

Table 8: Proposed Branded Hotel Rooms Across Major Cities (2012/13 – 2017/18)

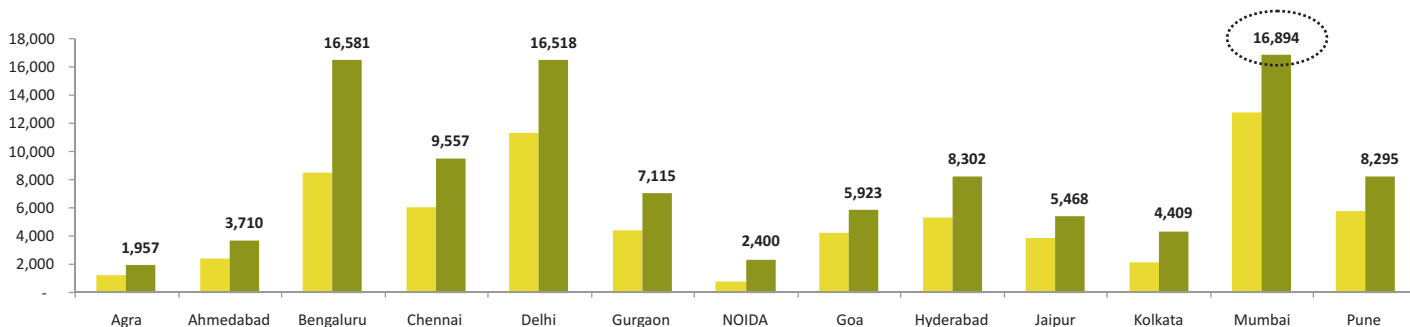
	Existing Supply 2012/13	Proposed Supply	Increase in Future Supply	Active Development of Supply	Active Development of Supply				
					Luxury	Upscale	Mid Market	Budget	Extended Stay
Agra	1,299	866	67%	76%	11.5%	0.0%	76.0%	12.5%	0.0%
Ahmedabad	2,477	1,857	75%	66%	11.6%	47.9%	20.8%	19.8%	0.0%
Bengaluru	8,536	10,731	126%	75%	22.8%	22.5%	20.2%	23.7%	10.7%
Chennai	6,086	5,331	88%	65%	6.5%	11.8%	43.9%	31.3%	6.5%
Delhi	11,338	6,144	54%	84%	17.8%	23.4%	38.8%	20.0%	0.0%
Gurgaon	4,472	5,033	113%	53%	38.0%	20.2%	24.0%	16.2%	1.6%
NOIDA	836	5,615	672%	28%	44.6%	36.2%	10.6%	6.8%	1.8%
Goa	4,309	2,622	61%	62%	26.9%	19.7%	29.7%	23.8%	0.0%
Hyderabad	5,322	3,433	65%	87%	0.0%	16.9%	40.7%	37.8%	4.6%
Jaipur	3,875	2,859	74%	56%	2.0%	44.0%	23.9%	30.1%	0.0%
Kolkata	2,163	3,511	162%	64%	28.3%	27.0%	31.4%	13.3%	0.0%
Mumbai	12,807	9,802	77%	42%	31.6%	18.9%	27.1%	18.0%	4.4%
Pune	5,817	3,705	64%	67%	15.2%	8.9%	52.6%	23.3%	0.0%
Other Cities	24,142	23,141	96%	55%	1.9%	23.9%	46.6%	26.4%	1.2%
Total	93,479	84,650	91%	60%	17.1%	23.0%	34.4%	22.6%	3.0%

Source: HVS Research

Table 9: Distribution of Existing and Proposed Branded Hotel Rooms Across Major Cities (2006/07 – 2012/13)

	Existing Supply							Proposed Supply							Active Development of Supply								
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13		
Agra	1,336	1,336	1,419	1,439	1,439	1,739	1,299	764	670	400	510	667	650	866	32%	55%	75%	41%	22%	80%	76%		
Ahmedabad	519	675	800	1,521	1,785	1,975	2,477	2,230	3,664	3,058	2,339	2,319	2,550	1,857	60%	47%	71%	69%	73%	69%	66%		
Bengaluru	2,414	3,456	3,889	5,597	5,947	7,713	8,536	12,882	15,542	10,784	9,819	12,509	9,716	10,731	61%	60%	58%	65%	67%	71%	75%		
Chennai	2,442	2,826	3,307	3,806	4,066	4,904	6,086	6,213	7,147	4,945	5,995	7,819	7,547	5,331	68%	71%	67%	72%	57%	58%	65%		
Delhi	7,990	9,019	8,625	8,129	9,111	10,697	11,338	19,423	22,360	16,560	20,021	18,608	5,626	6,144	56%	51%	53%	75%	75%	87%	84%		
Gurgaon			1,980	3,246	3,782	4,472							5,818	5,033							55%	53%	
NOIDA			300	351	527	836							5,522	5,615								37%	28%
Goa	2,450	2,768	2,795	3,288	3,375	3,885	4,309	3,058	3,353	2,178	1,736	2,154	2,422	2,622	58%	42%	31%	41%	53%	53%	62%		
Hyderabad	1,868	2,554	2,761	3,782	4,036	4,797	5,322	10,619	8,250	5,884	5,302	5,713	5,265	3,433	47%	64%	73%	63%	77%	74%	87%		
Jaipur	1,388	1,556	1,683	2,472	2,554	3,054	3,875	4,012	2,937	3,357	2,664	4,867	3,356	2,859	56%	53%	53%	77%	45%	52%	56%		
Kolkata	1,354	1,396	1,373	1,520	1,588	1,787	2,163	3,644	5,965	4,025	3,481	3,612	3,118	3,511	67%	49%	62%	51%	58%	74%	64%		
Mumbai	7,402	8,454	7,948	9,877	11,303	12,052	12,807	11,578	10,613	13,386	7,477	12,121	10,896	9,802	49%	62%	73%	60%	35%	47%	42%		
Pune	777	1,346	1,518	2,672	4,691	5,672	5,817	8,072	8,243	8,054	5,196	5,545	4,645	3,705	77%	66%	52%	67%	56%	69%	67%		
Other Cities	9,345	11,596	12,357	15,412	18,039	21,729	24,142	19,476	25,722	21,484	24,909	26,504	26,224	23,141	58%	60%	60%	65%	56%	48%	55%		
Total	39,285	46,982	48,475	61,795	71,531	84,313	93,479	1,01,971	1,14,466	94,115	89,449	102,438	93,355	84,650	58%	58%	60%	67%	60%	58%	60%		

Supply Across Major Cities (2012/13 and 2017/18*)



* The supply for 2017/18 has been computed by adding the active future supply to the existing base of rooms in 2012/13
Source: HVS Research

delay and suspension of hotel projects on account of the economic downturn, high borrowing costs and tight liquidity are the other major contributors towards this decline. **Here, we would like to highlight that in 18 years of our existence in this country and conducting this survey, we have observed that whenever there is a downward trend in the nationwide RevPAR, the industry panics resulting in a non-conducive atmosphere for future hotel investments. Hotel markets have historically been cyclical in nature with peaks and troughs in performance, and therefore, a myopic view stemming from the short-term performance forecast is not prudent.** In fact, there are instances when hotels that commenced construction during the downturn were actually seen reaping the benefits of the upswing as operating hotels. **HVS recommends that the various parameters specific to the market and the project be comprehensively evaluated prior to deciding against investing in hotel development instead of relying on short-term speculations and nationwide trends. Also, the industry needs to work with the banking sector to familiarise it with the cyclical nature of the hotel business and thereby make funding more accessible during the down cycles rather than when everything appears to be well.**

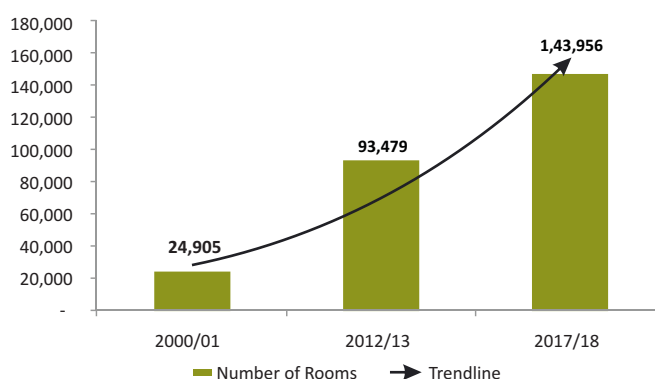
In Table 8 (on Page 8) we present the existing and proposed supply in each of the 13 major markets and 'other cities' covered in this report, with indication of the supply under active development (currently under construction or those that HVS is confident will open over the next five years). We have further classified the new supply into its potential positioning of luxury, upscale, mid

market, budget and extended stay hotels. Table 9, above, presents the development trend of the hotel markets across India between 2006/07 and 2012/13. With mid market and budget hotels comprising 57.0% of the proposed supply, there will clearly be a rearrangement within the Indian hotels pyramid, or simply in the space currently shared by the different market positioning. Luxury and upscale hotels have a 40.1% share in the proposed supply, continuing the downward trend observed during 2010/11 and 2011/12. This trend is especially evident in Pune, Hyderabad and Chennai, and is most certainly a response to the growing number of mid-level domestic business travellers to these cities. Attention to new mid market and budget rooms is a clearly favourable development, keeping in mind the industry's long term room requirement and that mid market and budget hotels come up quicker and at a lower cost than lodging products with a higher positioning.

Bengaluru displaced Mumbai (including Navi Mumbai) with the highest future supply

in the country in 2012/13 totaling 10,731 proposed rooms. Also, like last year, a high probability (75%) of these rooms actually opening helped Bengaluru retain its top position in terms of active supply as well. Mumbai (including Navi Mumbai) ranked a close second in terms of future supply; however, the gap is seen widening when rooms under active development (42%) are considered. Notably, in Goa, on a future supply base that was higher than the previous year, the active development of supply rose from 53% in 2011/12 to 62% in 2012/13. This is the highest achieved by this market in the last seven years. We credit this to the good governance and forward-looking approach of the current state government, which bodes well for the hotel industry in the region. On the other hand, NOIDA (including Greater NOIDA) saw the highest increase in future supply (672%) on an existing base of just 836 rooms in 2012/13. This raises an alarm, particularly when one notes the 27.5% decline in the region's RevPAR — the highest drop recorded across major markets being tracked in this report in 2012/13.

Exhibit 9: Growth of Room Supply – India (2000/01 – 2017/18)



Source: HVS Research

With real estate developers announcing hotel projects arbitrarily and brand development teams on a signing spree, little consideration is being given to the 'actual demand' for hotel accommodation in NOIDA. We thus, caution brands and hotel investors against creating an unnatural bubble and firmly recommend that they verify the economic viability of their projects prior to announcing or developing them.

The countrywide active development of supply was lower in 2012/13 when compared with the previous fiscal in absolute terms. We anticipate that a little over 50,000 branded rooms will be developed over the next five years, taking the total supply to about 144,000 rooms by 2017/18. Exhibit 9, on the previous page, presents the increase in hotel room supply in India from 2000/01 through 2012/13, and then further illustrates the proposed new supply through 2017/18.

Industry Performance by Major Cities

Overall, Kolkata emerged as the best performing hotel market in terms of occupancy (69.5%) in 2012/13, while Mumbai (including Navi Mumbai) registered the highest average rate (₹7,646) and RevPAR (₹4,881) amongst the 13 major markets being tracked in this report.

Agra, Pune, Goa and Jaipur were the only major hotel markets in the country to record notable RevPAR growths in 2012/13. There has been a surge in domestic demand, which appears to have a positive correlation with the falling rupee as taking holidays abroad have become increasingly expensive. In fact, our research reveals that the growing trend of vacations within India is visible across other major leisure markets such as Kerala and Udaipur (not being tracked individually in this report); reaffirming our belief that domestic tourism will be a driving force for the industry going forward. Another benefit of this trend is the reduction in seasonality of these leisure markets, with domestic visitations helping narrow the gap in demand recorded during peak and lean periods.

Of the 13 major markets, Pune had the highest increase in occupancy (13.0%), owing to a rise in MICE and Extended Stay demand and no notable change in supply compared to a 21% growth in 2011/12, disproving the pessimism that had prevailed in the past two years with regard to Pune's performance. On the other hand, NOIDA (including Greater NOIDA) witnessed the maximum decline in RevPAR (27.5%) in 2012/13 over the previous year owing to an increase in supply and muted growth in demand. Though Gurgaon (including Manesar) also saw a RevPAR decline of 14.9% (second-highest in the country) on account of an 18.3% increase in supply, this trend, unlike NOIDA, is anticipated to be temporary, with the year-on-year demand growth expected to remain robust in this market.

Table 10 illustrates hotel occupancy for 13 key cities in India between 1995/96 and 2012/13. Tables 11 and 12 show average rates for each of these hotel markets, expressed in Indian rupees and US dollars, respectively. Tables 13 and 14 present the corresponding RevPAR data for each city.

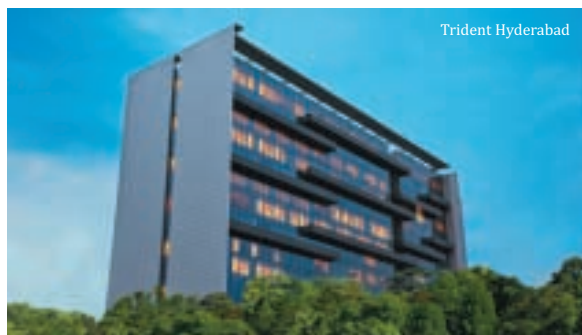


Table 10: Key Operating Characteristics by Major Cities - Occupancy

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12*	2012/13	12-Month** Change	Compounded Growth
Agra	47.6%	51.7%	46.1%	46.4%	40.1%	42.5%	33.7%	30.7%	50.0%	57.1%	56.0%	58.9%	58.3%	52.4%	55.9%	60.2%	57.1%	58.8%	3.0%	1.2%
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%	56.7%	-5.4%	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%	55.8%	-1.5%	-1.4%
Chennai	84.6%	80.2%	68.4%	64.7%	65.3%	64.6%	56.5%	58.3%	66.6%	72.9%	78.2%	74.7%	72.8%	63.1%	62.1%	67.2%	65.7%	62.4%	-5.0%	-1.8%
Delhi ^a	71.7%	67.3%	60.2%	54.1%	52.9%	58.9%	53.3%	60.4%	73.1%	79.1%	80.8%	76.9%	73.9%	67.3%	68.3%	68.7%	63.8%	63.0%	-1.2%	-0.8%
Gurgaon															66.0%	66.5%	62.0%	58.7%	-5.3%	-3.8%
NOIDA															74.0%	80.7%	56.2%	45.1%	-19.8%	-15.2%
Goa	62.1%	58.4%	59.2%	58.6%	53.3%	60.6%	53.6%	60.5%	59.3%	62.5%	67.8%	72.8%	72.2%	61.1%	65.1%	67.7%	68.5%	68.8%	0.4%	0.6%
Hyderabad	58.1%	54.8%	53.4%	66.0%	61.3%	69.1%	68.0%	68.9%	75.9%	78.7%	82.0%	72.1%	65.7%	55.8%	53.3%	57.1%	54.0%	50.3%	-6.8%	-0.8%
Jaipur	52.2%	58.4%	51.7%	45.6%	47.0%	55.0%	48.3%	44.9%	58.8%	67.2%	65.7%	65.5%	64.7%	54.1%	57.3%	57.7%	55.2%	54.1%	-2.0%	0.2%
Kolkata	63.8%	55.9%	61.8%	57.8%	54.8%	62.9%	66.4%	65.4%	62.8%	69.0%	76.4%	75.5%	73.9%	69.5%	67.5%	68.3%	70.0%	69.5%	-0.6%	0.5%
Mumbai	81.0%	73.0%	65.3%	67.6%	64.5%	64.6%	52.0%	63.4%	69.7%	72.0%	76.2%	77.9%	74.6%	60.6%	62.5%	62.4%	63.7%	63.8%	0.2%	-1.4%
Pune								71.0%	68.9%	86.4%	83.1%	83.4%	69.5%	62.2%	50.9%	46.7%	51.3%	58.0%	13.0%	-2.0%

* The 2011/12 data has been modified to include the performance of a larger sample set

** Change in 2012/13 expressed as percentage of the figure for 2011/12

a - Delhi NCR data (shaded portion) from 1995/96 to 2008/09, Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2012/13

Source: HVS Research

Table 11: 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	12-Month** Change	Compounded Growth
Agra	1,593	1,826	2,027	1,906	1,638	1,586	1,840	1,954	2,431	3,012	3,622	4,715	5,262	5,322	5,773	6,243	5,958	6,380	7.1%	8.5%
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	3,863	-1.4%	3.6%
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	6,007	-4.5%	5.8%
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	5,380	-2.6%	4.0%
Delhi^a	3,054	4,007	4,913	4,626	4,115	4,526	4,338	4,089	4,269	5,103	6,909	9,192	10,429	9,811	8,834	8,634	8,174	7,539	-7.8%	5.5%
Gurgaon															8,247	7,554	7,639	6,870	-10.1%	-5.9%
NOIDA															7,496	7,752	7,416	6,704	-9.6%	-3.7%
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	6,423	4.2%	6.4%
Hyderabad	1,499	1,604	1,646	1,579	1,867	2,316	2,414	2,541	2,774	3,772	4,870	5,982	6,271	6,297	5,146	5,173	5,026	4,861	-3.3%	7.2%
Jaipur	1,518	1,836	2,473	2,533	2,514	2,902	2,949	2,728	2,980	3,461	4,407	5,285	5,664	5,982	4,539	4,718	4,727	4,917	4.0%	7.2%
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	0.7%	4.0%
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	7,646	-3.5%	2.4%
Pune															7,946	7,493	5,810	4,163	-4.1%	4.4%

* The 2011/12 data has been modified to include the performance of a larger sample set

** Change in 2012/13 expressed as percentage of the figure for 2011/12

a - Delhi NCR data (shaded portion) from 1995/96 to 2008/09, Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2012/13

Source: HVS Research

Table 12: 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	12-Month** Change	Compounded Growth
Agra	49	52	56	50	38	35	39	41	53	67	81	108	131	116	121	137	124	117	-5.7%	5.3%
Ahmedabad	66	76	50	53	62	61	50	45	52	62	70	81	108	104	95	94	82	71	-13.1%	0.4%
Bengaluru	71	89	95	81	70	80	79	78	105	166	197	239	244	207	138	149	131	110	-15.9%	2.6%
Chennai	86	100	110	89	79	85	75	67	72	83	98	123	158	145	120	124	115	99	-14.2%	0.8%
Delhi^a	94	113	135	111	95	101	92	85	93	114	155	211	259	214	185	189	170	138	-18.8%	2.9%
Gurgaon															173	166	159	126	-20.8%	-10.0%
NOIDA															157	170	155	123	-20.4%	-7.8%
Goa	69	66	63	73	63	65	57	57	67	89	108	133	155	137	118	133	128	118	-8.2%	3.2%
Hyderabad	46	45	45	39	43	52	51	53	60	84	109	137	156	137	108	114	105	89	-14.8%	4.0%
Jaipur	47	52	68	62	45	65	62	57	65	77	99	121	141	130	95	104	99	90	-8.4%	3.9%
Kolkata	96	100	109	88	82	82	72	61	66	72	87	121	163	146	128	141	126	112	-11.3%	0.9%
Mumbai	159	176	170	138	130	124	104	87	95	107	136	200	272	233	177	180	165	140	-15.0%	-0.7%
Pune															122	109	87	73	-15.5%	3.1%
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		

* The 2011/12 data has been modified to include the performance of a larger sample set

** Change in 2012/13 expressed as percentage of the figure for 2011/12

a - Delhi NCR data (shaded portion) from 1995/96 to 2008/09, Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2012/13

Source: HVS Research

Table 13: Key Operating Characteristics by Major City – RevPAR (₹)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12*	2012/13	12-Month** Change	Compounded Growth
Agra	758	944	934	884	657	674	620	600	1,216	1,720	2,028	2,777	3,068	2,790	3,227	3,758	3,400	3,750	10.3%	9.9%
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	2,189	-6.7%	3.7%
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	3,351	-5.9%	4.3%
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	3,358	-7.5%	2.1%
Delhi^a	2,190	2,697	2,958	2,503	2,177	2,666	2,312	2,470	3,121	4,036	5,582	7,069	7,707	6,600	6,034	5,932	5,212	4,750	-8.9%	4.7%
Gurgaon															5,443	5,023	4,736	4,033	-14.9%	-9.5%
NOIDA															5,547	6,256	4,164	3,020	-27.5%	-18.3%
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	4,418	4.7%	7.1%
Hyderabad	871	879	879	1,042	1,144	1,600	1,642	1,751	2,105	2,969	3,993	4,299	4,120	3,515	2,743	2,954	2,714	2,446	-9.9%	6.3%
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	2,659	1.9%	7.4%
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	4,236	0.1%	4.6%
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	4,881	-3.3%	0.9%
Pune								1,848	1,933	3,042	4,084	5,440	5,522	4,661	2,957	2,311	2,135	2,313	8.3%	2.3%

* The 2011/12 data has been modified to include the performance of a larger sample set

** Change in 2012/13 expressed as percentage of the figure for 2011/12

a - Delhi MCR data (shaded portion) from 1995/96 to 2008/09, Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2012/13

Source: HVS Research

Table 14: Key Operating Characteristics by Major City – RevPAR (US\$)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12*	2012/13	12-Month** Change	Compounded Growth
Agra	23	27	26	23	15	15	13	13	27	38	45	64	76	61	68	82	71	69	-2.9%	6.6%
Ahmedabad	37	50	36	31	31	34	27	24	33	42	48	55	79	64	55	51	49	40	-17.9%	0.5%
Bengaluru	51	60	58	48	45	56	51	56	82	135	151	173	159	113	74	87	74	62	-17.2%	1.2%
Chennai	73	80	75	58	52	55	42	39	48	61	77	92	115	91	74	83	76	62	-18.5%	-1.0%
Delhi^a	67	76	81	60	59	59	49	51	68	90	125	162	192	144	126	130	109	87	-19.7%	1.5%
Gurgaon															114	110	99	74	-25.0%	-13.4%
NOIDA															116	137	87	55	-36.1%	-21.9%
Goa	43	39	37	43	34	39	31	34	40	56	73	97	112	84	77	90	88	81	-7.8%	3.8%
Hyderabad	27	25	24	26	26	36	35	37	46	66	89	99	102	76	58	65	57	45	-20.6%	3.1%
Jaipur	25	30	35	28	21	36	30	26	38	52	65	79	91	70	55	60	54	49	-10.2%	4.1%
Kolkata	61	56	67	51	45	52	48	40	41	50	66	91	121	101	86	96	88	78	-11.8%	1.4%
Mumbai	129	128	111	93	84	80	54	55	66	77	104	156	203	141	110	112	105	90	-14.9%	-2.1%
Pune								38	42	67	91	125	137	101	62	51	45	42	-4.6%	1.0%
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		

* The 2011/12 data has been modified to include the performance of a larger sample set

** Change in 2012/13 expressed as percentage of the figure for 2011/12

a - Delhi MCR data (shaded portion) from 1995/96 to 2008/09, Delhi (without Gurgaon, NOIDA and Greater NOIDA) data from 2009/10 to 2012/13

Source: HVS Research

City Trends

Agra exhibited the highest increase in RevPAR (10.3%) amongst the cities tracked in the survey supported by growth in both average rate (7.1%) and occupancy (3.0%). After having witnessed a 21% increase in supply in 2011/12, the city did not see the addition of any new branded hotels in 2012/13. It may be noted that the existing supply tracked for Agra in 2012/13 is lower than 2011/12 due to the removal of unbranded hotels from the sample set in light of adequate branded supply reporting (Tables 7 and 9).

The commissioning of the Yamuna Expressway that connects Greater NOIDA to Agra (in August 2012) reducing the travel time by half (from four to two plus hours) has fuelled growth in demand for the city's hotels. Given the improved connectivity, the city has seen a significant increase in the MICE and Individual Leisure Domestic segments especially from Delhi NCR. Going forward, HVS believes that Agra will witness continued growth from these segments making up for the slow pace of growth currently being seen in the Foreign Leisure segment. Furthermore, we are currently tracking a proposed supply of 866 rooms over the next few years with approximately 76% under active development. A majority of the proposed supply (88.5%) is expected in the mid market and budget space. Resultantly, we expect pressure on both occupancies and average rates in the short term.

However, given the burgeoning middle class and growth of domestic travellers in the country, HVS believes that the development of mid market and budget hotels bodes well for the Agra hotel market. Moreover, the recent clearance received for the construction of a new terminal for civilian operations at Agra airport is expected to enhance the connectivity and boost tourism for the city.

Similar to last year, **Ahmedabad** continues to feature among the cities that witnessed one of the most aggressive increases in supply in 2012/13. On the heels of an 11% increase in supply in 2011/12, the city added an additional 25% inventory in 2012/13. Consequently, there was a 5.4% drop in occupancy this year over 2011/12. What is more noteworthy, however, is the pace of demand increase during this period, which grew by approximately 22% in 2011/12 over 2010/11, followed by a 19% increase in 2012/13 over 2011/12. Large-scale events like Vibrant Gujarat and DERMACON have significantly boosted MICE demand in the city; several large weddings during the year also resulted in many city sold-out dates. With continuing commercial development along SG Highway and Prahaladnagar (now considered an alternative CBD), Commercial demand at hotels located in the area witnessed year-on-year growth. Additionally, small-to-medium sized businesses located in various pockets of the city continue to flourish and augment room

night demand for hotels. Industrial clusters, (primarily Sanand), located along the periphery of Ahmedabad, are also major demand generators for hotel accommodation. Companies such as Ford, Hitachi and Colgate Palmolive have already commenced setting up of plants and are expected to provide demand for hotels going forward.

Growth in Rooms per Day (RPDs) has, however, come at the cost of average rate, which declined marginally by 1.4% in 2012/13. Going forward, the city is expected to witness an addition of approximately 1,800 new hotel rooms, of which roundly 700 are expected to commission in 2013/14. While demand growth for Ahmedabad remains strong, the impending supply in the next two-to-three years is expected to result in occupancy and rate pressures. Thereafter, as growth in supply eases, we expect marketwide performance to gradually improve.

Bengaluru witnessed a 10.7% increase in supply in 2012/13, and yet, the city's hotel market recorded only a marginal drop in occupancy, indicative of the strong room night demand that grew at approximately 9% in 2012/13 in comparison to 2011/12. The marketwide average rate, on the other hand, decreased by 4.5% in 2012/13 owing to the entry of budget and mid market hotels, which in turn resulted in similar positioned hotels lowering their room rates and adopting a volume strategy for selling their inventory.

Reaffirming our observation from last year, luxury and upscale hotels in the city continued to perform better than the mid market and budget hotels across all micromarkets (especially evident in Whitefield and CBD) owing to the latter facing stiff competition from the parallel unbranded hotel market. CBD, the best performing hotel micromarket in terms of RevPAR with the highest concentration of luxury and upscale hotels, maintained its occupancy over the previous year, though the average rate recorded a marginal decline. Whitefield, on the other hand, saw a slight increase in occupancy and a corresponding decrease in the average rate, owing to limited new supply entering this region in 2012/13. The newly formed hotel micromarkets of ORR-South and Yeshwantpur registered a growth in occupancies, with existing hotels ramping up in their second year of operations. However, the former recorded a decline in the average rate owing to the branded budget hotels focussing on volume and offering discounts to compete with the unbranded products located along this stretch. In contrast, Electronic City witnessed occupancies declining and average rates being maintained owing to an increase in supply with no marked increase in demand.

Going forward, with an office space supply of around 40 million square feet anticipated to be added to the existing base of approximately 85 million square feet by 2017/18, and overall vacancy rates expected to remain well under 15%, our outlook for city's hotel market remains bullish. ORR-

South holds a lot of promise for hotel developments with infrastructure projects underway and an estimated increase in new office space absorption due to low rentals and availability of large land parcels. Furthermore, with the average length of stay being close to four-to-five nights in micromarkets such as Whitefield, ORR-South and Electronic City, the rising need for branded extended stay products is felt. Over the next five years, the city is expected

to witness the highest number of new hotel rooms in the country, of which 75% is under active development. With around 4,350 rooms anticipated to enter the market in the next two years, hotels are anticipated to prioritise occupancy over rates across all micromarkets in the short-to-medium term. Moreover, we believe that the MICE segment will continue to grow with most of the newer hotels, especially in the upscale and luxury space, anticipated to feature large conferencing facilities.

In 2012/13, **Chennai** witnessed moderate declines in both occupancy and average rate mainly due to a double-digit growth in room supply (24.1%) as compared to 2011/12. With respect to micromarkets, Guindy and its neighbouring areas witnessed the maximum drop in occupancy, with marginal decline in average rate, as the region saw an addition of around 1,000 rooms mainly in the luxury space. The micromarket of Old Mahabalipuram Road (OMR), popularly known as the IT corridor of the city, recorded a moderate increase in occupancy with growing absorption of office space. However, average rate remained stable as hotels faced pressure from the new properties opening in Guindy. Within CBD, upscale and luxury hotels witnessed significant pressure on occupancy and only a moderate decline in average rate. Budget and mid market hotels, on the other hand, saw small dips in both occupancy and average rate as compared to the previous year.

Going forward, we expect the city to witness growth in demand in the Commercial and Extended Stay segments driven by the IT/ITeS sector. We also expect hotels located in the CBD and Guindy areas to continue to accommodate project-related demand from the manufacturing hubs of Oragadam, Sriperumbudur and Chennai, since these areas offer very little branded hotel rooms. Additionally, we anticipate demand to pick up in the MICE segment from 2014 as the new hotels offering large scale convention facilities establish themselves as destinations for hosting national and international conventions and events.

Luxury and upscale hotels in Bengaluru continued to perform better than the mid market and budget hotels across all micromarkets.

The year 2013 will witness a rare strategic coincidence — four Marriott properties opening, namely, Marriott (opened), Fairfield by Marriott, JW Marriott and The Ritz Carlton. Additionally, a Renaissance, another Fairfield, two Courtyards and one more Marriott are under construction!

The opening of the new domestic and international terminals at the Chennai Airport are also likely to drive demand in the Airline segment as airlines such as Air Asia set up their base there. Over the next three-to-five years, we expect continued pressure on both occupancy and average rates as the new hotels that opened in the latter part of 2012 become operational with their full inventories coupled with a successive annual addition of new hotels in the city and the OMR stretch.

Delhi (excluding Gurgaon, NOIDA and Greater NOIDA), is the second largest hotel market in the country after Mumbai and over the past two years, has witnessed the addition of several new properties, primarily in the eastern and western parts of the city. The opening of these new hotels has resulted in a bottoming out of demand for the older city centre properties (South and Central Delhi). Almost all hotels located in and around the CBD area of Delhi have witnessed a decline in RevPAR and this trend is likely to continue in the immediate short term. However, if one were to look at the overall market demand growth, RPDs actually grew by 4.7% in 2012/13 over 2011/12.

Going forward, Delhi's supply is expected to see an addition of approximately 5,200 new hotel rooms over the next five years that are now under active development. A large percentage of these rooms (approximately 3,750) is currently under construction or ready to open in the DIAL Aerocity area. In fact, four of the 11 hotels planned in this area will be commencing operations shortly. The introduction of these hotels is expected to result in both occupancy and average rate pressures in the short term. However, HVS opines that in the medium-to-long term, owing to the large-scale meeting facilities these properties will collectively offer, Aerocity is expected to become a unique destination for conventions and events in the country. Consequently, a significant quantum of MICE demand is expected to be induced into the market by these hotels. This will in turn allow for the new supply to be successfully absorbed over a period of time. Our long term outlook for Delhi, therefore, remains bullish.



Gurgaon (including Manesar) continues to be one of the strongest hotel markets in the country. The city, currently, features

approximately 4,500 hotel rooms and over the last four years has witnessed a CAGR of 31.2% in hotel room supply (Table 7). Supply increase in 2012/13 was around 18% resulting in both occupancy and average rate dropping by 5.3% and 10.1%, respectively. While these sharp drops in marketwide performance may paint an adverse picture for the city, demand in Gurgaon continues to be strong, growing by 12% in 2012/13. With currently over 40 million square feet of office stock in existence in addition to a future supply pipeline of a near similar number, Gurgaon has become a prime destination for several large business conglomerates. The city continues to attract new companies and businesses to set up shop owing to lower rentals and state-of-the-art office facilities. New development areas like Golf Course Extension Road, Southern Periphery Road and New Gurgaon (located close to Manesar and the proposed Dwarka Expressway) continue to witness development of several commercial and residential projects.

Going forward, there are approximately 5,000 new hotel rooms planned for development in the city of which we believe 53% will actually be commissioned. In the short term, we expect approximately 1,000 new rooms to be added to the city's inventory making further occupancy and rate pressures imminent. However, in the medium-to-long term, increases to supply are expected to be slow paced; coupled with the continuous pace of commercial development in and around the city, our outlook for Gurgaon remains positive.

NOIDA's (including Greater NOIDA) hotel market witnessed a steep decline in RevPAR (27.5%) in 2012/13 over 2011/12, the highest amongst the markets tracked by us in this survey. This can be attributed to mainly two reasons: one, the increase in supply being tracked by HVS during the same period and two, the decline in demand from the neighbouring pockets of Ghaziabad and East Delhi owing to the opening of branded hotels in these areas as well.

As highlighted in our last year's report, NOIDA has traditionally supported a very small branded hotel base (836 rooms in 2012/13) with the inventory size within 50-150 rooms. However, we are tracking around 1,600 rooms under active development that are anticipated to open over the next five years – an 87% increase over the existing base. This is worrying, especially because the proposed supply is expected to have an inventory in the range of 200-400 rooms, predominantly in the upscale and luxury space despite the market's price-sensitive nature and lack of any foreseeable growth in demand. Furthermore, it is important to highlight that an additional 4,000

branded rooms have been signed in this market, which highlights the callous manner in which developers and operators have gone about announcing hotel projects without a correct assessment of demand potential.

Consequently, hotels will have little choice but to tap the MICE segment going forward, aided by large-format events scheduled to be hosted at the India Exposition Mart and Buddh International Circuit. In the short-to-medium term, we expect marketwide occupancy and average rate to remain under pressure.

Goa continues to show year-on-year growth, both, in marketwide occupancy and average rates. The market's overall RevPAR performance in 2012/13 was 4.7% higher than in 2011/12 (Table 13). Additionally, with every passing year, Goa's dependence on the winter months and foreign tourists is increasingly being mitigated by a healthy growth in off-season demand and domestic tourists. While the season vs. off-season variance in average rates remains significant, the standard deviation of the marketwide occupancy between the summer/monsoon and winter months is reducing.

What Goa continues to lack is the availability of quality infrastructure. Although the expansion of the Dabolim Airport is likely to be completed in a few months, plans for the new Mopa Airport are still clouded with political and bureaucratic roadblocks. Unavailability of quality roads, hospitals, schools, and integrated retail and entertainment developments are some of the other pitfalls. However, the current government's receptiveness towards awarding the required licenses, permits and approvals for the development of hotels comes as a welcome change, and this is visible in the robust supply pipeline of branded hotels across the state. With the new government's lockdown on the mining industry in Goa, attention is likely to shift to

tourism becoming a strong revenue generator for the state. Overall, most stakeholders in Goa's hospitality sector still feel that more needs to be done towards the development and promotion of Goa as a preferred destination.

Of approximately 2,600 rooms that are proposed, about 62% are under active development and are likely to enter the market over the next three to five years. Year-on-year growth in demand is likely to keep pace and we do not foresee any significant pressure on the existing market's short term performance. In fact, our medium-to-long term outlook for the market remains buoyant; if there is anything that should be a cause of worry for the Goa hotel market, it is the continued growth of other popular beach destinations within and around the country, such as in Sri Lanka.

While the sharp drops in marketwide performance may paint an adverse picture for the city, demand in Gurgaon continues to be strong, growing by 12% in 2012/13.

In the medium-to-long term Aerocity at the Delhi International Airport is expected to become a unique destination for conventions and events in the country, owing to the large-scale meeting facilities the new hotels opening there are expected to collectively offer.

The current government's receptiveness towards awarding the required licenses, permits and approvals for the development of hotels comes as a welcome change and this is visible in the robust supply pipeline of branded hotels across Goa.

Hyderabad witnessed the second highest decline in occupancy (6.8%) after NOIDA in the last 12 months, mainly due to supply pressure coupled with the global slowdown in the IT/ITeS sector and more recently the Telangana issue, which also kept average rates subdued in the city. Nevertheless, the RPDs increased by 3.4% in the last year due to moderate office expansions and some new investments into the city.

Demand in Hyderabad continues to be driven by the IT/ITeS sector with approximately 75%³ of the commercial space in the city occupied by this sector. Going forward, Hyderabad is also emerging as a hub for R&D, Pharmaceutical and Biotechnology sectors. Also, with the emergence and expansion of HITECH City and Gachibowli areas as micromarkets, the city has witnessed a movement of businesses from the CBD to these areas, as the former loses its desirability owing to higher office rentals and poorer infrastructure. This phenomenon is anticipated to have a favourable impact on the HITECH City and Gachibowli hotels. The city has seen a compounded growth of 17.8% (Table 1) in supply over the last five years, while RevPAR witnessed a compounded decline of only 8.7% for the same period, highlighting the city's resilience to addition of new room supply. Going forward, HVS anticipates 3,433 rooms to enter the market in the next five years, with 87% under active development and a majority of the proposed room supply planned in the mid market and budget space (78.5%).

Hyderabad has always boasted of quality infrastructure that is ahead of cities like Chennai and Bengaluru, in addition to a skilled talent pool. Furthermore, the government's decision to accept Telangana as a separate state has laid to rest the political uncertainty in the region. Keeping these factors in mind, HVS expects the city to bounce back and emerge as a global IT/ITeS hub in the medium-to-long term, thereby having a favourable impact on the city's hotel market.

Jaipur, along with Agra and Goa, continues to be one of the top leisure destinations in the country. The city, which currently features approximately 3,900 hotel rooms, witnessed a supply growth of approximately 27% in 2012/13 over 2011/12, the highest in the country. However, in spite of such a large increase in supply, occupancy declined marginally by 2.0% during the same period. On other hand, average rate actually witnessed a 4.0% growth during the same period, primarily because the newly-introduced Fairmont and other luxury/upper upscale hotels in the city remained fairly rigid on average rates. However, if one were to exclude the average rates of these hotels, the city actually saw a 4.0% drop in average rate in 2012/13 over 2011/12.

Similar to Goa and Agra, Jaipur continues to benefit from year-on-year demand growth from the domestic traveller segment. Over

the last two-to-three years, Jaipur has established itself as a key MICE destination with the introduction of hotels like the Marriott and more recently the Fairmont and the LaLit, which offer substantial meetings and events space. The city's proximity to Gurgaon and Delhi, much improved highway connectivity and the competitive rates the city is able offer, makes Jaipur an ideal destination for two-three day conferences and events. Additionally, the city's hotels have created customised packages and modified their existing F&B setups in order to cater to large-scale 'destination weddings', which have gained immense popularity over the last few years.



Going forward, the city's supply pipeline remains fairly robust totalling some 2,900 hotel rooms. Of these, approximately 1,200 are expected to commence operations over the next two years. Consequently, we expect both occupancy and rate pressures to affect the market in the short term. In the medium-to-long term, with only 56% of the proposed supply expected to actually commission, we expect the Jaipur hotel market to gradually improve its overall performance.

Kolkata in 2012/13 witnessed a marginal increase in RevPAR, which was primarily due to limited supply entering the market. Currently, Kolkata is amongst the smallest hotel markets, larger than only NOIDA (including Greater NOIDA) and Agra despite the fact that in 2012/13, the existing supply tracked by us was higher than the previous year (Tables 7 and 9). Demand in the city continues to be driven by Public Sector Units, corporate, medical tourism and events, with a higher domestic to foreign guest ratio, which keeps the hotel market less vulnerable to global economic changes. The city is also the primary gateway to northeast India, and an entry point for commercial and leisure travellers going to Bodh Gaya, Darjeeling, Kalimpong, Bangladesh and Nepal.

Although Kolkata has seen rapid commercial development along its eastern periphery over the last few years, the city continues to find it difficult to attract new investment due to poor state government policies and an uncertain business environment. The new Netaji Subhas Chandra Bose International Airport opened in early 2013, enabling the airport's passenger-handling capacity to

increase from 7.46 million passengers per annum (mppa) to 20 mppa. The Airports Authority of India is working towards attracting carriers to the new airport; however, we are not overly-optimistic on the impact of the new airport, as commercial growth remains muted.

We are currently tracking 3,511 rooms that are proposed for development with 64% of them under active development, which is a cause for some concern; consequently, in the short term, we anticipate marketwide occupancy and average rate to decline, primarily due to supply pressures. In the medium-to-long term, while we expect occupancy to remain under pressure, average rates are expected to exhibit moderate growth, with over half of the new supply planned in the luxury and upscale space.

Mumbai (including Navi Mumbai)

continues to retain its position as the largest hotel market in the country. As the commercial capital of India, the growth in year-on-year accommodated demand in the city continues to be robust. Testament to this fact is that in spite of a CAGR of 6.4% in supply over the last three years, the city-wide occupancy has actually grown marginally (1% CAGR) during that time. Average rates, however, have seen a downward correction with most properties entering the market during this period giving precedence to occupancy rather than average rates.

The various micromarkets in Mumbai with the exception of the CBD area have all seen continuous additions to office stock that has continued to fuel demand for hotels. Areas such as Bandra Kurla Complex (BKC, now considered the new CBD), Andheri, Malad, Vikhroli and Goregaon continue to witness the setting up of new offices resulting in most hotels located in these micromarkets witnessing growth in demand. Majority of the new supply expected to enter the Mumbai market is also located in the North Mumbai micromarkets of BKC, Andheri, Chembur and Mulund. Increase in supply, however, over the short term, is expected to be fairly muted

As the commercial capital of India, the growth in year-on-year accommodated demand in Mumbai continues to be robust. Testament to this fact is that in spite of steady increase in supply over the last three years, the city-wide occupancy has actually grown marginally during that time.

with inventory additions to the city primarily being on account of expansions and renovations at various hotels. This is a cause for worry, as hotels projects are increasingly facing bureaucratic logjams owing to a visibly slow

approval process, evident from the fact that only 42% of the proposed supply being tracked by us for this market, is actually under active development.

However, we are hopeful of developments such as the Mumbai International Airport Limited (MIAL) landside development that includes several new hotels, commercial and retail complexes, hospitals and so on, to change the face of Mumbai at large in the medium-to-long term. Additionally, a proposed convention centre currently being

developed near the domestic airport is further expected to augment large scale MICE demand for the city. Going forward, with improvements in infrastructure such as the development of the Metro and Monorail, upgradation of the existing Airport, opening of the Bombay Port Trust Road and so on, our outlook for Mumbai remains bullish.

The **Navi Mumbai** micro-market continues to be largely dependent on unbranded hotels. The total number of branded rooms recorded in 2012/13 was approximately 1,100. An additional 600 rooms, ranging from budget to upscale categories of hotels, are expected to be added over the next five years. While Navi Mumbai has witnessed an increase in commercial activity over the last few years with developments such as Mindspace and the Reliance Technology Park, future growth of the area largely hinges on the development of the new international airport at Panvel that has already witnessed several delays and is yet to commence construction.

Pune saw the highest growth in occupancy (13.0%) accompanied by a moderate decrease in average rate (4.1%) resulting in RevPAR growth of 8.3%, the second-highest amongst the cities presented in this year's survey. Marginal change in supply (2.6%) accompanied by a healthy growth in demand (16%) led to a double-digit growth in occupancy.

Similar to the previous year, growth in demand in 2012/13 continued to be led by the MICE segment as the city catered to several large conferences and weddings owing to its good connectivity with Mumbai and competitive prices the Pune market is able to offer. Extended Stay segment also saw a surge, mainly from new projects being set up in the industrial pockets of Talegaon and Chakan.

Going forth, we expect robust growth in demand in the Commercial segment, led by the IT/ITeS sector, as new IT parks get developed in both Hinjewadi and Kharadi. However, demand from the manufacturing sector is anticipated to remain muted in the short term owing to the slowdown in the automobile industry. On the supply side, we are currently tracking new supply of 3,705 rooms with 67% under active development. A majority of the supply is planned to be developed in Hinjewadi

and the industrial area of Chakan. With only moderate growth in both demand and supply, we expect occupancy to remain stable in 2013/14. Average rates are, however, anticipated to decline as hotels continue their focus on improving occupancy. In the medium-to-long term, as growth in demand revives (especially from the manufacturing sector) and there is a moderation in supply growth, we anticipate the marketwide performance to steadily improve.

After attracting negative press in the last couple of years, Pune saw a RevPAR growth of 8.3% in 2012/13, second-highest amongst the cities presented in this year's survey. Growth in demand continued to be led by the MICE segment as the city catered to several large conferences and weddings.

Future Trends

A prominent trend that emerged in 2012/13 was the rise in transaction activity and the increasing number of hotels being rebranded. This has helped operators cut through the bureaucratic bottlenecks of developing Greenfield projects, fuelling their expansion in the country. We anticipate this trend to continue going forward, evident from the approximate 7% drop in active future supply in 2012/13 in comparison to the previous year. Furthermore, operators with a flexible mainstream brand in their portfolio such as 'Hyatt' in case of Hyatt, 'Renaissance' and 'Autograph Collection' in case of Marriott, 'Four Points' and 'Le Meridien' in case of Starwood, 'Mercuré' in case of Accor and 'WelcomHotel' in case of ITC Hotels, stand to gain owing the ease with which these brands can flag existing operational properties. With more number of existing hotels available to transact over, this trend is clearly indicative of a maturing industry.

Moreover, keen investors need not limit themselves to acquiring Greenfield hotel assets anymore. Enough and more existing hotels across positioning are now available in the market, a testament to which is the six transaction mandates that HVS is currently running.

What a maturing industry also requires is an active and well-informed owner which, as highlighted by us in the past, is on the rise in India. The owner today is a lot more involved and does not shy away from raising issues that have a direct impact on his/her hospitality investments. Our interaction with the owner community during the exclusive roundtable at HICSA 2013 has left us with little doubt that this stakeholder will ensure that the operators, government and lenders address their challenges, which shall have a favourable impact on the industry at large.

Another trend that is here to stay is the increase in domestic travel and its positive effect on leisure hotel markets such as Goa, Jaipur, Agra, Udaipur and Kerala. The seasonality of these markets is seen undergoing a change with difference in the demand during peak and lean periods being bridged owing to a reduced reliance on international tourist arrivals. Growth in domestic tourist visits in 2012/13 (20%) was higher than that recorded in 2011/12 (14%) in comparison to their respective previous years. With US dollar appreciating and holidays abroad becoming increasingly expensive, we expect hotels in leisure markets to continue tapping this segment.

Going forward, we believe that surge in domestic tourism will also open up newer opportunities for development along India's coastline in Maharashtra and Orissa, with other unexplored destinations and townships such as Lavasa standing to gain.

Opportunities

With Phase I of Mumbai International Airport Limited (MIAL) landside development picking up pace after a delay of over three years since it was announced, we are hopeful of a truly world-class integrated development complete with hospitality, convention centres, office space, retail, entertainment and medical facilities in the commercial capital of the country. Upon completion, this city-within-a-city is anticipated to attract international and domestic travellers alike, providing a huge boost to the economic activity across sectors operating in the area. What India needs is more such developments in major metropolitan cities, where land, typically posing as the biggest barrier to entry, is master planned and modern infrastructure guaranteed.

Another untapped opportunity lies in the country's 7,500 km coastline. Today, the only Indian beach destination to make a mark on the world map is Goa. While there are a few nascent markets developing in Kerala, Andaman & Nicobar Islands, Pondicherry and Daman, they still have a long way to go in attaining the recognition and popularity Goa has achieved. Moreover, considering the high outbound travel from India to beach destinations such as Sri Lanka, Thailand, Indonesia, Maldives and Mauritius, there is no doubt that the demand for this line of tourism exists. We thereby look

forward to the government and tourism authorities initiating the much-needed steps to develop infrastructure and create an environment conducive for investments along India's coastline.

Finally, opportunities for growth continue to be available in the branded extended stay space. Longer lengths of stay, especially in markets such as Bengaluru, Hyderabad, Chennai, Pune and Mumbai that witness project, training and research-related visitation, have seen several unbranded serviced apartments and guesthouses mushrooming in recent years to tap the growing demand from this segment. Furthermore, hotels are seen capturing this demand by way of offering discounted rates, bigger rooms and amenities catering to the needs of extended stay travellers. Despite this, there are limited branded players in this segment who offer quality products across all price-points. Even as of 2012/13, branded extended stay supply is expected to constitute only 3.0% of the total future supply, primarily coming up in Bengaluru, Hyderabad, Chennai and Mumbai (Table 8). With low operating costs and flexibility to additionally capture transient demand by way of studio rooms, extended stay products have become economically viable in markets where such demand exists. We believe there is huge potential in this segment; and we hope more operators and developers tap this opportunity going forward.





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