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HOTELS IN INDIA TRENDS & OPPORTUNITIES

Kaushik Vardharajan

Managing Director - Consulting & Valuation

Pooja Goel

Consulting & Valuation Analyst

Aditya Karulkar

Research Analyst



Introduction

The hotel industry is very sensitive to economic cycles and is therefore intrinsically linked to the state of the economy. At HVS, we have been tracking trends within the Indian hospitality industry for the last 16 years and have witnessed two economic downturns and a historic growth period during this time. In 1995/96, when we first started tracking the Indian hotel market, we observed a downturn that lasted until 2002. Beginning 2005, the markets exhibited significant increases in revenue per available room (RevPAR) year after year until 2008 when a second depression commenced. We are, thus, in a position to provide an insight into the cyclicity endemic to the hospitality industry and the growth stage that it currently finds itself in.

The Trends & Opportunities report assesses key trends in market performance of eleven major Indian cities and also presents HVS's outlook of the markets' performances in the near future. It also outlines existing and future opportunities in the hospitality industry, of specific interest to investors, developers and hotel operators. This report is generated after analysis of the results of the Trends & Analysis Survey conducted by HVS annually; the survey collates data related to key hospitality industry operational characteristics. When we started collecting data for major Indian cities in 1995/96, only 120 hotels with a total of 18,160 rooms participated in the survey. This year, a record 462 hotels with a total room count of 58,612 rooms participated in the survey: an increase of 55 additional hotels and

approximately 9,132 rooms since the last survey. The increase in the number of respondents over the years demonstrates an increase in both HVS's penetration into the market and the market's bandwidth. Exhibit 1 illustrates survey participation from the years 2001/02 to 2010/11, with 1995/96 being the first year for the survey.

In 2010, one saw mixed economic performances across the world. Many countries that expected the year to mark their period of recovery were met with disappointment. The United States' economy remained in a somewhat precarious state as unemployment touched 9.6%, the highest it has seen since 1984. In Europe, countries such as Germany with a strong manufacturing base did well, however, Portugal, Italy, Ireland, Greece and Spain suffered from weak economies. Despite the global turmoil, India remained resilient and was estimated to grow by 8.6% by the Central Statistical Organisation (CSO) in 2010/11. For the Indian hospitality industry, 2010/11 was a year of managing revival alongside the country's growing economy. Having battled the dual problems of cost cutting by global corporate houses that resulted in a significant drop in corporate travel, and a perception of being an unsafe destination due to the terror attack in 2008, hotels have moved to improving their performances and managing growth.

Although hotel room supply grew by nearly 15% in 2010/11, growth in demand outpaced supply, and nationwide occupancy grew by 1.7% over that of

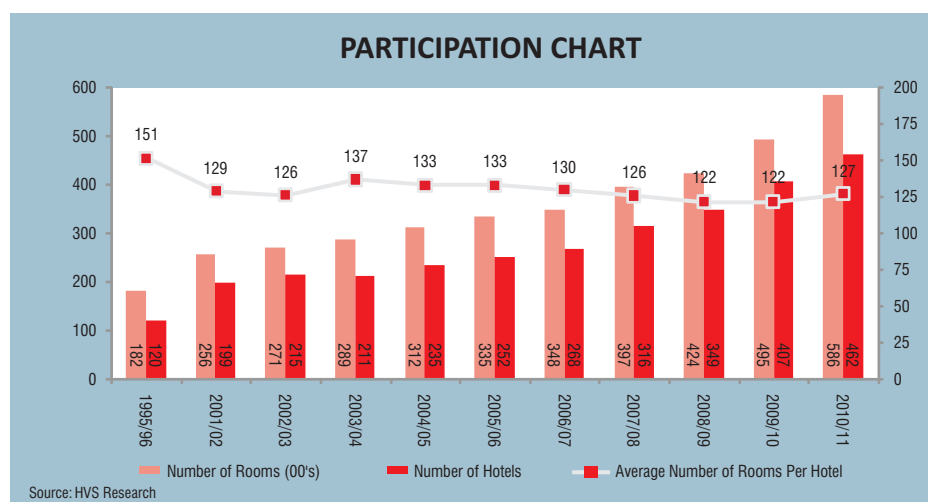
2009/10. The growth in occupancy, despite a double digit growth in supply, signals the strength of the hospitality industry in India. However, as hotels focused on improving occupancies, average rates witnessed a slight drop (1.4%) over that of the previous year. Overall, nationwide RevPAR improved marginally (0.3%).

Support from the government to revive and develop the hospitality industry has come in the form of certain policy changes. While in the past, policies such as declassifying hotels from within commercial real estate (CRE), relaxation in the External Commercial Borrowing (ECB) norms, and investment-linked tax deduction for establishing new hotels of two-star category and above have been implemented; in December 2010, the Union Cabinet approved setting up of a 'Hospitality Development and Promotion Board' (HDPB). Historically, hotel construction in India has been somewhat cumbersome owing to the multiple clearances/approvals required from central and state government agencies. These clearances/approvals differ from state to state and in some cases, as many as 110 licenses are required by hotel projects. To ease the woes of developers and investors, HDPB plans to implement a transparent system for the effective monitoring of hotel projects, facilitate timely clearances/approvals by being the single point for receiving applications, and review hotel development policies.

We had highlighted in the 2009 edition of the Critical Issues Facing Hospitality, an HVS White Paper, that a simpler method of approval process – one which is both transparent and swift is greatly needed. While it is our ardent hope that the proposed HDPB will work towards improving the licensing and approval process and take other necessary steps to benefit the hospitality industry, we remain skeptical about the chances for any radical improvements in the short-term, and fear that investors will continue to face the previously mentioned challenges for a while.

The Indian hospitality industry is now on the path of recovery and the domestic traveller has spearheaded its growth. In 2010/11, domestic traffic was recorded in excess of 740 million¹, an 11-percent rise over that of 2009/10. Segments such as

Exhibit 1: Sample Size for the Trends & Opportunities Survey for the Years 2001/02-2010/11



¹ Ministry of Tourism, India Tourism Statistics at a Glance, 2010

Leisure, Commercial and MICE witnessed a renewed interest from the domestic traveller with rising disposable incomes and improving air and road infrastructure. In fact, months such as May-July, which are traditional 'low occupancy' periods for most hotel markets in India, are gradually transforming into 'medium occupancy' periods. Since most schools close for holidays during this time, hotels, especially in leisure locations witness heightened demand from the domestic leisure traveller. In our discussions with hotel general managers across various cities, we understand that domestic MICE demand also witnesses a surge in the summer months.

Vital to the performance of the hospitality sector is the economic scenario of a country. This report discusses the tourism industry in India in relation to the economic scenario and includes macro data from the Ministry of Tourism, Government of India.

The Indian Economic Scenario - An Overview

The Indian economy has been severely buffeted by, but has withstood the turbulence caused by global economies in the past years with a Gross Domestic Product (GDP) growth of 8.6% in 2010/11 as per the advanced estimates of the CSO. Broad-based growth across most subsectors in Services and Industry including hotels, assisted by a rebound in agricultural production and exports, enabled this upward movement in GDP.

The estimated 5.4% real growth in agricultural production has been made possible by a strong improvement in several categories including foodgrains (6.5%), oilseeds (11.9%), cotton (41.2%), fruits, and vegetables. The 9.6% increase in Services aided by robust growth in telecom services, financial services and civil aviation – in line with pre-2008 growth rates – is reflective of a sustained growth momentum in an upward-moving economy. A rapid expansion of the Index of Industrial Production (IIP) in the first half of the year led by consumer durables and manufacturing, has also assisted GDP growth in fiscal year 2010. However, dismal performances of the manufacturing and mining sectors in the second half of the year brought down the overall growth of industry to 7.8% in 2010/11 from 10.5% in 2009/10. Industrial growth further slowed down to 6.8% in April-June 2011 as compared to 9.6% in the same period previous year². This decline, though being seen as temporary, is a cause for concern.

India has been ranked at the second place in global foreign direct investments (FDI) in 2010 and is expected to remain among the top five attractive destinations for international investors during 2010-12, according to a report on world investment prospects titled, 'World Investment Prospects Survey 2009-2012' by the United Nations Conference on Trade and Development (UNCTAD).

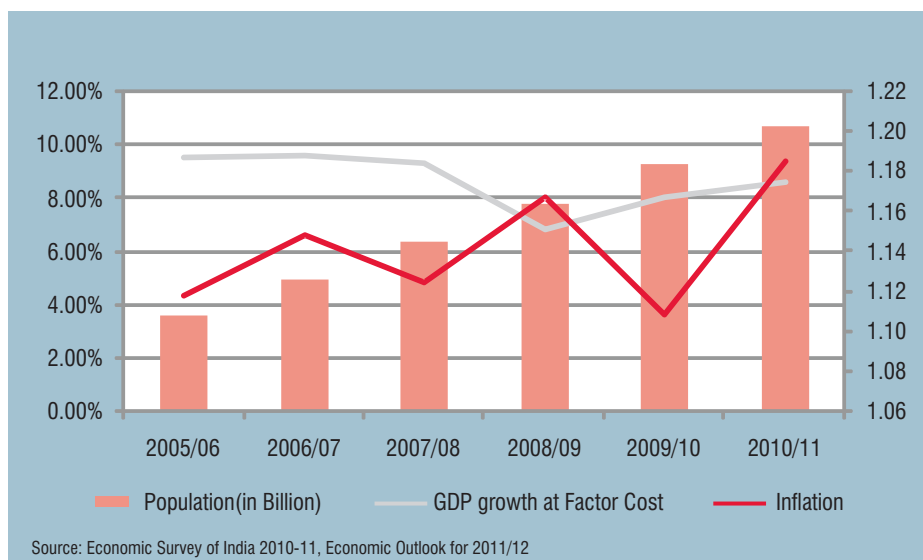
Other positive developments in 2010/11 include a reduction in the Gross Fiscal Deficit, which was at 4.8% of GDP compared

with 6.3% in the previous fiscal, and an increase of 37.5% in exports, the highest achieved till date. The current account deficit also moderated to 2.6% in 2010/11 from 2.8% in 2009/10. India's foreign exchange (Forex) reserves increased by US\$1.807 to US\$302.593 billion of the week ended 4 March 2011 according to the Reserve Bank of India (RBI). However, investment appeared to have been somewhat sluggish, when compared with that of the previous year: FDI inflow for 2010/11 was US\$26 billion (up to February), as against US\$33 billion in 2009/10. Exhibit 2 compares historical trends with respect to GDP growth, inflation and population.

The Indian economy grew by 7.7% in the first quarter of 2011/12 as compared to 8.8% in the same period of 2010/11. According to the Economic Outlook 2011/12 prepared by the Economic Advisory Council to the Prime Minister, the economy is expected to grow by 8.2% in 2011/12. The reasons for the downward revision (from an earlier estimate of 9%) include a worsening inflation situation, a spate of interest rate increases aimed at reducing such inflation, and weak global conditions. However, on a more positive note the trade, hotels, transport and communications segments grew by 12.8% during April-June 2011, up from 12.1% during the same period last year.

Inflation, year-on-year, as measured by the Wholesale Price Index (WPI) has remained at elevated levels and has been on an upward trajectory since December 2009. Inflation stood at 9.8% in August 2011, much higher than a five-year historic average of 6.5% (2006/07-2010/11). Steadily rising prices of manufactured products, food grains and oil in the past few months have contributed towards persistently high inflation. Going forth, high inflation may have an adverse effect on the profit margins of existing hotels. In an effort to fight the accelerating inflation, the RBI has raised interest rates for the twelfth time in September 2011 since the start of 2010. This effect of monetary tightening is aimed at controlling inflation by reducing liquidity in the financial market. While lower inflation may decrease the pressure on the profit margins of existing hotels, the lack of liquidity would deter banks from providing loans and restrict debt availability, and ensure that any financing available is significantly more expensive. Going forward, these factors may dampen the development of new projects.

Exhibit 2: Comparison between GDP Growth, Inflation and Population



² FICCI Economy Watch August 2011

Infrastructure is recognized as critical to sustainable economic growth and development. In the Union Budget 2011/12, capital allocation to infrastructure has gone up significantly (23%) and a tax exemption has also been proposed to encourage foreign funds in this sector. Having a strong infrastructural base is in the best interests of the hospitality industry too, as good roads and transportation network will improve connectivity and facilitate travel. The hotel industry wished to be granted infrastructure status to enable hotels to benefit from cheaper loans for new projects; however, the government did not accede to this demand.

The year 2010/11 has been that of improving core macroeconomic fundamentals. We are however currently operating in challenging times where the Western economies remain under pressure, and concerns remain about India's ability to deliver strong GDP growth while battling high inflation, a volatile stock market, and being led by a government that is plagued by scandals and seems incapable of enacting the aggressive measures that will be required to get the economy back on a growth trajectory. While our economy as a whole continues to be more driven by the domestic market, we remain sensitive and vulnerable to major economic shifts internationally. The same will apply to the Indian hospitality industry, as a result of which any budgeting exercise will require some level of understanding of the global economic scenario.

Tourism Trends

In 2010, travel and tourism has been estimated to contribute 8.6% towards India's GDP³. Growth in the tourism sector, which had shown a moderate recovery in 2009, has increased its pace in 2010. According to estimates of the World Travel and Tourism Council (WTTC), direct and indirect contribution of travel and tourism to the GDP are expected to grow by 8.1% and 8.8%, respectively, in the next ten years.

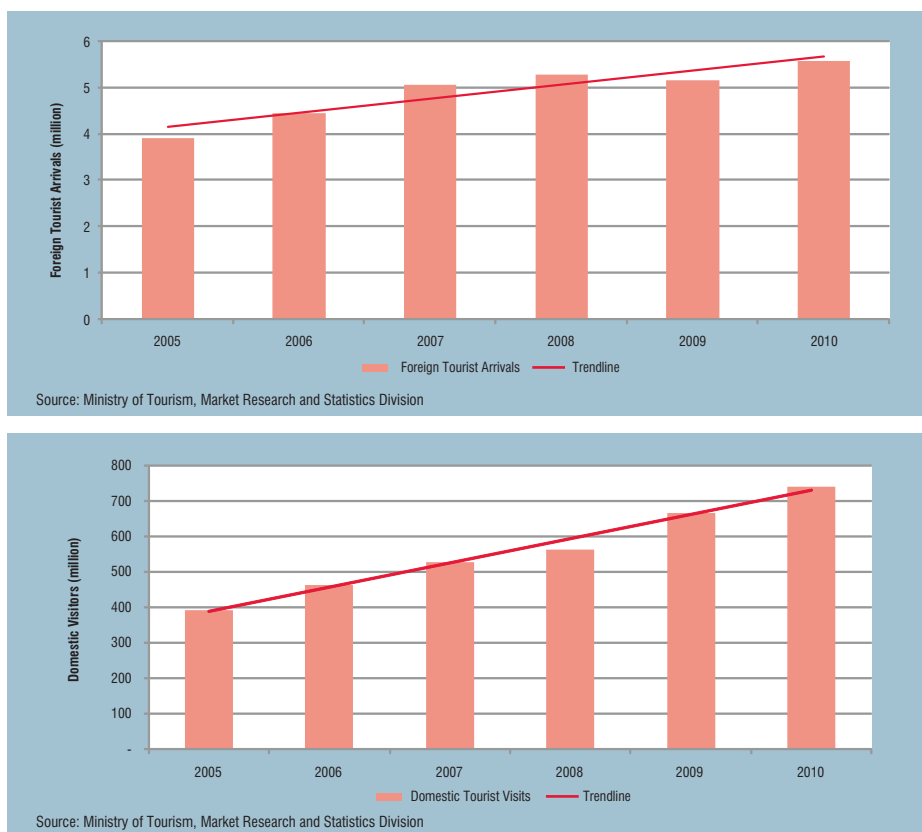
Under the Incredible India campaign, the government had introduced the Tourist Visa on Arrival Scheme to establish the country's image as a tourist-friendly nation. Initially extended to five countries namely Finland, Japan, New Zealand, Singapore and Luxembourg, the scheme was extended to an additional six countries in January 2011.

The list now also includes Vietnam, Philippines, Indonesia, Myanmar, Laos and Cambodia. In addition, the government adopted the code of conduct for 'Safe and

tourist arrivals and domestic visitation trends for India from 2005 to 2010.

Domestic demand for hotels in India has

Exhibit 3: Foreign Tourist Arrivals and Domestic Visitation Trends – India (2005-10)



Honourable 'Tourism' in July 2010 to strengthen the country's image as a safe destination. These initiatives have helped garner interest for India as a tourist destination, a case in point being a growth of 8.1% seen in 2010/11 over that of 2009/10 in foreign tourist arrivals (FTA). The positive trend has continued into 2011 and the January-August FTA numbers depict a 10.2% growth over the same period in 2010. Over the past six years, FTA into India has shown growth of 42.5% from 3.91 million in 2005 to 5.58 million in 2010. However, even at this visitation level, India accounted for only 0.59% of the global tourist arrivals. We at HVS believe that any plan to attract additional foreign tourists needs to start with improvement of basic infrastructure, facilities and amenities on the ground at our various tourist destinations. Our heritage sites remain poorly maintained, lack proper hotel options, and are not tourist friendly. Until we fix such basic problems, grand marketing campaigns and road shows around the world will have only limited impact. Exhibit 3 illustrates the foreign

historically been much higher than the demand from foreigners. Most of the domestic demand is centred around Commercial and MICE segments. In the recent past, there has been an upsurge of domestic leisure travellers owing to their rising spending power coupled with the proliferation of low-cost carriers. Since 2005, domestic visitation has demonstrated a growth of over 89% from approximately 392 million travellers to 740 million travellers. This highlights the dominance of domestic travel in the country.

Many leisure and city locations in the country have begun to tap into the potential of the domestic market. In addition, hotels have realized that the domestic market can help bridge the gap between low and high occupancy periods to attain higher year-round occupancies. This is evident from the increasing number of leisure packages and offers marketed by hotel brands during the summer months when domestic travel is at its peak.

³ WTTC, Tourism & Economic Impact, India 2010

Going forward, domestic tourism will witness strong growth and, according to HVS, will be the real driving force for this industry. This segment will be helped by the growing wealth base of India's population and increase in hotel room capacity in the long term.

Transportation Overview

India's transport system plays an integral part in promoting travel and tourism in the country. The growth of the hospitality sector is directly correlated to effectiveness of the transport system. Roads and railways are still the most widely used means of travel in the country as they are the cheapest and offer connectivity to most regions. India's Eleventh Five Year Plan identifies various deficits in the transport sector and proposes solutions. These include public-private partnerships as well as foreign investment. Additionally, the increased allocation for infrastructure development in the 2011/12 union budget bodes well for the development of tourism in the country.

Roads are the dominant mode of transportation in India today. According to the Department of Road Transport and Highways, India's road network carries nearly 65% of freight and 85% of passenger traffic. A well-built network of roads is essential for the growth of the hospitality industry as it facilitates travel and access to hotels. Connectivity and quality of roads is being improved by the implementation of the National Highway Development Program (NHDP) and other road development projects such as Special Accelerated Road Development Program in the northeastern region (SARDP-NE) and the Development of Roads in Left Wing Extremist (LWE)-affected areas project. To emphasize the government's focus on improving roadways, the allocation for the Ministry of Road Transport and Highways in the Union Budget 2011/12 has been increased to ₹200 billion, which is an 11-percent increase over that of the previous year.

The Indian rail network plays a leading role in passenger transport over long distances. However, most of its major corridors have capacity constraints and require capacity enhancement plans. The introduction of express trains, increase in the frequency of intercity trains, further branching of the railway network to cover more regions and an effective online interface have helped

boost passenger traffic over the years. Over a period of five years (2004/05-2009/10), passenger traffic has grown by 33.8%⁴. In addition, luxury trains such as the Palace on Wheels, the Indian Maharaja, Deccan Odessey and the Golden Chariot provide unique experiences and contribute towards attracting high-end foreign tourists to the country.

The most significant strategic development in the Indian domestic aviation market is that it is rapidly turning low cost. This operating model, which did not exist in the Indian market until eight years ago, now accounts for a substantial share of domestic capacity. The overall market share of low-cost airlines stood at 39.6% in March 2011⁵. The shift has occurred due to the decision taken by carriers to introduce the all-economy no-frills service model. This trend has been attributed to the fact that airlines have realized the limited market for full-service travel, particularly business class, beyond the key metro routes.

On the infrastructure front, the upgraded metro airports compare with the best in the world. The Airport Service Quality (ASQ) awards are announced each year by the Airports Council International (ACI) to benchmark airports against their peers. The awards are a reflection of airport management and service quality. For two years in a row, 2009 and 2010, Hyderabad's Rajiv Gandhi International Airport was awarded the first prize in the 5-15 million passengers per annum (mppa) category. Mumbai's Chhatrapati Shivaji International Airport (CSIA) was placed second in the 15-25 mppa category, and New Delhi's Indira Gandhi International Airport (IGIA) was placed fourth in 25-40 mppa category. Airports in Kolkata and Chennai are also being re-developed, however the target for their completion has been delayed. The Ministry of Civil Aviation had identified 35 non-metro airports to be upgraded, of which 11 have been completed.

Survey Results

The HVS Survey has been computed by dividing the participating branded hotels into their respective classifications according to star grading. As before, we have examined the performance of eleven major cities across India, wherever a reasonable sample allowed. While most of the data provided to us is in Indian rupees, we have presented survey results in US dollars as well.

This report presents the results of the HVS Survey on the performance of branded hotels, analyzed by each hotel segment, as well as major cities. For each city we have presented the new supply, its market orientation and even suggested the number of rooms under construction or active development (refer to Table 11). It then recommends the best markets for hotel development in the current scenario and proposes steps for improving their long-term performance.

In addition to this document, we publish The Indian Hotel Industry Survey, in association with the Federation of Hotel & Restaurant Associations of India (FHRAI) on an annual basis. This publication, the only one of its kind in India, provides detailed financial and operating information on hotel industry, analyzed by star category and across all major cities in the country. The next edition (2010/11) will be available by the end of the year.

The Trends & Opportunities survey reports a positive trend in the growth of hotel room supply. While there is an upward trend in the overall supply expected in the next five years, an interesting point to note is the shift in the composition of this supply. Traditionally, India has been associated with the development of luxury and upscale hotels. In our last report published in 2010, proposed luxury and upscale hotel supply constituted 50% of the total new supply expected to enter the market in the next five years. In 2011, this number has dropped to 45% giving way to increased development in the mid market and budget space. In our opinion, this bodes well for the hotel market at large as not only will it serve the rising domestic middle class, but also the international one as it will improve the affordability of India as a destination.

Industry Performance According to Star Category

The industry is clearly on its path of recovery. The revival in demand, which started in the second half of 2009/10, continued through 2010/11; as a result, the occupancy levels of the overall industry in 2010/11 grew by 1.7%, despite an increase of nearly 15% in supply during this period. Historically, average rates in India tend to lag occupancy performance by a year. True to this trend, average rates recorded a slight drop of 1.4% in 2010/11. However, nationwide RevPAR grew by a marginal

⁴ Railway Budget 2011-12

⁵ Airports Authority of India, Traffic Summary March 2011

Table 1: 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	12-Month 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%	60.5%	1.7%	-0.6%
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%	60.6%	-1.6%	-1.3%
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%	62.6%	6.8%	-0.5%
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%	60.9%	1.0%	0.3%
Three-star	51.5%	49.2%	47.0%	48.2%	47.7%	48.8%	49.7%	53.6%	59.6%	56.7%	65.9%	68.9%	64.7%	56.2%	55.5%	57.5%	3.6%	0.7%

* Growth in 2010/11 (in absolute terms) expressed as percentage of the figure for 2009/10

Source:HVS Research

Table 2: 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	12-Month 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	6,400	-1.4%	5.1%
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	9,298	0.2%	5.8%
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	6,270	-2.2%	6.3%
Four-star	1,418	1,825	2,538	2,296	2,168	2,392	2,368	2,246	2,580	3,088	3,847	5,111	5,722	5,745	4,638	4,904	5.7%	8.6%
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	3,342	2.7%	7.0%

* Growth in 2010/11 (in absolute terms) expressed as percentage of the figure for 2009/10

Source:HVS Research

Table 3: 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	12-Month Compounded Growth*	
Overall Average	93	104	110	90	81	83	73	68	78	96	122	162	199	168	142	140	-1.4%	2.8%
Five-star Deluxe	124	141	155	128	113	114	99	90	102	125	161	224	278	242	204	204	0.2%	3.4%
Five-star	78	89	91	79	77	77	69	65	73	87	112	149	190	158	141	138	-2.2%	3.9%
Four-star	44	52	70	61	50	53	50	47	56	69	86	117	142	125	102	108	5.7%	6.1%
Three-star	37	40	43	37	35	37	36	35	36	41	50	69	87	77	71	73	2.7%	4.7%

* Growth in 2010/11 (in absolute terms) expressed as percentage of the figure for 2009/10

Source:HVS Research

Table 4: 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	12-Month 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	3,872	0.3%
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	5,634	-1.4%
Five-star	1,698	2,000	1,939	1,983	1,876	1,934	1,684	1,775	2,252	2,771	3,509	4,567	5,142	4,250	3,756	3,925	4.5%
Four-star	821	1,104	1,477	1,283	1,153	1,404	1,248	1,267	1,772	2,217	2,797	3,665	3,942	3,362	2,797	2,986	6.8%
Three-star	624	705	725	702	718	816	843	895	995	1,038	1,458	2,075	2,257	1,985	1,806	1,921	6.4%

* Growth in 2010/11 (in absolute terms) expressed as percentage of the figure for 2009/10

Source:HVS Research

Table 5: 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	12-Month Compounded Growth*
Overall Average	62	66	63	50	43	48	38	39	50	66	87	116	137	100	85	85	0.3%
Five-star Deluxe	92	95	96	77	66	69	52	53	66	89	119	164	200	151	125	124	-1.4%
Five-star	53	58	53	44	43	43	36	37	49	62	79	105	128	93	82	86	4.5%
Four-star	25	31	41	34	27	31	26	26	39	49	63	84	98	73	61	66	6.8%
Three-star	19	20	20	18	16	18	18	19	22	23	33	48	56	43	40	42	6.4%

* Growth in 2010/11 (in absolute terms) expressed as percentage of the figure for 2009/10

Source:HVS Research

0.3% confirming the road to recovery of the hotel industry. Going forward, we can expect RevPAR growth to continue through 2011/12, predominantly driven through occupancy gains. As occupancy levels improve, average rates are also expected to improve.

In last year's report, all hotel categories sustained or marginally increased their occupancies from 2008/09 levels. This year, all hotel categories witnessed an improvement in their occupancy levels with the exception of the five-star deluxe category, which dropped 1.6%. Barring the five-star category, all categories saw an increase in their average rates. It is interesting to note that the highest occupancy growth was shown by the hotels in the five-star category (6.8%); however, this growth was achieved at the cost of average rates, which dropped 2.2%. The opposite also held true. In 2010/11, the highest growth in average rate was seen by the four-star category (5.7%), but it was this segment that witnessed the smallest growth in occupancy (1.0%). We believe that going forward, while it is possible to achieve high growth in average rates, it will more often than not be accompanied by a drop in occupancies especially in markets with increasing supply. The same trend in average rates was observed in US dollars also, with a decline experienced by five-star hotels. Table 1 reflects room occupancy by hotel classification for the period 1995/96 to 2010/11. Table 2 presents average rate performance in Indian rupees for the same period while Table 3 reflects average rate results in US dollars.

In terms of RevPAR, for the first time since 2008/09, hotel categories did not witness substantial declines. All categories witnessed healthy increases in RevPAR barring the five-star deluxe category, which declined by 1.4%. The drop in RevPAR was again occupancy-led although average rates increased marginally in this segment. Table 4 presents RevPAR performance in Indian rupees for the period 1995/96-2010/11 and Table 5 presents the same in US dollars.

Industry Performance According to Major Cities

In 2010/11, most hotel markets witnessed a recovery, though markets such as Pune (11.4%), Delhi-NCR (1.9%) and Ahmedabad (0.9%) observed a decline in occupancies, and Mumbai's occupancy remained stable in 2010/11. It is vital to

note at this point that these four markets were also the ones that saw double-digit growth in their new hotel supply in 2010/11, with Pune seeing a 76% increase in supply in 2010/11. The fact that occupancy levels exhibited only modest declines when compared to the significant supply increases highlights the high levels of unaccommodated demand in these markets and the potential of these markets to successfully absorb their growing supply and sustain their performances. Cities such as Bengaluru (9.8%), Chennai (9.8%) and Hyderabad (6.4%) saw the highest increases in occupancy levels. Their growth can be attributed to the revival of the IT/ITeS sector in 2010/11 and also to the fact that they did not witness significant increases in supply. Agra, the only market that saw an occupancy increase in 2009/10 continued its positive spree this year and grew by 7.7%. Other leisure destinations such as Goa and Jaipur also recovered and witnessed small levels of growth at 2.6% and 2.4%, respectively, mainly due to the domestic traveller.

In terms of average rate (Indian rupee terms), there were mixed performances across different cities. Pune, Ahmedabad, Delhi-NCR and Mumbai witnessed the largest drops at 16.9%, 6.2%, 4.1% and 2.5%, respectively. The same can be attributed to the sizable quantum of new hotel supply that each of these markets has witnessed in 2010/11. Jaipur, Agra and Goa saw increases in average rates by 6.8%, 6.6% and 5.4%, respectively signaling their strength as popular leisure markets in the country. Chennai (0.7%) and Kolkata (3.1%) saw only moderate increases in their average rates.

In terms of RevPAR growth in 2010/11, with the exception of Ahmedabad, Delhi-NCR, Mumbai, and Pune, all other markets witnessed RevPAR growth. Agra (14.8%), Bengaluru (11.2%), Chennai (10.6%), Jaipur (9.5%) and Goa (8.1%) saw significant growth in their RevPAR. This may be attributed to the increase in commercial and leisure travellers in 2010/11 along with the fact that these cities did not witness considerable new supply. Table 6 illustrates hotel occupancy for eleven key cities in India between 1995/96 and 2010/11. Tables 7 and 8 show average rates for each of these hotel markets, expressed in Indian rupees and US dollars, respectively. Tables 9 and 10 present the corresponding RevPAR data for each city.

Table 6: Key Operating Characteristics by Major City - 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	12-Month* Growth	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%	7.7%	1.6%
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%	57.7%	-0.9%	0.2%
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%	9.8%	-1.3%
Chennai	84.6%	80.2%	68.4%	64.7%	65.3%	64.6%	56.5%	58.3%	66.6%	72.9%	76.2%	74.7%	72.8%	63.1%	62.1%	68.2%	9.8%	-1.4%
Delhi NCR	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%	68.0%	66.7%	-1.9%	-0.5%
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%	66.8%	2.6%	0.5%
Hyderabad	58.1%	54.8%	53.4%	66.0%	61.3%	69.1%	66.0%	68.9%	75.9%	78.7%	82.0%	72.1%	65.7%	55.8%	53.3%	56.7%	6.4%	-0.2%
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%	58.7%	2.4%	0.8%
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%	68.5%	1.5%	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%	62.5%	0.0%	-1.7%
Pune								71.0%	68.9%	86.4%	83.1%	83.4%	69.5%	62.2%	50.9%	45.1%	-11.4%	-5.5%

* Growth in 2010/11 (in absolute terms) expressed as percentage of the figure for 2009/10

Source: HVS Research

Table 7: Key Operating Characteristics by Major City – 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	12-Month* Growth	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	6,155	6.6%	9.4%
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	4,257	-6.2%	4.7%
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	6,681	1.3%	7.4%
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	5,753	0.7%	5.0%
Delhi NCR	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	8,655	8,300	-4.1%	6.9%
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	5,914	5.4%	6.8%
Hyderabad	1,499	1,604	1,646	1,579	1,867	2,316	2,414	2,541	2,774	3,772	4,870	5,962	6,271	6,297	5,146	5,136	-0.2%	8.6%
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	4,849	6.8%	8.1%
Kolkata	3,104	3,556	3,951	3,888	3,557	3,698	3,409	2,917	3,021	3,240	3,887	5,288	6,575	6,686	6,087	6,272	3.1%	4.8%
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	8,219	-2.5%	3.2%
Pune							2,603	2,805	3,521	4,915	6,523	7,946	7,493	5,810	4,827		-16.9%	8.0%

* Growth in 2010/11 (in absolute terms) expressed as percentage of the figure for 2009/10

Source:HVS Research

Table 8: Key Operating Characteristics by Major City – 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	12-Month* Growth	Compounded Growth
Agra	49	52	56	50	38	35	39	41	53	67	81	108	131	116	121	135	11.6%	7.0%
Ahmedabad	66	76	50	53	62	61	50	45	52	62	70	81	108	104	95	93	-1.9%	2.3%
Bengaluru	71	89	95	81	70	80	79	78	105	166	197	239	244	207	138	147	6.0%	5.0%
Chennai	86	100	110	89	79	85	75	67	72	83	98	123	158	145	120	126	5.4%	2.6%
Delhi NCR	94	113	135	111	95	101	92	85	93	114	155	211	259	214	181	182	0.4%	4.5%
Goa	69	66	63	73	63	65	57	57	67	89	108	133	155	137	118	130	10.3%	4.3%
Hyderabad	46	45	45	39	43	52	51	53	60	84	109	137	156	137	108	113	4.5%	6.2%
Jaipur	47	52	68	62	45	65	62	57	65	77	99	121	141	130	95	106	11.8%	5.6%
Kolkata	96	100	109	88	82	82	72	61	66	72	87	121	163	146	128	138	7.9%	2.4%
Mumbai	159	176	170	138	130	124	104	87	95	107	136	200	272	233	177	180	2.1%	0.8%
Pune								54	61	78	110	150	197	163	122	106	-13.1%	8.8%

* Growth in 2010/11 (in absolute terms) expressed as percentage of the figure for 2009/10

Source:HVS Research

Table 9: 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	12-Month* Growth	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	3,705	14.8%	11.2%
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	2,456	-7.0%	5.0%
Bengaluru	1,640	2,107	2,112	1,920	1,948	2,514	2,402	2,701	3,793	6,081	6,720	7,544	6,417	5,181	3,509	3,902	11.2%	5.9%
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	3,924	10.6%	3.5%
Delhi NCR	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	5,885	5,536	-5.9%	6.4%
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	3,951	8.1%	7.3%
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	2,912	6.2%	8.4%
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	2,847	9.5%	8.9%
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	4,297	4.6%	5.3%
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	5,137	-2.5%	1.4%
Pune							1,848	1,848	1,933	3,042	4,084	5,440	5,522	4,661	2,957	2,177	-26.4%	2.1%

* Growth in 2010/11 (in absolute terms) expressed as percentage of the figure for 2009/10

Source: HVS Research

Table 10: 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	12-Month* Growth	Compounded Growth
Agra	23	27	26	23	15	15	13	13	27	38	45	64	76	61	68	81	20.2%	8.7%
Ahmedabad	37	50	36	31	31	34	27	24	33	42	48	55	79	64	55	54	-2.7%	2.6%
Bengaluru	51	60	58	48	45	56	51	56	82	135	151	173	160	113	74	86	16.4%	3.6%
Chennai	73	80	75	58	52	55	42	39	48	61	77	92	115	91	74	86	15.8%	1.1%
Delhi NCR	67	76	81	60	50	59	49	51	68	90	125	162	192	144	123	121	-1.5%	4.0%
Goa	43	39	37	43	34	39	31	34	40	56	73	97	112	84	77	87	13.2%	4.8%
Hyderabad	27	25	24	26	26	36	35	37	46	66	89	99	102	76	58	64	11.1%	6.0%
Jaipur	25	30	35	28	21	36	30	26	38	52	65	79	121	70	55	62	14.6%	6.4%
Kolkata	61	56	67	51	45	52	48	40	41	50	66	91	91	101	86	94	9.5%	2.9%
Mumbai	129	128	111	93	84	80	54	55	66	77	104	156	203	141	110	113	2.1%	-0.9%
Pune							38	38	42	67	91	125	137	101	62	48	-23.0%	2.8%

* Growth in 2010/11 (in absolute terms) expressed as percentage of the figure for 2009/10

Source: HVS Research

Hotel Supply

Over the past few years HVS has been tracking the development of new supply very closely. The proposed supply of new branded and quality hotels in 2007/08 was 114,466 rooms, which declined to 94,115 rooms in 2008/09 due to the economic downturn. The decline continued through 2009/10 with the total proposed supply amounting to only 89,499 rooms. With the recovering economy, the proposed supply figure, which represents new hotels expected to open over the next five years, has risen to 102,438 rooms in 2010/11.

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 analyzed rationally, through the prism of an unbiased third party, for the probability factor of their development within the next five years.

We would like to highlight that 2010/11

witnessed an addition of 9,127 branded rooms to the existing supply second only to the supply which was introduced in 2009/10. In Table 11, we present the existing and proposed supply entering each of the twelve markets and other cities covered in this report. Moreover, the table reflects the anticipated growth over the next five years and quantifies the number of hotel rooms that are either under construction or those that HVS is confident will open before March 2016. We have further classified the new supply into its potential segments of luxury, upscale, mid market, budget and extended stay hotels. Table 12 presents the development of the hotel markets across India over the last five years.

Table 11: Distribution of Existing and Proposed Branded Hotel Rooms by Major City – 2010/11-2015/16

	Existing Supply 2010/11	Proposed Supply	Increase over Five Years	Active Development of Supply	Luxury	Upscale	Mid Market	Budget	Extended Stay
Agra	1,439	667	46%	22%	19.5%	16.8%	63.7%	0.0%	0.0%
Ahmedabad	1,785	2,319	130%	73%	10.8%	43.6%	23.6%	22.0%	0.0%
Bengaluru	5,947	12,509	210%	67%	23.2%	29.0%	29.1%	13.4%	5.4%
Chandigarh	786	1,855	236%	90%	8.9%	28.4%	58.4%	4.3%	0.0%
Chennai	4,066	7,819	192%	57%	18.8%	18.4%	35.5%	19.6%	7.6%
Delhi-NCR	12,708	18,608	146%	75%	20.0%	36.2%	26.8%	10.6%	6.4%
Goa	3,375	2,154	64%	53%	19.2%	19.6%	40.7%	20.5%	0.0%
Hyderabad	4,036	5,713	142%	77%	15.4%	21.0%	46.1%	15.5%	1.9%
Jaipur	2,554	4,867	191%	45%	10.3%	53.0%	25.9%	10.8%	0.0%
Kolkata	1,588	3,612	227%	58%	23.1%	39.8%	37.1%	0.0%	0.0%
Mumbai	11,303	12,121	107%	35%	35.7%	20.4%	33.0%	8.5%	2.3%
Pune	4,691	5,545	118%	56%	12.2%	17.3%	41.9%	27.1%	1.5%
Other Cities*	17,253	24,649	143%	56%	1.7%	31.3%	53.8%	12.7%	0.4%
Total	71,531	102,438	143%	60%	15.5%	29.5%	37.7%	13.0%	3.0%

* Includes all other hotel markets across India

Source: HVS Research

Table 12: Comparative Analysis – Distribution of Existing and Proposed Branded Hotel Rooms by Major City – 2006/07-2010/11

	Existing Supply					Proposed Supply					Active Development of Supply				
	2006/07	2007/08	2008/09	2009/10	2010/11	2006/07	2007/08	2008/09	2009/10	2010/11	2006/07	2007/08	2008/09	2009/10	2010/11
Agra	1,336	1,336	1,419	1,439	1,439	764	670	400	510	667	32%	55%	75%	41%	22%
Ahmedabad	519	675	800	1,521	1,785	2,230	3,664	3,058	2,339	2,319	60%	47%	71%	69%	73%
Bengaluru	2,414	3,456	3,889	5,597	5,947	12,882	15,542	10,784	9,819	12,509	61%	60%	58%	65%	67%
Chandigarh	340	340	351	653	786	1,567	1,813	1,459	1,482	1,855	45%	54%	55%	76%	90%
Chennai	2,442	2,826	3,307	3,806	4,066	6,213	7,147	4,945	5,995	7,819	68%	71%	67%	72%	57%
Delhi-NCR	7,990	9,019	8,625	11,018	12,708	19,423	22,360	16,560	20,021	18,608	56%	51%	53%	75%	75%
Goa	2,450	2,768	2,795	3,288	3,375	3,058	3,353	2,178	1,736	2,154	58%	42%	31%	41%	53%
Hyderabad	1,868	2,554	2,761	3,782	4,036	10,619	8,250	5,884	5,302	5,713	47%	64%	73%	63%	77%
Jaipur	1,388	1,556	1,683	2,472	2,554	4,012	2,937	3,357	2,664	4,867	56%	53%	53%	77%	45%
Kolkata	1,354	1,396	1,373	1,520	1,588	3,644	5,965	4,025	3,481	3,612	67%	49%	62%	51%	58%
Mumbai	7,402	8,454	7,948	9,877	11,303	11,578	10,613	13,386	7,477	12,121	49%	62%	73%	60%	35%
Pune	777	1,346	1,518	2,672	4,691	8,072	8,243	8,054	5,196	5,545	77%	66%	52%	67%	56%
Other Cities	9,005	11,256	12,006	14,759	17,253	17,909	23,909	20,025	23,427	24,649	58%	60%	60%	65%	56%
Total	39,285	46,982	48,475	62,404	71,531	101,971	114,466	94,115	89,449	102,438	58%	58%	60%	67%	60%

Source: HVS Research

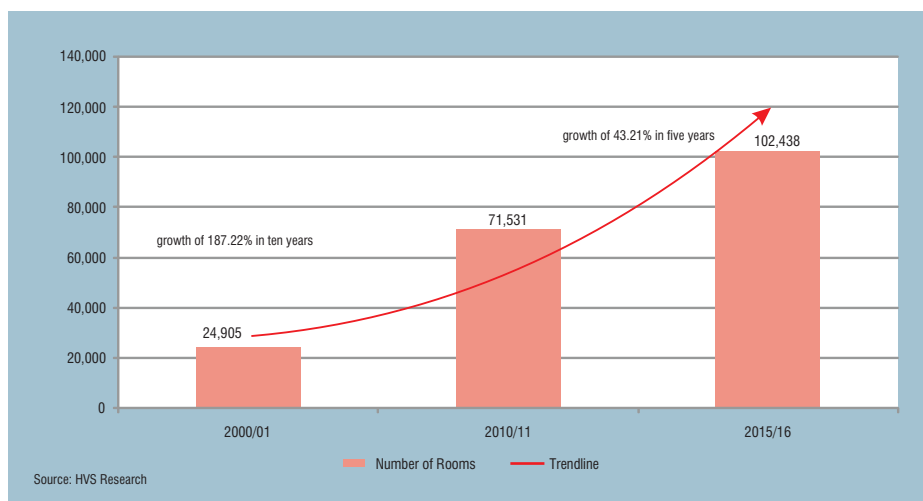
Table 13: Distribution of Recently Opened Branded Hotel Rooms not accounted for in 2010/11 Existing Supply

	Number of Rooms
Agra	0
Ahmedabad	94
Bengaluru	1,820
Chandigarh	215
Chennai	624
Delhi-NCR	2,021
Goa	446
Hyderabad	774
Jaipur	708
Kolkata	0
Mumbai	547
Pune	817
Other Cities	1,390
Total	9,456

Source: HVS Research

Last year, when we undertook the exercise of determining new supply, we had highlighted that Kolkata and Chandigarh reflect the highest growth rates in hotel development among the cities over a five-year period. This year too, Chandigarh (236%) followed closely by Kolkata (227%) have the highest growth rates in hotel development. However, the actual numbers

Exhibit 4: Growth of Room Supply – India (2000/01-2015/16)



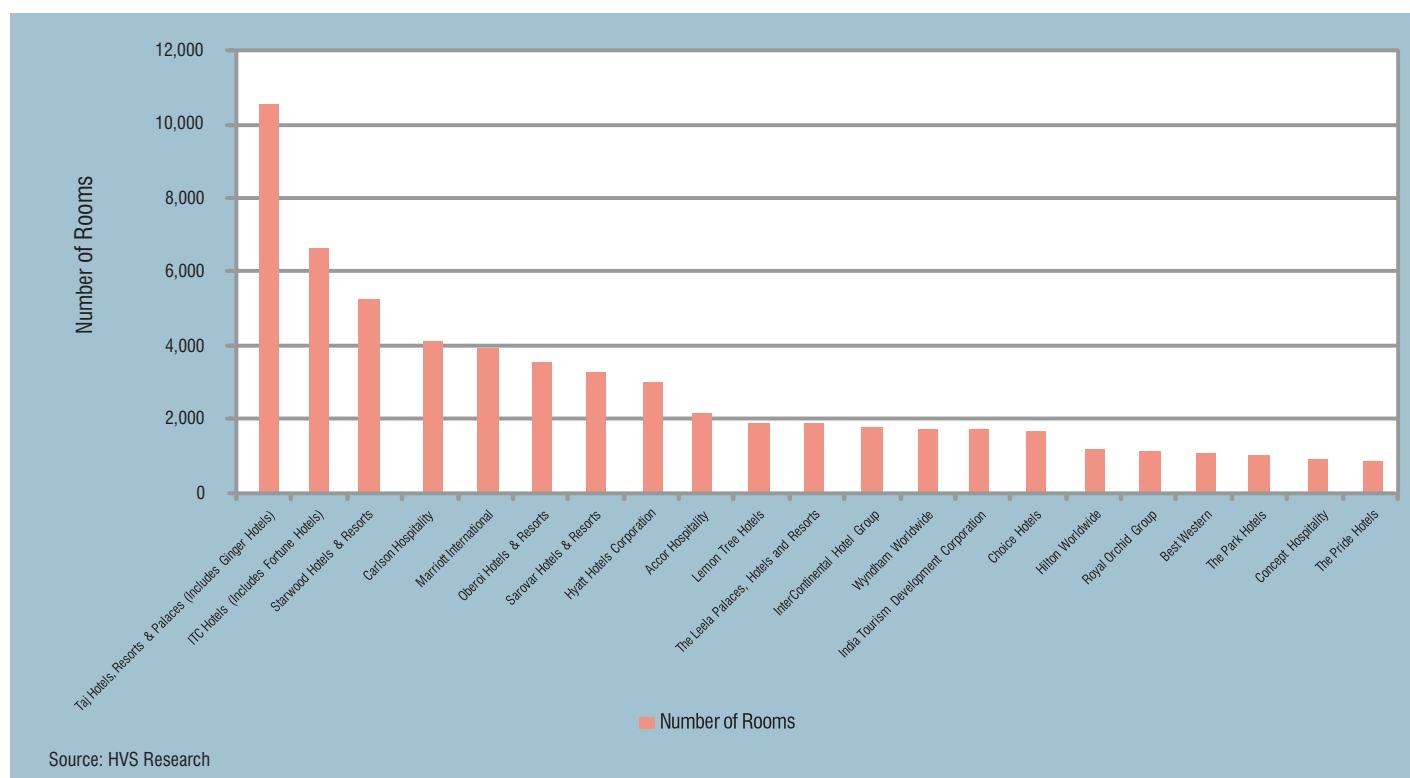
Source: HVS Research

of rooms being developed are far fewer in comparison to cities such as Delhi-NCR, Bengaluru or Mumbai owing to their small existing supply bases. Delhi-NCR is expected to witness maximum hotel development in terms of number of hotel rooms among all the cities over the next five years. While Table 11 needs to be read carefully and may come as an eye opener to many potential investors, it is the fourth column that needs careful consideration, since it reflects the actual active development of the proposed supply. So while Delhi-NCR may reflect that 18,608

rooms are under development, we at HVS believe that only 75% of this proposed supply will actually be successfully developed by March 2016. Similarly, Table 12 illustrates how the Delhi-NCR market has changed on the supply front over the past two years.

We would like to note that we have not included 9,456 rooms which have opened in the past few months in the existing supply, as outlined in Table 13. Considering that they are at a nascent stage of their lifecycles, they have been accounted for

Exhibit 5: Distribution of Existing Supply across Hotel Brands – August 2011



Source: HVS Research

within the proposed supply. The latter portion of this report discusses the growth, demand and supply situation for each of the cities mentioned in the report.

Research by HVS confirms that compared to other comparable major cities around the world, the major cities in India have a considerably lower number of branded/quality rooms supply. The current total supply of approximately 71,500 rooms in the country is significantly lower than that for other countries. Therefore, even with the addition of 61,396 branded/quality rooms across India in the next five years, we believe that India offers huge potential to investors and operators across all segments.

In Exhibit 4, we note that from 2000/01 to 2010/11, in a period of ten years, the supply of rooms increased by 187.2%. As the government policies become more favourable towards hospitality development and India continues to attract attention as a promising market, the room supply is expected to increase by 43.2% in 2015/16 from that in 2010/11. Many international hotel brands have entered the Indian hospitality market in the past decade and are now aggressively focusing on their expansion strategies. In Exhibit 5, we present the operating hotel supply distribution across various hotel brands as of August 2011. We note that currently the top five positions are no longer occupied by only indigenous brands, but by a mix of domestic and international hotel companies.

The domestic market has shown enormous potential in the past and continues to support the growing tourism sector, shielding India to a significant extent from global economic and tourism downturns, with an annual travelling domestic population of over 740 million travellers, which is more than double the entire population of the US. We believe that despite the growth in demand, the considerable quantum of proposed supply over the next few years will put pressure on hotel occupancies and average rates. Going forward, we believe that while supply may outpace demand in the short run, occupancies will gradually improve, following which average rates should also exhibit increases.

City Trends

Agra witnessed the highest growth in

RevPAR (14.8%) amongst the eleven cities tracked in this report. The growth was predominantly occupancy led, which is also evident from the fact that Uttar Pradesh received nearly 20% of the total domestic travellers and over 9% of foreign tourist visits in 2010. The data from Agra clearly shows the strength of the domestic market in India. Another reason for its attractive growth in RevPAR is that it is the only market that did not witness any new supply in 2010/11. We are currently tracking proposed supply of 667 rooms over the next five years with 22% probability factor of all these rooms actually commissioning. We would like to highlight that a considerable portion (63.7%) of the supply is expected in the mid market space, emphasizing the city's orientation towards the rapidly growing Indian middle class.

Ahmedabad has seen one of the most aggressive increases in supply across the eleven markets, with the city's hotel supply having more than doubled since 2008/09. Ahmedabad in fact saw supply increase by 17% in 2010/11, but still managed a marketwide occupancy drop of only 0.9%, highlighting the strength of the market and the high levels of unaccommodated demand in the subject market. Under Chief Minister Narendra Modi's investor-friendly regime, an increasingly larger number of companies are moving to Ahmedabad and are looking to make major investments into the state. Hotel investors remain bullish on the state in general and the city in particular, as witnessed by a proposed supply pipeline of 2,319 rooms over the next five years, with 73% probability factor of all these rooms actually commissioning. Although a significant quantum of supply is expected to enter the market, we believe that the city will be able to absorb the new supply over the medium to long term. Given the fact that Ahmedabad remains a price-sensitive market and given the new supply expected in the city, we forecast only moderate rate increases in the near future.

Bengaluru witnessed the second-highest increase in RevPAR (11.2%) within the survey, which was mainly led by a considerable increase in demand for hotel rooms. Hotel supply on the other hand, grew by only 6%. The various micro-markets in Bengaluru function very differently from one another. Therefore, while Whitefield may have observed difficult market dynamics in 2010/11, the Central Business District saw demand grow at roundly 30% with minimal new supply

during the same period. The city is still heavily dependent on Commercial business, although Extended Stay demand has picked up in the geographical areas of Whitefield and ORR-Sarjapur. Unlike some other large cities in India, Bengaluru does not have a leisure base and the potential of the MICE segment remains untapped by virtue of a lack of significant meeting spaces. Following a lengthy process, a developer had been selected to construct a convention centre close to the airport in Devanahalli, but that process was subsequently cancelled, with new plans to restart the bidding process at a future date. The development of a convention centre in Bengaluru has been effectively pushed out several years and will have a significant negative impact on the city's lodging industry. Given the positive effect such convention centres have had on the economic health of other cities around the world, the state government needs to look into this matter more closely and be proactive in the development of such infrastructure projects.

We're currently tracking a proposed supply of 12,509 rooms over the next five years with 67% probability factor of all these rooms actually commissioning. With the city hotel base inventory expected to more than double in the next few years, we believe hotels in the city will see occupancy pressures, especially within Whitefield and Electronic City in the next 2-3 years. We project average rates for the overall Bengaluru market to remain stagnant or exhibit only moderate increases in the near future as hotels focus on occupancy levels in a more competitive market place.

The Chandigarh - Tri City (inclusive of Mohali and Panchkula) saw an increase of approximately 20% in its new supply during 2010/11. As mentioned earlier in this study, while the proposed supply expected to enter the market in the coming years may be the highest in comparison to the current base of operating hotels, we find the Chandigarh hospitality market to have the inherent demand to absorb this supply. As the hub for industries, services and trade for Himachal Pradesh, Punjab and Haryana, the Chandigarh market requires quality hotels and especially those with convention facilities in order to attract the Commercial and MICE market. While the need for a convention centre may get addressed with the development of one at Mohali, the continuing shortage of quality budget

hotels in the market remains glaring and also an attractive investment proposition.

Chennai has witnessed stable average rates in the range of ₹5,300 to ₹6,700 and high occupancies (an average of 68.2%) in the last five years, primarily due to minimal addition of supply. Chennai witnessed an addition of only approximately 750 branded hotel rooms across all positionings from 2008/09 to 2010/11. However, going forward, an additional 2,500 rooms are expected in the next three years in the upscale and luxury segments, adding to an existing base of approximately 2,000 rooms in the same segments. The year 2011/12 witnessed the opening of the 327-key Hyatt Regency, Mount Road and the 204-key Hilton, Guindy. The large amount of supply entering the market is bound to put pressure on occupancy levels in the short to medium term, but the city-wide average rate is expected to witness growth due to the luxury and upscale products entering the market.

Chennai has witnessed a resurgence of demand from the IT sector in 2010/11, with the automobile sector being a major contributor to the growth in demand. It may be pertinent to note that 2010/11 was a record year for the auto industry as a whole, which witnessed a strong year-on-year volume growth of 26% due to revival in demand and easy availability of financing. The city hotels also continue to receive demand from the traditional sectors such as banking and finance. In the long term, we expect the city to segregate into micromarkets, with the regions of Sriperumbudur and OMR attracting significant investments into hotels, primarily in the budget and mid market segments. OMR is the IT corridor of the city and Sriperumbudur, along with Oragadam, is fast becoming an industrial hub with manufacturing and automotive sectors playing a key role.

Given the number of companies setting up their offices in the city and the number of factories being established in micro-markets such as Sriperumbudur and Oragadam, there is a significant amount of Extended Stay demand in the market that has until now been accommodated either by the mainstream hotels or by the unorganized unbranded sector. Going forward, we expect strong growth in the Commercial and Extended Stay segments, and expect the new hotels with large

conferencing facilities to attract more MICE demand. Our outlook for the market therefore remains positive.

Delhi-National Capital Region (NCR) is the largest hotel market in the country both in terms of active assets under development and potential projects in planning. This continues to receive considerable media attention with respect to hospitality development and related market impact after supply doubles in the next four to five years. Land acquisition in some areas of Noida-Greater Noida have seen a slowdown in many announced projects but other identified growth areas like the DIAL Aero city (15 hotels under planning and development), Gurgaon, Dwarka, West and East Delhi continue to see active hospitality focused developments. NCR witnessed a growth of 15% in supply in 2010/11. Going forth, HVS is tracking over 90 hospitality development projects with an estimated 18,608 rooms. However, we expect only 75% (13,906 rooms) of these projects to be built over the next five years. In the short term, Delhi continues to be a strong market and the phased introduction of the DIAL hotels from late 2012 will see a growth in accommodated demand.

With respect to micromarkets, Gurgaon is expected to double its supply in the next five years. With the rapid commercial growth in the city extending all the way to Manesar, there has been a sharp increase in the number of hotel projects under development. In the past three years, Gurgaon has had the highest completion ratio of projects under development in NCR. The pace of execution and project completion in Noida and Greater Noida, on the other hand, has been slower and is expected to remain so in the short term. While Greater Noida is expected to host the country's first Formula One event this October, only four new properties would have opened in the trans Yamuna area in time for the event. However, in a five to six-year period, the city's base of branded and quality rooms is expected to expand ten-fold. We at HVS believe there is significant over-supply in the five-star deluxe and five-star space in Noida and have serious concerns about the impact on the market if all the proposed hotels were to open. We believe that one needs to be very circumspect about developing more hotels in Noida, especially as there will be several opportunities to acquire both greenfield and brownfield assets in the next few years.

Goa continues to grow in popularity as one of India's most endeared leisure destinations. While demand is witnessing steady year-on-year increase in Goa, future growth hinges on the development of an airport with adequate facilities to handle movement round the clock. The proposed upgradation of the Dabolim Airport that was announced in 2007 has been stalled over land acquisition issues. The much-talked-about Mopa Airport, which is proposed to come up in Pernem district in North Goa has also not witnessed traction. Additionally, Goa is perceived as a difficult market to enter for hotel developers. Lack of a comprehensive tourism policy, obstacles in obtaining approvals and clearances, and frequent disputes over land use and ownership have resulted in a relatively slow increase in supply within the Goa hotel market. We are currently tracking a proposed supply of 2,154 rooms over the next five years with 53% probability factor of all these rooms actually commissioning. The recently opened Grand Hyatt is expected to draw considerable volumes of MICE demand. Which, in our opinion, will help the state establish itself as a lucrative meeting and conference destination. Overall, our future outlook for the state remains positive. We expect the hotel market to successfully absorb the proposed supply and in fact witness a growth in occupancy levels. Average rates are also expected to witness relatively strong growth in the near future before showing signs of gradual increase in the long run.

Hyderabad market witnessed a moderate increase in RevPAR (6.2%). Although companies based in Hyderabad had reduced travel to the city in 2009/10 due to the political disruptions, the companies have now resumed travel as they are simply tired of waiting for the political situation to be resolved. While demand generated by existing companies has picked up, unfortunately no new companies and/or investments are moving to Hyderabad. This is a cause of concern for hotel operators as the existing demand for hotel rooms will keep getting divided between more hotels year-on-year.

The Hyderabad International Convention Centre (HICC), which should have reached a stabilized level of performance by now, has had to heavily rely upon weddings and social functions to sustain operations, a major deviation from their initial strategy of hosting high-profile domestic and

international conventions and groups. On a positive note, the country's first regional convention and visitors bureau, Hyderabad Convention Visitors Bureau, is now active in the city. Although the benefits of the bureau may not be visible for another year or so, it is a step in the right direction that should be replicated by other cities in India. The less-than optimal increase in demand and increase in room supply of 7.0% has forced hotel operators to give precedence to occupancy levels and try and maintain average rates. Even so, the market has witnessed a marginal decline of 0.2% in average rates.

We are currently tracking proposed supply of 5,713 rooms over the next five years with 77% probability factor of all these rooms actually commissioning. A considerable portion (46.1%) of the supply is expected in the mid market space in the areas of Gachibowli and HITEC city. HVS believes that although demand will continue to grow, the impending supply pressures are likely to keep the occupancy and average rates fairly muted in the next few years.

Jaipur, over the years, has established itself as a leisure destination owing to its rich cultural heritage and it being a part of the popular Golden-Triangle itinerary together with Delhi and Agra. Commercial demand in Jaipur has historically been created by its large base of garment, gems and jewelry traders, and has been supplemented by the likes of Infosys and Genpact that have set up operations in the city. Additionally, several telecommunication companies such as Airtel, Vodafone, Reliance etc have set up both technical as well as sales offices in Jaipur with the purpose of rolling out 3G services in the state. Like other leisure markets in India, Jaipur improved its occupancy and average rate last year. The recent opening of the Jaipur Marriott and the impending opening of the Fairmont are expected to substantially help boost MICE demand for the market.

The government has also taken a step towards promoting Conventions and Events in Jaipur by recently conducting a bidding process for a proposed convention centre to be developed in Sanganer. However, international air connectivity still remains a challenge and would need to improve drastically to help improve overall hotel demand in the city. New supply is expected to grow by 191% (4,867 rooms), of which HVS believes only 45% will

actually see completion. More than half (53%) of this supply is expected in the upscale segment. HVS is of the opinion that the city is now flirting with the danger of oversupply in the upscale space. Going forward this may act as a deterrent for the price conscious domestic traveller which has recently witnessed increased contribution to demand for the city's Leisure segment. In the next two years, we expect occupancies and rates to decline in Jaipur.

Kolkata, a highly rate sensitive market, witnessed a 3.1% increase in average rate with a modest 1.5% increase in occupancy levels as supply grew by 4%. Kolkata's biggest advantage is that it is not dependant on one source of demand for room nights and caters to the Leisure, Commercial and Meeting and Conference segments extensively. However, poor civic infrastructure, and a state administration that is generally viewed as lethargic, has limited the pace of development and growth in the city. Nevertheless, despite the slow pace of growth, the overall outlook for Kolkata remains positive owing to an increase in commercial activity in the city and new developing areas such as Rajarhat.

We are currently tracking a 227% (3,612 rooms) growth in new room supply with a probability factor of 58% development taking place over the next five years. This year there has been marginal increase in the proposed supply as compared to 2009/10. We believe that this is a step towards the positive side. Of the developments in the pipeline, we believe that currently there is more emphasis on the development of upscale and mid market hotels. Of the markets being tracked by us in this report, Kolkata remains the only other city (besides Agra) that is yet to witness any development on the budget front. In the short term, the city hotels will retain their occupancy levels and see marginal improvement in average rates. In the long term, we expect rates to correct owing to supply pressure.

Mumbai has maintained its 2009/10 occupancy levels with a slight decline in average rates. The city saw a growth in supply of 14% in 2010/11. We would like to highlight that despite this growth in supply, the market maintained its occupancy and average rates witnessed a slight dip owing to most of the supply being in the mid market segment. We are

currently tracking a supply growth pipeline of 107% (12,121 rooms), which is a substantial increase from the previous year's projected supply of 7,477 rooms. However, most of these projects are presently in their initial stages of planning. Hence, we estimate that only 35% of these developments are likely to take shape by 2016. Though the percentage of active development has almost halved since the previous year, in absolute numbers the confirmed supply is nearly the same as last year. Going forth, our outlook for the Mumbai market remains bullish and we expect that the city will successfully absorb the incoming supply with its growing demand. North Mumbai continues to develop into a major commercial hub which is attributed to lower office rentals combined with the fact that a major portion of the city's working population resides in the northern areas of the city.

On the infrastructure development front, the Chhatrapati Shivaji Airport is continuing its expansion and the Mumbai Metro Rail Project is expected to start partial operations of phase I in 2012. However, the intra-city roads remain a major sore point for commuters in the city. In 2010, the proposed Navi Mumbai International Airport received environmental clearance and development is expected to start soon.

Pune city saw the largest addition in new supply in 2010/11 (76%, 2,019 rooms) and expectedly resulted in the highest drop in RevPAR (26.4%). The positive impact has been that the overall number of occupied room nights registered by the city hotels (base demand) has seen a significant growth (35%) and trends indicate this to get even stronger as the city moves from being a largely commercial driven market to also developing as a Meeting and Conference destination in West India. The city hotels today support a total indoor meeting space area of approximately 8,500 square metres. Areas such as Hinjewadi, Pimpri Chinchwad, Talegaon and Chakan, Ranjangaon are the main demand generators for the city hotels, filling the void created by the lack of a traditional CBD. HVS is currently tracking new supply of 5,545 rooms with a 56% probability factor of the rooms actually opening. Of this new supply, mid market and budget hotels now form a large share which will bode well for the hotel market growth in the identified industrial areas. In the short term, we

believe that market occupancies will improve from current levels while average rates will continue to see correction. In the medium to long-term, strong growth of Meeting and Conference demand will allow the RevPAR performance of the city to improve.

HVS believes that despite these developments, there would be opportunities for developers in several locations across the country provided that the product positioning and facilities mix are suited to the site and the specific market. Overall, the country remains a preferred location, second only to China for major hotel brands. From an investor's perspective this recovery period is probably the best time to make investments into the hotel sector.

Future Trends

Our analysis of the various markets across the country leads us to believe that while demand is expected to increase across these cities in the future, there are markets where anticipated supply increases will exceed demand growth in the near future and will therefore put pressure on occupancy and average rate levels in the short term. In the long term, we remain bullish on the hospitality industry as the fundamentals remain strong and India's GDP is still projected to grow in the 7-8% range.

An analysis of the Indian hospitality industry over the past fifteen years reveals very few transactions of existing and operating hotels, a result of a limited base of hotels in the various markets and asking prices by hotel owners that were significantly higher than the replacement cost for similar assets in that market. We believe that as the number of hotels in each market increases and as institutional investors increasingly play a role in this sector, more operating assets will change hands. We believe that we are entering the next phase in the lifecycle of the Indian hospitality where prospective investors will be able to choose between building and buying a hotel in any market and will derive comfort from the presence of a larger pool of hotel buyers that can serve as an exit option at the end of the holding period.

We are currently in discussions with several high net-worth individuals and funds, including a few from China, who are keenly looking at the hospitality space in India

with the intention of making strategic long-term investments. The cost of capital, and subsequently required returns, for such buyers is quite low as compared to Western funds, which gives them the ability to bid aggressively for assets that meet their long-term goals. We believe our industry will see a few such deals in the next 12-18 months and will set the path for future transactions of this nature.

Investment into the hospitality sector has recently come from a new corner, namely that of the hotel brands. We are now seeing brands that have until now focused on an asset-light strategy, actually deploy their own capital in strategic deals with development companies to create portfolios of budget and mid market hotels across the country. The willingness of brands to partner in the development process and the inherent risk is indicative of their positive opinion of the future of the Indian hospitality industry. There are currently at least five domestic and international brands in the country today that are actively investing in hotel developments.

Opportunities

We believe that there are significant opportunities across hotel positionings in the MICE segment. While the economic slowdown in 2008 adversely impacted the schedule for development of convention centres across various cities, development is expected to pick up pace, with the Government of India's decision to set up convention centres in multiple locations across the country, as a part of its infrastructure development plan. Additionally, in order to promote the demand in the MICE segment, the Ministry of Tourism will consider a grant for financial assistance up to ₹5 crore for the construction of one convention centre in each state/union territory. The recent bidding processes for convention centres at Mohali and Jaipur also reflect the government's support towards increasing MICE demand for the country and bodes well for the hotels in these markets.

In recent years, we have seen an increasing focus on building and operating "green" hotels. HVS strongly believes that being green is not just good for a hotel's image, setting the hotel a class apart from its competition, being green reaps annual financial benefits. Green hotels pay 15-50% less on their energy bill and approximately

50% less on their water bill. Additionally, their solid waste department can transform from an expense to a revenue source for the hotel, sometimes generating revenue that rivals the financial savings from energy conservation. HVS Sustainability Services is currently working with hotel companies to enable them to attain these savings through a basic package that has low-cost/no cost measures that pay for themselves within the operational year. We believe that once owners realize the financial benefits of becoming green in addition to the intangible benefits, we will see much greater focus on becoming eco-friendly in a sustainable manner.

Human capital has been an important component of the hotel industry. While in 2008/09 and 2009/10, hotels focused on retaining talent through training and development, in 2010/11, one saw most hotel brands substantially increasing compensation. One of the major reasons is the considerable growth in hotel supply which the hotel market witnessed in 2010/11, resulting in strong demand for trained human talent. With supply expected to grow by about 43% in the next five years, we believe that hiring, training and retention of quality manpower will become a priority for the hotel sector.

It is our opinion that domestic hotel brands that have spent several years creating a portfolio of assets across the country will seriously explore going public through an Initial Public Offering (IPO) in the next 12-24 months, which will provide investors with an option to be part of the hospitality industry without building physical hotel assets.

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About the Authors



Kaushik Vardharajan is Managing Director HVS Hospitality Services - India. He joined HVS's New York office in 2001 and moved to the New Delhi office in 2008.

Kaushik has worked on over 1,000 market studies, feasibility analyses, and valuations in North America and India, with a special focus on large mixed-use projects and portfolio valuations. Kaushik is also a Member of the Royal Institute of Chartered Surveyors (RICS) and is part of the Valuation Working Committee of RICS, which is responsible for establishing professional standards for property valuations in India. He has also taught courses and spoken at New York University, Johnson & Wales University, and the Indian School of Business.



Pooja Goel is a Consulting & Valuation Analyst with HVS's New Delhi office, since August 2010. She holds a Diploma in Hotel Management from IHM

Pusa, Delhi and an Advanced Diploma in Human Resource Practices from NMIMS, Mumbai. Prior to her tenure with HVS, she was associated with the Taj Group of Hotels for over seven years and has worked in the accommodations and revenue management streams across various cities in India. As a part of the division, she has performed many feasibility and valuation studies in India and Sri Lanka.



Aditya Karulkar is a Research Analyst with HVS's New Delhi office, specializing in hotel valuation and consultancy. He joined HVS New Delhi in

April 2011. He is currently pursuing his MBA in International Hospitality Management from the ESSEC Business School, Paris before which he was associated with the Taj Group of Hotels.