



2011 INDIA

HOTEL VALUATION INDEX

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India Hotel Valuation Index 2011

As we enter 2011 and start the next decade, it is both important and relevant to look back at the last decade to understand how our industry has evolved during this period and what we can learn from these ten very interesting years. At the beginning of the last decade, we were a country with only a limited number of international brands and had hotels that were mainly concentrated in the major metros and predominantly in the luxury/first class positioning. Over the years, the hotel industry has undergone significant changes and has reinvented itself in a manner that we believe has benefited the industry as a whole, including all its constituents – hotel guests, investors, employees and other stakeholders. An analysis of the industry today reveals a landscape where hotels are no longer restricted to major cities but are aggressively growing in Tier 2 and even Tier 3 cities. Guests today have choices in hotel products that range from the luxury to the budget segment. India has now become a market that no serious hotel company can ignore, as evidenced by the slew of international brands that are either already established in the country or are seriously plotting their entry strategies. Also, what is notable is that despite such intense competition from international brands, Indian brands have held their own and have even thrived.

Table 1 presents the nationwide occupancy and average rate performance over the past sixteen years.

Table 1 – Nationwide Occupancy and Average Rate Performance

Year Ending March 31st	Occupancy	% Change	Average Rate (₹)	% Change	RevPAR (₹)	% Change
1995/96	66.5 %		3,025		2,012	
1996/97	62.9	-5.4%	3,688	21.9%	2,320	15.3%
1997/98	57.1	-9.2	3,986	8.1	2,276	-1.9
1998/99	55.4	-3.0	3,903	-2.1	2,162	-5.0
1999/00	53.9	-2.7	3,505	-10.2	1,889	-12.6
2000/01	57.2	6.1	3,731	6.4	2,134	13.0
2001/02	51.6	-9.8	3,467	-7.1	1,789	-16.2
2002/03	57.2	10.9	3,269	-5.7	1,870	4.5
2003/04	64.8	13.3	3,569	9.2	2,313	23.7
2004/05	69.0	6.5	4,299	20.5	2,966	28.3
2005/06	71.5	3.6	5,444	26.6	3,892	31.2
2006/07	71.4	-0.1	7,071	29.9	5,049	29.7
2007/08	68.8	-3.6	7,989	13.0	5,496	8.9
2008/09	60.3	-12.4	7,837	-1.9	4,726	-14.0
2009/10	65.0	7.8	6,426	-18.0	4,177	-11.6
2010/11	68.0	4.6	6,800	5.8	4,624	10.7
CAGR		0.1%		5.5%		5.7%

Source: HVS Research

Table 2 – Demand Supply Comparison (2009/10 – 2010/11)

	Mid Market				Luxury/First Class			
	2010/11		2009/10		2010/11		2009/10	
	%Δ in Supply	%Δ in Demand	%Δ in Supply	%Δ in Demand	%Δ in Supply	%Δ in Demand	%Δ in Supply	%Δ in Demand
Agra	0.0%	6.2%	0.0%	-0.1%	6.0%	10.1%	0.0%	5.9%
Bengaluru	6.1%	16.5%	21.3%	26.8%	16.5%	33.9%	42.5%	29.9%
Chennai	9.9%	14.4%	3.6%	4.1%	2.0%	15.0%	13.8%	1.5%
Delhi NCR	20.7%	30.3%	34.0%	23.4%	7.1%	8.8%	15.0%	16.4%
Goa	4.3%	7.6%	0.0%	5.2%	11.9%	14.3%	1.2%	6.7%
Hyderabad	16.6%	30.1%	9.0%	4.0%	27.6%	29.0%	10.5%	0.7%
Jaipur	14.6%	11.8%	14.0%	33.1%	1.2%	6.0%	0.0%	2.0%
Mumbai	18.3%	16.7%	25.4%	22.1%	16.1%	14.8%	-4.2%	-2.9%
Ahmedabad*	23.7%	18.0%	30.6%	16.0%	23.7%	18.0%	30.6%	16.0%
Kolkata*	10.5%	14.5%	3.7%	2.0%	10.5%	14.5%	3.7%	2.0%
Pune*	30.8%	23.3%	39.2%	31.0%	30.8%	23.3%	39.2%	31.0%

*Represents citywide scenario

The year 2010/11 proved to be a comeback year for the Indian hospitality industry after two difficult years that saw nationwide RevPAR drop by 14% and 11.6% in 2008/09 and 2009/10 respectively. Nationwide RevPAR is estimated to have increased by 10.7% in 2010/11 through increases in both occupancy and average rate, as hotels across the country saw strong increases in demand and were optimistic about the future outlook to increase rates despite new supply entering their markets.

The estimated year-end occupancy of 68% in 2010/11 is close to the 68.8% nationwide occupancy attained in 2007/08 and is quite an achievement when one considers the number of new hotels that have opened in India since then. We at HVS have always believed that the lack of a sufficient number of quality hotels within the country has resulted in a significant amount of unaccommodated demand. This demand is now being absorbed by hotels that have opened recently and is a trend that we believe will exist over the next few years.

Table 2 presents a comparison between increases in supply and demand in 2010/11 as compared to 2009/10, for the major markets in India and across two levels of positioning; namely, mid-market and luxury/first class. The increase in demand in the form of accommodated room nights was arrived at by using the occupancy

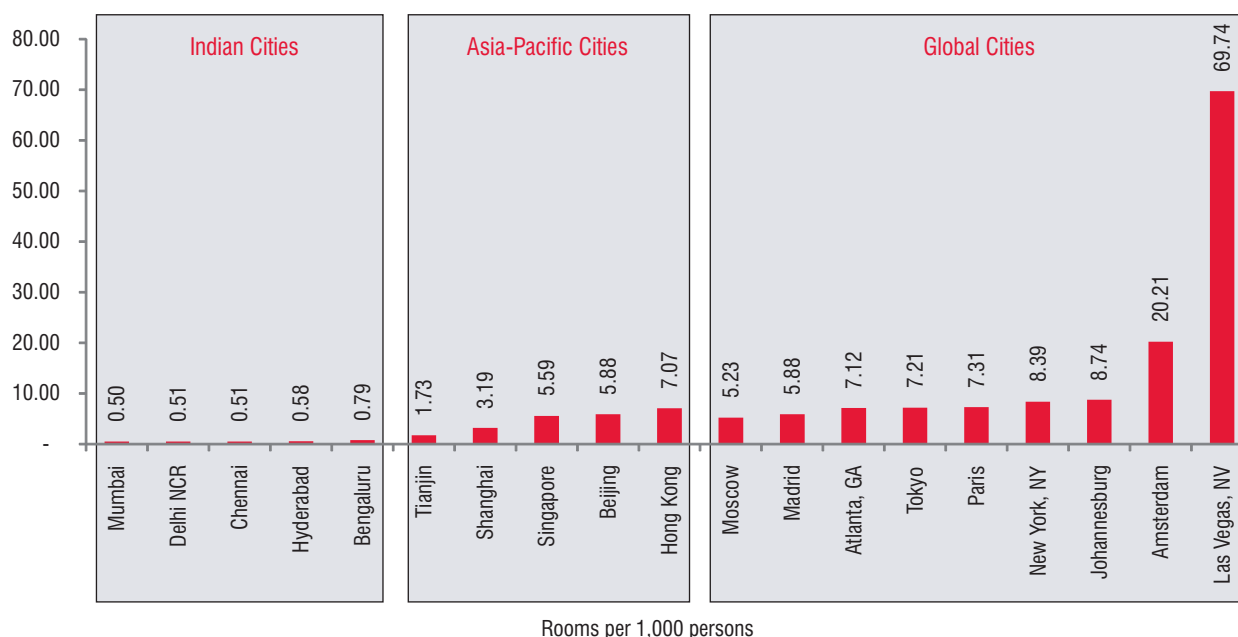
performance of each hotel in these markets for 2009/10 and 2010/11 and then comparing the total of the accommodated room nights for all the hotels to the increases in supply in the markets during the same period.

Going forward, we expect continued demand growth, with the **Indian economy projected to grow by about 8.0% in FY2012, almost double the 4.2% growth forecast for the global economy as a whole.** The major cities are in fact expected to attain double-

development of large convention centres around the country will attract the larger conventions and groups that currently visit other countries in the region and will provide significant demand to hotels.

We see increasing pace of development within the budget space, with several domestic and international hotel companies signing deals and targeting aggressive expansion over the next few years. With lower land and FSI requirements, lower development costs and a limited focus on F&B, these hotels can be very efficient in terms of

Table 3 – Hotel Room Penetration to Population



digit growth in their economies over the next few years, which bodes well for hotels in these markets. HVS believes that there is a shortage of quality branded hotel rooms across the country, especially when we compare the major Indian cities to other international cities. As the Indian economy strives toward double-digit growth, this shortage of hotel rooms will become even more pronounced. Table 3 compares the hotel room penetration as compared to population for major cities around the world.

India currently also lacks hotels with large inventories and extensive meeting facilities that can be compared to international offerings. **The ten largest hotels in the world have an average room count of 5,000, while that number is just 500 for India.** The

Table 4 – Proposed New Supply (2010/11 – 2014/15)

	Existing Supply	Proposed	Increase over Five Years	Active Development*	Luxury	First Class	Mid-market	Budget	Extended Stay
Agra	1,439	510	35%	41%	11.8%	22.0%	52.5%	13.7%	0.0%
Ahmedabad	1,521	2,339	154%	69%	10.7%	40.6%	33.4%	15.3%	0.0%
Bengaluru	5,597	9,819	175%	65%	16.9%	37.7%	22.7%	15.5%	7.2%
Chandigarh	653	1,482	227%	76%	11.1%	22.1%	54.7%	12.1%	0.0%
Chennai	3,806	5,995	158%	72%	24.1%	28.0%	22.3%	13.7%	11.9%
Delhi NCR	11,018	20,021	182%	75%	26.7%	31.4%	25.4%	13.9%	2.5%
Goa	3,288	1,736	53%	41%	18.2%	49.1%	24.8%	7.9%	0.0%
Hyderabad	3,782	5,302	140%	63%	29.4%	28.3%	18.2%	20.0%	4.1%
Jaipur	2,472	2,664	108%	77%	8.2%	61.3%	22.5%	8.0%	0.0%
Kolkata	1,520	3,481	229%	51%	28.0%	37.2%	34.9%	0.0%	0.0%
Mumbai	9,877	7,477	76%	60%	42.5%	22.6%	20.6%	14.4%	0.0%
Pune	2,672	5,196	194%	67%	14.5%	31.7%	34.1%	19.7%	0.0%
Other Cities	14,759	23,427	159%	65%	2.3%	28.7%	47.5%	20.5%	1.0%
Total	62,404	89,449	143%	67%	18.0%	32.0%	31.0%	16.0%	3.0%

*Expressed as a percentage of proposed supply Source: HVS Trends & Opportunities Report, 2010 Edition

space utilization, staffing and profitability, and we believe they will offer attractive returns to investors.

We also believe that there is greater awareness of Tier 2 and Tier 3 cities and an interest to develop hotels in these markets that are more suited to local requirements. Hotels in such cities would need to offer larger banqueting facilities and a choice of restaurants to cater to local residential demand and might even generate a greater portion of their revenues from F&B than from the rooms department.

Table 4 presents the proposed new hotel supply across the country from 2010/11 to 2014/15.

As presented in Table 4, almost half of the nation's projected supply through 2014/15 will consist of budget and mid-market hotels. In the smaller cities, this number is closer to 70%, highlighting the importance of these positionings among developers and investors and the implied consensus that there is significant potential for these types of hotels in the future.

One of the challenges India has always faced on its path towards economic development and growth is the poor state of infrastructure in the country. The latest budget has stressed the requirement for improved infrastructure and has proposed several measures that will increase investment into this sector and accelerate the process. While there has been no response to the hospitality industry's call for granting of infrastructure status to hotels, the improved infrastructure will increase travel within the country and provide a major boost to hotel demand in the future, similar to the impact on hotels and motels in the United States following the construction of the interstate highway system. With an improved network of highways, railways, and airports, visitors/travellers will be able to explore the country and visit places that might have been ignored otherwise, providing impetus for the development of hotels in such areas.

We therefore believe that the confluence of a number of such important factors over the next few years will prove to be beneficial for the Indian hospitality industry. We also believe that the continued maturing of the industry will provide it with a more diverse base of demand segments across various types of markets and make it less susceptible to global fluctuations and downturns in any one sector or segment going forward.

We have had several discussions in recent months with banks that are trying to understand the quantum of investment that will be required by hotels in the future as they try to ascertain the size of the total debt market and their own market share of the total pie and aim to strategize their future within this industry. To answer this question, we decided to use the information provided in Table 4 and analyzed it further to determine the quantum of investment that may be required over the next few years. Table 5 presents this analysis using the active development of proposed supply number from Table 4 in order to represent the minimum level of investment required.

As shown in Table 5, **the proposed supply pipeline will require a total investment of roundly ₹46,200 crores, or over US\$10 billion, for development cost, excluding cost of land acquisition.** This number highlights the significant contribution our industry

Table 5 – Total Investment in Hospitality (2010/11 - 2014/15)

	Luxury	First Class	Mid-Market	Budget	Extended Stay
Segment Breakdown of Active Supply	10,918	19,093	18,585	9,496	1,647
Development Cost per Key (₹)	15,000,000	8,500,000	5,000,000	3,000,000	9,000,000
Investment per segment (₹)	163,765,749,600	162,290,685,300	92,923,667,250	28,489,290,480	14,826,903,390
Investment Breakdown per segment (%)	35%	35%	20%	6%	3%
Total Investment in Hospitality (₹)	462,296,296,020				

Table 6 – Mid-Market Hotel Value Per Room – In Indian Rupees (Lakhs)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	CAGR 2000-10	CAGR 2011-16
Agra	12.3	9.1	7.1	17.0	29.2	28.3	37.1	38.1	40.1	32.5	43.4	46.2	49.8	53.3	56.3	62.2	13.4%	7.7%
Bengaluru	41.4	34.8	44.2	87.6	136.4	138.4	159.7	141.3	82.1	65.3	67.6	72.4	82.2	89.7	99.5	111.5	5.0%	11.4%
Chennai	53.4	28.2	31.0	42.7	45.6	64.5	84.0	80.3	67.3	81.4	91.4	93.8	97.5	93.2	93.7	101.8	5.5%	2.1%
Delhi NCR	42.0	45.3	42.7	62.8	64.0	107.4	145.7	162.1	102.4	71.4	74.7	90.7	83.5	85.6	105.4	119.7	5.9%	7.2%
Goa	29.1	23.0	31.5	36.0	43.6	60.5	81.7	85.4	60.7	58.9	57.3	64.9	71.2	77.5	87.8	93.9	7.0%	9.7%
Hyderabad	39.8	38.0	38.7	45.8	57.8	76.5	90.6	69.5	50.9	34.0	42.5	44.8	47.9	55.3	60.5	64.5	0.7%	9.5%
Jaipur	12.6	12.1	12.7	18.0	35.3	32.9	41.7	36.5	36.5	33.1	34.2	36.6	38.9	39.9	43.1	46.6	10.5%	6.2%
Mumbai	49.3	36.8	39.1	46.5	49.6	69.4	119.3	112.1	77.4	45.5	67.8	79.1	82.1	84.3	93.2	102.0	3.2%	6.6%
Ahmedabad*	33.8	27.7	25.8	33.7	48.1	57.1	63.6	84.7	76.1	37.4	37.5	36.1	35.4	40.5	47.3	54.0	1.0%	10.5%
Kolkata*	42.1	41.0	34.5	34.3	37.1	60.2	81.0	98.5	90.0	72.3	80.3	76.8	79.9	74.2	73.0	75.7	6.7%	-0.3%
Pune*	25.0	25.3	30.6	32.1	60.4	81.2	108.6	91.6	67.2	37.4	42.2	34.4	35.3	36.1	38.4	42.5	5.4%	5.4%

*Represents citywide scenario

Table 7 – Mid-Market Hotel Value Per Room (Percent Variance)

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	CAGR 2000-10	CAGR 2011-16
Agra	-26%	-22%	138%	72%	-3%	31%	3%	5%	-19%	22%	7%	8%	7%	6%	11%	13.4%	7.7%
Bengaluru	-16%	27%	98%	56%	1%	15%	-11%	-42%	-21%	22%	7%	14%	9%	11%	12%	5.0%	11.4%
Chennai	-47%	10%	38%	7%	42%	30%	-4%	-16%	21%	12%	3%	4%	-4%	1%	9%	5.5%	2.1%
Delhi NCR	8%	-6%	47%	2%	68%	36%	11%	-37%	-30%	12%	21%	-8%	3%	23%	14%	5.9%	7.2%
Goa	-21%	37%	14%	21%	39%	35%	5%	-29%	-3%	24%	13%	10%	9%	13%	7%	7.0%	9.7%
Hyderabad	-4%	2%	18%	26%	32%	18%	-23%	-27%	-33%	28%	5%	7%	15%	9%	7%	0.7%	9.5%
Jaipur	-4%	5%	42%	96%	-7%	27%	-12%	0%	-9%	-1%	7%	6%	3%	8%	8%	10.5%	6.2%
Mumbai	-25%	6%	19%	7%	40%	72%	-6%	-31%	-41%	22%	17%	4%	3%	11%	9%	3.2%	6.6%
Ahmedabad*	-18%	-7%	31%	43%	19%	11%	33%	-10%	-51%	-1%	-4%	-2%	14%	17%	14%	1.0%	10.5%
Kolkata*	-3%	-16%	-1%	8%	62%	34%	22%	-9%	-20%	22%	-4%	4%	-7%	-2%	4%	6.7%	-0.3%
Pune*	1%	21%	5%	88%	34%	34%	-16%	-27%	-44%	-4%	-18%	3%	2%	6%	11%	5.4%	5.4%

*Represents citywide scenario

Table 8 – Mid-Market Hotel Value Per Room – In US Dollars (000s)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	CAGR 2000-10	CAGR 2011-16
Agra	27.4	19.3	14.8	36.9	65.0	63.6	85.0	94.8	87.3	69.8	95.4	102.7	110.6	118.4	125.1	138.3	13.3%	7.7%
Bengaluru	92.3	73.8	91.7	190.5	303.8	311.1	366.2	351.3	178.9	140.4	148.6	160.8	182.7	199.2	221.1	247.9	4.9%	11.4%
Chennai	118.9	59.7	64.4	92.9	101.5	145.0	192.6	199.6	146.5	175.1	200.9	208.4	216.7	207.1	208.3	226.2	5.4%	2.1%
Delhi NCR	93.6	96.0	88.5	136.6	142.5	241.4	334.2	402.9	223.1	153.6	164.2	201.6	185.6	190.3	234.1	266.1	5.8%	7.2%
Goa	64.7	48.8	65.4	78.3	97.2	135.9	187.5	212.3	132.1	126.6	126.0	144.2	158.2	172.2	195.1	208.7	6.9%	9.7%
Hyderabad	88.6	80.5	80.3	99.6	128.7	171.9	207.8	172.6	110.9	73.1	93.4	99.6	106.5	122.9	134.3	143.2	0.5%	9.5%
Jaipur	28.0	25.6	26.3	39.2	78.6	73.9	95.7	90.8	79.6	71.2	75.2	81.3	86.4	88.6	95.8	103.6	10.4%	6.2%
Mumbai	109.8	77.9	81.2	101.0	110.4	156.1	273.5	278.6	168.6	97.9	149.0	175.7	182.4	187.3	207.0	226.6	3.1%	6.6%
Ahmedabad*	75.2	58.7	53.4	73.2	107.2	128.2	145.8	210.4	165.8	80.5	82.3	80.3	78.6	90.0	105.2	119.9	0.9%	10.5%
Kolkata*	93.8	86.8	71.6	74.6	82.6	135.3	185.7	244.9	195.9	155.4	176.5	170.6	177.5	164.9	162.3	168.3	6.5%	-0.3%
Pune*	55.7	53.6	63.5	69.7	134.5	182.4	249.1	227.7	146.4	80.5	92.7	76.5	78.5	80.2	85.4	94.5	5.2%	5.4%
Exchange Rate	44.90	47.20	48.20	46.00	44.90	44.50	43.60	40.24	45.91	46.50	45.50	45.00	45.00	45.00	45.00	45.00		

*Represents citywide scenario

Table 9 – Luxury/First Class Hotel Value Per Room – In Indian Rupees (Lakhs)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	CAGR 2000-10	CAGR 2011-16
Agra	13.2	12.7	12.8	23.0	33.6	44.2	51.8	61.6	62.0	53.0	75.1	78.7	88.3	93.8	95.4	101.3	19.0%	6.5%
Bengaluru	61.7	56.1	80.8	106.1	208.0	247.4	320.8	227.8	179.2	151.0	155.5	149.5	147.6	165.4	186.9	198.6	9.7%	7.4%
Chennai	76.0	57.1	54.1	71.8	90.7	114.5	138.6	169.0	119.3	106.0	124.2	124.0	112.1	109.4	130.2	139.4	5.0%	3.0%
Delhi NCR	68.7	55.1	59.4	85.2	125.8	181.6	228.3	253.5	194.7	145.2	159.4	158.1	167.7	182.0	218.0	220.1	8.8%	8.6%
Goa	48.3	41.4	54.3	54.1	74.9	93.0	127.6	143.5	98.0	112.2	123.9	118.5	137.2	150.8	164.8	159.3	9.9%	7.7%
Hyderabad	42.3	44.7	49.5	70.6	91.0	131.6	126.8	126.0	98.9	58.2	75.1	81.2	85.2	93.6	99.7	105.2	5.9%	6.7%
Jaipur	43.1	30.6	32.0	40.7	53.3	72.2	87.2	95.2	83.3	63.9	94.1	72.8	67.2	73.3	81.4	86.7	8.1%	4.5%
Mumbai	87.0	62.2	63.7	72.3	84.1	134.6	196.2	242.6	167.1	144.8	164.7	195.5	205.2	220.4	230.0	237.3	6.6%	5.0%
Ahmedabad*	33.8	27.7	25.8	33.7	48.1	57.1	63.6	84.7	76.1	37.4	37.5	36.1	35.4	40.5	47.3	54.0	1.0%	10.5%
Kolkata*	42.1	41.0	34.5	34.3	37.1	60.2	81.0	98.5	90.0	72.3	80.3	76.8	79.9	74.2	73.0	75.7	6.7%	-0.3%
Pune*	25.0	25.3	30.6	32.1	60.4	81.2	108.6	91.6	67.2	37.4	42.2	34.4	35.3	36.1	38.4	42.5	5.4%	5.4%

*Represents citywide scenario

Table 10 – Luxury/First Class Hotel Value Per Room (Percent Variance)

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	CAGR 2000-10	CAGR 2011-16
Agra	-4%	1%	79%	46%	32%	17%	19%	1%	-15%	14%	5%	12%	6%	2%	6%	19.0%	6.5%
Bengaluru	-9%	44%	31%	96%	19%	30%	-29%	-21%	-16%	35%	-4%	-1%	12%	13%	6%	9.7%	7.4%
Chennai	-25%	-5%	33%	26%	26%	21%	22%	-29%	-11%	14%	0%	-10%	-2%	19%	7%	5.0%	3.0%
Delhi NCR	-20%	8%	43%	48%	44%	26%	11%	-23%	-25%	4%	-1%	6%	9%	20%	1%	8.8%	8.6%
Goa	-14%	31%	0%	38%	24%	37%	12%	-32%	15%	6%	-4%	16%	10%	9%	-3%	9.9%	7.7%
Hyderabad	6%	11%	43%	29%	45%	-4%	-1%	-22%	-41%	16%	8%	5%	10%	6%	6%	5.9%	6.7%
Jaipur	-29%	5%	27%	31%	35%	21%	9%	-12%	-23%	18%	-23%	-8%	9%	11%	6%	8.1%	4.5%
Mumbai	-29%	3%	13%	16%	60%	46%	24%	-31%	-13%	23%	19%	5%	7%	4%	3%	6.6%	5.0%
Ahmedabad*	-18%	-7%	31%	43%	19%	11%	33%	-10%	-51%	-1%	-4%	-2%	14%	17%	14%	1.0%	10.5%
Kolkata*	-3%	-16%	-1%	8%	62%	34%	22%	-9%	-20%	22%	-4%	4%	-7%	-2%	4%	6.7%	-0.3%
Pune*	1%	21%	5%	88%	34%	34%	-16%	-27%	-44%	-4%	-18%	3%	2%	6%	11%	5.4%	5.4%

*Represents citywide scenario

Table 11 – Luxury/First Class Hotel Value Per Room – In US Dollars (000s)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	CAGR 2000-09	CAGR 2010-16
Agra	29.4	26.9	26.6	49.9	74.8	99.4	118.9	153.1	135.0	113.9	165.0	174.9	196.2	208.5	211.9	225.2	18.8%	6.5%
Bengaluru	137.4	118.9	167.7	230.7	463.3	556.0	735.7	566.1	390.3	324.7	341.7	332.2	328.0	367.5	415.3	441.3	9.5%	7.4%
Chennai	169.2	121.0	112.1	156.2	202.0	257.3	318.0	420.0	260.0	228.0	273.0	275.6	249.2	243.2	289.4	309.8	4.9%	3.0%
Delhi NCR	152.9	116.8	123.3	185.1	280.1	408.1	523.6	629.9	424.1	312.2	350.4	351.4	372.6	404.4	484.4	489.1	8.6%	8.6%
Goa	107.5	87.8	112.7	117.6	166.9	208.9	292.8	356.7	213.5	241.4	272.4	263.3	304.8	335.2	366.2	354.1	9.7%	7.7%
Hyderabad	94.1	94.7	102.6	153.4	202.7	295.6	290.8	313.2	215.5	125.1	165.0	180.5	189.3	208.1	221.5	233.8	5.8%	6.7%
Jaipur	96.0	64.7	66.3	88.5	118.7	162.2	200.0	236.6	181.5	137.5	206.8	161.9	149.3	162.8	181.0	192.7	8.0%	4.5%
Mumbai	193.8	131.7	132.2	157.1	187.4	302.4	450.0	603.0	364.0	311.3	362.1	434.3	456.1	489.8	511.2	527.3	6.4%	5.0%
Ahmedabad*	75.2	58.7	53.4	73.2	107.2	128.2	145.8	210.4	165.8	80.5	82.3	80.3	78.6	90.0	105.2	119.9	0.9%	10.5%
Kolkata*	93.8	86.8	71.6	74.6	82.6	135.3	185.7	244.9	195.9	155.4	176.5	170.6	177.5	164.9	162.3	168.3	6.5%	-0.3%
Pune*	55.7	53.6	63.5	69.7	134.5	182.4	249.1	227.7	146.4	80.5	92.7	76.5	78.5	80.2	85.4	94.5	5.2%	5.4%
Exchange Rate*	44.90	47.20	48.20	46.00	44.90	44.50	43.60	40.24	45.91	46.50	45.50	45.00	45.00	45.00	45.00	45.00		

*Represents citywide scenario

makes to the country's economy. Even if we assume a standard loan-to-cost ratio of 1:1, it means that **developers will need over ₹23,000 crores or US\$5 billion in debt to finance the construction of these hotels.** Bankers, therefore, need to review the internal allocation of funds available for lending to different sectors and perhaps modify the same to take advantage of significant lending opportunities in this sector.

The development of these new hotels will also result in significant employment generation in the future. Based on current staff to room ratio benchmarks, we believe that about 82,000 full-time jobs will be created by these hotels when they open.

These statistics serve to highlight the tremendous impact the hospitality industry has on the economy and underline the need for the government to support its growth through initiatives such as single-window clearances for licenses and granting of infrastructure status to the industry. An upcoming publication, the second edition of the "Critical Issues in Hospitality – An HVS White Paper" will address these issues and more in greater detail.

In the preceding section, the HVI presents the valuations for a typical hotel in each of the major markets across the country. To arrive at our valuations for the various cities, we firstly projected occupancy and average rates for the various markets, taking into consideration

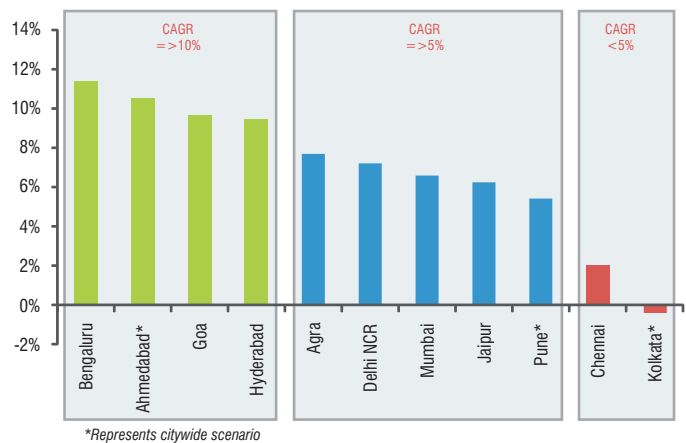
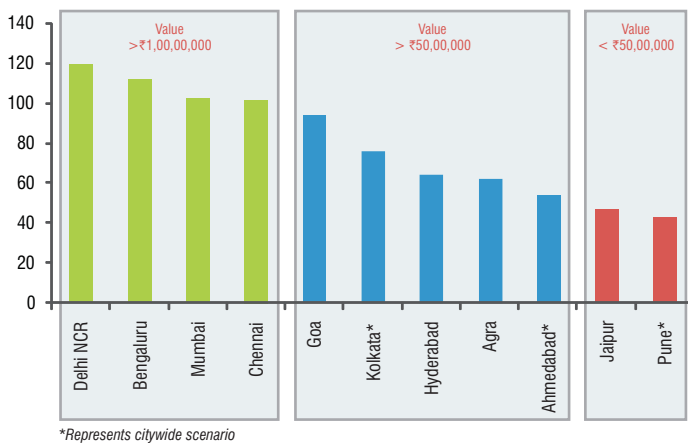
demand trends, current supply, and projected future supply increases in each market. We then projected income and expenses, and Net Operating Income (NOI) for a typical 200-room luxury/first class hotel and a 200-room mid-market hotel in each city based on the actual hotel operating data available with HVS. Given the current market dynamics on the ground, we have considered only a citywide scenario for Ahmedabad, Kolkata, and Pune.

From our experience of hotel financing and conducting several valuations over the past 14 years in India, we established appropriate valuation parameters for each city and segment covered by the HVI. Capitalization rates were based upon the maturity of the defined market, anticipated performance trends, existing and proposed demand-supply dynamics and investor sentiments for the specified markets, and ranged from 8.0% to 10.0%. These market-

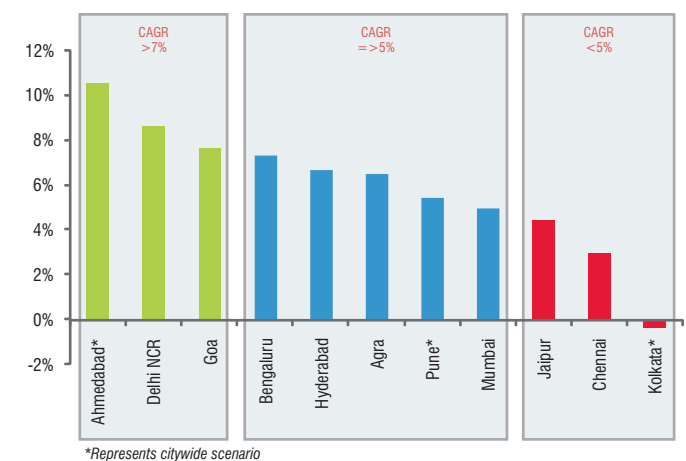
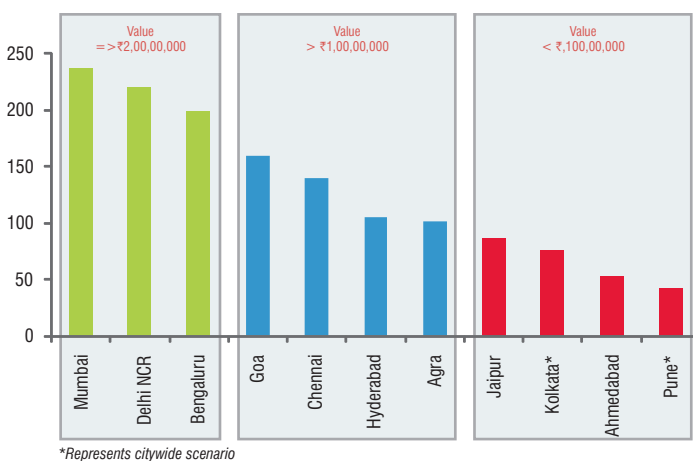
double digit growth in values. Nevertheless, **Pune continues to witness a decline in values per room and this is largely attributed to supply pressures within the market.** As highlighted in Table 2, Pune actually saw a 23.3% increase in demand, however the city has continued to suffer as a result of supply increasing at 30.8%. Going forward, we expect Bengaluru and Ahmedabad to see the highest value increases during the next five years, at a compounded annual growth rate of 11.4% and 10.5% respectively. Lastly, we continue to predict a marginal decline in hotel values in Kolkata due to impending supply pressures and a perception of an unfriendly business environment. Tables 12 and 13 illustrate our forecast of growth and absolute values at the end of the five-year forecast window (2015/16).

Within the Luxury/First Class segment, Bengaluru witnessed

Tables 12 & 13 – Forecast of Markets by 2015/16 (Mid-Market)



Tables 14 & 15 – Forecast of Markets by 2015/16 (Luxury/First Class)

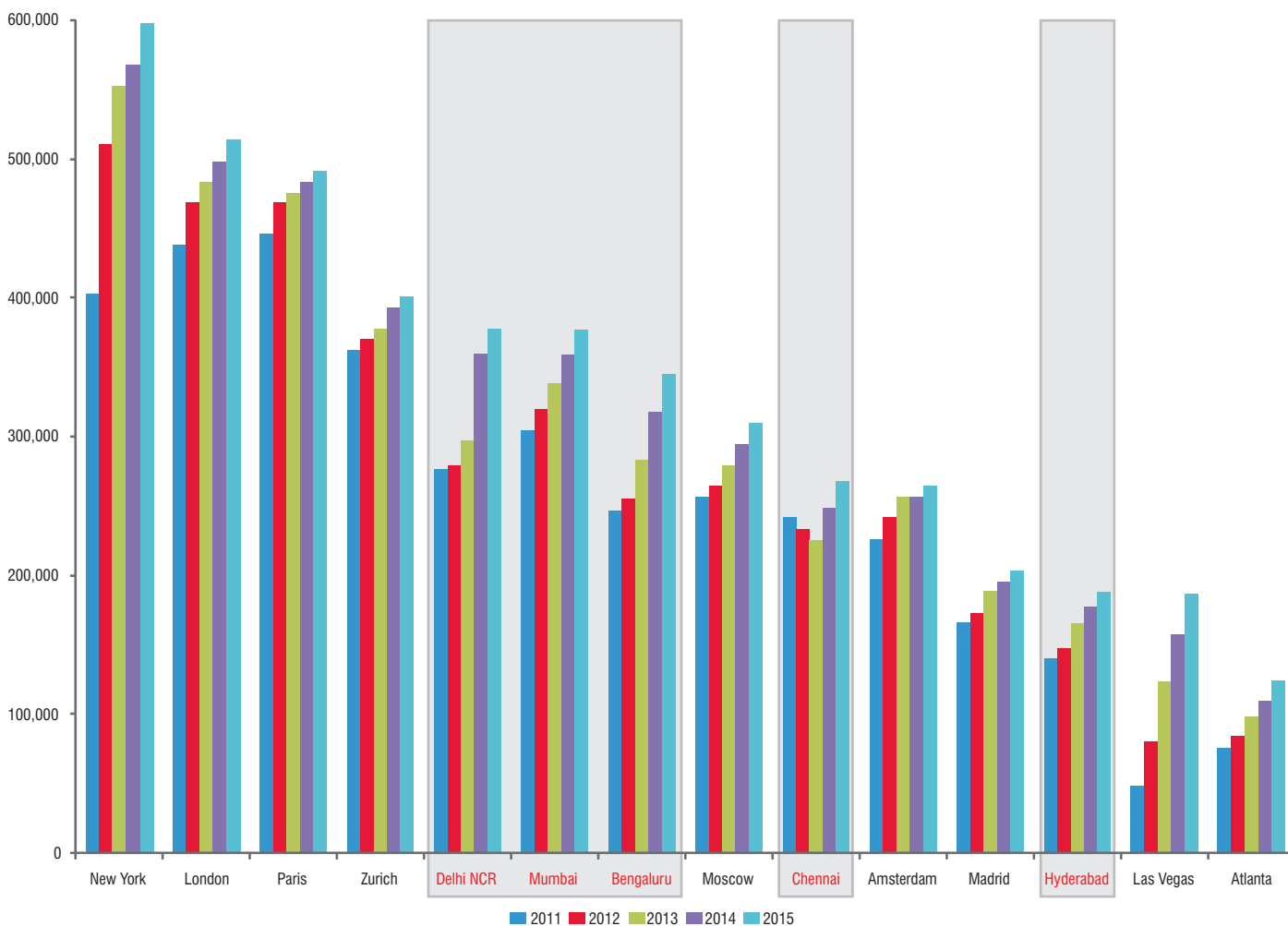


specific valuation and capitalization parameters were then applied to the NOI derived for the hotels in each city to arrive at the valuations.

Within the Mid-Market segment, Hyderabad has witnessed the highest increase in values per room (28%) over 2009/10. The city's mid-market values per room were one of the most severely affected in 2009/10 owing partially to the ripple effects of the global recession along with the persisting Telangana issue. The strong recovery illustrated in 2010/11 highlights the city's potential for growth and resilience. Though 2009/10 saw values per room drop across the board, most markets have bounced back in 2010/11 with

the highest increase in values per room over 2009/10 at 35%, followed by Mumbai with a 23% increase in hotel values per room. This increase was driven largely by the recovery of the global economy and the status of Bengaluru and Mumbai as prime commercial hubs in India. As was the case with the mid-market values, hotel values in the luxury/first class segment have grown by double digits in most markets. Going forward, we expect Delhi NCR and Goa to see the highest value increases during the next five years, at a compounded annual growth rate of 8.6% and 7.7% respectively. Tables 14 and 15 illustrate our forecast of growth and absolute values at the end of the five-year forecast window (2015/16).

Table 16 – Hotel Value per Room Comparison in US Dollars



In the past few years, hotels in India have attracted investments from across the globe, be it in the form of international private equity funds, banks or individual investors. Given the global palette of choice these individuals/institutions have, why should they invest in India? Table 16 highlights where Indian hotel values rank as compared to other global cities.

Sustaining Values!

There are several steps developers and owners can take to enhance the valuations of their properties and maximize their return on investment.

Timely Development – One of the main challenges of developing hotels in India is the amount of time the entire process takes here as compared to many other parts of the world. The development process can be divided into three main phases, namely pre-construction, construction, and post construction, all of which have their own challenges in India. The pre-construction phase, which includes land acquisition, obtaining of licenses, architecture and design, and the post-construction phase, which consists of fit-outs, tend to take a significant amount of time in India and can often be very inefficient, especially in the case of luxury/first class hotels. In the case of mid-market and budget hotels, the products are typically more generic and the initial design and architectural process can be much shorter. Similarly, the post-construction phase can also be more efficient in the case of mid market and budget hotels. Irrespective of positioning, hotel development in India faces several uncertainties in the form of numerous licensing requirements,

labour shortages, and poor quality of construction that can lead to delays in construction and cost escalations. These factors, if not managed properly, can have a significant detrimental impact on the return on investment of the project. Developers should ensure that a professional project management company is in place to handle this process, as that will result in a reduction in the execution risk of the project.

Managing Cost of Debt – Construction financing for hotel projects is currently available at an interest rate of 12-13%, as banks account for the execution risk for such a project. However, once the hotel is open and generating cash flows, the risk perception is much lower and it is then possible to **refinance the debt at a lower interest rate, which will reduce the annual debt service burden on the asset and enhance the developer's returns on the project.**

Hotel Branding/Affiliation – As the hotel landscape becomes increasingly more competitive and as guests become more knowledgeable about the choices that are available to them, operating as a branded hotel or being part of a hotel affiliation of some kind will help increase market share and subsequently profits and valuations.

Properly Negotiated Management Contracts – While selecting a hotel brand and negotiating a management contract, we believe that owners often spend too much time focussing on the main commercial terms and too little time on the other legal terms of the contract. Since HVS maintains the world's largest database of hotel

management contracts around the world and has negotiated such contracts on behalf of owners across the globe, it is our experience that disputes between the owner and operator following the signing of the contract rarely occur due to the quantum of base and incentive management fees payable to the operator in a certain year. Such disputes typically centre around other factors of the contract such as non-disturbance clauses, the budgeting process, cash management, transfer rights and termination on sale. **A hotel that is encumbered by a poorly negotiated management contract may reduce buyer interest and lower valuations.** We would therefore advise owners to negotiate a holistic agreement that rewards the operator for performance and more importantly is in line with the owner's larger investment goals.

Retaining an Asset Management Company – As hotels operate within an increasingly competitive marketplace, it will become more difficult to improve cash flows and net income levels simply through aggressive rate increases. Hiring a professional asset management firm can be very beneficial, especially in cases where the hotel is unbranded or the owner does not have a comprehensive understanding of how hotels are operated. Such a firm can help establish standard operating procedures at the property and

streamline operations across the various departments, thus reducing costs and improving bottom lines. The asset management firm can also assist in improving occupancy and average rates through proper revenue management and also identify additional sources of revenues that might not have been identified previously. An efficient operation with improved top lines and bottom lines will attain superior valuations.

Given the complex nature of developing and operating a hotel, it is highly advisable to retain professionals to handle the various aspects of the process. If so done, hotels can be very profitable investments in the medium to long term.

Volatility Index!

An investor's primary concern is with return on investment. But when is that return on investment too expensive or too risky? Applying the most basic underlying principle of finance, a hotel investor aims to balance risk and return expectations. Hotels are capital intensive assets that are subject to a variety of risks that impact overall returns. In such a scenario, how does one quantify the overall level of risk associated with a hotel investment? A good indicator of investment risk is volatility: a statistical measure of

Table 17 – Volatility Ratio – Mid-Market (2001 – 2015)

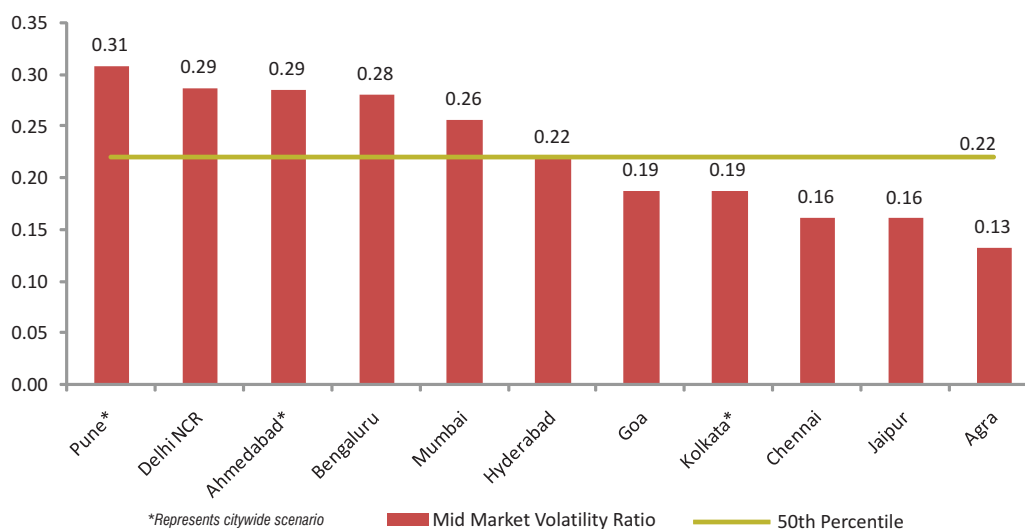
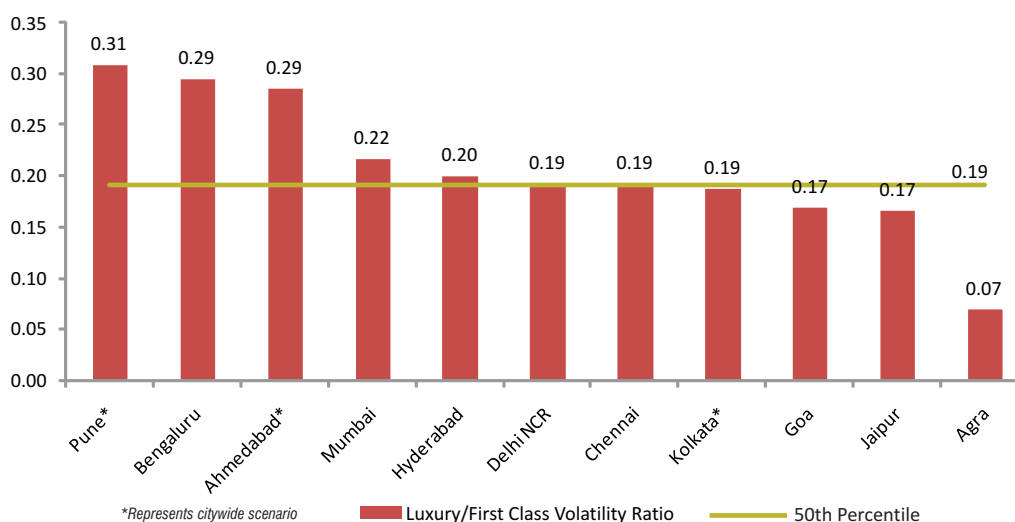
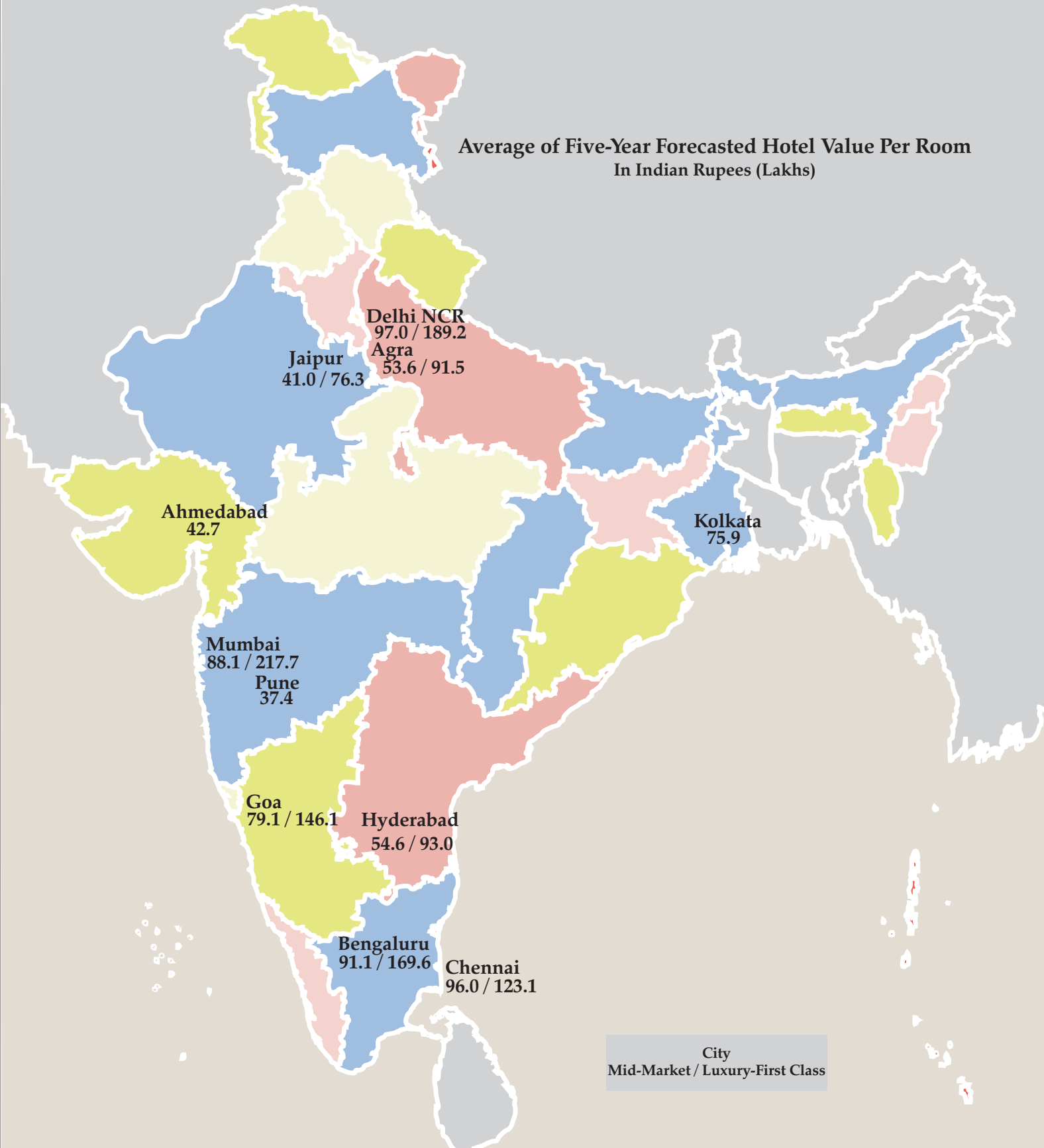


Table 18 – Volatility Ratio – Luxury/First Class (2001 – 2015)



Average of Five-Year Forecasted Hotel Value Per Room
In Indian Rupees (Lakhs)



return dispersions of a given asset/security. The more volatile an investment, in all probability, the riskier it is. HVS has therefore developed a Volatility Index for the markets covered within the HVI. Though there are several ways to measure volatility, HVS measures volatility of hotel values by calculating the standard deviation of the annual capital appreciation/depreciation in value divided by the average value over the same period. For the purpose of this analysis, we have used data from 2001 to 2015. Tables 17 and 18 illustrate the most and least volatile markets over 15 years (2001-2015) across the mid-market and luxury/first class segment.

Typically, high risk assets/securities are anticipated to yield high returns. Some markets such as Bengaluru that score high on the volatility index are still attractive investment opportunities because the return prospective is highly lucrative. **The metro cities or Tier 1 cities of India have all scored high on the volatility index across both segments. On the other hand, these markets have also yielded the highest hotel values per room over the past 15 years.** It is to be noted, though, that volatility is not an indicator of growth potential and of assured 'high' levels of return. Therefore, while the appreciation of hotel values and volatility of hotel values are good indicators or risk and return, they are not the only factors affecting hotel investments.

Understanding the HVI

The Hotel Valuation Index (HVI) is a valuation benchmark developed by HVS. It presents historical and anticipated value trends in mid-market and luxury/first class hotels across eleven cities in India. The methodology adopted to derive these values is based on actual operating data which is maintained by HVS.

The valuation process starts by analyzing the demand-supply dynamics in a given market. In quantifying demand, actual operating data highlights the total accommodated demand which is essentially the total annual room nights occupied within a defined market. This accommodated demand or base demand is then grown at market-specific rates that are reflective of the economic health of the specified market. Having quantified accommodated demand, we then consider any latent demand that could not be accommodated by the existing supply. Latent demand may be in the form of unaccommodated demand and/or induced demand. Unaccommodated demand refers to individuals who are unable to secure accommodation due to a lack of hotel room supply. These visitors must defer their trips, settle for less desirable accommodation, or stay in hotels located outside the market area. Since this demand did not yield occupied room nights within the defined market, it is not included in the historical accommodated room nights demand estimate. On the other hand, induced demand represents the additional room nights that a hotel benefits from, as a result of the introduction of a new demand generator. Situations where induced demand can be created include the opening of new business or convention centre or the addition of new hotels bringing a different chain affiliation or unique facilities. Going forward, total accommodated demand plus any latent demand signifies the potential demand of a given market. Using the calculated potential demand for the market, we then determine marketwide accommodated demand, based on inherent limitations of demand fluctuations and other factors in the market area.

On the supply side, the expected supply pipeline for the defined market is quantified by interviews with hotel operators and developers. The overall marketwide occupancy is then calculated based upon the total projected room nights demand and the supply of

existing and proposed hotel rooms for the defined period.

Having determined the marketwide occupancy, we then forecast the average rate for the defined market. Various market-specific factors influence the growth rates applied to the average rate, such as the overall status of the economy and the demand-supply equation for the defined period. The marketwide occupancy and rate is applied to a typical 200-room hotel, thus attaining gross rooms revenue. Other revenue line items are then estimated using individual forecast models. Once the total revenues are derived, individual departmental expenses, undistributed operating expenses and fixed expenses are estimated based on HVS's knowledge of actual operating profiles thus arriving at the Net Operating Income (NOI). As the HVI uses an income capitalization approach to derive values, the NOI serves as the basis for determining the value of a typical 200-room hotel in the defined market.

From our experience of hotel financing and conducting several valuations over the past 14 years in India, we established appropriate valuation parameters for each city and segment covered by the HVI. Capitalization rates were based upon the maturity of the defined market, anticipated performance trends, existing and proposed demand-supply dynamics and investor sentiments for the specified markets, and ranged from 8.0% to 10.0%. We note that as compared to HVI 2010, the capitalization rates have been reduced in order to adjust for current market expectations and sentiments. These market-specific valuation and capitalization parameters were then applied to the NOI derived for the hotels in each city to arrive at the valuations.

Disclaimer: We note that the valuations presented in this report represent the typical performance of a hotel in each city. Actual valuations of specific hotel assets will vary based on factors such as location, size, brand affiliation, age, condition, and actual performance. We specifically note that our valuations are only based on market information available as of March 2011, and that any significant changes in demand or supply trends beyond this date could have an impact on valuations. The valuation parameters that were used to arrive at these valuations are based on our conversations with active hotel investors and are reflective of current investment sentiments. Any changes in such investor expectations in the future will have an impact on future valuations.

For further information on the HVI, please contact Kaushik Vardharajan at kvardharajan@hvs.com or Megha Tuli at mtuli@hvs.com.



About HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. We are client driven, entrepreneurial, and dedicated to providing the best advice and services in a timely and cost-efficient manner. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit www.hvs.com.

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- Valuations (Single Asset and Portfolio)
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- Market Entry Strategy Studies
- Land Bid Evaluations and Residual Land Valuations
- Investment Services (Buy and Sell Side)

For further information please contact kvardharajan@hvs.com or mtuli@hvs.com

About the Authors



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



Megha Tuli is a Senior Associate with HVS's New Delhi office, specializing in hotel valuation and consultancy. She joined HVS New Delhi in August 2009 as a Consulting & Valuation Analyst and holds a B.Sc. in International Hospitality Management from Ecole hôtelière de Lausanne, Switzerland. Having grown up in Europe, Megha has consulted on hospitality projects for IMD, Switzerland and worked with the House of Lords, London. She gained hotel operations experience by working with The Oberoi Hotels & Resorts, Hyatt International and smaller boutique hotels in Europe.