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## HOTELS IN INDIA TRENDS AND OPPORTUNITIES

### Introduction

As HVS completes its 11th year of operations in the Indian subcontinent, we consider ourselves fortunate to have been witness to a full cycle of events pertaining to the Indian hospitality sector. In 1996-97 when we first started tracking this market we witnessed a trend that started with a correction of occupancy and then average rates. The subsequent downturn in the industry lasted for a good five to six years before recovery took place around 2002. Starting 2005, the markets gained in strength year after year. HVS would like to highlight the fact that most markets in India are showing consistent demand trends.

Recent macroeconomic developments have resulted in the cycle doing a full circle with a marginal correction in occupancies. However, average room rates still continue to move upwards, and on a year-on-year basis most key markets in India are witnessing positive revenue per available room (RevPAR) growths. We, at HVS, have always maintained that the global hotel industry is cyclical in nature. Therefore, in order to perform well in this business an insight of when the upturns and

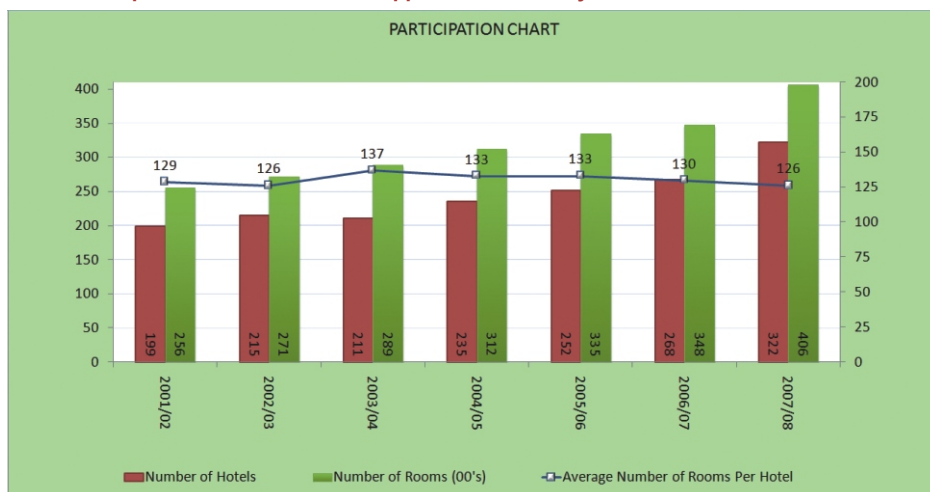
downturns take place is critical and with asset managers doing their jobs well you can make money during both the up and down cycle periods.

This is the twelfth edition of HVS's *Hotels in India - Trends & Opportunities*. This year, a record 322 hotels having a total room count of 40,640 rooms participated in our survey: an increase of 54 new hotels and approximately 5,900 rooms during the past 12 months. Table 1 illustrates survey participation from 2001/02 to 2007/08.

HVS has consistently collated and maintained the best possible data covering the hotel sector which allowed us to analyse past trends and also predict more accurately the medium to long-term future of this sector. The reason we point this out is that it is very important to distinguish the downturn in the late 1990s from the correction that is taking place now. In the first half of the 1990s when India announced the opening of its economy there was a lot of interest shown by foreign business investors. They came in multitudes, saw, but never really invested.

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**Table 1: Sample Size for the Trends & Opportunities Survey for the Years 2000/01-2007/08**



## IS MARS THE NEXT DESTINATION FOR RECRUITMENT?

Manpower and its shortage has been the hot issue of discussion for a long time now, but the reality is that it is restricted to pen and paper only. With the impending hotel explosion right around the corner, the country and its hoteliers are standing perilously close to a crisis where they might actually have to do away with the ideology of 'Warm Indian Hospitality' and adopt a more mechanised and vending machine approach towards hoteliering.

The past years have seen an exodus of service providers from the hospitality sector to supposedly more lucrative industries of business process outsourcing (BPO), information technology (IT), retailing, airlines and other areas requiring people with relatively higher customer service orientations. This trend is, however, expected to reverse from this year onwards. With the opening up of the Indian market and number of hotels finally on the rise, the market is expected to become an employees' market with sufficient alternatives to choose from. The growth of the Indian hotel skyline is also expected to send employees' salaries northwards.

### Manpower Demand and its Supply

The long-standing issue of manpower shortage has had no reprieve. The slight downswing in global economies has already seen a slowdown in hiring of expatriates into the hotel industry in India owing to the higher pay packages commanded by them.

**Also in this issue:**  
Hospitality Asset Management in India - An Introduction  
Marketing a Hotel Online in a Struggling Economy

The rise in payroll costs fueled by the skewed manpower demand-supply ratio is expected to attract a lot of employees back to the hotel industry. The situation, however, still seems grim with an extrapolated manpower requirement showing a shortfall of about 84,000

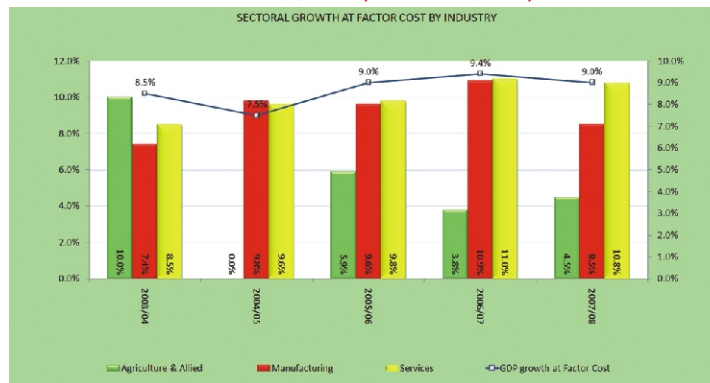
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This resulted in the first real interest in the hotel sector, which was otherwise dominated by the three Indian chains. However, the actual numbers of investors were small and by our estimate comprised literally about 15-20 hotels across the major cities, where construction then got underway. The low strength of the investors along with the political instability of the late 1990s, economic slowdown, war in the Middle East, and closer home trouble with Pakistan led to the slowdown in development of these new hotels. Subsequently, this resulted in a gradual and slow entry of the new hotels into the Indian markets, and when these hotels did indeed open there was hardly any impact felt due to the supply side pressure. In fact, Mumbai and Kolkata, which saw the largest supply increases during this period, also saw the improvement in their city performance coincide with the entry of the new hotels in their respective markets.

Today the situation is very different. India has been amongst the fastest growing economies of the world (8.0% or higher GDP for over five consecutive years). We control nearly 45% of the world's back office IT operations and this itself has given a tremendous boost to the room nights demand across the country for the past eight to nine years. The strong economic growth has resulted in 500 plus million domestic travelers every year, which were non-existent earlier. We continue to have one of the best rail networks and a strong choice of airlines – both amongst the full service and low-cost carriers. Apart from this, it is not just the five to six major metros that are growing but at least 35 cities in India that have a population of one million or more. Each of these cities is starved for hotels that offer quality and good value for money. This is even before we start to consider the positive spinoffs from the meetings, incentives, conferences, exhibitions (MICE) segment, the advent of new international airports in the major gateway cities that will allow for more foreign travel and continued but slow improvement in the country's roads connecting the major cities. Thus, the demand fundamentals for the country remain strong.

The hospitality sector's current and future performance is linked to three main factors, one of which is macro in nature and relates to the continued growth and general health of the Indian economy, which continues to be relatively strong. The other two are micro factors which affect the individual cities and these include the supply-demand gap for hotels

**Table 2: Sector Growth Rates, India (2003/04-2007/08)**



in each city and the value for money proposition, which completely seemed to disappear over the past few years. Therefore, in this document we continue to focus extensively on the type of new hotel supply entering the major cities.

In addition to this document, we publish the *Indian Hotel Industry Survey* on an annual basis, in association with the Federation of Hotel & Restaurant Associations of India (FHRAI). This publication, the only one of its kind in India, provides detailed financial and operating information on the hotel industry, analysed by star category, across all major cities in the country. The next edition (2007/08) will be available by the end of the year.

The Trends & Opportunities report assesses current trends and presents future opportunities for the hotel industry in India. As always, apart from conducting specific research for this publication, we have included macro data provided by the Department of Tourism. The publication briefly discusses the tourism industry in India in the context of the present economic scenario and presents the results of our survey on the performance of mostly branded hotels, analysed by each hotel segment, as well as by major cities. For each city we have presented the new supply, its market orientation and even suggested the number of hotels under construction or active development (refer to Table 14).

### The Indian Economy - An Overview

The past financial year was the third successive year for the Indian economy to have grown over 8.5% and the fifth consecutive one to record an average growth of over 8%. India's real GDP growth for 2007/08 is estimated at 9% as per the Central Statistical Organisation (CSO). Table 2 depicts the annual growth rates and the contributions by different sectors of the Indian economy over the last five years.

The real GDP growth in 2007/08 is lower than the previous year's, owing to the impact of a tight monetary policy, strengthening of the currency and fear over recession in major global markets. The year 2008/09 began under high inflationary pressures. For an emerging economy like India, the short to medium-term inflation outlook continues to remain high and is expected to be governed by global oil price fluctuations and commodity price cycles. The inflation jump by over 7-8% points in a short span has led to aggressive inflation management by the government such as cutting import duties (edible oils, maize) and banning export of some commodities like non-basmati rice. The Reserve Bank of India (RBI) has also emphasised its commitment to stem inflation, even at the possible cost of economic growth.

Furthermore, while 2007/08 saw the Indian rupee strengthening against the US dollar, the first quarter of 2008/09 was marked by a comparative weakness, with the rupee hitting a 15-month low in July 2008. In the short to medium term the rupee against the US dollar is expected to fluctuate between 45 and 47.

Though the Indian banking system remained fairly insulated from any direct impact of the subprime crisis and the resulting investment bank fiasco in the US, there was marked volatility in the equity markets as many foreign institutional investors (FIIs) were forced to sell off their investments into Indian companies to compensate for their losses in the US and European markets. In the medium term, the Indian stock market is expected to remain range bound.

However, the economic scenario has had a substantial effect on the political scenario as well. So far, the ruling party - United Progressive Alliance (UPA) - was termed 'populist' by many and more cautious in its approach than initiative driven. For nearly

**Table 3: International and Domestic Visitation Trends, India (2003-07)**



four years of its tenure, the UPA's performance was supported largely by a booming economy enabling it to successfully create a 'feel good factor'. However, inflation, the rising prices of food, crude oil and essential commodities along with the mounting pressure on exports are negating this effect. The recent spate of serial blasts by terrorists in Hyderabad, Bangalore, Jaipur, Ahmedabad and Delhi do not bode well for the government's image and capability to ensure safety for the common man. The negative publicity is especially untimely as the country is gearing up for general elections likely to be held sometime during the first half of 2009. The recent foreign policy gains at the International Atomic Energy Agency (IAEA) meet and negotiations with the Nuclear Suppliers Group and the expected clearance from the US Congress on the Indo-US nuclear deal are a small silver lining.

**Trends & Developments in Tourism**

The tourism industry in India contributed only 6.8% of the GDP in 2007/08, a noticeable improvement from 5.9% in 2006/07. According to estimates of the World Travel and Tourism Council (WTTC), Indian tourism demand will grow at 7.9% from 2008 to 2017 in real terms. Foreign tourist arrivals to India have been showing an increasing trend estimated at 4.98 million in 2007 in comparison to 4.43 million in 2006 and 3.92 million in 2005. Over the last ten years, foreign tourist arrivals into India have recorded a growth of 109.65% from 2.37 million in 1997 to 4.98 million in 2007. However, even at this visitation level, India accounts for less than 1% of the global tourism market.

Domestic travel, both business and leisure, has also benefited from a strong performance of the corporate sector in India, and the overall sense of optimism with regard to the economy. Increase in charter flights into India and new airlines

providing additional seats for travel within the country are expected to have a significant impact on increase in affordable air travel within the country. Table 3 depicts the international and domestic visitation trends in India during 2003-07.

The strong performance in tourist arrivals in 2007 is attributable to a strong sense of business and investment confidence in India. This was inspired by India's strong GDP performance, strengthening of ties with the developed world and the opening of several sectors of the economy to private sector/foreign investment. Significantly, the bulk of international arrivals into India in 2007 have been business travelers.

However, it should be noted that the base for tourism in India is still very low. The sudden surge in demand for hotel accommodation over the last three years has inflated hotel room rates in the country, which currently rank amongst the highest in the world. However, a number of international brands across all hotel segments are planning to or have recently entered the Indian market. Domestic hotel chains, too, are embarking on strong expansion and development plans across all hotel segments. As the gap between supply and demand for hotel accommodation narrows over the next few years, we expect room rates to rationalise, which would encourage leisure travel.

**Air Transport Overview**

According to the Directorate General of Civil Aviation, 43.2 million passengers traveled by air in 2007 registering a 32.51% growth over 2006. This was accompanied by a growth in low-fare air carriers, with a resultant decline in the market shares of the more established ones like Jet Airways, JetLite, Indian and Deccan.

With the surge in the tourism industry, more foreign carriers are seeking to start up or increase their existing operations

into India which will in turn facilitate tourism. However, there is a shortage of available parking bays for the various new airlines, and other facilities at the airport including check-in counters, baggage handling and security. In order to meet the increased demand, the current government has brought in private sector assistance to invest in and develop airports. Furthermore, owing to spiralling fuel prices, the aviation sector is anticipated to record heavy losses in 2008/09. Some amount of consolidation and restructuring is anticipated in the civil aviation sector for the Indian carriers to reduce losses and stay afloat.

**Survey Results**

The HVS Survey has been computed by dividing the respondent branded hotels into their respective classifications according to star grading. As before, we have examined the performance of 11 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.

To summarise, markets in India for the financial year ended March 2008 witnessed occupancy erosion with marginal rate improvements in more mature Tier I commercial markets. For some of the emerging Tier II commercial markets and tourist destinations the growth in average rate has been significant, accompanied by marginal occupancy improvements. This year, except for three cities, all others showed a decline in occupancy. Average rates, which typically had been increasing in strong double digits, have also shown a slowdown with one city actually showing a decline and many others showing a rise in line with only inflation. There were, however, seven cities that continued to grow at 10-30% in terms of average rates.

While, the perceived slowdown in growth

can primarily be attributed to the macroeconomic outlook, HVS would also like to highlight that over the last three years some industry players have been guilty of exploiting the delicate price-value propositions. One can understand when some of the hotels, which compete in the top end of the luxury market with international product offerings and service delivery standards charge high rates. However, when all hotels start to charge rates that are 50% to 75% higher of what their global average brand rates are, there is a cause for concern. If the trends continue, India is at a risk of out-pricing itself and losing its competitive advantage and the industry will have only itself to blame.

During the next two years it should be very interesting to see how the new supply entering the markets affects the supply-demand gap. Our view at HVS is that

operators will once again have to shore up their occupancies and perhaps then look at stabilising rates. Obviously this will ensure that the hotels that have the product to match up to the rate will successfully manage to sail through, but hotels that were just inflating their rates due to supply constraints will no longer be able to do so. This would particularly be more important for the three and four-star categories as for the first time we will have many new international players entering this segment. Also keenly watched would be the performance of the unregulated and unorganised hotel/guesthouse market in the key cities of Bangalore, Delhi-NCR and Pune. These cities have seen a parallel supply of hotel rooms and this had affected occupancies for the branded segment. Now with the correction beginning to take place in the branded segment, we need to see if the customer indeed moves back to the hotels or not.

Overall, the industry has seen a 12-month growth of 11.9% in average rates (in 2007/08), as opposed to a growth of 30.0% the previous year. Occupancy growth also declined by 2.7%: the highest decline in pure percentage terms since 2001. Interestingly, the sharpest decline of 4.2% was seen in the three-star sector. This could be attributed to the new supply entering this segment and also out pricing of the existing one. Table 4 reflects room occupancy by hotel classification for the period 1998/99-2007/08. Table 5 presents average rate performance in Indian rupees for the same period while Table 6 reflects average rate results in US dollars.

Average rates in 2007/08 witnessed another increase across all market segments; however, the overall growth was lower than that in the previous few years. The highest annual growth in average rate, in Indian rupee terms, was witnessed in the

**Table 4: Key Operating Characteristics by Hotel Classification – Occupancy**

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	12-Month Growth*	Compounded Growth
<b>Overall Average</b>	55.4%	53.9%	57.2%	51.6%	57.2%	64.8%	69.0%	71.5%	71.4%	69.5%	-2.7%	2.6%
<b>Five-star Deluxe</b>	60.2%	58.3%	60.9%	52.2%	59.3%	65.0%	71.4%	73.8%	73.0%	71.8%	-1.6%	2.0%
<b>Five-star</b>	56.4%	55.7%	56.1%	51.4%	57.0%	66.8%	71.1%	70.4%	70.2%	67.8%	-3.4%	2.1%
<b>Four-star</b>	55.9%	53.2%	58.7%	52.7%	56.4%	68.7%	71.8%	72.7%	71.7%	70.0%	-2.4%	2.5%
<b>Three-star</b>	48.2%	47.7%	48.8%	49.7%	53.6%	59.6%	56.7%	65.9%	68.9%	66.0%	-4.2%	3.6%

\* Growth in 2007/08 (in absolute terms) expressed as percentage of the figure for 2006/07

**Table 5: Key Operating Characteristics by Hotel Classification – Average Rate (Indian rupees)**

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	12-Month Growth*	Compounded Growth
<b>Overall Average</b>	Rs3,903	Rs3,505	Rs3,731	Rs3,467	Rs3,269	Rs3,569	Rs4,299	Rs5,444	Rs7,071	Rs7,915	11.9%	8.2%
<b>Five-star Deluxe</b>	5,572	4,910	5,102	4,668	4,335	4,686	5,606	7,168	9,778	11,129	13.8%	8.0%
<b>Five-star</b>	3,516	3,368	3,447	3,277	3,114	3,372	3,897	4,985	6,506	7,615	17.0%	9.0%
<b>Four-star</b>	2,296	2,168	2,392	2,368	2,246	2,580	3,088	3,847	5,111	5,669	10.9%	10.6%
<b>Three-star</b>	1,457	1,505	1,673	1,696	1,669	1,670	1,830	2,212	3,012	3,408	13.1%	9.9%

\* Growth in 2007/08 (in absolute terms) expressed as percentage of the figure for 2006/07

**Table 6: Key Operating Characteristics by Hotel Classification – Average Rate (US dollars)**

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	12-Month Growth*	Compounded Growth
<b>Overall Average</b>	90.24	80.58	83.10	73.45	67.83	77.59	95.73	122.34	162.17	187.12	15.4%	8.4%
<b>Five-star Deluxe</b>	128.14	112.88	113.64	98.90	89.94	101.87	124.86	161.08	224.26	263.09	17.3%	8.3%
<b>Five-star</b>	78.57	77.42	76.77	69.43	65.23	73.31	86.79	112.03	149.22	180.02	20.6%	9.6%
<b>Four-star</b>	61.19	49.97	53.27	50.17	46.59	56.09	68.78	86.45	117.23	134.02	14.3%	9.1%
<b>Three-star</b>	37.03	34.59	37.27	35.93	34.63	36.31	40.71	49.71	69.09	80.57	16.6%	9.0%

\* Growth in 2007/08 (in absolute terms) expressed as percentage of the figure for 2006/07

**Table 7: Key Operating Characteristics by Hotel Classification – RevPAR (Indian rupees)**

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	12-Month Growth*	Compounded Growth
<b>Overall Average</b>	Rs2,162	Rs1,889	Rs2,134	Rs1,789	Rs1,870	Rs2,313	Rs2,966	Rs3,892	Rs5,049	Rs5,501	9.0%	10.9%
<b>Five-star Deluxe</b>	3,354	2,863	3,107	2,437	2,571	3,046	4,003	5,290	7,138	7,991	11.9%	10.1%
<b>Five-star</b>	1,983	1,876	1,934	1,684	1,775	2,252	2,771	3,509	4,567	5,163	13.0%	11.2%
<b>Four-star</b>	1,283	1,153	1,404	1,248	1,267	1,772	2,217	2,797	3,665	3,968	8.3%	13.4%
<b>Three-star</b>	702	718	816	843	895	995	1,038	1,458	2,075	2,249	8.4%	13.8%

\* Growth in 2007/08 (in absolute terms) expressed as percentage of the figure for 2006/07

**Table 8: Key Operating Characteristics by Hotel Classification – RevPAR (US dollars)**

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	12-Month Growth*	Compounded Growth
<b>Overall Average</b>	49.99	43.43	47.53	37.90	38.80	50.28	66.05	87.47	115.79	130.05	12.3%	11.2%
<b>Five-star Deluxe</b>	77.14	65.81	69.21	51.63	53.33	66.22	89.15	118.88	163.71	188.90	15.4%	10.5%
<b>Five-star</b>	44.31	43.12	43.07	35.69	37.18	48.97	61.71	78.87	104.75	122.05	16.5%	11.9%
<b>Four-star</b>	34.21	26.58	31.27	26.44	26.28	38.53	49.38	62.85	84.05	93.81	11.6%	11.9%
<b>Three-star</b>	17.85	16.50	18.19	17.86	18.56	21.64	23.08	32.76	47.60	53.18	11.7%	12.9%

\* Growth in 2007/08 (in absolute terms) expressed as percentage of the figure for 2006/07

five-star (17.0%) and five-star deluxe (13.8%) categories followed by the three-star category (13.1%). The average rate for four-star properties also showed an increase (10.9%). These growths were comparatively much lower than the growth witnessed 12 months earlier. It may also be noted that over a ten-year period, the compounded average rate growth in rupee terms has been the strongest in the four-star (10.6%) and three-star (9.9%) categories, followed by the five star and then the five-star deluxe ones.

The continued increase in average rates, however, has taken a toll on the markets and this has adversely impacted the occupancies, which declined across the board. To a large extent the decline in occupancy for hotels across India was due to the sharp correction in the occupancy levels in the three big IT cities of Pune, Hyderabad and Bangalore. In fact, for each of the mentioned cities, their peak occupancy was witnessed two to three years ago. Due to lack of new supply, they have been able to sustain growth through average rate increases, but we believe that even this is now questionable as guests are looking for alternate options. The growing economy and especially the growth of the IT/ITES sector created new feeder markets and extended stay demand which contributes anywhere from 10% to 20% of a city's room nights demand. This demand has been extremely advantageous, as it enabled hotels to indulge in proactive yield

management, rate contracting and micro segment planning. However, with hotels out-pricing themselves many of the IT/ITES companies have started making hotel accommodations within their own campuses affecting negatively the growth for hotel rooms in these cities. HVS believes that at least 3,000 to 3,500 such rooms have come into effect in the past two years alone in these three cities and a few others.

In terms of RevPAR, all star categories experienced growth in 2007/08. The five-star hotels experienced the maximum growth in rupee terms (13.0%) followed by five-star deluxe hotels (11.9%). The three-star and four-star hotels each saw an increase as well at 8.4% and 8.3% respectively. In US dollar terms, the five-star segment showed the highest increase (16.5%), followed by the five-star deluxe (15.4%) and three-star (11.7%) segments. Table 7 presents RevPAR performance in Indian rupees for the period 1998/99-2007/08 and Table 8 presents the same in US dollars.

In 2007/08, Mumbai and Kolkata at 74.9% were the overall market occupancy leaders. The weak performance of a traditionally strong market and the strong performance of a historically weak one always make a fascinating study. In 2007/08, only two markets – Ahmedabad (8.1%) and Agra (3.1%) – managed to improve their occupancies in the last 12

months, while Jaipur remained stable with no change in occupancy levels. An occupancy decline was seen in all the other cities – Pune (-14.9%), Hyderabad (-8.5%), Bangalore (-7.9%), Delhi-NCR (-4.2%), Mumbai (-3.9%), Goa (-1.8%), Kolkata (-0.8%), and Chennai (-0.5%). Interestingly, each of these cities has only seen a fraction of the new supply entering its markets and we can expect a bit more instability before growth begins anew when the demand-supply gap narrows.

The immediate threat to the hotel sector demand is a growing concern of a slowing economy, which is facing us globally. Fortunately, India is less dependent on foreign travelers, who actually constitute a minuscule portion of the overall travel when compared to domestic travelers. The potential threat of over supply exists but cannot be and should not be seen as a major deterrent to growth as the demand fundamentals are strong.

HVS believes that each market will mature and we will soon have to look at the micro picture within each market rather than the macro picture. In fact, a study of the current year's trends show that the actual ground situation across various cities is not as bad as that portrayed by the media. HVS predicts that in the next 12-24 months hotels will once again focus on ensuring occupancies are kept relatively high and this will unfortunately come at the cost of lower average rates. This may not be good

news for existing owners and investors but certainly it is good news for the consumers and the long-term growth and stability of the hospitality industry in India. In terms of average rate (rupee terms), Ahmedabad with a 12-month growth rate of 29.4% was a clear winner, ahead of all the major cities. Mumbai, Kolkata and Pune were the next three gainers at 24.1%, 23.4% and 21.8% respectively. Agra, Delhi-NCR and Chennai saw rate increases at 11.9%, 12.7% and 14.9% respectively. Jaipur, Goa and Hyderabad saw single digit growths of 6.0% to 7.0%. Bangalore, on the other hand, saw a decline in average rates (-4.6%) for the first time in eight years (refer to Table 10).

In our 2005 edition of this report, HVS had predicted that average rates would go up by 20-25% for the next three years. Since then, average rates have increased by

23.7% in 2005/06, 30.0% in 2006/07 and now 11.9% in 2007/08. We had further suggested that whenever a correction would take place it would be relatively quick and sharp. While we have seen a correction take place in Bangalore last year, we are yet to see the same across other cities. In fact, year-to-date information from most markets is that while hotels have had to sacrifice occupancy by 1-5% in the major cities they have further gained in average rate by 10-20%. We do, however, believe that it will be very difficult for hotels to increase rates further over a prolonged period and at some stage especially with new supply entering, a price correction is inevitable.

Pune, Hyderabad, Bangalore and now Agra are the four cities, which witnessed the highest growths over the ten-year period at 25.0%, 16.7%, 13.2%, and 12.0%

respectively. Conversely, the slowest growth over this period was seen in Kolkata at 5.9% followed by Mumbai and Chennai at 6.2%.

In terms of RevPAR growth, the trends seem to have completed a full cycle. In the past, cities like Bangalore and Hyderabad were the leaders; however, in 2007/08 both of them saw RevPARs decline by 12.1% and 2.3% respectively. Mumbai and Kolkata which had done exceptionally well last year, continued to show strong RevPAR growths of 19.3% and 22.4%. The surprise leader in RevPAR terms was Ahmedabad at 39.8%. HVS anticipates that RevPar growth over the next 12 months is likely to remain positive, but perhaps in single digits for most markets.

Table 9 illustrates hotel occupancy for 11 key cities in India, between 1998/99 and

**Table 9: Key Operating Characteristics by Major City – Occupancy**

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	12-Month* Growth	Compounded Growth
<b>Agra</b>	46.4%	40.1%	42.5%	33.7%	30.7%	50.0%	57.1%	56.0%	58.9%	60.7%	3.1%	3.0%
<b>Ahmedabad</b>	58.0%	50.8%	55.8%	53.2%	53.8%	63.2%	68.3%	69.1%	67.9%	73.4%	8.1%	2.7%
<b>Bangalore</b>	59.0%	64.4%	69.8%	64.3%	72.0%	78.5%	81.4%	76.7%	72.5%	66.8%	-7.9%	1.4%
<b>Chennai</b>	64.7%	65.3%	64.6%	56.5%	58.3%	66.6%	72.9%	78.2%	74.7%	74.3%	-0.5%	1.5%
<b>Delhi-NCR</b>	54.1%	52.9%	58.9%	53.3%	60.4%	73.1%	79.1%	80.8%	76.9%	73.7%	-4.2%	3.5%
<b>Goa</b>	58.6%	53.3%	60.6%	53.6%	60.5%	59.3%	62.5%	67.8%	72.8%	71.5%	-1.8%	2.2%
<b>Hyderabad</b>	66.0%	61.3%	69.1%	68.0%	68.9%	75.9%	78.7%	82.0%	72.1%	66.0%	-8.5%	0.0%
<b>Jaipur</b>	45.6%	47.0%	55.0%	48.3%	44.9%	58.8%	67.2%	65.7%	65.5%	65.5%	0.0%	4.1%
<b>Kolkata</b>	57.8%	54.8%	62.9%	66.4%	65.4%	62.8%	69.0%	76.4%	75.5%	74.9%	-0.8%	2.9%
<b>Mumbai</b>	67.6%	64.5%	64.6%	52.0%	63.4%	69.7%	72.0%	76.2%	77.9%	74.9%	-3.9%	1.1%
<b>Pune</b>					71.0%	68.9%	86.4%	83.1%	83.4%	71.0%	-14.9%	0.0%

\* Growth in 2007/08 (in absolute terms) expressed as percentage of the figure for 2006/07

**Table 10: Key Operating Characteristics by Major City – Average Rate (Indian rupees)**

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	12-Month* Growth	Compounded Growth
<b>Agra</b>	1,906	1,638	1,586	1,840	1,954	2,431	3,012	3,622	4,715	5,276	11.9%	12.0%
<b>Ahmedabad</b>	2,220	2,705	2,736	2,354	2,164	2,410	2,787	3,111	3,526	4,561	29.4%	8.3%
<b>Bangalore</b>	3,254	3,025	3,602	3,735	3,752	4,832	7,470	8,762	10,406	9,924	-4.6%	13.2%
<b>Chennai</b>	3,600	3,424	3,796	3,535	3,224	3,323	3,714	4,357	5,378	6,177	14.9%	6.2%
<b>Delhi-NCR</b>	4,626	4,115	4,526	4,338	4,089	4,269	5,103	6,909	9,192	10,360	12.7%	9.4%
<b>Goa</b>	2,863	2,727	2,914	2,676	2,754	3,086	3,985	4,804	5,801	6,176	6.5%	8.9%
<b>Hyderabad</b>	1,579	1,867	2,316	2,414	2,541	2,774	3,772	4,870	5,962	6,360	6.7%	16.7%
<b>Jaipur</b>	2,533	2,514	2,902	2,949	2,728	2,980	3,461	4,407	5,285	5,561	5.2%	9.1%
<b>Kolkata</b>	3,888	3,557	3,698	3,409	2,917	3,021	3,240	3,887	5,288	6,524	23.4%	5.9%
<b>Mumbai</b>	6,297	5,661	5,555	4,932	4,184	4,356	4,822	6,041	8,738	10,842	24.1%	6.2%
<b>Pune</b>					2,603	2,805	3,521	4,915	6,523	7,943	21.8%	25.0%

\* Growth in 2007/08 (in absolute terms) expressed as percentage of the figure for 2006/07

Table 11: Key Operating Characteristics by Major City – Average Rate (US dollars)

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	12-Month Growth*	Compounded Growth
<b>Agra</b>	50	38	35	39	41	53	67	81	108	125	15.7%	10.7%
<b>Ahmedabad</b>	53	62	61	50	45	52	62	70	81	108	33.3%	8.2%
<b>Bangalore</b>	81	70	80	79	78	105	166	197	239	235	-1.7%	12.6%
<b>Chennai</b>	89	79	85	75	67	72	83	98	123	146	18.7%	5.7%
<b>Delhi-NCR</b>	111	95	101	92	85	93	114	155	211	245	16.1%	9.2%
<b>Goa</b>	73	63	65	57	57	67	89	108	133	146	9.8%	8.0%
<b>Hyderabad</b>	39	43	52	51	53	60	84	109	137	150	9.5%	16.1%
<b>Jaipur</b>	62	45	65	62	57	65	77	99	121	131	8.3%	8.7%
<b>Kolkata</b>	88	82	82	72	61	66	72	87	121	154	27.3%	6.4%
<b>Mumbai</b>	138	130	124	104	87	95	107	136	200	256	28.0%	7.1%
<b>Pune</b>					54	61	78	110	150	188	25.3%	28.3%

\* Growth in 2007/08 (in absolute terms) expressed as percentage of the figure for 2006/07

Table 12: Key Operating Characteristics by Major City – RevPAR (Indian rupees)

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	12-Month* Growth	Compounded Growth
<b>Agra</b>	884	657	674	620	600	1,216	1,720	2,028	2,777	3,203	15.3%	15.4%
<b>Ahmedabad</b>	1,288	1,374	1,527	1,252	1,164	1,523	1,904	2,150	2,394	3,348	39.8%	11.2%
<b>Bangalore</b>	1,920	1,948	2,514	2,402	2,701	3,793	6,081	6,720	7,544	6,629	-12.1%	14.8%
<b>Chennai</b>	2,329	2,236	2,452	1,997	1,880	2,213	2,708	3,407	4,017	4,590	14.2%	7.8%
<b>Delhi-NCR</b>	2,503	2,177	2,666	2,312	2,470	3,121	4,036	5,582	7,069	7,635	8.0%	13.2%
<b>Goa</b>	1,678	1,453	1,766	1,434	1,666	1,830	2,491	3,257	4,223	4,416	4.6%	11.4%
<b>Hyderabad</b>	1,042	1,144	1,600	1,642	1,751	2,105	2,969	3,993	4,299	4,198	-2.3%	16.7%
<b>Jaipur</b>	1,155	1,182	1,596	1,424	1,225	1,752	2,326	2,895	3,462	3,642	5.2%	13.6%
<b>Kolkata</b>	2,247	1,949	2,326	2,264	1,908	1,897	2,236	2,970	3,992	4,886	22.4%	9.0%
<b>Mumbai</b>	4,257	3,651	3,589	2,565	2,653	3,036	3,472	4,603	6,807	8,121	19.3%	7.4%
<b>Pune</b>					1,848	1,933	3,042	4,084	5,440	5,640	3.7%	25.0%

\* Growth in 2007/08 (in absolute terms) expressed as percentage of the figure for 2006/07

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

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	12-Month* Growth	Compounded Growth
<b>Agra</b>	23	15	15	13	13	27	38	45	64	76	19.3%	14.1%
<b>Ahmedabad</b>	31	31	34	27	24	33	42	48	55	79	44.1%	11.1%
<b>Bangalore</b>	48	45	56	51	56	82	135	151	173	157	-9.4%	14.1%
<b>Chennai</b>	58	52	55	42	39	48	61	77	92	108	18.1%	7.3%
<b>Delhi-NCR</b>	60	50	59	49	51	68	90	125	162	181	11.3%	13.0%
<b>Goa</b>	43	34	39	31	34	40	56	73	97	104	7.8%	10.4%
<b>Hyderabad</b>	26	26	36	35	37	46	66	89	99	99	0.2%	16.1%
<b>Jaipur</b>	28	21	36	30	26	38	52	65	79	86	8.3%	13.1%
<b>Kolkata</b>	51	45	52	48	40	41	50	66	91	115	26.3%	9.5%
<b>Mumbai</b>	93	84	80	54	55	66	77	104	156	192	23.1%	8.3%
<b>Pune</b>					38	42	67	91	125	133	6.7%	28.3%

\* Growth in 2007/08 (in absolute terms) expressed as percentage of the figure for 2006/07

2007/08. Tables 10 and 11 show average rates for each of these hotel markets, expressed in Indian rupees and US dollars, respectively, while Tables 12 and 13 present the corresponding RevPAR data.

### Hotel Supply

Over the past few years, we at HVS have been tracking the development of new supply very closely. In 2005, the proposed new supply of branded and quality hotels for the ten markets covered by us was 22,400. This rose to 48,500 in 2006, 77,500 in 2007 and now to 80,501 rooms for the ten cities originally tracked. When we look at the entire Indian hotel market we believe that there are approximately 114,000 rooms entering within the next five years.

We will 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, like last year we have put together a list of developments under construction, or those announced in each market that have a confirmed tie up with an operator. Such developments have been analysed rationally, through the prism of an unbiased third party, for the probability factor of their development within the next five years.

In Table 14, we present the existing and proposed quality supply entering each of the 11 markets covered in this report.

Chandigarh, like last year, has been added to this list. The table reflects the anticipated growth over the next five years and also shares a probability factor (active supply) to reflect those hotels, which are either under construction or hotels that HVS is confident will open before March 2013. We have further also provided in this table the potential segmentation for the new supply and classified it into luxury, first class, mid market, budget and extended stay hotels. In Table 15, we provide a comparative analysis of the situation last year, when we released this report on new supply, and this year for a better understanding of how the hotel sector is evolving.

Last year when we undertook this exercise of determining new hotel supply, the Pune market was expected to have maximum

**Table 14: Distribution of Existing and Proposed Branded Hotels by Major City – 2007/08**

	Existing Supply	Proposed Supply	Increase over Five Years	Active	Luxury	First Class	Mid Market	Budget	Extended Stay
				Development of Supply					
Agra	1,336	670	50%	55%	0.0%	22.4%	77.6%	0.0%	0.0%
Ahmedabad	675	3,664	543%	47%	6.8%	32.0%	36.7%	18.3%	6.0%
Bangalore	3,456	15,542	450%	60%	19.4%	31.8%	30.2%	10.8%	7.9%
Chandigarh	340	1,813	533%	54%	15.7%	28.8%	21.1%	34.4%	0.0%
Chennai	2,826	7,147	253%	71%	26.8%	31.2%	15.6%	16.5%	8.5%
Delhi-NCR	9,019	22,360	248%	51%	25.1%	29.7%	30.9%	10.4%	3.9%
Goa	2,768	3,353	121%	42%	35.4%	46.4%	7.2%	11.0%	0.0%
Hyderabad	2,554	8,250	323%	64%	35.0%	23.3%	24.1%	24.3%	7.0%
Jaipur	1,556	2,937	189%	53%	0.0%	16.5%	52.5%	31.0%	0.0%
Kolkata	1,396	5,965	427%	49%	23.4%	30.1%	34.9%	9.2%	2.3%
Mumbai	8,454	10,613	126%	62%	30.6%	29.9%	20.5%	10.5%	6.2%
Pune	1,346	8,243	612%	66%	22.0%	29.3%	31.4%	25.0%	3.6%
Other Cities	11,256	23,909	212%	60%	2.3%	26.0%	36.0%	30.3%	1.2%
<b>Total</b>	<b>46,982</b>	<b>114,466</b>	<b>244%</b>	<b>58%</b>	<b>19.6%</b>	<b>28.8%</b>	<b>29.6%</b>	<b>18.0%</b>	<b>4.0%</b>

**Table 15: Comparative Analysis - Distribution of Existing and Proposed Branded Hotels by Major City – YoY**

	Existing Supply			Proposed Supply			Active Development of Supply		
	2007/08	2006/07	Var. %	2007/08	2006/07	Var. %	2007/08	2006/07	Var. %
Agra	1,336	1,336	0.0%	670	764	-12.3%	55%	32%	23%
Ahmedabad	675	519	30.1%	3,664	2,230	64.3%	47%	60%	-13%
Bangalore	3,456	2,414	43.2%	15,542	12,882	20.6%	60%	61%	-1%
Chandigarh	340	340	0.0%	1,813	1,567	15.7%	54%	45%	8%
Chennai	2,826	2,442	15.7%	7,147	6,213	15.0%	71%	68%	4%
Delhi-NCR	9,019	7,990	12.9%	22,360	19,423	15.1%	51%	56%	-4%
Goa	2,768	2,450	13.0%	3,353	3,058	9.6%	42%	58%	-16%
Hyderabad	2,554	1,868	36.7%	8,250	10,619	-22.3%	64%	47%	17%
Jaipur	1,556	1,388	12.1%	2,937	4,012	-26.8%	53%	56%	-3%
Kolkata	1,396	1,354	3.1%	5,965	3,644	63.7%	49%	67%	-17%
Mumbai	8,454	7,402	14.2%	10,613	11,578	-8.3%	62%	49%	13%
Pune	1,346	777	73.2%	8,243	8,072	2.1%	66%	77%	-11%
Other Cities	11,256	9,005	25.0%	23,909	17,909	33.5%	60%	58%	2%
<b>Total</b>	<b>46,982</b>	<b>39,285</b>	<b>19.6%</b>	<b>114,466</b>	<b>101,971</b>	<b>12.3%</b>	<b>58%</b>	<b>58%</b>	<b>0%</b>

development (1,039% supply growth over existing supply). This has been vindicated by the fact that supply has grown in Pune by 73.2% over the past 12 months. Currently we still believe that this market can be expected to grow by 612%. While Table 14 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, if not more weight, since it reflects the actual active development for the proposed supply. So while Pune may reflect that 8,243 rooms are under development, we at HVS believe that only 66% of this proposed supply will actually get developed by 2012/13. Similarly in Table 15 we can see how the Pune market has changed on the supply front over the past 12 months. Later in this report we discuss the growth, demand and supply situation for each of the 11 cities tracked.

If one were to analyse the entire country, we expect that approximately 58% of the total new supply of 114,466 rooms, or approximately 66,000 rooms, will actually get developed over the next five years. Our estimate is that there are approximately 120,000 rooms operating in India. This number is based on the number of rooms, which are officially approved by the Government of India as well as the FHRAI (Federation of Hotels and Restaurants Association of India) members. We also estimate that there would probably be another 60,000 to 80,000 guesthouses or corporate guesthouses taking the total supply of transient guest rooms to approximately 200,000 units/rooms.

The reason we highlight this is because there are various guess/estimates doing the rounds. Research by HVS confirms an alarmingly low number of branded or quality rooms supply in the country, which stands at approximately 47,000 rooms. This overall number for India is actually lower than that for most major cities across the globe. Therefore, even with the addition of 66,000 quality/branded rooms across India in the next five years, we believe that India offers huge potential to investors and operators across all segments. Moreover, the fact that India has an annual traveling population of 500 million travelers, which is bigger than the entire population of the United States alone, is a case in point.

**Pune** had a growth in room supply by 73% because of its extremely small base of existing rooms. As this base grows the percentage of new supply entering the market is going to decline. However, the dynamic base helped Pune perform

remarkably well considering the new supply as occupancies remained strong at 71% and the rates too went up by over 21.8%. Still with 612% (8,243 rooms) growth and 66% probability factor of all these rooms actually opening, we believe that Pune will see a correction in the market in terms of both occupancy and average rates over the short to medium term. At this stage HVS is tracking close to 50 projects in this market, despite a few which dropped off earlier. Despite these developments, HVS believes there would be opportunities in certain micro markets provided the product positioning is appropriate for the site.

**Ahmedabad** had new supply grow by 30% during the previous 12-month period. This growth is high clearly due to its existing low base of quality rooms in the city. Gujarat, under its current political leadership, appears to be doing well with its pro-business approach, which is generating a lot of interest on the investment front including hotels. In the past 12 months many new projects have been announced and this has resulted in an expected 543% (3,664 rooms) growth with a 47% probability factor of all these rooms actually opening. Considering that Ahmedabad was the market RevPAR leader last year and has a stable government in place, which is encouraging industries and businesses, we feel that the city will absorb this new supply.

**Chandigarh** (including Mohali) continues to have only one recognised brand and, therefore, has an extremely low base of room supply. There has also been no new addition to the city's supply. The city offers excellent opportunities for food and beverages (F&B), banquets etc. Therefore, we believe that first class, mid market and budget hotels will particularly do well. We believe that the current base of rooms is going to grow by 533% (1,813 rooms) with a 54% probability of actually being developed. While many real estate companies have land banked, there is not much activity going on in terms of real development. Also we are worried about the very slow pace of IT/ITES development, as IT/ITES is considered important for the growth of the hotel sector.

**Bangalore** has been amongst the top performing markets in India for the past four to five years. Developers were initially slow in gauging the market and new hotel developments took a while before they started opening during the last 18 months.

The city saw hotel room supply increase by 43% during the past 12 months. This is in addition to guest rooms that have mushroomed in the past 24-36 months and become substitutes for hotel accommodation in the city. Over the past few years we have maintained that Bangalore would see a rate and occupancy correction, which was expected in 2009/10. However, this correction started earlier than anticipated and is partially due to the sudden change of fortune in the global economy, which impacts Bangalore potentially more than other cities because of its dependence on IT/ITES. Future growth of room supply in the city is expected to be 450% (15,542 rooms) and 60% of these have probability of development. We believe the city is currently flirting with the danger of an over supply in the luxury and first class space. Therefore, hotels being built in the mid market and budget space would be safer bets in the long term. Despite these developments Bangalore is a great city for hotel developments, provided an investor's financial models take into account the realistic pricing of room rates and not the overpriced rooms as happened during the past few years.

For the past few years and again this year **Kolkata** has been amongst the top performers. The city, however, has a small base and therefore we can expect a 427% (5,965 rooms) growth in new rooms supply with a probability factor of 49% development taking place over the next few years. In recent months the state government has taken a serious image beating due to the controversy surrounding the manufacture of the Tata's Nano car. However, if investments continue into the state and Kolkata in particular, then we can expect the hospitality sector to continue to boom. We do, however, believe that currently there is too much focus on the luxury end of the market and not enough on the budget front.

The **Hyderabad** market, until recently, did very well for a few years but is again showing signs of reversing all its gains. While the city continues to enjoy the highest compounded RevPAR growth of 16.7% over a ten-year period, it has seen sharp occupancy corrections in the past two years and average rates grew only in line with inflation. Part of the occupancy correction could also be attributed to the healthy increase in rooms supply by 36.7%. However, unlike its IT counterpart – Bangalore – this city remained extremely price sensitive and hotels have never been

able to push occupancies higher without the consequences of lower rates. We expect new supply to remain high at 323% (8,250 rooms) growth with a probability development factor of 64%. As we can see in Table 15, the probability factors for projects that are expected to be completed in Hyderabad alone have grown at 17%. Further, our worry is that the highest growth is expected in the luxury segment, where the average rates are below US\$150 on an average and would thus suit the hotels that are built to mid market specifications.

**Chennai** remains a stable and steady market. We anticipate that this city will see an increase of 253% (7,147 rooms) growth with a high probability factor of 71%. Chennai is extremely diversified with various demand generators, which include the IT/ITES industry, a strong automobile manufacturing base and Southern India's regional headquarters for many banking companies. Therefore, this provides a lot of comfort to new developers. Although in the past 12 months new supply grew by over 15% we have not seen any real decline in occupancy and in fact average rates continue to rise.

Perhaps no other region in recent times has received more focus from the media on new hotel supply than the **Delhi-National Capital Region (NCR)**. HVS is literally tracking a 100 different hospitality projects being planned or talked about in the NCR. This is a growth of 248% over its existing supply (9,019 rooms), which should be music to the government's ears who is actively trying to encourage hotels to open before the 2010 Commonwealth Games in October. However the bad news for the government is that we expect only 51% of all these projects to be built over the next five years. This percentage further falls to 44% or 9,867 rooms, when we look at opening before the Games. We would like to clarify that our projections on supply take into account the hotel district developments at the international airport, but not the proposed hotels auctioned and then subsequently cancelled at Noida. HVS associates have also physically verified the development stage of each of these projects. An encouraging factor has, however, been the increase in FSI norms for the area from 1.5 to 2.25. However, the bureaucracy of getting approval licenses to construct remains the biggest challenge facing the hotel sector today. Due to the multiplicity of authorities in the NCR this problem is even more critical here.

**Jaipur** continues to do well both as a leisure

destination and a business location. New supply is expected to grow by 189% (2,937 rooms), of which HVS believes 53% will actually get developed. Despite a slight increase in rooms supply during the past 12 months, occupancies remained stable and average rates grew with inflation. Like before, we believe that new supply will get successfully absorbed, provided the projects are built to quality to match the segments that they compete for. Moreover, having their own individual USP would give the hotels a better chance of absorption. Fortunately, 80% of the new supply is expected in the budget to mid market category, which is excellent for the overall tourism potential of the city.

After a gap of six years **Mumbai** has once again captured the number one spot in terms of RevPAR in 2007/08. Bangalore, and for a few years the NCR too had overtaken India's commercial capital as the market leader. Mumbai managed to not only share the spot with Kolkata as the best performer in terms of occupancy (74.9%) but also the country's average rate leader at Rs10,842. The city has amongst the lowest percentage supply growth pipeline of 126% (10,613 rooms). Of this, we expect only 62% to actually get built. Mumbai continues to offer fantastic opportunities for new hotel development as demand certainly continues to be strong. With all the various re-development/rehabilitation schemes of mill lands and slums we expect there to be good opportunities for hotels to come up during the next decade or so. Till then, we can continue to see good rate growths and reasonably healthy occupancy levels.

**Goa** continues to be India's famous beach destination. The location has huge barriers to entry in terms of environmental clearances and other government obstacles and, therefore, development projects take extremely long to complete. The state is likely to see an increase of 121% (3,353 rooms) with a low probability factor of 42% for the next few years. Goa's market has also seen a huge increase in average rates, which is making it an expensive destination for charter business; a slowing of this business is likely to impact hotels in turn. There has been limited progress made on the convention centre, and also the upgradation of the existing airport or the proposed new one. The recent spate of unfortunate attacks on a few foreigners has not helped. Having said this, Goa remains an excellent investment opportunity for hotel development.

**Agra** was amongst the only two markets,

which saw its occupancy grow last year. While the city has Taj Mahal to charm and attract tourists, the state administration has done little to maintain and clean the infrastructure which is hurting further growth of this city. We believe the market will perhaps grow by 50% (670 rooms) and approximately 55% of this might actually get developed. The silver lining is that most of this new development is taking place in the mid market space.

Future challenges on the room supply side are the exorbitant prices of land parcels and the high expectations of the landowners for the same. Many stand alone real estate owners land banked thinking that they would sell ahead and make an early exit. However, with a change in sentiments this is now an enormous challenge. While prices at a few locations have softened there may be a while before others follow. The most recent credit crisis at a global level has certainly added negatively to the market sentiments. With the government fighting inflation as its first priority and the cost of borrowing – if at all available - at recent record highs, we can expect things to pick up in terms of transactions that make more sense. HVS firmly believes that the next 12-24 months will offer opportunities to those who have cash to buy. This will offer a great opportunity to investors who are likely to start looking for bargains.

### Future Trends

The last few years have seen unprecedented increases in average rates across the country. While this has hurt occupancies and forced them downwards the overall effect has, however, been very positive on the RevPARs. As recently as six months ago the Indian hotel sector was expecting another good year, and a correction was not foreseen till at least another 12-15 months in many of the markets. However, due to the global economic slowdown, some new hotel supply, high inflation including staggering increases in fuel prices that have forced the cost of air travel to increase, there has been a severe tightening of travel budgets, which has resulted in a fast drop in occupancy. Hotels that were caught off guard as these events unfolded and continued to push for higher rates found their policy to be counter productive as occupancies have begun to sharply correct and in the medium term will force a rate correction also. However, in the short period between April and September this year we have seen hotels manage to increase overall RevPARs.

**Table 16: Supply and Demand Analysis: April-September 2007 vs April-September 2008**

	Rooms supply per day			Rooms occupied per day			Occ%			Average Daily Rate (ADR)			RevPAR		
	Apr-Sept 2007	Apr-Sept 2008	Var	Apr-Sept 2007	Apr-Sept 2008	Var	Apr-Sept 2007	Apr-Sept 2008	Var	Apr-Sept 2007	Apr-Sept 2008	Var	Apr-Sept 2007	Apr-Sept 2008	Var
Bangalore	2,170	2,356	8.6%	1,462	1,538	5.2%	67%	65%	-3.1%	11,600	11,350	-2.2%	7,815	7,409	-5.2%
Chennai	1,836	2,120	15.5%	1260	1445	14.7%	69%	68%	-0.7%	6,450	7,554	17.1%	4,426	5,149	16.3%
Goa	1,720	1,839	6.9%	1040	980	-5.8%	60%	53%	-11.9%	4,310	4,440	3.0%	2,606	2,366	-9.2%
Hyderabad	1,448	1,608	11.0%	938	1075	14.6%	65%	67%	3.2%	6,615	6,518	-1.5%	4,285	4,357	1.7%
Kolkata	1,150	1,152	0.2%	847	814	-3.9%	74%	71%	-4.1%	5,904	7,138	20.9%	4,348	5,044	16.0%
Mumbai	5,730	5,869	2.4%	4,051	3,766	-7.0%	71%	64%	-9.2%	10,380	12,754	22.9%	7,338	8,184	11.5%
New Delhi	5,368	5,152	-4.0%	3,655	3,289	-10.0%	68%	64%	-6.2%	10,400	12,008	15.5%	7,081	7,666	8.3%

Source: HVS Research

Compared to many other economies, the Indian economy is relatively much more stable due to the high domestic consumption. In hindsight, the government's limited progress on financial reforms in recent years also meant we had limited exposure to the American credit crisis. However, in order to fight high inflation the government has had to tighten the monetary policy and this has led to a credit-liquidity crisis and subsequently very high interest rates with the result that many projects have just come to a standstill. We anticipate that while this will slow down the pace of supply in the short term, it would certainly help existing hotels and those that are about to open as absorption would be greater.

Valuations of hotels, too, are expected to see a correction and this would actually be a good opportunity for serious investors to pick up half-built properties. While historical capitalisation rates or cap rates have never been available in India, we anticipate them to go upwards in the short to medium term and range possibly between 10.5% and 13.0%. However, while not generalising, we expect certain markets and particularly micro locations in major cities to be able to swim against this trend. Mumbai and Goa appear to be the two markets ready for further growth with very limited new supply entering them.

India has recently started observing the introduction of quality budget and mid market hotels. Local brands like Lemon Tree, Homitel, Fortune and International brands like the Ibis by Accor, and Oakwood serviced apartments are going to transform the budget and mid market hotel sectors. Many of these new brands mentioned above are building very cost effective hotels and clearly not over spending like some of their full service counterparts in the same segment. HVS believes that owners who visit and see

these projects will be convinced that they do not have to over build specifications of hotels in India. We hope to see a trend where owners will be able to stand up against some of the brands, which are being built more than what is required of that segment, and would certainly not have done so had it been their own funds. With tightening availability of capital and debt, we hope and expect there to be a mid-way point on this issue. Additionally, the cost of construction has also risen by 10-15% in the past year or so on account of basic raw materials like steel and cement. Therefore, it would be prudent to be more cautious than injudicious in conceptualising hotels to specifications.

Another trend, which has been recently noticed in the budget and mid market space, is the advent of cheap furniture, fixtures and equipment (FF&E) from China. While this looks extremely attractive on paper and helps in the overall initial project cost we do believe that its quality is relatively poor and would have to be replaced more frequently negating any initial gains. HVS believes that owners, particularly the new ones, would have to be extra careful about their procurement and while they can shop in China they need to do so with some caution.

Another very critical trend to watch out for is the rising cost of manpower. HVS recently completed its first compensation survey for the hotel industry in India. See the corresponding article '*Is Mars the next Destination for Recruitment?*' We anticipate that the pressures of higher manpower cost will force hotels to be built more efficiently and with greater use of technology to assist in mitigating any short term increase in employee costs. Also with the BPO, aviation and retail sectors hurting, we anticipate that many of the employees familiar with the hospitality sector will come back into the work force. Furthermore, with rising local payroll costs

we can hopefully also witness a reversal of manpower movement from the Middle East back to India.

Table 16 presents key operating statistics for five-star deluxe and five-star hotels in key cities, for the period April to September 2008. Comparisons with the corresponding period last year have also been presented to illustrate the extent of change.

Performance trends for the first five months of the year 2008/09 have not been as bad as that made out by the media. HVS will, however, like to clarify that the above-mentioned year-to-date figures were collected even as the events of the financial markets around the globe were unfolding. Most markets have seen a dip in occupancy levels but a high increase in rate growths during the same period. We anticipate that as we enter the crucial months of October through March, hotels this year will not be able to push up rates and instead will be best advised to build again on their occupancy levels. We anticipate that likely year-end projections would be possibly single digit gains in rates in many of the cities and occupancy drops ranging from 5% to 10% in most markets.

### Opportunities

Amongst the cities tracked, our favorite destinations for investments remain Mumbai and Goa as they have very low existing supply pipelines. We expect demand to remain strong at both locations over the foreseeable future. We foresee the possibility of large format hotels, which have not yet been tested in India but can be extremely healthy for the bottomlines. There also remains a scarcity of units for the extended stay segment. Other investment opportunities for hotels may be available in terms of secondary and tertiary cities like Ahmedabad, Lucknow and Bhubaneshwar. In fact, industrial and manufacturing areas could also be good

locations for budget hotels. Locations in Gujarat, Orissa and the Northeast also probably hold out good possibility for mid market and budget hotels.

We also continue to believe that there are huge opportunities in the leisure space. As we have mentioned previously too, India is certainly ready for family destination resorts built to international standards. These could be done near both the eastern and western coastlines or within short distances to major cities. It is important that these destinations be built to international standards and offer value for money to the families that they may target. These resorts coupled with good MICE business have the potential to create their own niche.

While HVS has in the past suggested Condo hotels to their clients and these have been seriously looked into by developers, we would now like to caution developers against them as there has been

a spate of litigation in the US and Europe about their performance.

Going forward, SEZs, industrial parks, locations near existing and new airports remain hot spots for hotel development and offer good opportunities. Some of these should be looked at from a mixed-used development format which will ensure that price of land is shared with other components. The recent downturn in the retail mall format also offers good opportunities. Why not use a hotel as an anchor tenant for the project? However, this can only happen for hotels, which are budget in orientation or at best mid market; the developer will have to customise the mall to the hotel and not the other way around. We have already started to see this happening in many of the locations and expect this trend to grow significantly in the future.

Despite the recent slowdown in the global economy and the weak sentiments of the

Indian markets due to inflation, terrorism and other factors, the overall outlook for the hospitality market in India is optimistic and will remain so, in our opinion.

We still remain amongst the strongest and fastest growing economies in the world. The supply-demand imbalance is a fact that is not going to disappear soon. This is particularly true for the budget segment. In the short term, we can expect a price correction to take place, which is likely to impact the luxury and first class hotels more than those at the lower end. While the honeymoon may be over, there is certainly no reason why hotels cannot enjoy an extended period of marriage, growth and all round prosperity if built and managed properly. We anticipate that despite a few hiccups over the next few years, India will remain one of the world's fastest growing tourism markets and the economy will also be hard to ignore.

## IS MARS THE NEXT DESTINATION FOR RECRUITMENT?

- continued from page 1

employees till 2013/14: a growth of 201%. This is assuming that there would be no attrition or migration to the other industries vying for the same talent. Table A shows a citywise breakup of the projected manpower requirements for various hotel segments till the year 2013/14. The projected manpower requirements have been calculated upon our understanding of the average staff to room ratio for hotels of different categories. HVS projections indicate that by the year 2013/14, the Indian hospitality industry would require a total of 165,629 employees. However, the current manpower availability is 82,219, thereby showing a shortfall of approximately 84,000 employees across various levels in the hierarchy. While the maximum number of vacancies would be at Delhi-NCR (34,018), the manpower crunch would be felt worst in Pune. Pune would require approximately 12,960 employees as compared to its current base of 2,356: a growth of 550% over the existing manpower base.

### Compensation

Compensation for all Human Resource Managers has been the single-most powerful tool to leverage and retain

employees. This instrument, however, has not been utilised to its fullest potential till now. With reality staring hotel companies in the face, organisations are scrambling to revise salary structures across the board in a bid to retain high-potential employees, attract good talent and stem the growth of their competition. We believe that in order to retain baseline managers and develop them into future heads of department, it may be prudent to revise the existing salary structures. This may be done by adding the variable components into the base salary and distributing their vestment over the year rather than giving it to individuals as a bonus at the year end. Another effective long-term retention tool that might be considered is the Employee Stock Option Scheme, which would ensure a more vested interest in the peak performance of the company or unit.

The findings of the first-ever pan-India survey of the Indian hospitality industry – *HCE Hospitality Compensation Exchange India Survey 2008* – indicate that salaries have increased by over 40% in the past two to three years. HVS estimates that the trend will continue and the industry can expect to see a growth of around 25-30% in salaries over the next year.

The survey has also brought to light some surprising and some expected compensation trends. Our findings indicate that amongst the metropolitan cities, Mumbai and New Delhi have the

highest pay packages across the board for individual hotel properties with Kolkata and Hyderabad paying the least. Upon comparing the hierarchy of hotels within these cities, it has been observed that the difference between some positions is as low as 25% and as high as 88%.

Table B shows a comparison of the annual midrange salary figures for various positions across metropolitan cities in India. As is evident, the General Manager in Mumbai has the highest pay scale closely followed by the counterpart in Delhi-NCR. The position, however, is at its lowest pay scale in Bangalore with the differential being 58%.

### Simplification of Job Roles

Job roles and profiles in the hotel industry have been complex and relatively undefined. With the advent of new accommodation products and the apparent scarcity of long-experienced executives to manage them, hotel companies have resorted to the 'McKinsey way' of managing their properties. Job roles have been simplified to an extent that there are literally manuals available for handling every conceivable situation in a hotel operation scenario. This has resulted in younger, lesser experienced individuals being at the helm of operations for a unit. Past HVS surveys show that the average age of a Unit General Manager has dropped from 40-45 years to 35-40 years. The reduction in age profiles is

**Table A: Manpower Requirements - By 2013/14**

Key Cities	Existing Room Supply	Current Manpower <sup>1</sup> 2007/08	Projected Additional Manpower Requirement 2013/14					Total Requirement 2013/14	Percent Increase
			Luxury <sup>2</sup>	First Class <sup>3</sup>	Mid Market <sup>4</sup>	Budget <sup>5</sup>	Extended Stay <sup>6</sup>		
Agra	1,336	2,338	-	270	624	-	-	894	38%
Ahmedabad	675	1,181	500	2,111	1,614	536	176	4,937	418%
Bangalore	3,456	6,048	6,022	8,883	5,632	1,337	986	22,859	378%
Chandigarh	340	595	570	940	460	498	-	2,468	415%
Chennai	2,826	4,946	3,826	4,014	1,342	941	488	10,610	215%
Delhi-NCR	9,019	15,783	11,204	11,965	8,281	1,869	699	34,018	216%
Goa	2,768	4,844	2,374	2,801	288	296	-	5,759	119%
Hyderabad	2,554	4,470	5,774	3,467	2,390	1,604	461	13,696	306%
Jaipur	1,556	2,723	-	873	1,849	729	-	3,451	127%
Kolkata	1,396	2,443	2,796	3,231	2,498	440	112	9,077	372%
Mumbai	8,454	14,795	6,486	5,719	2,608	894	530	16,236	110%
Pune	1,346	2,356	3,628	4,343	3,103	1,646	238	12,959	550%
Other Cities	11,256	19,698	1,122	11,192	10,336	5,793	221	28,664	146%
<b>Total</b>	<b>46,982</b>	<b>82,219</b>	<b>44,302</b>	<b>59,809</b>	<b>41,024</b>	<b>16,583</b>	<b>3,910</b>	<b>165,629</b>	<b>201%</b>

<sup>1</sup>Assuming Employee to Room Ratio of an average 1.75

<sup>2</sup>Assuming Employee to Room Ratio of 2.0

<sup>3</sup>Assuming Employee to Room Ratio of 1.8

<sup>4</sup>Assuming Employee to Room Ratio of 1.2

<sup>5</sup>Assuming Employee to Room Ratio of 0.8

<sup>6</sup>Assuming Employee to Room Ratio of 0.8

**Table B: Annual Midrange Compensation Figures**

Metropolitan Cities	Annual Midrange Compensation Figures					
	General Manager	All Day Dining Manager	Room Service Steward	Pastry Chef	Reservations Agent	Security Manager
Bangalore	2,639,700	462,000	102,100	640,900	230,600	930,100
Chennai	3,582,100	503,200	110,200	798,100	195,100	885,500
Delhi-NCR	4,397,250	397,900	96,300	694,000	161,400	811,600
Hyderabad	3,499,000	485,300	111,000	392,100	195,000	651,000
Kolkata	3,372,300	635,100	143,100	656,600	249,300	1,157,800
Mumbai	4,540,250	527,000	147,500	760,500	222,400	1,073,200

prominently visible across all positions of the hotel hierarchy.

**Availability of Choices**

Hotel developments of late have not been restricted to the domain of hotel companies alone, but have been taken up keenly by real estate developers. With newer entrants creating budget hotels and mixed-use developments to cater to the burgeoning middle class travelers the Indian market has over 600 hotels and related projects in various stages of development. HVS estimates the developments to add around 115,000 hotel rooms.

The rampant development of hotels in Tier I and II cities has also ensured that executives and hotel employees have

sufficient employment opportunities. The phased and sustained development is expected to allow employees to get employment in their preferred cities as well as in preferred hotels and brands. The development of Tier II cities as extensions of metropolitans across India such as Pune with Mumbai, and Faridabad and Ghaziabad along with Delhi would see an outflow of manpower from the more expensive metros to the satellite towns, which have a relatively lower cost of living.

All these aspects definitely shine a bright path ahead for hoteliers across the board and hold the promise of a more satisfying and rewarding career ahead.

HCE Hospitality Compensation Exchange © Reports: The following reports are available for sale:

- Compensation Survey - Luxury and First Class Hotels
- Compensation Survey - Mid Market Hotels
- Compensation Survey - Budget Hotels
- Compensation Survey - Emerging Markets
- Compensation Survey for Corporate Designations in Hotel Companies
- Compensation Survey - Bangalore
- Compensation Survey - Chennai
- Compensation Survey - Goa
- Compensation Survey - Hyderabad
- Compensation Survey - Kolkata
- Compensation Survey - Mumbai
- Compensation Survey - New Delhi and NCR

For further information and to purchase a copy please contact [schoudhry@hvs.com](mailto:schoudhry@hvs.com)

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# Marketing a Hotel Online In a Struggling Economy

## Introduction

In a struggling economy, businesses slow down. This is especially true of hotels as their growth is directly related to the health of the economy. Consequently, your marketing budget shrinks and you need to be careful about how to spend it wisely. In other words, identify what marketing methods work, and what don't. It is more important than ever that you pay attention to your return on investment (ROI).

The Internet has surfaced as the leader in travel and hotel sales. In 2008, 37-38% of all hotel bookings will be generated from the Internet as compared to 33% in 2007 and 29% in 2006. At least another third of all hotel bookings will be influenced by the Internet, but done offline (call center, walk-ins, group bookings, etc). All major hotel brands are already generating an excess of 40% of the computerised reservation system (CRS) bookings via their brand websites. By the end of 2010, over 45% of all hotel bookings will be completed online.

The Internet has established itself as the most important distribution and marketing channel in the hospitality industry. Since this is the case, it only makes sense for you to give some serious thought and planning to Internet-related campaigns in your hotel's marketing mix. In other words, when your marketing budgets shrink, you could benefit by accentuating your online strategy versus the offline one. The bonus is that Internet marketing is almost totally measurable, which allows for quick evaluation and continual adjustments to improve results.

## Marketing on the Internet

The primary objective of all your online marketing efforts should be to attract the right visitors to your website and to encourage them to make a reservation. Of course, bringing more and more visitors helps in brand building exercise too. There are several ways to promote your website online. Below we list just a few of them.

### First and Foremost – Create and Enhance Your Hotel's Website

Hotel Internet marketing starts and ends with the hotel website. The hotel website has become the first, the only and in many cases the last point of contact with the travel consumer. It is only natural that

creating and enhancing the hotel website should be the top priority. The objective is to create an attractive look and feel and at the same time make sure that the website is content/feature rich so that it provides required information to its visitors.

Most of the hoteliers are content with just having a website as the sum total of their Internet marketing efforts, whereas the fact is that having a website is just a starting point and not the ending one. Once you have a well designed website in place, it is crucial that you promote it or market it online. What's the point in spending all that time and effort to create a website which brings in hardly any visitors? If promoted properly, your website can generate substantial amount of leads and reservations for your hotel.

You need to keep a close eye on latest trends and usability enhancements and accordingly enhance the website at regular intervals. However, more often than not, it doesn't happen. A fine example could be the screen resolution with which websites are designed. We noticed that a lot of websites still cater to 800x600 pixels screen resolution (perhaps, even less) whereas the current trend is that more and more computers are using a screen size of 1024x768 pixels or more. Therefore, a substantial amount of web page real estate is going wasted.

Another example could be that of images and graphics used on websites. Many hoteliers don't realise that today Internet users have a lot more bandwidth/Internet speed at their disposal than what they had a couple of years ago. Still, many websites continue to use small sized, highly optimised graphics, thereby compromising on quality and presentation. These are just a couple of examples. There are several other factors contributing to websites being archaic like verbose content copy, poorly done virtual tours, confusing navigation, and other redundant elements.

### Content Copy - Study Your Competition

You need to thoroughly study and understand your competition since having an edge over your competitor's website should be one of the primary objectives for your website. In order to do so, you have

to understand exactly what your competitors are doing online – the manner in which they display their services, facilities and amenities, use of graphics, packages and promotions, search engine penetration to name a few.

Travelers are getting more and more skeptical of hotels' website content. Write concise and straight forward content copy for your website with appropriate graphics. Graphics and animation go a long way in sending the right message to your visitors. It is important that your website demonstrates your hotel's facilities and amenities in as attractive a manner as possible. But at the same time, make sure it is searchable. For that to happen, you need to understand what people search for on the Internet and then accordingly plug in the right kind of content and other sales elements into the web pages. In the online world, your website is your biggest asset. The content that you write for it can either build brand equity or tarnish the brand image of the hotel.

### Search Engine Optimisation (SEO)

Optimise web pages by reviewing your website's HTML source code, META Tags, implementing popular keywords in the content, etc. These are some of the factors that search engines evaluate when deciding which website shows up first for a particular search key phrase. In short, do whatever it takes to improve your website's 'Organic Search', which is the free/unpaid search on search engines.

Make sure that the agency or SEO specialists that you hire have enough experience and knowledge of hotel selection and booking process. The problem with many SEO specialists is that they tend to populate hotel sites with unrelated non-travel visitors through the careless use of poorly selected key words/phrases and other means. The number of visitors your SEO efforts generate is important. But even more important is the number of reservations generated from these visitors. Having a lot of visitors to your website would be of little use if they do not help in generating reservations. Therefore, conversion is the key.

Having a good link strategy is a very important part of SEO. When ranking your website, several search engines consider the number and quality of in-bound links to rank your website. Participating in local search Google and Yahoo also helps. It also keeps your hotel near the top of search engine results.

### **Paid Search Campaigns**

Paid Search marketing comprises of placing ads for your products or services on search engines and content sites across the Internet. Implement 'Paid Search' Campaigns such as Pay Per Click (PPC) or Google Ad Words or Yahoo Search Marketing or Microsoft ad Center. It is worth investing in Paid Search Campaigns to start with since it brings immediate results as opposed to Organic Search or SEO, which usually has a gestation period of three to six months. As your website's visibility improves in Organic Search, investment on Paid Search could be reduced.

The sad part is that many site promoters use PPC to replace and not supplement efforts to improve a website's ability to earn good organic search results. Organic search should be your goal. User behavior supports this too. Users are more inclined to click on organic search results than paid search results.

Finally, as with SEO, remember that the number of reservations or conversions, not simply the number of site visits, determines a Paid Search Campaign's success.

### **Packages and Promotions**

Identify which aspects of your product resonate best with your customers. Why are people staying at your hotel to begin with? Is it good location, business amenities, free breakfast or any other factor? Accordingly, package and promote your hotel's unique value proposition to potential customers. For example, create unique hotel offers based on your unique hotel product attributes or attributes in the local environment. Several years ago, someone had the brilliant idea to include a complimentary breakfast as a value-added feature to improve sales. It worked so well that nearly every hotel now offers it; it is no longer a special feature and could even be a deficit for those who do not offer it.

The vast majority of travelers make a value judgment when selecting a hotel. Create special promotions, which focus on value-added features targeted to the market segment you are seeking.

### **Social Media – Guest Reviews and Feedback**

Social media sites have become very popular as these websites provide a means for keeping in touch with friends, colleagues, and relatives. However, in a tough economy where marketing budgets

are limited, it makes more sense to focus on travel-related social media sites like TripAdvisor.com and HotelChatter.com instead of non-travel focused websites such as YouTube.com or FaceBook.com. Yes, if you have the resources to focus on both types of websites, do so by all means. While travel-related social media websites play a significant role in travel planning, non-travel focused, popular social media websites are important from the perspective of brand building and awareness.

Make sure your own website supports Consumer Generated Media (CGM) including blogs, trip planners, guest reviews, experience sharing, etc. For instance, it should allow visitors to read and post reviews, comments and feedback. People do read reviews and experiences of the visitors who have stayed at your hotel in the past. This trend is increasingly catching up with people as part of their planning process for both business and leisure travel.

From a guest's perspective, it is more convenient for him to write a candid comment about the services that he experienced at your hotel than to go to the front desk or a consumer court and vent out his frustrations. That's what people like to read before planning their travel – blunt and honest guest reviews. And it does make an impact on their travel decisions.

### **The Bottomline**

Internet marketing involves more than simply having a website. It consists of varied but interrelated components such as design, development and online marketing. Online Marketing can alone have several channels such as Search Engine Marketing, which includes SEO and Paid Search Advertising, display advertising, e-mail, newsletter, online PR amongst others. Tying these components together require expert knowledge and years of experience.

But the Internet is still the most effective and least expensive way to expose your hotel to global traffic and new reservations. It is the largest and most important marketing and distribution channel in hospitality. According to Telecommunications Industry Association (TIA), 83% of travel planning in the US is done online. By 2010 the Internet will contribute over 45% of all travel-related bookings in North America. The cost to sell directly to consumers via your website can be really low as compared to the hefty

distribution costs via the Global Distribution System (GDS) and third-party online intermediaries. Reducing reliance on these two very expensive channels will directly affect the bottomline.

If used effectively, the Internet can provide the required exposure and incremental business for your hotel. In these uncertain times, the Internet can produce a large portion of a hotel's overall business.

### **Online Marketing Trends and Opportunities in India**

At a time when companies are cutting advertising budgets, online marketing provides the much-needed edge to marketing. The Indian market has seen an increase of 19% in the regular Internet users this year over 2007, and now boasts of an active eight million online buyers. With regular Internet users already reaching a sizeable 40 million this year, search engines are becoming a significant marketing tool for Indian companies across all industries. More and more Indians are turning to search engines like Google, Yahoo and MSN. The SEM industry is likely to double in size to \$225 million by 2009/10. With Indian online industry headed towards Rs2,000 crore, takers of online marketing have increased in the past four to five years. Online marketing will soon become the preferred mode of advertising for many businesses in India. Since most Internet users now avail search services and buy online, online marketing is becoming an active advertising model for result-oriented projects in India.

## Hospitality Asset Management in India: An Introduction

The term 'Asset Management' was probably first introduced back in the 1980s by the late Stephen W. Brener and he subsequently defined it as "The goal of Asset Managers is to make recommendations about the operating performance, physical plant, market position, and management of a hotel".

Initially the role of an Asset Manager was that of a troubleshooter, that is one who was brought in by the owner to assist in raising the occupancy percentage, increasing the average daily rates and reducing costs to make the property more profitable. As the industry matured and was introduced to large institutional investors and management companies, the problem-solving role undertaken began to evolve. Subsequently, there was a higher level of oversight that was called for, financial institutions have greater reporting requirements, and negotiations with management companies require a professional level of knowledge and expertise of the industry.

As the hospitality industry grew around the globe, there emerged large hotel portfolios requiring a more strategic approach – one in which the Asset Manager was no longer just a problem solver, but now became an agent of change, a financial analyst and an owner's representative. With a clear understanding of the owner's goals and objectives the Asset Manager was building value and making acquisition and disposition recommendations, while being involved with operational and strategic issues. In fact, Asset Management and the new role of the Asset Manager was defined in 1994 by Stephen Rushmore in Lodging Hospitality as, "In general terms hotel asset management is the service of assisting hotel owners in realising their investment goals. Asset managers act as an owner's agent or representative to ensure that a hotel is acquired for a reasonable price; is then operated properly during the period of ownership; and ultimately is disposed of at an appropriate time and price".

Similar to the growth and evolution of the international hospitality market, the Indian subcontinent is now seeing an influx of sophisticated institutional investors, management companies and international hospitality operators – all scanning the arena for possible joint ventures, franchises and management

contracts. In the mid-1990s the Indian marketplace was dominated by three domestic operators, namely Oberoi, Taj and the ITC WelcomGroup, with approximately 18,000 rooms in the branded/quality segment across India. Today the hotel industry has grown to approximately 46,000 branded/quality rooms in that segment with international hotel companies including Accor, Carlson Hospitality, Starwood Hotels & Resorts, Marriott International, Intercontinental Hotel Group, Global Hyatt to name a few.

Financing back then was relegated to the likes of TFCI, IFCI and IDBI. Today we have investment banks like Credit Suisse, Morgan Stanley, Lehman Bros, Merrill Lynch, ICICI, HDFC and Kotak Mahindra actively representing the international and domestic investment banking community in the Indian arena. Additionally major real estate players like Unitech, DLF, and Emaar MGF are all active participants in the growth of the hospitality sector.

Needless to say, this dramatic growth in the hospitality industry in India has been the forebearer for the Asset Management function in the subcontinent. Asset Management today is a function of effectively managing the following: **product, talent, processes, customers and environment.**

In order to conduct an appropriate analysis of each of the above areas they need to be assessed and benchmarked in conjunction with the following five functional parameters:

- Assessment of goals and objectives
- Operational performance analysis
- Market study
- Capital analysis
- Strategic planning & management

In general the Asset Manager will provide owners a wide range of services, the scope of which is similar to the following:

- Regularly attend property management meetings to monitor operational activities and build a working relationship with the management team
- Assist with the Capital and Operational budgeting process and attend regularly scheduled meetings to review variances
- Meet with management team to review customer satisfaction scores and complaint resolution processes
- Meet the Sales & Marketing team and assist with the development of the Marketing Plan
- Meet and review implementation of the Marketing plan and assess its impact on revenue, costs and cash flows

- Design, review and monitor daily/weekly/monthly operational reports and compare with industry norms
- Regularly review operational performance with the management team and evaluate with the competitive set
- Periodically analyse and assess cost centers and productivity ratios
- Develop market intelligence and apprise ownership of changes and opportunities
- Meet with management and assist in developing, implementing and evaluating training and development initiatives
- Review and assess employee relations and monitor turnover ratios
- Communicate regularly with ownership both verbally and in writing, apprising them of the assets' performance and recommend strategic initiatives

Needless to say, this is not an exhaustive list of actual activities to be performed but only a representative random sample for informational purpose.

In conclusion, one would not be remiss in saying that the Asset Manager's function today encompasses the responsibility of maintaining and enhancing the value of the physical plant, oversight of all operational aspects, fiduciary responsibility for financial/investment activities and strategic planning initiatives.

The increased complexity of the real estate investment, the advent of professional management companies, involvement of institutional equity participants and the increased pressures of higher returns on investment, have fueled the need for professional Asset Management expertise for owners and investors alike. Although a quid pro quo, implementation for each of the five functional areas requires extensive planning, development, and analysis.

HVS India is now proud to announce the opening of its new line of services – HVS Asset Management & Strategic Advisory Services. We have always tried to remain ahead of the curve at HVS India, and we believe the timing of our new services is most apt, with competition growing rapidly within the industry and professionalism becoming increasingly important. For more information on our new services please visit our website [www.hvs.com](http://www.hvs.com) or contact Rummy Pandit via email at [rpandit@hvs.com](mailto:rpandit@hvs.com)

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## About HVS

HVS Hospitality Services is the world's leading full-service consulting and appraisal firm devoted exclusively to the hospitality industry. Founded in 1980 in the United States, the company has 22 offices across the globe. Since 1980, HVS has consulted with over 19,000 hotels in more than 70 different countries worldwide. In South Asia, HVS has Consulting & Valuation and Executive Search divisions in Delhi while the Mumbai office is dedicated to Executive Search. The company has recently launched its third division in India committed to Asset Management & Operational Advisory Services.

The Consulting & Valuation team has worked on a wide range of projects that include feasibility and marketing studies; valuation of hotels; residual land values; operator search and management contract negotiations; development strategies for new brands; research reports and investment services. Our clients in India include Indian Hotels, EIH Ltd, ITC Hotels, Hotel Leela Venture Ltd, Intercontinental Hotels & Resorts, Mandarin Oriental, Carlson Hospitality, Global Hyatt, Hilton International, Merrill Lynch, Lehman Bros., Credit Suisse, GIC, AIG, IFC, ICICI Bank, Sun Group, and Emaar (Dubai) amongst others.

## About HVS Executive Search

In May 2001, we launched HVS Executive Search – the first retained search firm for hospitality in India – to cater to the staffing needs of this sector. HVS Executive Search has grown and today carries out extensive search assignments in the real estate, Financial services, retail, healthcare and

energy sectors. HVS also provides services in areas of HR Consulting, Compensation Survey and Design. In addition to its New Delhi and Mumbai office, HVS Executive Search has international offices in New York, London, Moscow and Hong Kong.

## About HVS Web Strategies

HVS Web Strategies provides affordable, accessible, and streamlined Internet and Web services to hotel and resort owners, operators, developers and investors who recognise the key role technology can play in improving operations and financial performance. We aim to provide quality technology consulting and outsourcing models tailored to a client's needs. We specialise in the following customer-centric services focused towards offering comprehensive services to our clients under one roof:

- Hotel Technology Consulting
- Website Design Services & Custom Web Development - CRMs and Content Management Systems, Intranet/Extranet, Loyalty Programs, Guest Satisfaction Surveys
- Online Marketing - Search Engine Optimisation, Pay Per Click (PPC) or Google AdWords or Yahoo Search Marketing or Microsoft adCenter)

## About Marketing and Communications

HVS Marketing and Communications Services specialises in conceptualising and implementing marketing strategies that strategically position your brand by its focus on consistency of experience and touch points rather than products and services alone. Our services result in creation and sustenance of stronger and more strategic brand marketing that addresses the changing market through new age marketing innovations.

Based in New Delhi with representation in Mumbai, we offer a wide range of expertise to the industry including conceptualisation and implementation of:

- Pre-Opening, Opening and Tactical Marketing Campaigns
- Brand Architecture, Manuals and Strategies
- Web Marketing Strategies.
- Food and Beverage Marketing
- Corporate Communications and CRM Initiatives

For more information, please contact Mansi Bhatnagar, Associate Director, Marketing and Communications Services, HVS India at [mbhatnagar@hvs.com](mailto:mbhatnagar@hvs.com).

## About the Authors

**Manav Thadani** joined HVS New York office as a Consulting & Valuation Analyst

in September 1995. After working with the New York and London offices of HVS, he relocated to Delhi to open HVS's first Asian office in India, which was established in New Delhi in 1997. As Managing Director and Partner of the New Delhi office he is responsible for all HVS activities in the region including Consulting & Valuation, Executive Search, Marketing & Communication Services, and HVS Web Strategies. Recently, he also helped set up HVS Asset Management & Operational Advisory Services.

Manav holds a Masters degree in Food Service Management from New York University (NYU), prior to which he completed his undergraduate education in hotel management at NYU. He is also a regular speaker at various hospitality/real estate industry conferences and plays host to the annual Hotel Investment Conference South Asia (HICSA).

**Rummy Pandit** recently joined HVS India as CEO Asset Management & Strategic Advisory Services. He has in the past held the post of General Manager for city hotels/downtown projects as well as resort and mixed-use properties. He has also successfully managed properties involved in time-sharing and vacation ownerships. He has also been Executive Director of Hotel Operations for an 800-plus room gaming property with Harrahs Entertainment. Subsequently, he was Assistant Dean & Executive Director of Hospitality Management for Rutgers. Rummy has a Bachelors degree in Commerce from Delhi University, a Masters in Hotel Administration from Cornell-Essec and an MBA from Rutgers. He also holds the CHA (Certified Hotel Administrator) designation from the American Hotel & Lodging Association.

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