

Room at the Top

International and domestic hotel chains are planning to invest huge amounts in putting up luxury properties across the country to meet the growing demand from tourists, reports **Darrel Philip**



DEMAND OUTSTRIPPING SUPPLY: Domestic hotel firms are charting out aggressive plans

Global hospitality brands Hilton, Starwoods, Accor, Carlson, InterContinental, Jumeirah, and Easy group are all stepping up their international offerings in the Indian market, given upbeat growth, demand-supply mismatch and the burgeoning hospitality sector in the country.

While Hilton is looking at launching Garden Inn and Conrad brands, Starwoods is planning to introduce Four Points, W Hotels, St Regis and Aloft brands. Accor Hotels has lined up its

Mercure and Sofitel brands and InterContinental its Crowne Plaza Resorts and Holiday Inn Express brands in the country.

"The Indian hotel industry is maturing," points out Saurabh Gupta, head, hospitality, HVS International, a global hospitality consulting firm. "It recognises the need to provide specialised lodging products at varying price points. Hotel companies clearly see the vast potential and are rushing in to fill the huge gap between premium 5-star hotels and low quality unbranded hotels and

guest houses."

The country is witnessing a spurt in hotel expansion as India is facing a severe shortage of quality hotel rooms because of increased business activity and an expansion in leisure travel by the burgeoning middle class, as well as international tourists. The demand-supply mismatch is likely to last till mid-2008 with most of the fresh supply coming in over the next couple of years.

"Hotels on an expansion phase will be in a better position to absorb the decline in occupancies and rates over the



UNPRECEDENTED GROWTH: The hotel industry is on a roll, especially luxury properties

long term, as any additional supply can offset the pressure on room rates," says Raymond Bickson, managing director, Indian Hotels, which owns the Taj brand of hotels and resorts. Analysts also indicate that room additions on the back of strong tourist inflows would ensure better margins and profitability.

With demand outstripping supply, domestic hotel companies are charting out aggressive plans to invest close to \$1.01 billion over the next two years to fund new projects and expansion plans. Domestic hotel majors like Indian Hotels, Leela Ventures, EIH (member of the Oberoi group), Kamat Hotels, and Royal Orchid are likely to see room inventory go up by around 6,500 units given the burgeoning hospitality sector in the country. According to industry estimates, more than 53,000 hotel rooms are in various stages of planning and development in 10 cities, and are expected to become operational in a phased manner by 2011. Out of this, around 8,440 hotel rooms are expected in the budget category. With most cities showing an impressive demand for rooms,

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hotel operators are optimising demand by putting in place proactive rate management strategies, say sources in the industry.

While Leela Ventures is investing around \$284 million, Indian Hotels is expected to invest around \$280 million. EIH, Kamat Hotels and Royal Orchid are expected to invest around \$258 million, \$82 million and \$112 million respectively. A total of 60 new proper-

ties across different categories are likely to be ready soon, analysts tracking the industry add.

Interestingly, hoteliers are upgrading their 3-star or 4-star hotel projects to 5-star levels due to spiralling land prices. Out of the 300 hotel projects recently approved by the government, 55 per cent is understood to be luxury hotels accounting for about \$1.6 billion in investment.

The key reasons for this are the higher profitability and revenues that accrue from a 5-star hotel room as compared with a 3- or a 4-star one. Globally, land costs account for 15 to 20 per cent of the total project cost. In India, the real estate component in the total project cost has shot up to 50 per cent compared to 25 to 30 per cent a few years back, and this has driven them to set up luxury rather than budget hotels.

The new hotel properties are expected to add an additional 12,332 rooms in the super-luxury segment (above 5-star levels) and 15,924 rooms in the 5-star category out of a total 53,333 rooms in the various metro markets over the next

3-4 years. A buoyant economy, growth in the aviation and real estate sectors, improved infrastructure and the easing of restrictions on foreign investments is expected to fuel demand across star categories in a majority of markets across India. According to Government of India estimates, the number of foreign visitors to India increased by 11 per cent in 2004 and 2005 and by 15 per cent in 2006.

Business travellers represent over 50 per cent of foreign travellers. Besides this, there are about 300 million domestic tourists travelling across the country each year and this number is expected to witness a growth of 10 to 15 per cent over the next few years.

"The domestic hotel industry is witnessing a lot of interest among private equity investors and several international hospitality chains are looking to enter the country," says Chender Baljee, chairman and managing director, Royal Orchid Hotels. Higher disposable income and low-cost airlines are encouraging domestic air travel, bringing it within the reach of more Indians, who until recently took holidays during the lean season, to avail of lower room rates, adds Gupta of HVS International.



HIGH OCCUPANCY: Tier two cities are seeing growth both in terms of occupancy and room rates

Over the last few months tier two cities like Jaipur, Gurgaon, Hyderabad, Pune and a host of other state capitals and prominent commercial hubs are seeing growth both in terms of occupancy and room rates,

While occupancy is around 75 to 80 per cent, room rates are up by 15 to 20 per cent in these markets. With the leisure destinations opening up between October and May, demand from both in-

ternational and domestic tourists is likely to peak during this period.

The domestic hospitality industry is currently witnessing unprecedented growth and the increase in revenue and profitability of most of the premium hotels is an indication of this, explains Binaifer Jehani, analyst at Cris Infac, part of Crisil, India's leading ratings, research, risk and policy advisory company.

The average room rate for a 5-star property is up 27 per cent to \$160 in 2005-06 as compared to a 3-star one which, is up by just 12 per cent at \$46 a night.

In cities like Mumbai and Bangalore, some of the better properties fetch rates of between \$300 and \$500 for a night's stay. And in these cities, there is no such thing as a peak or lean season, and most properties enjoy high occupancy rates round the year. India's vibrant economy and its buoyant international trade has seen it attract hundreds of high-level business delegations from around the world, boosting the prospects for luxury and business hotels.

Besides hotels and resorts, other segments of the tourism infrastructure business – including family entertainment centres, amusement and water-parks, and surface tour operators – are also witnessing brisk growth.

Indeed, with millions of affluent and middle-class Indians being bitten by the travel bug, demand for facilities will expand phenomenally over the years. 🌈

New room supply - by Market Orientation (by 2011)

	Luxury	First Class	Mid-Market	Budget	Total
Delhi/NCR	2449	2659	4624	1484	11216
Mumbai	2866	2697	2485	1270	9318
Kolkata	275	725	1225	240	2465
Chennai	1235	1675	1017	480	4407
Bangalore	2503	1300	2883	1108	7794
Hyderabad	1885	2549	1579	1395	7408
Pune	470	1767	1454	927	4618
Goa	325	1147	675	485	2632
Cochin		400	335	330	1065
Jaipur	324	1005	720	721	2770
Total New Supply	12332	15924	16997	8440	53693
In per cent	23%	30%	32%	16%	

Source:HVS International

Key economic indicators and Tourism statistics

	2003	2004	2005	2006
Number of arrivals	2,726,000	3,406,623	3,915,324	4,443,893
Foreign exchange earnings (\$billions)	3.6	4.81	5.73	6.7
Foreign exchange earnings (\$ per visitor)	\$1,321	\$1,412	\$1,463	\$1,508
Total arrivals to New Delhi	30.80%	32.20%	32.00%	32.10%
Total arrivals to Mumbai	24.10%	25.10%	24.90%	25.00%
Total arrivals to Chennai	10.50%	10.30%	09.90%	10%
Total arrivals to Kolkata	03.7%	03.3%	03.1%	02.9%
Exchange rate US\$1.00: INR	46	44.9	44.5	46.2

Source:HVS International