

SURVIVAL TO SUPREMACY

INDIAN HOSPITALITY STORY
2012 & BEYOND



Confederation of
Indian Industry



**CUSHMAN &
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SEPTEMBER 2012



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Contents

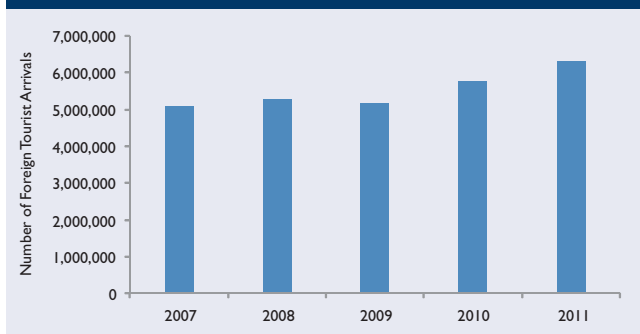
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INTRODUCTION

The global scenario - economic, political or even social, is ever dynamic creating and recreating conditions that have lasting effects on our business environment. Whether it is the global economic slowdown in 2008 or the more recent European Union crisis, natural disasters in Japan or the uprisings in the Middle Eastern and Islamic world, each event contributes in creating new histories. Globally, the hospitality sector is one of the most sensitive sectors that is affected by any and all events – global, regional or local.

While impact of global conditions may not have been very positive on many other aspects of India's economy, the travel and tourism industry managed an annual growth rate of 8.9% in foreign tourist arrivals. As per the World Travel Tourism Council (WTTC), in India the total contribution of travel and tourism was 6.4% of total GDP in 2011 and is forecasted to rise by 7.3% by the end of 2012. The investments made in travel and tourism in 2011 was INR 1,254 billion approximately 5.1% of the total investments in the country and is expected to rise by 12.3% by the end of 2012. Another significant fact is that domestic travel spending generated 82.2% of direct travel and tourism GDP in 2011 as compared to 17.8% from foreign visitor spending. The hotel industry, as per the Economic Survey of 2011-12, reported a sales growth of 14.3% during Financial Year (FY) of 2010-11 and is expected to maintain this level in 2012-13, while Profit after Tax (PAT) is expected to grow by an average rate of 26.4% by 2012-13.

FOREIGN TOURIST ARRIVALS



Source: Ministry of Tourism

However, there many more desirable aspects that India will need to concertedly improve on. India is not ranked high on the global competitive index. As per the Travel & Tourism Competitiveness report of 2012, India is ranked 12th in the Asia Pacific Region and 68th overall. In tourism infrastructure, India remained at a low

89th rank as India still has fewer hotel rooms per capita by international comparison apart from other infrastructural concerns such as ATMs etc. that facilitate travel within the country. Foreign Tourist Arrivals (FTAs) in India had witnessed a Compounded Annual Growth Rate (CAGR) of 8.06% over the last five years and the number of FTAs in India has been 6.29 million in 2011 and has seen a growth of 8.9% year-o-year over 2010. Likewise domestic tourists saw an annual growth of 13.8% in 2011. Highest number of FTAs in India were recorded from USA (15.9% of total FTA's), UK (12.57%), Bangladesh (6.34 %) and Sri Lanka (4.85%). Going forward, the Ministry of Tourism has projected that the Western and European markets will increase their contribution towards tourism in 2012-13 and 2013-14 in India.

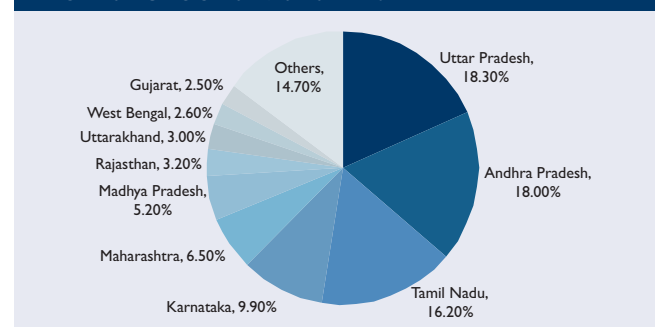
With the decline in the value of the Rupee foreign travels are far more expensive for Indian nationals which is giving rise to domestic travel. Domestic tourist visits have been on an upward swing since past eleven years. The visits by domestic tourists have increased from 220 million in 2000 to 851 million in 2011. The CAGR for the domestic tourist visits has been 13.3% in 2000-2011. This is largely due to the rise of the middle class, increase in

DOMESTIC TOURIST VISITS



Source: Ministry of Tourism

PERCENTAGE SHARE OF TOP 10 STATES/ UTS IN DOMESTIC TOURIST VISITS IN 2011



Source: Ministry of Tourism

average disposable incomes and awareness about the tourism sites and locations through different sources along with enhanced infrastructure.

Uttar Pradesh (18.3%) is leading the domestic tourist visits in India among all states Union Territories put together in 2011. Andhra Pradesh (18%) is just marginally behind, followed by

Tamil Nadu (16.2%). Of noteworthy importance is how synonymous domestic tourism is with pilgrimage tourism. For example a destination such as Varanasi, a particularly important pilgrimage destination had witnessed a CAGR growth of 11% in air arrivals over the last five years, with almost 91% being domestic.



GOVERNMENT INITIATIVES

In India, the Tourism industry is primarily driven by the private sector service providers, while the public sector contribution is significantly through provisions of infrastructure, either directly or through Public Private Partnership (PPP) in hospitality and tourism projects. The hospitality sector across the world is characterized by a nexus of multiple services provided by a range of suppliers making active participation from stakeholder critical. Related sectors include airlines, surface transport, hotels, basic infrastructure and facilitation systems, etc. Thus, a growth of tourism cannot be attained unless the issues related to these sectors are addressed simultaneously.

The growth of inbound tourism in India has been better than the global average. India registered a CAGR of 9.1% during 2001 to 2010 as against 3.6% for the world during the same period. United Nations World Tourism Organization (UNWTO) has forecasted that the Travel & Tourism Industry in India will grow by approximately 8% per annum, in real terms, between 2008 and 2016, while foreign exchange earnings from tourism could grow at a rate of 14% during the same period.

FOREIGN DIRECT INVESTMENT

The Hotel and Tourism related industry has been declared as high priority industry and Foreign Direct Investment(FDI) of up to 100%, under the automatic route is permitted in 'Hotels &

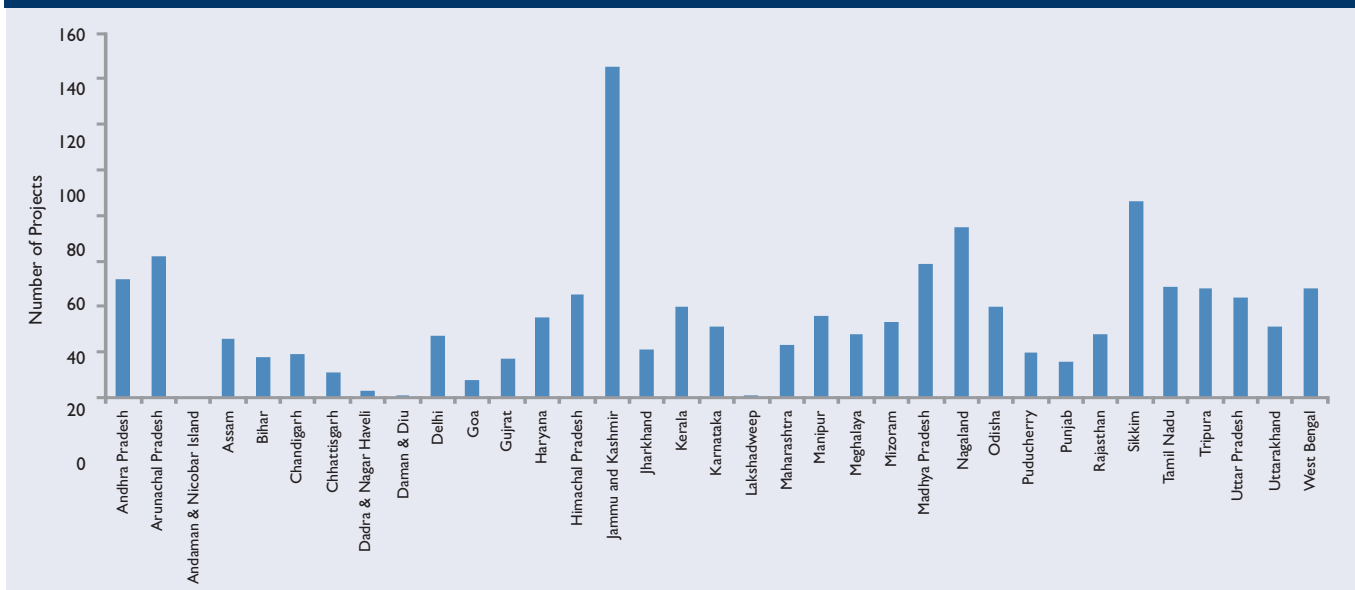
Tourism Sector', subject to applicable laws/regulations, security and other conditions. The sector, between April 2000 and June 2012, has seen a total investment of INR 15,867.72 Crores, which accounts for 1.97% of the total FDI inflows into the country. India, as per UNCTAD*, continues to be the second most favorable destination for investment after China. The plan of Five Year Tax Holiday is already in place for 2, 3 and 4 Star hotels that are established in specified districts declared as 'World Heritage Sites' by UNESCO (except the revenue districts of Mumbai and Delhi). This gives an impetus to development of quality hotel rooms.

TOURISM INFRASTRUCTURE PROJECTS

In the review of the 11th Five Year Plan, it was seen that a total of 1,226 projects, for a total amount of INR 40,90.31 crores had been sanctioned for the development and promotion of tourism and infrastructure across all states. Currently, the states with the maximum number of tourism projects sanctioned are Jammu & Kashmir, Sikkim, Nagaland, Arunachal Pradesh and Madhya Pradesh. The following projects are under direct financial assistance from the Ministry of Tourism.

The 12th Plan Five Year Plan is focused on the development of tourism infrastructure in an integrated manner by identifying the important circuits and the gaps in infrastructure amenities in the identified circuits and convergence of resources of various Ministries/ Organisations at the Central and State levels.

NUMBER OF TOURISM PROJECTS SANCTIONED DURING THE 11TH FIVE YEAR PLAN



Source: Ministry of Tourism

* UNCTAD – United Nations Conference on Trade & Development

INDIA AS 365 DAY DESTINATION

Offering a range of destinations and exquisite location from golden sand beaches Kerala to the lofty mountains of Kashmir, India caters to all kinds of tourists. India is one of the most popular health and wellness tourism markets in the world. Ministry of Tourism and the State tourism boards of India are developing new products to capitalize on India's potential as a 365 Day Destination with an emphasis on creating the country as a unique destination offering something for everyone.

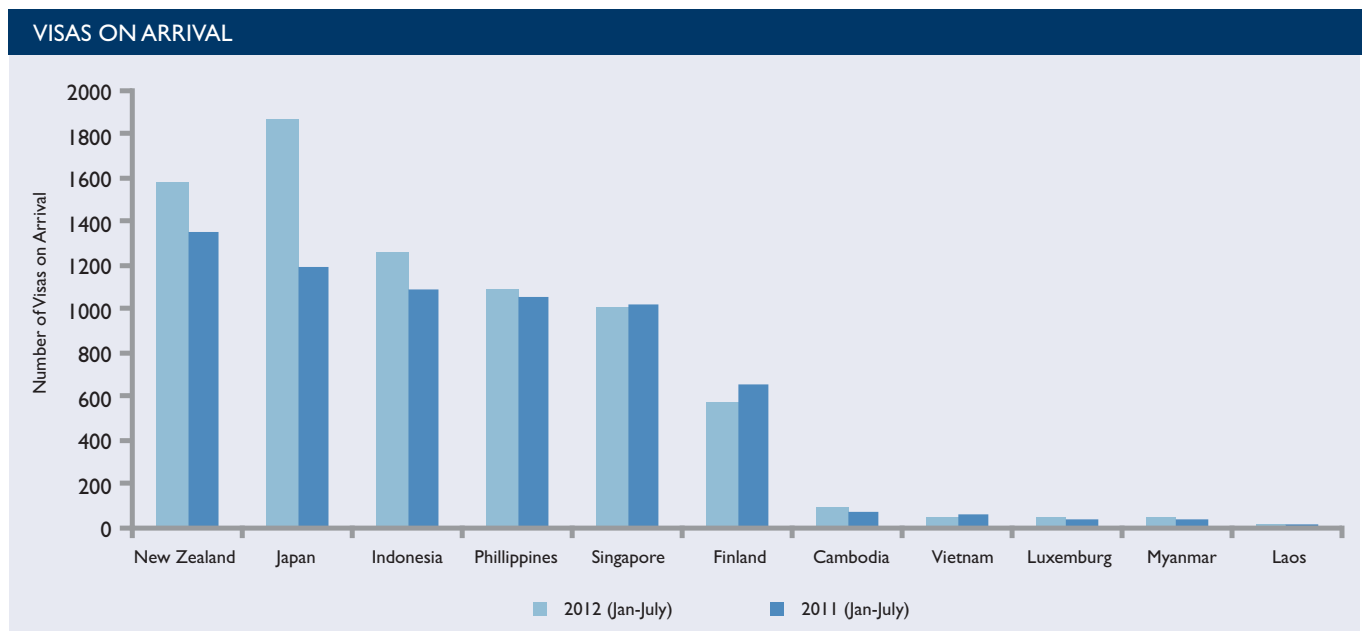
VISA ON ARRIVAL

There are a total of 11 countries that are allowed Visa on Arrival of which Japan (as of 2012) availed the facility to the maximum, with almost 1,872 Japanese been granted VoA, as opposed to the previous year, while New Zealand was been granted 1,588 VoA*.

In addition to the current 11 countries, the Ministry of Home Affairs has approved to include 3 new European countries -

France, Germany and Russia to the list. The Bureau of Immigration is however yet to give a final approval and further inclusion of other countries is expected to maintain the growth of the number of FTAs in to the country, allowing the country to become a major tourist destination.

The initiatives taken by governments, at various levels, aid the development and enhancement of the tourism infrastructure. This is likely to increase visitation to various tourist centers. Tourism has the potential to stimulate other economic sectors through its forward and backward linkages with a host of sectors like agriculture, manufacturing, transport, hospitality, education, health and banking etc. Expenditure on tourism induces a chain of transactions requiring supply of goods and services from these related sectors. The consumption demand, emanating from tourist expenditure also creates more employment and generates a multiplier effect on the economy.



Source: Ministry of Tourism

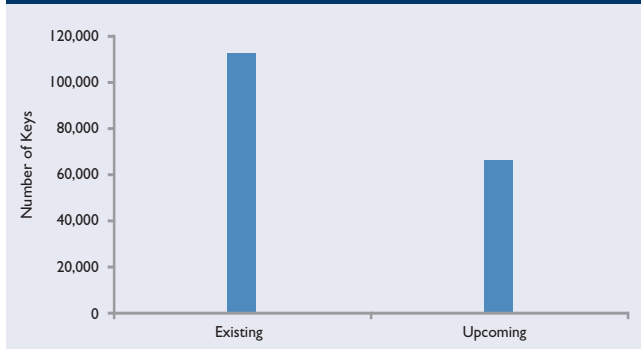
* Source – Bureau of Immigration

INDIA HOSPITALITY OVERVIEW

India has attracted global players as an investment destination in Hospitality Industry over the years for its status of being one of the most promising countries in the Asia Pacific region. India has seen tremendous growth in demand and supply dynamics of hotels especially in the Tier I and Tier II cities. The metro cities are the front-runners in driving the hospitality industry across leisure, business, MICE and F&B segments. Spa tourism is also gaining significance, with more and more awareness being created for this concept.

With respect to the number of hotels keys in the top 14 cities of India, it is estimated that approximately 1,12,818 keys as on 2011 exists whilst 66,371 are upcoming. Supply is likely to increase by 59% over the next five years.

EXISTING VS. UPCOMING INVENTORY



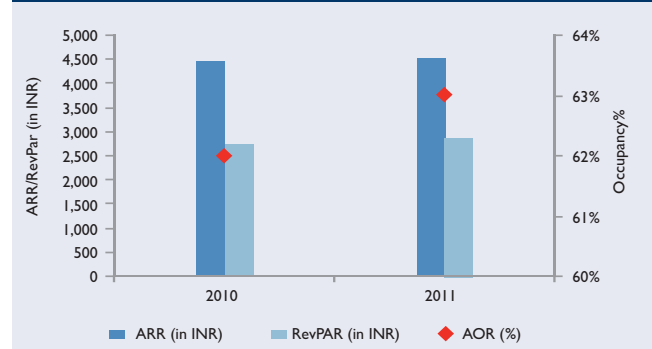
Source: Cushman & Wakefield Hospitality Research

In the organized hospitality sector, hotels varying from economy to upscale categories are more profitable due to lower per key costs as against the upper upscale and luxury category hotels. The average occupancy of India in 2011 was 63% with an average room rate of INR 4,500. The top 6 cities witnessed an average occupancy of 66% and an ARR of INR 5,700 in 2011. In the first half of 2012 average room rates witnessed correction in the metro cities of 9% with an ARR of about INR 5,200, as they strategized to moderate their occupancy levels (59%) even in the few slow months.

Tier II cities are witnessing an influx of organized hotels especially for Economy to Upscale segments. Many new players have announced their hotel projects in Tier II cities in response to their emerging businesses in these cities, for example Hampton Inn in Neemrana and Vadodara, Berggruen Hotels in locations such as Kochi, and Visakhapatnam. Additionally as number of big

Indian players are looking keenly towards investing in the budget segment, such as Lalit having recently introduced a new budget brand by the name of the 'Lalit Traveller'.

HOTEL PERFORMANCE INDIA 2011



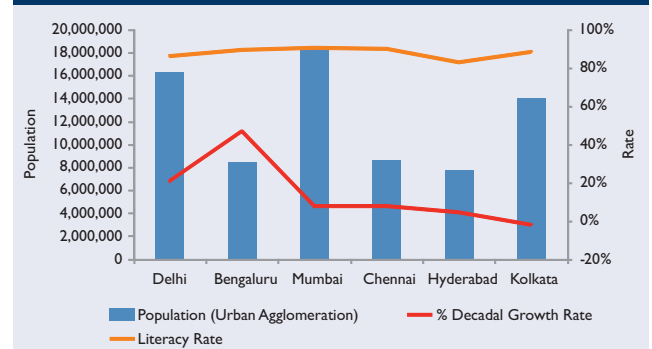
Source: Cushman & Wakefield Hospitality Research

Serviced apartments business is also budding in key metro cities, for catering to the demand of long stay segment in India for business purposes. Presently, Bengaluru is leading in such accommodation.

METRO CITY MARKET PERFORMANCES

In this report Cushman & Wakefield evaluates the hospitality dynamics of top six metro cities of India - Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Mumbai for this report. We have reviewed the performance of hotels in these cities since 2008, to understand and analyze the quantum of growth in these key markets. While assessing these cities for hospitality demand, we reviewed the population growth and demographic and have considered their expansions into suburban areas creating Urban Agglomerations (UA). As per Census 2011, Mumbai UA is the most populated, followed by Delhi UA and Kolkata. Bengaluru witnessed highest decadal growth rate (47%) from 2001-2011

DEMOGRAPHY ACROSS SIX CITIES - CENSUS 2011

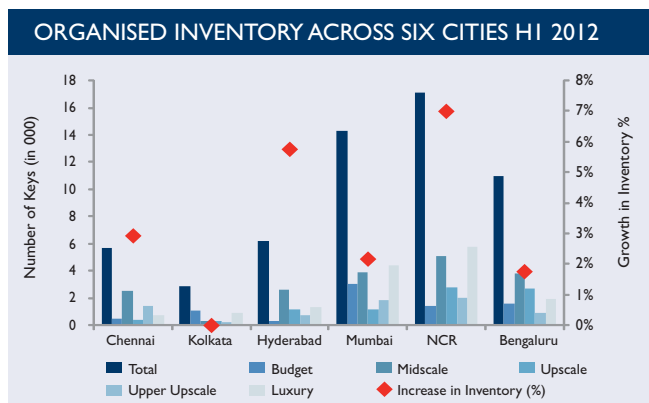


Source: Census 2011

among all six cities, with states that the population nearly doubled over last ten years. Delhi too witnessed a high decadal growth rate of 21%, while it was negative for Kolkata. Mumbai has the highest literacy rate (91%), while Hyderabad has the lowest (83%) among these six cities.

INVENTORY

Among all cities, as of HI 2012, NCR was recorded to have the highest number of keys in the organized sector. NCR has a total inventory of approximately 22,931 keys, followed by Mumbai with 18,500 keys, Bengaluru with 16,000 keys and Hyderabad with 9,900 keys. While NCR and Mumbai is dominated by luxury segment inventory, the other three cities - Bengaluru, Chennai and Hyderabad have higher inventory in midscale segment. Kolkata's hotel inventory is mostly spread over budget and luxury segment with little mid scale inventory in the city. The highest inventory increase was witnessed in NCR (7%) in HI 2012 over 2011, followed by Hyderabad (6%) and Chennai (3%).

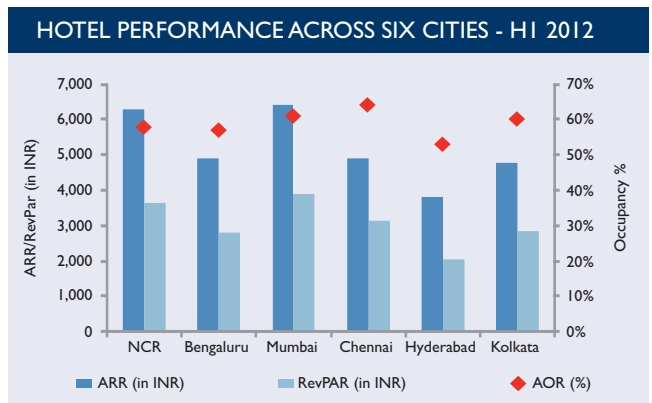


Source: Cushman & Wakefield Hospitality Research

PERFORMANCE

Mumbai, with an Average Room Rate of INR 6,400, leads in city-wise hotel performance, followed by NCR and Bengaluru. On the other hand, Chennai recorded the highest Average Occupancy Rates (AOR) estimated to be 64% for HI 2012, closely followed by Mumbai and Kolkata. Hyderabad recorded the lowest ARR as well as AORs. The ARR has witnessed a modest drop due to economic uncertainties, rising costs due to inflation as well as low footfalls of tourists in the slower months of March to May across majority of cities. Occupancy rates may see an upward trend in the second half of 2012 keeping ARR at moderate levels, along with more opportunities deriving from the festival seasons beginning ahead. Depreciation of the Rupee against foreign

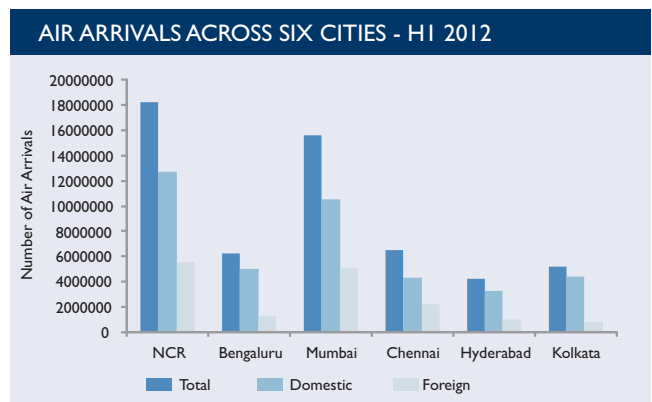
currencies further increases attractiveness of India as a tourist destination, as the room rates become more affordable to foreign tourists.



Source: Cushman & Wakefield Hospitality Research

TOURIST ARRIVALS

As per Ministry of Tourism, India in the first half of 2012, has witnessed 3.2 million foreign arrivals. According to the Airport Authority of India, the highest number of air arrivals were recorded in NCR (18.2 million) with the domestic arrivals accounting for 12.7 million and foreign arrivals of 5.5 million. It was closely followed by Mumbai at 15.1 million air arrivals followed by Chennai with 7.6 million and Bengaluru with 7.2 million. Kolkata witnessed 4.5 million and Hyderabad with 3.3 million air arrivals in the same period. All these cities put together, contributed 55.9 million to the total arrivals in India during HI 2012.



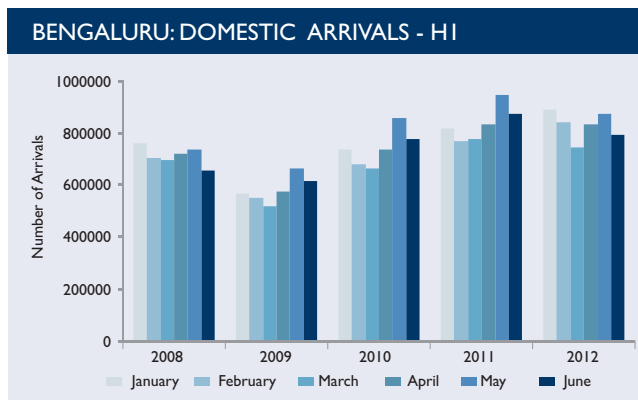
Source: Airport Authority of India

BENGALURU OVERVIEW

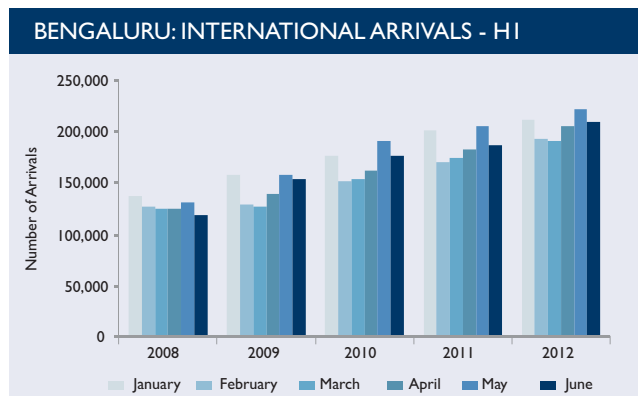
Bengaluru, the capital city of Karnataka, is India's fifth most populous urban agglomeration as per Census 2011. The decadal growth rate of the population was as high as 46.7%. With population of over 8.49 million, Bengaluru has literacy rate of 89.56%. Bengaluru, also known as "Silicon Valley of India", as the large number of IT/ITeS companies contribute significantly to the economy of the Karnataka as well as the country.

TOURIST ARRIVALS

Bengaluru International Airport recorded an increase of 1% in total arrivals in HI 2012 over HI 2011 and approximately 12% higher over the arrival in 2010. Approximately 6.2 million tourists have arrived in these six months. January and May are the peak months for domestic as well as international arrivals consistently in the first six months over last 5 years. International tourists comprise 20% of the total tourists in HI 2012, while it was 18% in HI 2011. The composition has varied from 15% -20% in the first half of last 5 years.



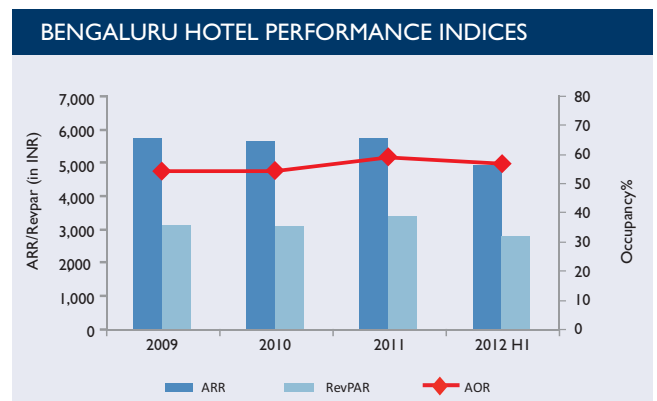
Source: Airport Authority of India



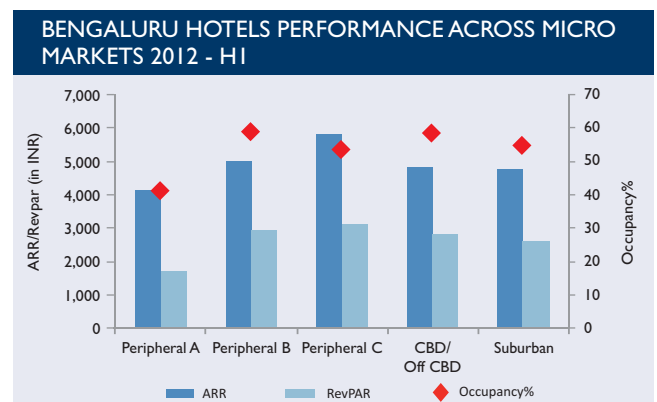
Source: Airport Authority of India

HOTEL PERFORMANCE

Bengaluru is a business destination with nearly 80% of demand coming from business travelers. The hospitality market has witnessed noticeable changes in trends over the past few years. The city witnessed an increase in occupancy rate from 54% in 2009 to 59% in 2011, but HI 2012 has registered a decline to 57%. Average room rates in HI 2012 was 15% lower than in 2011. Bengaluru hotel market can be divided into six micro markets. The highest ARR was recorded in Peripheral C, followed by Peripheral B, then CBD/Off CBD area, whereas, the maximum occupancy has been witnessed in Peripheral B area, followed by CBD/Off CBD and Suburban areas. Peripheral C area is expected to rise as a hospitality hub in the near future with a number of projects being planned. This is largely due to the growth of this location as a office hub and also due to its proximity to the International Airport.



Source: Cushman & Wakefield Hospitality Research



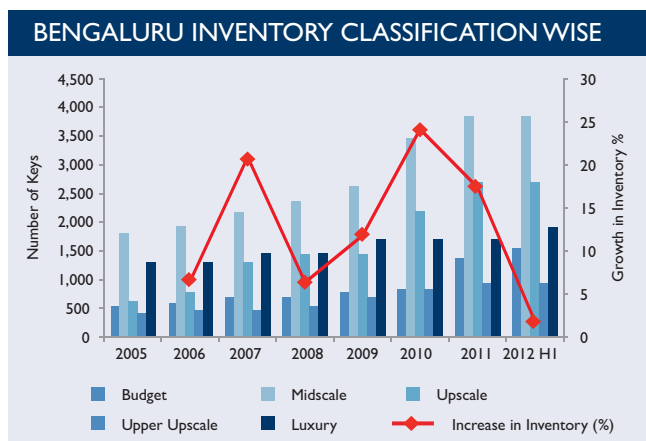
Source: Cushman & Wakefield Hospitality Research

HOTEL SUPPLY

Bengaluru has a total inventory of 16,000 keys as of HI 2012, with organized segment comprising 68% of the total inventory. In

this organized sector, as of HI 2012, the midscale segment has the highest inventory, followed by upscale, luxury, budget and lastly upper upscale in the organized segment put together.

The total inventory has increased by 66% over 2008 to HI 2012. The maximum increase has been witnessed in the budget segment by 125% over 2008, followed by the Upscale category which saw an increase of 86%. The upper upscale category witnessed 75% rise, followed by midscale category (62%), while luxury segment witnessed only 30% rise during 2008 to HI 2012.



Source: Cushman & Wakefield Hospitality Research

MAJOR HOTEL OPENINGS HI 2012

- March 2012: Ibis with 184 keys on Hosur Road
- April 2012: Novotel by Accor with 215 keys on Outer Ring Road

OUTLOOK

- The second half of 2012, will see moderate increase in ARR with the beginning of festival seasons and robust passenger arrivals as observed for the previous years. MICE is one of the strongest demand segment in Bengaluru, given the penetration of IT/ITeS in the city.
- Close to 1,832 keys are expected to enter the market in the second half of 2012. A few prominent hotels are JW Marriott (November 2012), Palm Retreat Shangri-

La (Q4, 2012), Bengaluru Marriott (October, 2012) in Whitefield, Hyatt Place (Q4, 2012).

- Bengaluru has a pipeline of 9,400 keys in the organized segment in the next four – five years. About 59% of the upcoming inventory is likely to be in CBD/Off CBD & Peripheral C area in equal proportion. 18% is anticipated in Peripheral B while 11% in the Suburban area. Highest inventory is expected in luxury segment (35%), followed by upper upscale (20%), mid-scale (17%), upscale (16%) & budget (9%) across different micro markets in Bengaluru.



Bengaluru- Peripheral A-ITBR, Peripheral B- Whitefield & Electronics City, Peripheral C- Sarjapur- Hebbal, ORR, CBD/OffCBD- M.G. Road, Millers Road, Vittal Mallaya Road, Residency Road etc., Suburban- CV Raman Nagar, Koramangala, Bannerghatta Road, etc.

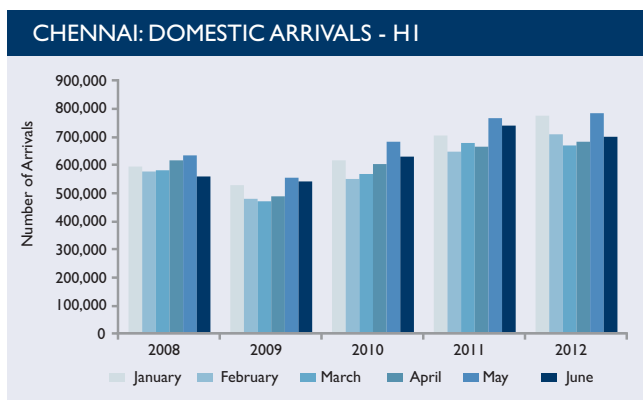
CHENNAI OVERVIEW

Chennai is the capital of the southern state, Tamil Nadu and is a major commercial, cultural and educational centre in South India. The population of Chennai as per Census 2011 was recorded at 8.7 million people. Known as the Detroit of India due to a large concentration of automobiles and auto components, the city has also seen a steady rise of industries such as IT/ ITeS, banking and finance.

TOURIST ARRIVALS

Anna International Airport witnessed an increase in total arrivals by 3% over the January-June year on year. Over 6.5 million arrivals were recorded during the first six months of 2012. Anna International Airport is currently the third busiest airport in India.

Foreign tourist arrivals were seen to account for nearly 66% of total arrivals. January and May are seen to be the month with most amount of passenger traffic.



Source: Airport Authority of India

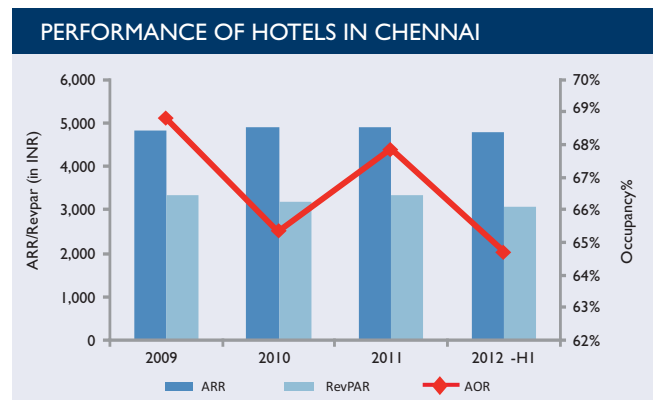


Source: Airport Authority of India

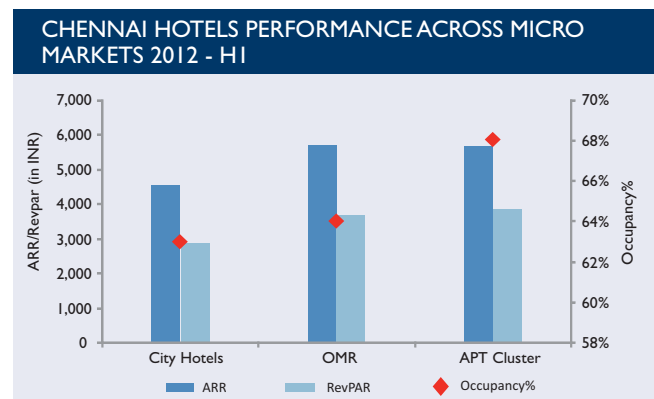
HOTEL PERFORMANCE

The overall occupancy for the city in HI 2012 was 64% with an ARR of INR 4,900. Occupancy in Chennai increased at a steady and strong pace, from 62% in 2009 to 67% in 2011. Simultaneously the Average Room Rates (ARR) for the city has also followed an upward trend increasing from INR 4,500 in 2009 to INR 4,700 in 2011.

Currently the APT cluster, which includes hotels in proximity to the Airport, Pereguindy and Taramani are seen to have the highest occupancy of approximately 68% and ARR of INR 5,670 due to the quantum of commercial development taking place in the respective micro-markets of. Old Mahabalipuram Road (OMR) continues to be another significant micro-market performing at 64% occupancy rate with an ARR of INR 5,700. Modest performer in comparison is City hotels that face a number of repeat clientele and currently witness to an occupancy of 63% and an ARR of INR 4550.



Source: Cushman & Wakefield Hospitality Research



Source: Cushman & Wakefield Hospitality Research

HOTEL SUPPLY

The Chennai hotel market had seen quite a few introductions in the past few years, currently the total inventory for the city is 6,187 Keys of which 92% belongs to the organized sector.

Midscale hotels have the highest inventory, accounting for nearly 45% of the total inventory in the city, followed by the Upper Upscale segment accounting for 26%.

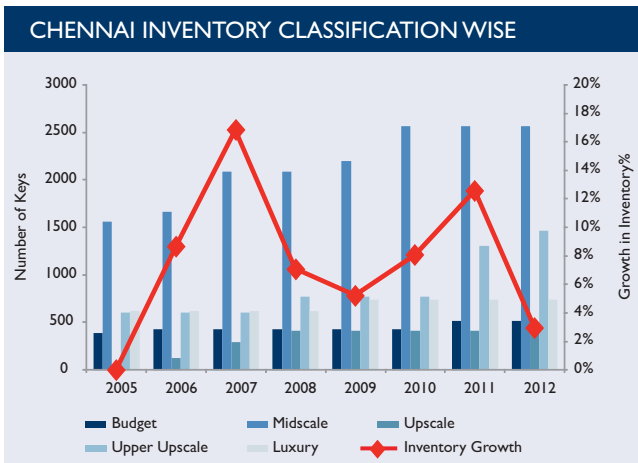
The cities inventory had grown by almost 32% since 2008 till the half year of 2012.

MAJOR HOTEL OPENINGS HI 2012

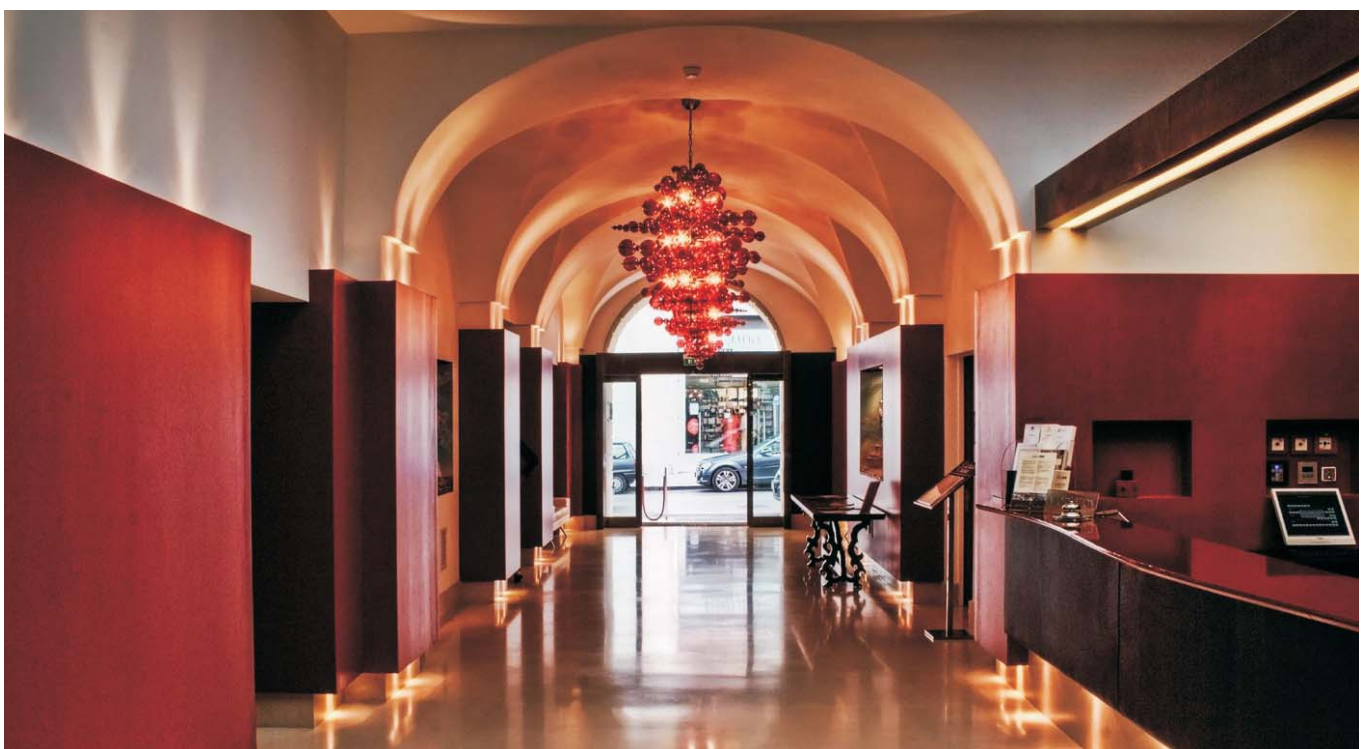
- March 2012: Raddison Blu City Centre

OUTLOOK

- The city is expected to see an increase of nearly 36% in luxury segment, followed by 20% in the midscale segment, 13% in the budget segment, 7% in the upper upscale, and 6% in upscale segment.
- The city is expected to see a more competitive environment in the luxury segment with the introduction of a number of significant luxury properties such as ITC Grand Chola, Leela Palace, J.W Marriott.
- The APT Hotels clusters are expected to see higher ARR and Occupancy growth, primarily due to its proximity to the airport and growth of the office sector in this region.



Source: Cushman & Wakefield Hospitality Research

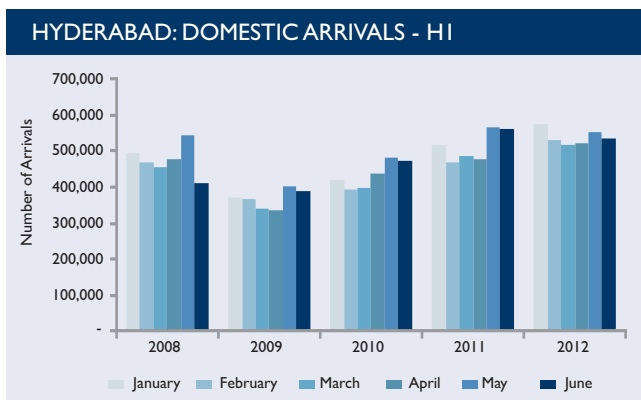


HYDERABAD OVERVIEW

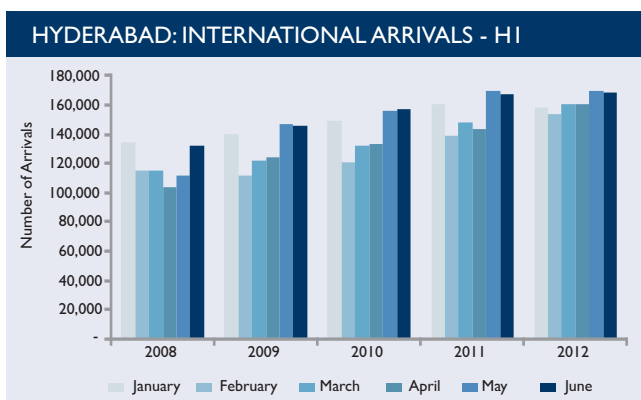
Hyderabad, the capital city of Andhra Pradesh has a population of 7.7 million people with a literacy rate of 82.92%, Hyderabad was traditionally referred to as the “City of Pearls” however today it is a major emerging hub for Information Technology, Pharmaceuticals, and Bio-Technology.

TOURIST ARRIVALS

Rajiv Gandhi Hyderabad International Airport witnessed an increase of 6% in total arrivals in HI 2012 over same time last year. There were over 6.5 million arrivals in the first 6 months. January and May are the month during which arrivals are at their maximum. 66% of arrivals were domestic and 33% were International in the period.



Source: Airport Authority of India



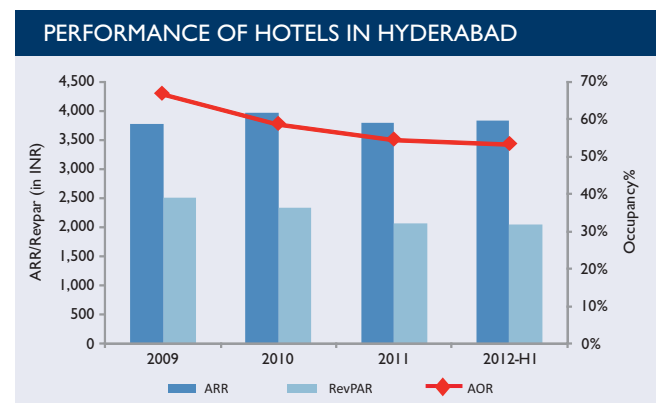
Source: Airport Authority of India

HOTEL PERFORMANCE

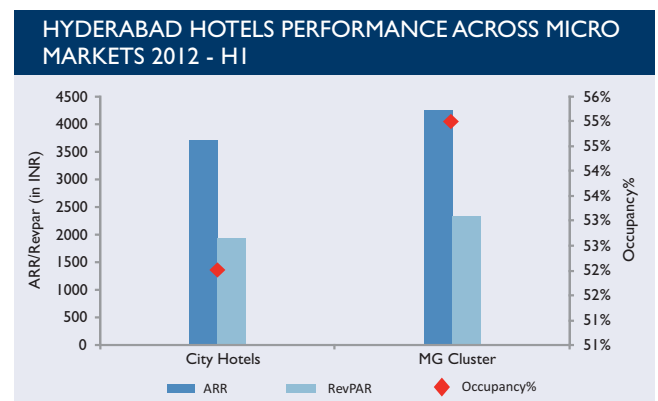
With the development of the HICC (Hyderabad International Convention Centre), Hyderabad could have been lucrative MICE destination but due to socio - political development which has led to potential business being moved to other cities such as Bengaluru and Chennai.

A downward trend has been seen in Hyderabad hotel market from 2009 to 2011 with occupancy rate declining from 67% to 54%. ARR's have also declined in an attempt to maintain occupancy however with the addition of Luxury and Upscale Inventory into the market, Hyderabad's market wide Average room rates appeared to be steady.

The MG Cluster recorded higher ARR ranging between INR 4,000 - 4,500 and an occupancy level of 55%, whilst the City Centre micro market achieved occupancy rate of 52% and ARR of INR 3,500-4,000. City center hotels see a far more competitive atmosphere due to large inventory and lesser commercial space generating limited demand to cater to, as opposed to the MG Cluster Market.



Source: Cushman & Wakefield Hospitality Research

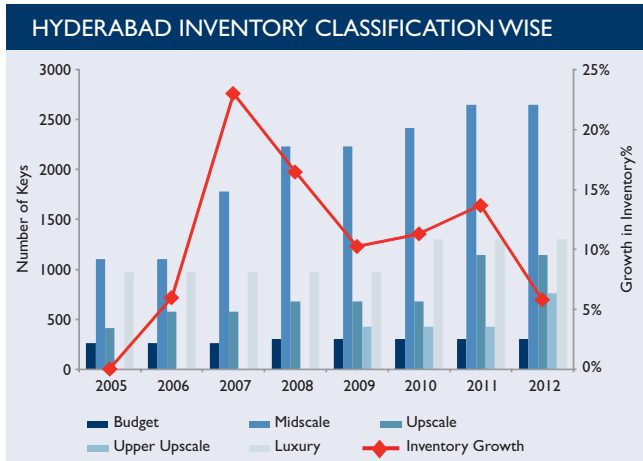


Source: Cushman & Wakefield Hospitality Research

HOTEL SUPPLY

As of HI 2012, Hyderabad was seen to have a total inventory of 9,990 Keys. Of the total stock, 62% comprises of the organized sector and 38% of the unorganized sector. The organized inventory segment increased by 52% from 2005-08 and has further increased by 124% as of HI 2012. The inventory

comprises primarily of midscale properties followed by luxury, upscale, upper upscale and budget.



Source: Cushman & Wakefield Hospitality Research

MAJOR HOTEL OPENINGS HI 2012

- January 2012: Vivanta by Taj, Begumpet
- April 2012: Park Hyatt
- July 2012: Raddison Blu, Banjara Hill

OUTLOOK

- Approximately 3,719 rooms are expected in the market in the next 4- 5 years. Of the total expected supply 6% will be for luxury, 25% in Upper Upscale, 16% in upscale, 33% in midscale and 20% in the budget segment. 49% of total supply is expected within the Madhapur-Gachibowli area over the next 5 years, 44% within the City and a remainder of 7% in various other micro-markets of Hyderabad.
- The MG Cluster is expected to continue its performance as the leading micro-market for the city, due to the presence of HICC, easy access to the airport, an existing commercial office space.



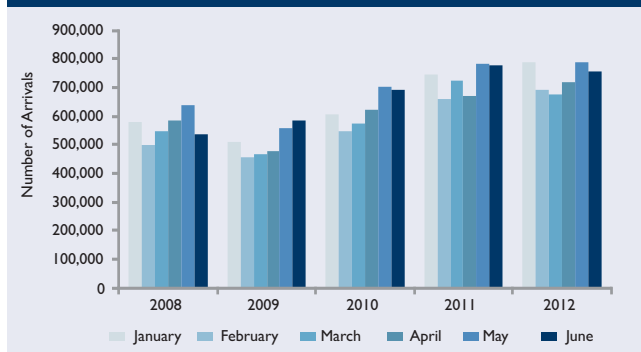
KOLKATA OVERVIEW

Kolkata, the capital of West Bengal, had recorded a total population of over 14 million people, with a decadal decrease of 1.88%. Often referred to as the cultural capital of the country, the city has been a modest performer though is considered the main commercial and financial hub for eastern region of India. The city's major sectors include steel, textiles, jute and agriculture.

TOURIST ARRIVALS

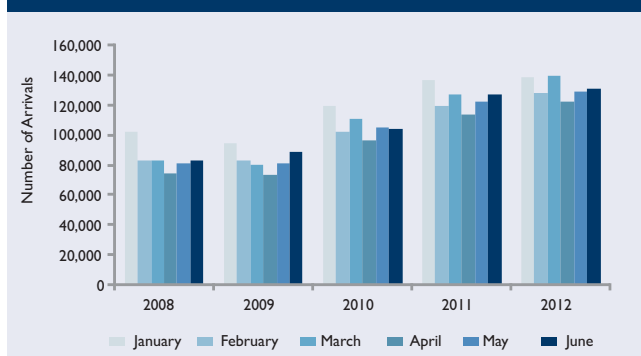
Netaji Subhas Chandra Bose Airport witnessed a growth in total arrivals by 2% over the January-June year on year. As of H1 2012, over 5.2 million visitors had arrived. Of the total arrivals, 85% were domestic while only 15% were international arrivals. Kolkata's arrivals have shown nearly a consistent number of arrivals. For international arrivals, the peak months are January and March. For domestic arrivals, the peak months are January, May and June.

KOLKATA: DOMESTIC ARRIVALS - H1



Source: Airport Authority of India

KOLKATA: INTERNATIONAL ARRIVALS - H1



Source: Airport Authority of India

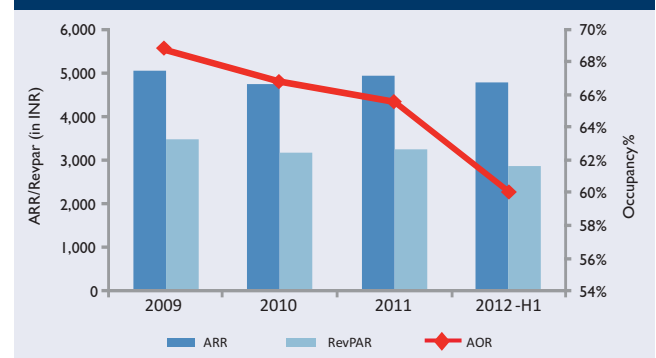
HOTEL PERFORMANCE

Kolkata has always been perceived as a conservative market performer compared to other metropolitan cities. Occupancy

levels have declined from 69% in 2009 to 66% in 2011, and has further reduced to 60% in H1 2012. Average room rates have shared a similar fate with a decline from INR 5,049 in 2009 to INR 4,900 in 2011 and in H1 2012, the city has been achieving INR 4,770.

The micro-market of Salt Lake has achieved a significantly higher occupancy rate which has been attributed to less inventory space available as compared to city hotels. ARR's are also significantly higher, as the major amount of inventory is dominated by branded upper upscale and luxury hotel brands.

PERFORMANCE OF HOTELS IN KOLKATA



Source: Cushman & Wakefield Hospitality Research

KOLKATA HOTELS PERFORMANCE ACROSS MICRO MARKETS 2012 - H1

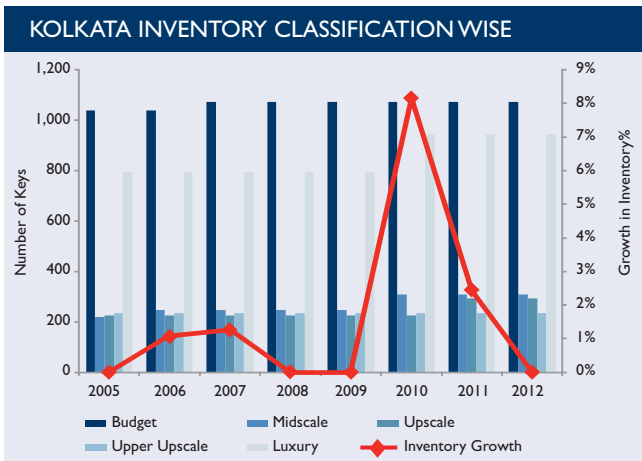


Source: Cushman & Wakefield Hospitality Research

HOTEL SUPPLY

Kolkata has a total supply of around 3,900 rooms as of H1 2012. Of the total supply 72% is in the organized sector and the remainder 27% is in the unorganized. For a long time Kolkata had not experienced any new additional inventory. During 2010-11, inventory had increased by 12%, with the introduction of brands such as Swissotel.

Kolkata has a lack of branded rooms, and has been dominated by the luxury segment, with brands like Oberoi, Taj and ITC having a strong inventory and presence in the market.



Source: Cushman & Wakefield Hospitality Research

OUTLOOK

- Kolkata is expected to see a total of 4,496 new keys in the next 4 -5 years nearly doubling the present hotel room inventory.
- Out of the current upcoming supply, it is expected that Kolkata will experience an increase of 33% in the upscale category, followed by 29% in the luxury category, 22% in midscale, 13% in upper upscale and 3% in the budget segment.
- Continued development in Salt Lake and Rajarhat as prominent business district is expected to boost the occupancy and ARR's performances for the Salt Lake-Rajarhat micro market.



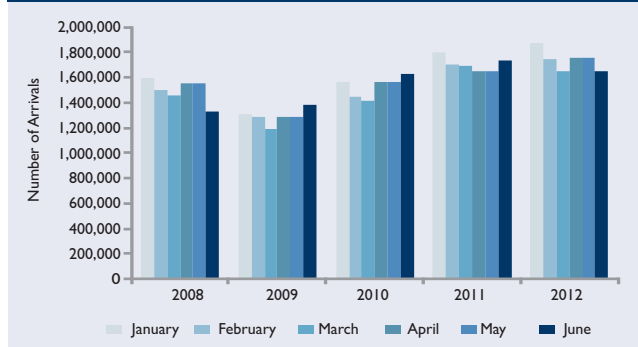
MUMBAI OVERVIEW

Mumbai is the financial capital of India and capital city of Maharashtra. It is India's second most populous extended urban agglomeration as per Census 2011. The decadal growth rate in population is 8.01% for Mumbai, with population of over 18 million, Greater Mumbai has literacy rate of 90.78%.

TOURIST ARRIVALS

Chhatrapati Shivaji International Airport has witnessed an increase of 2% in total arrivals over the January-June period in 2012 over 2011, while it was 10% in 2011 over 2010 in the same period. Over 15 million passengers have arrived in the last 6 months. January and June are the peak months for Domestic Arrivals consistently over 2009-11, while April and May received tourists more than June in 2012. HI 2012 witnessed a decrease of 1% over HI 2011 in domestic arrivals, January and May are the peak months witnessing international tourist arrivals. The composition of international tourists has varied from 31% -33% in the last 5 years.

MUMBAI: DOMESTIC ARRIVALS - HI



Source: Airport Authority of India

MUMBAI: INTERNATIONAL ARRIVALS - HI

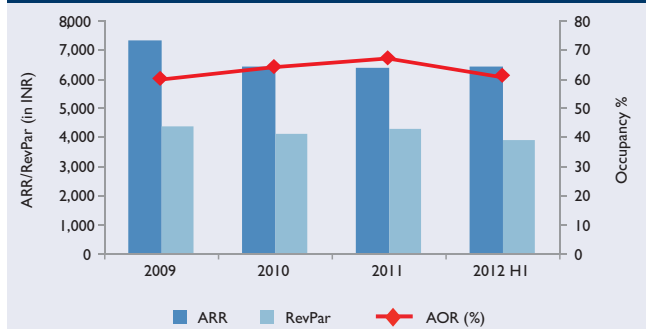


Source: Airport Authority of India

HOTEL PERFORMANCE

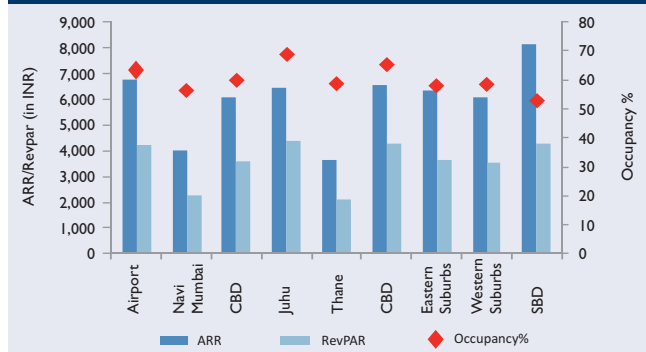
Mumbai caters to leisure as well as business visitors, making it a perennial hospitality destination. Though, Mumbai has witnessed a continuous increase in occupancy levels from 2009-2011, the first half of 2012 has seen a decline of nearly 6% in the occupancy to be recorded at 61%. HI 2012 has experienced slightly higher average room rate (INR 6,400) than the previous year. In HI 2012, Juhu hotels have highest occupancy levels (68%), followed by EBD (65%) and Airport (63%) hotels. However, Average Room rates are the highest in the SBD region hotels, followed by the Airport and EBD hotels. The lowest occupancy rates was seen in Navi Mumbai and the lowest average room rates were recorded in Thane. The CBD achieved average room rates of INR 6,055 at 60% occupancy rate.

MUMBAI HOTEL PERFORMANCE INDICES



Source: Cushman & Wakefield Hospitality Research

MUMBAI HOTELS PERFORMANCE ACROSS MICRO MARKETS 2012 - HI

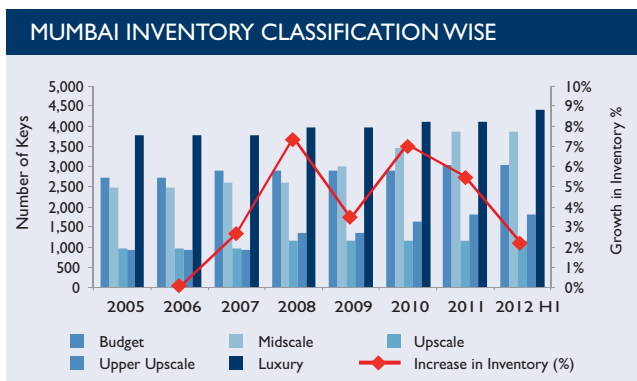


Source: Cushman & Wakefield Hospitality Research

HOTEL SUPPLY

Mumbai has a total inventory of 18,500 keys as of HI 2012, with organized segment comprising 76% of the total inventory. The maximum increase was witnessed in the upper upscale category

by 93% over 2005 till HI 2012, followed by midscale category (55%). The midscale category witnessed 49% rise, followed by upper upscale category (32%), while the luxury segment witnessed only 11% rise during 2008 to HI 2012. The maximum influx of keys (7%) to the total inventory was noticed twice in the last 8 years.



Source: Cushman & Wakefield Hospitality Research

MAJOR HOTEL OPENINGS HI 2012

- January 2012: Sofitel, Bandra Kurla Complex

OUTLOOK

- Mumbai has a pipeline of 10,200 keys in the organized segment in the next 4- 5 years. About 48% of the upcoming inventory will be in Western Suburbs (21%) and Navi Mumbai (27%). 18% is expected in Eastern Suburbs while 13% in the EBD area. Juhu and Airport area will contribute 7% each.
- In the next 4- 5 years largest inventory is expected in the upscale segment (33%), followed by midscale (27%), luxury (25%), budget (9%) & upper upscale (7%) across different micro markets in Mumbai over the next four years.
- Close to 1,500 keys are expected to enter the Mumbai market in the H2 2012.
- Some of these hotels are Shangri La (Q3, 2012) at High-Street Phoenix, Ibis Navi Mumbai (Q3, 2012), Hilton Garden Inn in Navi Mumbai, Ginger Hotel etc. Accor Hotels likely to have the largest inventory base in Mumbai over the next four years.

Mumbai - CBD includes Ballard Estate, Colaba, Churchgate, Cuffe Parade, Fort, Nariman Point. EBD includes Byculla, Dadar, Lower Parel, Parel, Prabhadevi, Worli; SBD includes Bandra Kurla Complex, Eastern Suburbs include Vhandup, Chembur, Kurla, Mulund, Powai; Western Suburbs include Andheri, Bandra, Goregaon, Khar, Malad, Santacruz, Vile Parle.

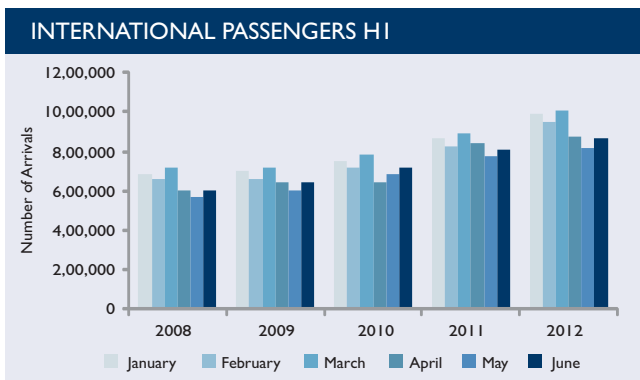


NATIONAL CAPITAL REGION (NCR) OVERVIEW

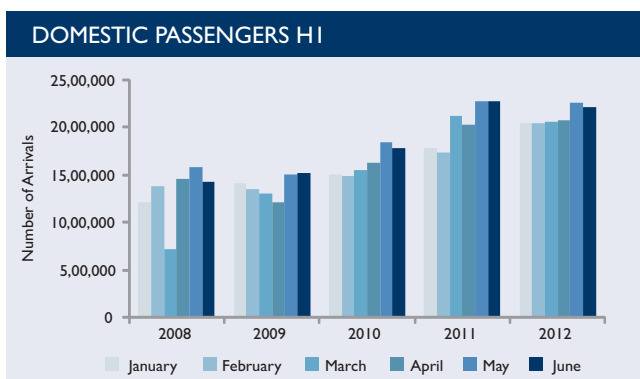
NCR encompasses administrative capital city Delhi and the Urban Agglomeration including Gurgaon, Faridabad, Noida and Ghaziabad. NCR has a total population of 21 million and literacy rate of 81.11%, while the decadal growth rate of population was recorded at 21%. NCR's economy is being driven by construction, power, telecommunications, real estate and service industries.

TOURIST ARRIVALS

The Indira Gandhi International Airport has witnessed an increase in total arrivals by 6% over the January-June period from 2011-12, while it was 22% from 2010-11 for the same period. Over 18 million passengers have arrived in HI 2012. The graphical representation shows that January, February & March are the peak months for International Arrivals whereas May & June has been the peak months for domestic arrivals. HI 2012 witnessed an increase by 4% over same period in 2011 with the total domestic arrivals rising to over 12 million. The international arrivals have increased by 10% over the same period from 2011 to HI 2012. Foreign arrivals contribute 30% to the total tourists from Jan-june 2012.



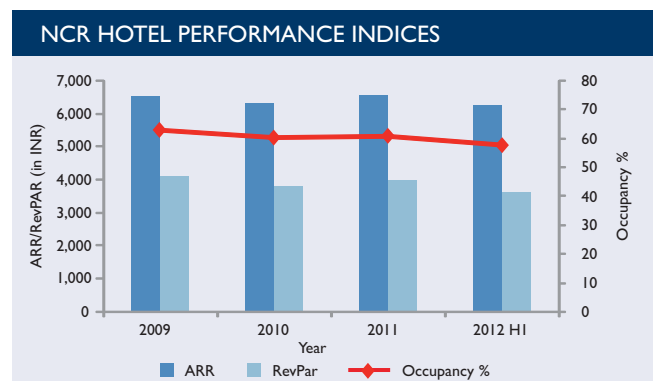
Source: Airport Authority of India



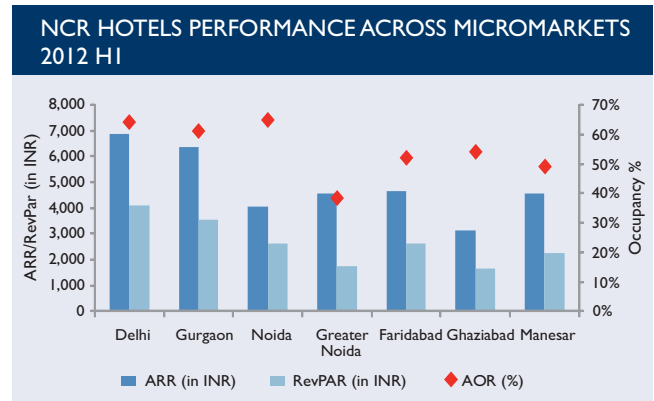
Source: Airport Authority of India

HOTEL PERFORMANCE

NCR, has a varied hospitality industry, catering to business as well as leisure visitors. NCR has shown a decline in occupancy and average room rate (ARR) levels in HI 2012 over 2011. The RevPAR (Revenue Per Available Room) has declined by 9% with 5% drop in occupancy rates over 2011. The ARR is INR 6,280 & RevPAR is INR 3,600 for HI 2012. The downtrend is because of factors like time consumption in stabilization of the new hotel inventory and the conservative approach of leisure travelers. NCR's hospitality market is substantially covered under seven main regions. As shown in the graph for HI 2012, hotels in Noida have highest occupancy levels (65%), followed by Delhi (64%) and Gurgaon (61%). However, average room rates are the highest in the Delhi, followed by Gurgaon. Greater Noida and Manesar are almost at par with each other in terms of ARR (approximately INR 4,550). Occupancy levels for Greater Noida hotels are the lowest so far (38%). This is because of its distance from the capital city and other business districts. Majority of the hotels in this micromarket in the organised category have opened only recently and would have a lead time before they attract the desired demand.



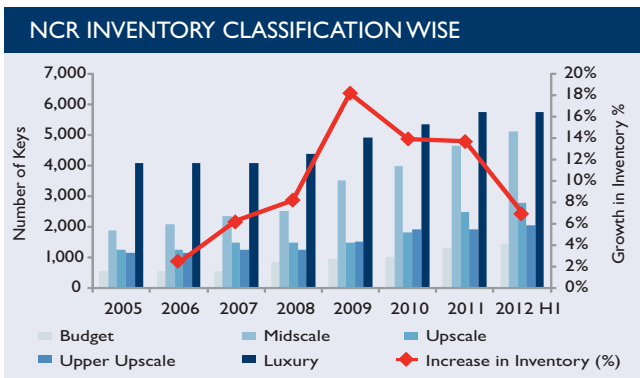
Source: Cushman & Wakefield Hospitality Research



Source: Cushman & Wakefield Hospitality Research

HOTEL SUPPLY

As of 2012 HI, NCR was seen to have a total inventory of 22,900 Keys. Of the total supply, 75% accounted for the organized sector. HI 2012 has witnessed 7% increase in the inventory over 2011 across all segments. The organized inventory segment had increased by 64% during 2008-2012 HI. The midscale segment has seen the highest increase in number of keys at 102%, followed by upscale inventory which increased by 88%. The increase across the budget segment (72%), upper upscale segment (64%), and luxury with 32% were also significant.



Source: Cushman & Wakefield Hospitality Research

MAJOR HOTEL OPENINGS HI 2012

- January 2012: Savoy Suites with 107 keys in Manesar
- March 2012: Double Tree by Hilton with 184 keys in Gurgaon
- April 2012: Pullman Gurgaon with 285 Keys in Gurgaon
- April 2012: Formule 1 with 114 keys in Greater Noida
- June 2012: Radisson Blu with 142 keys in Ghaziabad

OUTLOOK

- Close to 3,000 keys are expected to enter the NCR market in the second half of 2012.
- The pipeline is robust for the coming six months. The hotels planned to open in this period include JW Marriott, Lemontree & Redfox at Delhi aerocity hospitality hub; Hyatt Regency hotel & ITC Golf Resort at Manesar; Red Fox in Gurgaon; Hyatt Serviced Residences in Delhi; Taj Gateway in Faridabad etc
- NCR is witnessing huge activity around Delhi Aerocity, which will change the dynamics of hotel performances across NCR once fully established. Residential catchment also offers lucrative opportunities to the hoteliers for fine dining and

banquets. Dwarka is picking up for its proximity to the Airport & has hotels planned in the coming years.

- Noida & Greater Noida are also promising despite the land acquiring issues caused by instable political government. NH 8-Manesar stretch near the toll plaza is witnessing construction of huge inventory hotels namely Hyatt Regency, Hyatt Palace, Radisson Blu, Ritz Carlton & ITC Golf Resort other than the serviced apartments in IMT region.
- Luxury tax net is to be broadened in Delhi, which is likely to make state hotel rooms and other luxury indulgences like health clubs, spas etc. more expensive.
- NCR has 17,550 keys in the pipeline in the organized segment over the five years. Approximately 32% of the upcoming inventory is likely to be in Delhi. Gurgaon and Noida have almost equal share with 19%, while Greater Noida has approximately 13% of total upcoming supply. The hospitality hub in Aerocity (DIAL) will feature fourteen hotels over the next five years. These hotels are currently under various stages of development.
- As per the classification, 25% of the total inventory is expected in the midscale segment, followed by luxury (20%), upscale (18%) and upper upscale (16%). 10% of the upcoming supply is expected to come in the budget segment across different regions in NCR in the coming four years.



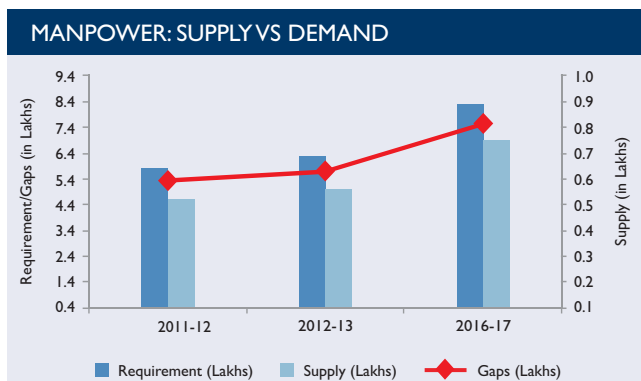
KEY CHALLENGES

MANPOWER ISSUES

One of the main causes of concern for India is the lack of adequate manpower given that Hospitality is one of the most labour intensive service sectors and depends completely on the experiential and repeat value of the business. The current supply of skilled/ professionally trained manpower is estimated to be a very dismal 8.92% to the total requirement as per a study commissioned by the Ministry of Tourism. The study anticipates a rapidly widening gap towards 2016-17, taking into account attrition rate and retirement and supply from both Government and Private programs.

As per WTTC estimates, travel and tourism in India supported 25 million jobs (5.0% of total employment). It is expected to grow by 3% by the end of 2012 and then likely to see a subsequent rise of approximately 1.6% per annum to a total of 3.2 million jobs by 2022.

The Ministry of Tourism estimates an additional requirement of 2.26 million hotel rooms by 2016, from both classified and unclassified hotels, derived through the tourism target for 2016.



Source: Report of the Working Group on Tourism for XII Five Year Plan (2012-2017), Ministry of Tourism

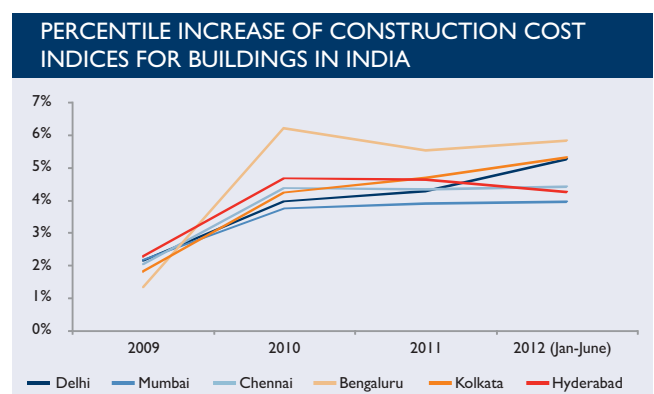
Hence, with a growing number of foreign tourist arrivals and domestic tourist, a shortage of trained manpower could be a major cause for concern.

The Government, having identified this gap, has factored in initiatives in the 11th and 12th Five Year Plans. While the 11th Five Year Plan (2007- 2011) looked at establishing hotel management and other related institutes to educate and train the managerial level workforce for the hospitality sector, the 12th Five Year Plan (2012 – 2017) looks at creating Food Craft Institutes, with short term programs to train the non – managerial workforce.

HOTEL DEVELOPMENT IN INDIA

Development costs have been a challenge for most developers looking to build a hotel in India as land costs accounts for 30% - 50% of the total development cost, while the same equates to about 15-20% internationally. The high density of development within major Indian cities and shortage of vacant land parcels suitable for hotel development have led to aggressive bidding wars amongst prospective buyers pushing prices upwards.

The graph below, analyses the percentage growth in the construction cost indices for all building types across the 6 major cities in India.



Source: Construction Industry Development Council

ESTIMATED COSTS OF CONSTRUCTION PER ROOM (INR)

CATEGORY	BUDGET	MID-SCALE	UPSCALE	LUXURY
City Hotels	25,00,000 - 30,00,000	50,00,000 - 70,00,000	70,00,000 - 100,00,000	90,00,000 - 150,00,000
Resorts	25,00,000 - 30,00,000	50,00,000 - 70,00,000	70,00,000 - 90,00,000	90,00,000 - 150,00,000
Serviced Apartments		40,00,000 - 60,00,000		80,00,000 - 100,00,000
COMMON ADDITIONAL EXPENSES				
FF&E Cost	10,00,000 - 15,00,000	15,00,000 - 20,00,000	20,00,000 - 25,00,000	35,00,000 - 40,00,000
Pre-Opening Expenses	1,00,000 - 1,50,000	2,00,000 - 2,50,000	3,00,000 - 3,50,000	3,50,000 - 4,00,000

Source: Cushman & Wakefield Hospitality Research

Across all major cities, construction costs of buildings has seen an average increase of 11% between 2009 to 2011. In the first half of 2012, there has been an increase of 4.84%. The consistent growth in costs of construction poses a cause for concern in the long term for developers particularly due to the large investments made in hotel projects

'First Impression is a lasting impression' is a saying that stands true for the Hospitality sector. Since hotels' are sensory products, success depends on aspects such as appealing design, which are usually cost intensive. However, if any of the design elements are compromised or if the finishing is toned down, the quality product goes down pulling down its attractiveness for the targeted segment. Branded hotels have specific design guidelines which are very often part of the management agreements and may further add to the cost.

Importing of building material can also add to the already high construction cost. Many elements of the FF&E* are imported into India and even with the government reducing imports for new hotels, the overall percentage of FF&E costs remain high.

Another major component that can adds to the overall cost of a hotel projects are the falters on timelines. The delay in construction is directly proportionate to the cost of the hotel, the longer the construction period higher the costs are scaled. The actual tenure for building a luxury hotel is close to 4 years, three and a half years for an upscale, followed by mid market and budget hotels. This tenure can extent depending on procedural

CONSTRUCTION PERIOD (NO. OF YEARS)	
Budget Hotels	2.7
Mid-scale Hotels	3.0
Upscale Hotels	3.5
Luxury Hotels	4.0

Source: Cushman & Wakefield Hospitality Research

COMPETITIVE RANKING						
	INDIA	CHINA	THAILAND	SINGAPORE	MALAYSIA	INDONESIA
Asia Pacific (Regional Rank)	12	9	10	1	7	13
World -2011 Rank	68	37	41	10	35	74
World -2009 Rank	62	43	39	10	32	81

Source: Travel & Tourism Competitiveness Index 2011

requirements such as gaining licenses, permissions and funding that can further delay a projects directly adding to the cost.

The costs related with the development proportionately rise as a direct result of inflation. The hotel management companies and the developer need to work together on designs to bring down the costs, as this seems to be the only process where the costs can be controlled.

EMERGENCE OF COMPETITION FROM OTHER ASIAN COUNTRIES

India's closest competitors in the growth and development of travel and hospitality are mostly within the region of Asia. Countries such as China, Thailand, Singapore, Malaysia and Indonesia have been witnessing equally impressive and strong growth trends of their tourism sectors. In a survey by Travel & Tourism Competitiveness Index of 2011 that ranks various nations based on sub index ratings of Travel& Tourism regulatory framework, Travel & Tourism environment and infrastructure, Travel and Tourism Human, Cultural, and natural resources. India has fallen from its rank of 62 in 2009 to 68 in 2011 in Global Ranking. In terms of Travel & Tourism regulatory framework India finished a dismal 114th. On the parameter of Travel and Tourism infrastructure it was ranked 68. India's crowning glory was the parameter of Travel and Tourism human, cultural and natural resources where it was ranked 19. As per the ranking although India faces issues on regulatory framework and infrastructure, it has an enormous amount of potential with the respect to human, cultural and natural resources.

The government and other stakeholders need to contribute towards understanding what hampers the countries progress by providing a conducive environment of growth for travel and tourism in India.

Below are the ranks received by major Asian countries including India:

* Furniture, Fixtures & Equipments

TRENDS REDEFINING HOSPITALITY IN INDIA

UTILIZATION OF GREEN TECHNOLOGY FOR SUSTAINABLE OPERATIONS

Hotels have continued to show support for the utilization of Green Technology. For most hotels in India – major operational expenses such as Heat, Light and Power (HLP) costs have doubled over the past two years, from about 7-8% to 14-15% of the total revenues. Feeling the pinch of such an impact on daily operations, hotel companies have come to consider the concept of 'Going Green' not only an option that creates a strong eco-

friendly brand image, but economically helps in controlling daily operating expenses.

The table below lists some of the companies in India along with their respective green policy initiatives:

PILGRIMAGE TOURISM

India is globally recognized as a melting pot of multiple faiths and is famously known for its many spiritual destinations. These pilgrimage centers are not only recognized for their religious significance but also for their historical importance as many of these pilgrimage destinations have historical monuments that are considered as heritage sites of national or even global importance. In time many of these pilgrimage centers, with the

HOTEL COMPANIES GOING GREEN		
Hotel	Green Policy Initiatives	Highlights
ITC Hotels ¹	ITC Gardenia	First Indian and the world largest hotel to receive a LEED platinum rating
	Renewable energy	<ul style="list-style-type: none"> Investments made in renewable sources of energy in Tamil Nadu to cater to the needs of ITC Grand Chola Meet 2/3rds of energy requirements from clean and renewable sources
IHCL	Zero Discharge ²	Use 100% of treated effluents for landscaping and operational purposes
	Recycling and renewable energy	<ul style="list-style-type: none"> Decrease its fresh water intake by recycling while enhancing availability of water through rain water harvesting initiatives All Ginger hotels have taken up the installation of solar panels as water heating systems
Leela Hotels ³	Implementation of energy conservation technologies	Installation of VFD and variable pumping system to reduce power consumption
	Recycling and renewable energy	<ul style="list-style-type: none"> Rain Water Harvesting is being implemented on an extensive scale. Leela's Kovalam hotel collects an average of 43 cubic meters. Wind Mills produce renewable energy

1. Source: Reports And Accounts: ITC Limited 2012

2. Zero Discharge: limited amount of water is emitted from the hotel, and recycled instead for other purposes.

3. Source: Annual Report 2011: Hotel Leela Venture Limited

help from local governmental bodies and funds, have developed infrastructure for pilgrims to aid them in their spiritual quest and assist them by easing the travel to these destinations. However, from the hospitality perspective there has been limited or no presence of branded hotels in these cities.

There are as many as 52 pilgrimage destinations in India, with the top 10 destinations receiving more than 80 million visitors every year. Though local hotels and guest houses do exist, demand far exceeds supply especially from travelers looking for recognizable brands to stay in. This has led to many travelers planning their trips by arranging their accommodation to the nearest major Tier II & III cities and conducting day trips to these pilgrimage centers. The lack of hotel accommodation is a massive opportunity for hospitality companies to launch specifically developed branded hotels in these destinations.

According to a survey conducted by the Indian Tourism Department, in 2010, it was found that 60% of domestic travel was for religious reasons. Andhra Pradesh, Uttar Pradesh and Tamil Nadu account for 21%, 20% and 15% of domestic visits, riding on the back of very strong pilgrimage travel. Tirupati had over 23 million visitors in 2010 while Rameswaram recorded 9.8 million visitors; Vaishnodevi was visited by over 10 million persons while Dwarka over 5 million visitors.

However, the hospitality industry is grossly under-prepared for this kind of travel. India's pilgrimage centers are fast becoming hot-spots for hotel chains, as both domestic and international groups look to plug a gap in the market for quality accommodation. Some of major tourist pilgrim destinations and existing branded hotel chains are listed below.

DESTINATIONS WHERE MAJOR BRANDS PLAN NEW HOTELS	
CITY	BRANDED HOTEL CHAINS PRESENT
Tirupati	Fortune
Puri	The Hans Group, Sterling Holiday
Vaishno Devi	Best Western, Carlson
Haridwar	Carlson, Ginger, Sarovar
Ajmer Sharif	Ambassador, Mansingh Group, Svaasa Group, Best Western, Ista,
Amritsar	Carlson, Sun and Sand hotel, Best Western, St
Shirdi	Laurin
Badrinath & Kedarnath	Sarovar Group

Source: Cushman & Wakefield Hospitality Research

* India Spa Market 2011: Market Publishers

Within India, there is an emergence of 'pilgrimage' hotels as a hospitality concept that aims to enhance the pilgrims travel with services such as a special desk giving guidelines and timings of rituals to be performed, providing ritual amenities within the room and more.

MEDICAL & WELLNESS TOURISM

Medical tourism is becoming a popular option for tourists across the globe. The term medical tourism distinguishes the rapidly growing practice of travelling across international borders to obtain hi-tech medical care. The key competitive advantages of India in medical tourism stems from facts such as cost advantage and reputation in advanced healthcare segment (cardiovascular surgery, organ transplants, eye surgery etc.)

In terms of locations – Delhi, Chennai, Bengaluru and Mumbai cater to the maximum number of health tourists and are fast emerging as medical tourism hubs. The major service providers in Indian medical tourism are: the Apollo Hospitals, Escorts Hospital, Fortis Hospitals, Breach Candy, Hinduja, Mumbai's Asian Heart Institute, Arvind Eye Hospitals, Manipal Hospitals, Mallya Hospital, Shankara Nethralaya, AIIMS.

Medical tourism in India includes advanced and life savings health care services and also leisure aspect medical traveling/wellness tourism may be included on such medical travel trips. India provides a variety of medical services to overseas patients.

Wellness tourism encompasses large avenues of health tourism and which include detox centers, recuperating centers, ayurvedic treatment centers, yoga centers and nutrition centers. Some Wellness centers also provide homeopathic and naturopathy treatments.

As of 2011 in India there are over 2,300 spas* that generated revenues of upto US\$ 400 million annually. There are 20-25 major spa centers around India, most of which are in the southern region of the country, particularly in Karnataka and Kerala. Medical tourists from US and Europe form the major part of the consumer base for Indian medical tourism. India attracts approximately 2 % of the total international medical tourism market. It is estimated that in 2012, the Indian Medical Tourism Industry will attract 1.1 million patients from across the world. There has been a substantial increase in demand for Ayurvedic therapies and other alternate treatments which is also drawing large number of foreign tourists. Sensing growth opportunities, in 2011, the Ministry of Tourism launched strict guidelines and accreditation policies which have been developed by National Board for Accreditation of Hospitals & Healthcare Providers

(NABH) in consultation with the Department of Ayurveda, Yoga & Naturopathy, Unani, Siddha and Homeopathy (AYUSH). These guidelines have helped maintain standards of quality and service across all Wellness centre across the country.

While the core medical requirements of travelers are taken care of by qualified medical centers, it is the alternate therapies where hotels have found a niche. Their primary focus is to provide for

Wellness Tourism drawing from the fact it is fast becoming a unique selling point for India. Thus many hospitality brands have started to incorporate services such as Spas and other rejuvenation services. In order to show the governments full support, as of recent the NABH (National Accreditation Board for Hospitals & Healthcare Providers), has of recent begun certification of hotel spas.



OUTLOOK

The impact of the global economic slowdown of 2008 -09 has had a lasting affect across major global economies, drastically affecting global equity markets and leading to a pessimistic approach from all major economies and emerging markets. The slow recovery in USA and the impending European Union crisis has further eroded the confidence causing more distress across all public and private establishments. Even though strong political will and control measures are being applied to curtail the ramifications of the European crisis, there is widespread skepticism amongst the key stakeholders.

Global economic growth is forecasted to reduce from 4% in 2011 to 3.5% in 2012. The reduction in output due to anticipated low demand is further having a negative impact on growth, which in turn are fueling inflationary pressures and pushing up commodity prices globally. Though, many predict that inflation will decelerate in 2013, the current rise in prices has induced a negative outlook especially in developing and emerging economies. As per a World Bank report, growth in South Asia is projected to ease further to 5.8 % in 2012 before strengthening to estimated 7.1% in 2013. Even though domestic demand has fuelled steady growth in South Asia, policy uncertainties, high inflation and infrastructure constraints have abated these economies.

Amidst all the economic uncertainties, the global growth of hospitality and tourism sector has been steady, albeit leaving much to be desired. As per the WTTC report, Travel & Tourism contributes 9% to the global GDP and is forecasted to rise by 2.8% in 2012. Those regions that are exposed to the economic crisis have seen a significant negative impact on the hospitality and tourism industry. While the average daily rate (ADR) and occupancy levels (H1 2012) across Americas, Middle East and Asia are recovering, RevPAR (YTD) in Europe and South Asia has seen a 5% and 11.5% drop respectively this year, with India reporting a drop of 9.7% in ADR (STR, 2012) and occupancy between 55% – 60% across major cities.

Though the performance of Indian Hospitality market has been below par compared to the high ADR's and occupancy levels of 2007, the sentiments in the markets are improving. There is a widely held consensus that the Indian hospitality industry will register improved ARR's and occupancy post 2013 and the markets will stabilize in 2015 – 16. This is on account of a steady increase in occupancies and limited supply of new keys in high volume markets such as NCR, Mumbai, Bengaluru etc. The industry is expected to witness strong performance backed by proactive improvements by the government in licensing and

development policies that will further facilitate growth of the hospitality industry make India a strong and much improved competitor on the global arena.

The past couple of years saw varied performances across key markets in India, however most markets saw encouraging signs of improvement across all major key performance indicators. We expect this trend to continue through the next two years and provided the global economic scenario remains stable; we expect to see reasonable performances across all markets.

The next two years will also witness a large influx of supply in various pockets of growth across the country. Some new brands like Sofitel, Pullman, Lebuva etc. have already entered the Indian market over the past two years. With more and more international brands operating in the country, the market is moving towards being organized and processes being standardized.

Today's consumer is educated and has a selection to choose from, which makes the hospitality sector fairly competitive with various brands operating across various segments.

Hoteliers are exploring newer hospitality products, fashioning the hotel/resort as a unique destination. Integrated Developments and Tourist precincts are other formats that seem attractive to developers and investors.

While newer products are being mulled over, new demand trends are also emerging. Wellness tourism, Pilgrimage tourism, adventure & wildlife tourism have also been promoted by the government at various levels.

India is dealing with several issues; economic fluctuations and political instability remain the dampeners to a healthy all-round growth. The investors are cautious in terms of commitment for development funds. On-going projects at advanced stages of development are likely to see completion and not be scrapped, although developers are likely to encounter difficulties in any restructuring of finances post-commencement of becoming operational facility. Existing operational hotels are likely to continue seeing consistent performance levels due to delay in completions of planned supply.

In the midst of various changes taking place around us, India tries to remain positive as the growth story continues. The resilient nature of its people gets translated into the market sentiments and businesses being run.

Governments' initiatives to invest and improve the tourist infrastructure and aid tourism projects are likely to enhance the

demand for quality hotel rooms. 'Private Public Partnership' model is being actively explored to develop such establishments. The hospitality sector has unanimously voiced the need for gaining an 'infrastructure status.' Effective single window clearance for obtaining licenses has been identified as a key sector requirement. Rationalization of the number of tax levies and implementation of single tax regime will benefit the hospitality industry.

All in all if the last 7 years have been exciting the next 7 are going to be more exciting and almost transformational. The industry has seen the entry of several institutional players and funds, which are leading to greater organizations and bringing more stability to this sector. The hotel industry in India has a lot of potential given the current demand and supply scenario.

The good news is that there has been growth in the hospitality sector and the markets are abuzz with anticipation. There have been a few notable hotel asset transactions and investments that have taken place, reinstating the fact the investors and buyers have faith in the business. Budget and the mid-market segments are likely to command a greater voice as the most preferred investment categories and are most likely to sustain market demand during this passing period of uncertainty, during which concepts such as Spa resorts, convention centres and wellness centers could be sought out as interesting alternatives which drive demand and offer hotels sustainable advantages.



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