MARKET REPORT

India Hotel Market Review 2019

FEBRUARY 2020

Foreword

This year-end report is a collaboration between STR and Horwath HTL India.

STR as the global leader in benchmarking, has provided the data facts from the 1100 plus participating properties in India. Operators can receive bespoke performance reports through participation and interested industry stakeholders can access customised reports via STR.

Horwath HTL are leading global hospitality consultants and have performed work in about 110 markets in India. Supporting the market facts, Horwath HTL have contributed the market insights and analysed the market opportunities and challenges for owners, investors, developers and operators. We help clients make Smart Decisions for Lasting Value.

Introduction

Most of us reading this report have permanently left the teens behind us; and look forward to a decade where we must be like swans – spotting and separating plentiful opportunities, from a myriad of uncertainties.

Change is a constant; travel is almost another. The face, character, purpose and nature of travel has changed and will continue to change – but people will forever keep travelling. It is for the industry to foresee, recognise and adapt to the changes; and facilitate this travel. To say "create the change" is fraught with risk of dismaying disruption leading to disrupting dismay.

2019 was good; well, sort of. A strong start, weak spring, decent mid-summer, slow Q3, terrible October, stupendous November and a blessed December. It ended with all-round growth and a merry note – but also a foreboding sense of what 2020 might be, after Q1.

The positives

- Largest ADR jump and second largest RevPAR growth, in amounts (Rs. 167 and Rs. 155 respectively) in the last ten years;
- Five Key Markets with Occ above 70%;
- Three markets with Lux-UpperUp ADR in the 9ks (only one last year), and Goa Lux-UpperUp ADR crossing 11k;
- Up-UpMid and M-E ADR grew smartly;
- Significant GST reduction removing the industry from the "sin" bracket,
- Widening supply diversity.

Hyderabad, Bengaluru, Gurugram and Chandigarh were the main call-out markets, with double-digit RevPAR growth. Delhi did well too.

The "same store" data is more satisfying; this provides 2019 performance for hotels that were included for reporting analysis in 2018. 69% Occ, with ADR of Rs. 6,198 are distinctly superior numbers showing that hotels are clearly doing better once operations are stable and have had more time to penetrate markets. These numbers feel even better when compared to the same store results for 2018 (compared to 2017), i.e. Occ gain of 2 pts and ADR gain of about Rs. 200.

The issues

- Goa continues to slacken;
- Chain-affiliated supply growth (7.8k rooms) was the slowest in ten years;
- All India M-E Occ suffered de-growth (-0.7pts) for the second year running;
- All India Up-UpMid Occ grew only 0.5 pts;
- Jet Airways failed, causing business and financial damage.

Further, increase in Foreign Tourists Arrivals (FTA) for 2019 (336k visitors) was the lowest in the last seven years. Growth in number of e-visas granted was 558k, the slowest Y-o-Y increase since start of this scheme.

Ahmedabad (aside from Goa) is a major concern, dropping RevPAR by 7.3%

Supply

In macro numbers – supply crossed 150k rooms; rooms sold per day, corresponding to this supply, is a little short of 97k rooms. Supply share outside the Key Markets has risen to 34%, with over 3,500 rooms added in 2019.

As the market matures, more independent hotels are taking chain affiliations (in 2019, 29 hotels with over 1,700 rooms). At the same time, 51 hotels with nearly 3k rooms were de-flagged; of these, 5 hotels with over 650 rooms are either shut down or in the process of rebranding. The remaining de-flagged hotels had an average size of only 41 rooms – is this a pointer that hotels need a minimum scale even for domestic brands to be effective? Note that operating data for the de-flagged hotels is included in the reported results, to the extent they have continued participation with STR.

Bengaluru remains the lead city, in terms of inventory, followed by Mumbai and Delhi (both running neck and neck). Bengaluru is expected to stay in the lead over the next 4-5 years with several projects underway. Mumbai and Delhi will gain demand (and hopefully ADR) as their convention centres open in 2020 / 2021; lack of meaningful supportive hotel inventory will benefit existing hotels in the short term but could prove a limitation for the convention centres in the medium and longer term – however, there are no announced plans for addressing this challenge.

Scale

M-E Occ, in the low 60's, is a concern from the viewpoint of investment returns and growth. While ADR levels improved to Rs. 3,245, this segment cannot sustain at moderate Occ. Is demand the limitation? Is lack of scale a limiting factor, looking at it from the other side? M-E is a growth bulwark for secondary and tertiary markets which evidently lack demand to support 70%+ Occ; in turn, this underscores the importance of F&B and banquet facilities and operations in those markets, even for M-E hotels.

The lack of scale and fragmented ownership, outside some chains, may well be a cause why the industry is unable to pitch a more unified and stronger position for itself, to the powers that be. On a rule of thumb basis, the replacement value of the 150k hotels is about Rs. 1,360 billion; we likely generate Rs. 325 billion in revenue, but have seemingly low priority at a policy level. Scale of ownership and narrow interests focussed on tax reliefs could well be a factor.

The leisure sector too lacks scale – in terms of national supply share and also the size of individual properties. Leisure inventory is only about 20% of total supply. There are only about a dozen or so resorts, with 200+ rooms. The M-E segment has a larger supply share but tends to work with small hotels - average inventory of about 50 rooms (only 35 rooms per hotel in Himachal). Land fragmentation and limited entitlements is a challenge.

In the medium term, the customer and the product will drive each other possibly without true economic contribution to the destination. Local enterprise must be encouraged; but is this scale viable and sustainable (financially and from a destination viewpoint)?

Alternative accommodations are a reality. Changing holiday needs and travel patterns, better distribution and attention to quality and flexibility requirements have made these private accommodations a more serious competitor for hotels. Goa has felt the impact. UpperUp and Upscale leisure hotels must constantly assess their offering, and create distinctive elements to retain customer preference. Loyalty rewards have limited effect as these are not offered for attractively priced OTA bookings. Resorts drawing comfort from MICE and weddings can push leisure FIT and private group leisure to the alternates and lose good value.

The M-E segment will be up against "co-living" facilities which may also be tweaked to cater for short term needs; the affordability and evolving facilities would be attractive to the younger demographic users. Hotels will need to create, maintain and promote the distinction of facilities and services between hotels and co-living facilities, with particular advantage for transient or shorter term stay needs.

For clarity, this report does not consider hotels affiliated with aggregators. Product variations, nature of operating arrangements and branding relationships, as well as frequent change in hotels participating with aggregators do not yet lend comparability with the rest of the industry. Accordingly we have restricted our analysis to the traditional hotel product.

Some aspects for the future

Enhanced airport connectivity is creating material growth opportunities for several newer markets drawing leisure, MICE, business travel and some crew demand. With saturation of night parking slots at metro airports, airports at other cities are being developed to accommodate an expanding airline sector; in turn, this will create newer markets for hotels over the next 3-5 years. Development of 100 new airports, as announced, will boost travel and stay demand needs.

Failure of Jet Airways (with Air India now on the brink) brings to bear a few aspects – (a) one of the fastest growing aviation markets seems unable to sustain full-service airlines; (b) pricing below cost, to gain market share and grow volumes is fraught with long-term pain (sometimes terminal in nature); (c) the shutdown hurt several markets during summer; while airline capacities were gradually restored, the flying experience has dipped – this increases the focus on, and opportunity for, hotels to provide better product and service to more harried travellers. Hopefully, Air India will be more successful in its survival restructure; failure of that airline would cause mayhem.

There is greater confidence in the full-service model of hotel industry and self-created pricing pressure must be guarded against; it hurts margins without truly benefitting any stakeholder – including the customer in the long-term; after all, the full-service airline customer is suffering today.

Changing policies are always a challenge, with potential to hurt investment capital and returns. The ‘capital city’ changes in Andhra Pradesh, liquor fee costs and potential prohibition in that state, delay in effecting the announced ease in CRZ rules are examples of challenges. The 24x7 operating option for Mumbai should create some opportunities although there are concerns that the hotels may see late night demand getting scattered.

Sustainability must remain a lead concern, and objective. How far along has the industry truly moved, beyond “linen use saving the environment” and a reasonable element of water recycling. What about water and power waste? What about food waste? Or project inefficiencies for that matter, creating life-long cooling, heating and cleaning issues?

Value

Last topic, but not the least. Does the industry, and each hotel, put sufficient value to itself? Value begets respect; it draws better attitude and it provides more money so that newer and better experiences can be created for the same people bargaining hard for rates today. We often retreat too easily. A positive outlook on value, will undoubtedly draw success.

Coverage And Classification

In this report we examine Occupancy (Occ), Average Daily Rate (ADR) and Revenue per Available Room (RevPAR) trends nationally and for several Key Markets. Hotels are classified as Luxury & Upper Upscale (Lux-UpperUp), Upscale & Upper Midscale (Upscale-UpMid) or Midscale & Economy (M-E), consistent with STR classifications.

Our analysis is based on full year Occ, ADR and RevPAR data, reported by hotels to STR and generated per STR guidelines. Supply related data is based on Horwath HTL research. All values are in Indian Rupees.

We have concentrated upon all-India numbers and 13 Key Markets, which carry 66% of total chain-owned/managed/affiliated inventory.

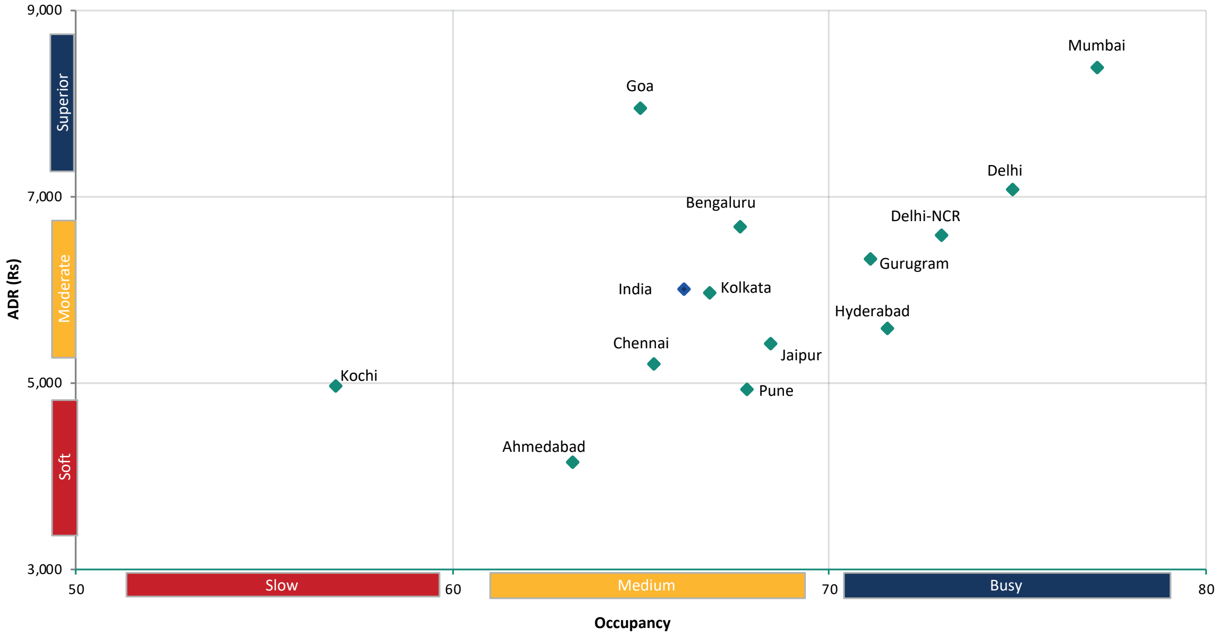
We have used a performance matrix to report and analyse the results. The horizontal and vertical axis reflect Occ and ADR respectively. Occ below 60% is classified as ‘Slow’; 60-70% Occ is considered ‘Medium’, 70-80% Occ is classified as ‘Busy” and 80%+ Occ is Strong.

ADR is classified as ‘Soft’, ‘Moderate’, ‘Superior’ and ‘Healthy” per grid scales that vary with the segment being reviewed. For market-wide reporting, comprising all segments, the scales used are Rs. 3k-5k, Rs 5k-7k, Rs. 7k-9k and 9k+ respectively (ADR at 9k+ is considered Healthy).

Thus, a market with over 75% Occ and over 8k ADR will classify as ‘busy with superior rate’; a market with 82% Occ and 9.2k ADR would be ‘strong and healthy’ while a market with <60% Occ and less than Rs. 5k ADR will classify as ‘slow-soft’ and is an under-performer.

Note that the ADR grid will change for each segment.

Overall Performance - India and Key Markets



Source: STR

Note: 13 key markets comprise of Mumbai, New Delhi, Gurugram, NCR Residual, Bengaluru, Chennai, Hyderabad, Kolkata, Pune, Ahmedabad, Goa, Jaipur, Kochi

Overview Of Performance – India

2019	Occ%	ADR	RevPAR
All India	66.2%	5,997	3,967
Same Store	69.0%	6,198	4,275

Source: STR

At the outset, it must be mentioned that comparisons must be made in the context of the changing supply composition in each market. Segmental performance is based on segmental composition determined by brand positioning; quality standards at individual properties may sometimes differ.

Highlights

- Occ for Mumbai, Delhi, Gurugram and Hyderabad was above 70%; Mumbai and Delhi led the way, with 77.1% and 74.8%.
- All other Key Markets, except Ahmedabad and Kochi were at or above 65%.
- All India ADR was agonisingly short of 6k. Only Mumbai achieved 8k ADR, with Goa dropping below to join Delhi in the 7k level.
- Udaipur is the lead city, with 11k ADR.
- Bengaluru led ADR growth, up by Rs. 502; Hyderabad did well too, up Rs. 461.
- From RevPAR perspective, Mumbai is close to 6.5k, ahead of Delhi by about 1k, which itself leads Bengaluru and Gurugram by about 1k. Bengaluru, Gurugram and Hyderabad grew by over Rs. 400. Sadly, Goa dropped closer to 5k. Ahmedabad dropped to the bottom at 2.6k.

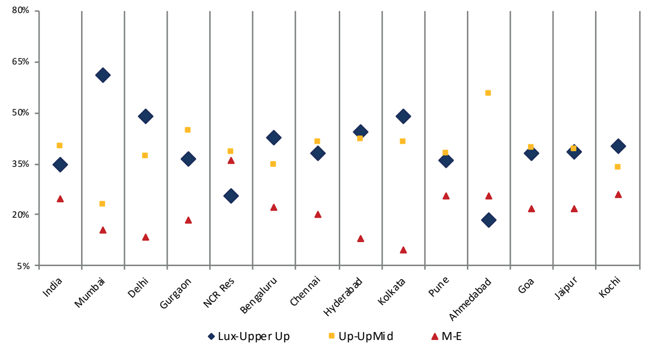
The all-India performance, summarised in the chart above shows:

- Little less crowding compared to the previous years, with several cities moving up and / or to the right.
- From an Occ perspective, Chennai, Ahmedabad and Kochi are below the national average; unfortunately, Goa joins this unsavoury grouping.
- As a big positive, the three major metros - Mumbai, Delhi and Bengaluru, with 27% supply share are above the all-India RevPAR marker; Gurugram and Goa join this select band.
- Several other markets are above the all-India Occ number but lower on ADR.
- Pune moved up in ADR, but to the wrong side on Occ, dropping out of the Busy position which it achieved in 2018.

Segmental Supply

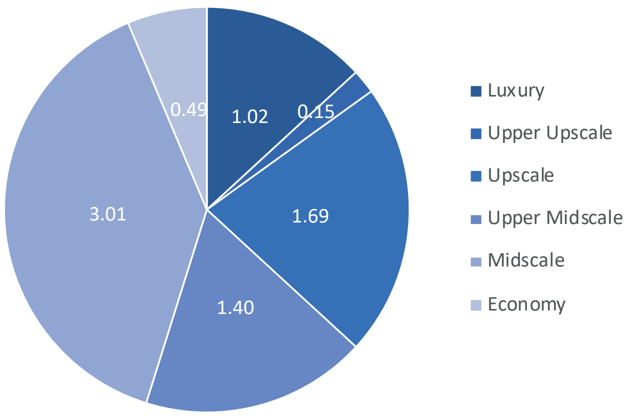
Supply growth in 2019 was only 7.8k rooms, comprising 9.1k rooms as new builds / expansions, and -1.3k impact of conversions and de-flagging. These numbers do not include conversions between chains / brands.

Marketwise Segmental Supply Share

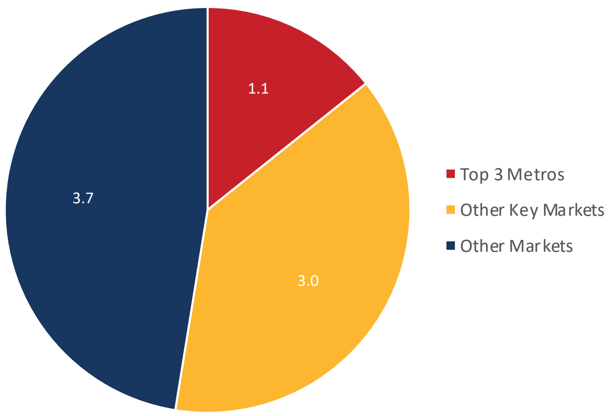


Source: Horwath HTL Research

New Supply Composition



Source: Horwath HTL Research



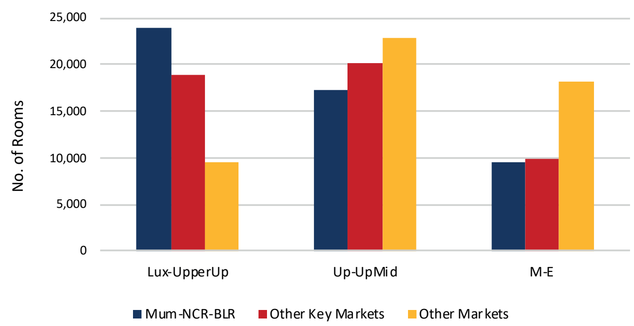
Source: Horwath HTL Research

- Average inventory per hotel added in 2019 is only 70 rooms, down from 73 rooms per hotel last year; domestic brands will need to push for scale towards better all-round value.
- Only 2 hotels have over 300 rooms; 98 hotels with less than 100 rooms of which 80 hotels have 60 or lower room count.

Segmental supply composition comparing 3 major metros (B-M-NCR), Other Key Markets and Other markets (rest of India) is reflected in the chart below:

- As individual cities, Bengaluru has the largest supply with over 14k rooms, followed by Mumbai and Delhi (with little between these two).
- Mumbai continues to have the largest inventory in Lux-UpperUp segment.
- From a metropolitan area viewpoint, Delhi NCR is the largest with inventory greater than the total rooms in the other three metros (Chennai, Hyderabad and Kolkata).

Marketwise Supply Classification



Source: Horwath HTL Research

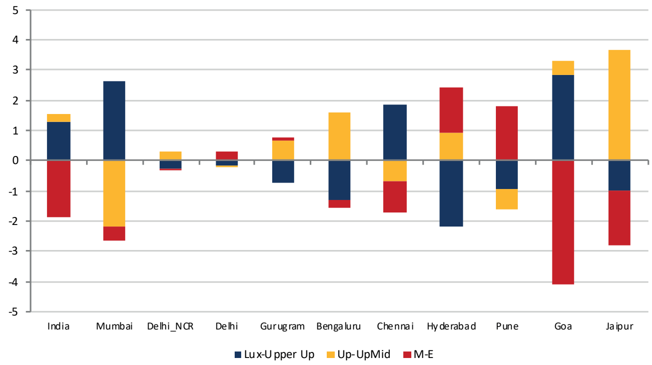
- These 3 major metros (Mumbai, Delhi NCR and Bengaluru) comprise 34% of total national inventory.
- Supply share of markets, other than the 13 Key Markets has risen from 28% in 2014 to 34% in 2019.
- Other markets have limited play in the Lux-UpperUp segment – scattered across multiple cities including Udaipur, Jodhpur, Agra, Lucknow, Chandigarh.
- Supply in other markets materially comprises Up-UpMid and M-E hotels; this is perfectly understandable and appropriate – it is also good to see several brands, mainly domestic brands, make inroads into secondary and tertiary markets.

- Just 20% of total supply is of leisure use / orientation; this is an improvement from 17% supply share in 2014; with an expanding aggregate inventory, the real addition is about 12k rooms. There is major potential for encashing on leisure.
- The pipeline through 2024 looks sizeable, expecting to grow supply by a third of its current number. The three major metros are expected to maintain their pre-eminence, other markets could increase supply share to 39% and leisure supply share could move up to 22%.

Segmental Demand

The chart below compares actual segmental demand with segmental 'fair-share' demand. For this purpose, actual total demand for a market is first allocated in proportion to segmental supply; this allocated demand is then compared with actual segmental demand to reflect variations. The comparison throws up some interesting pointers.

Segmental demand with segmental 'fair-share' demand



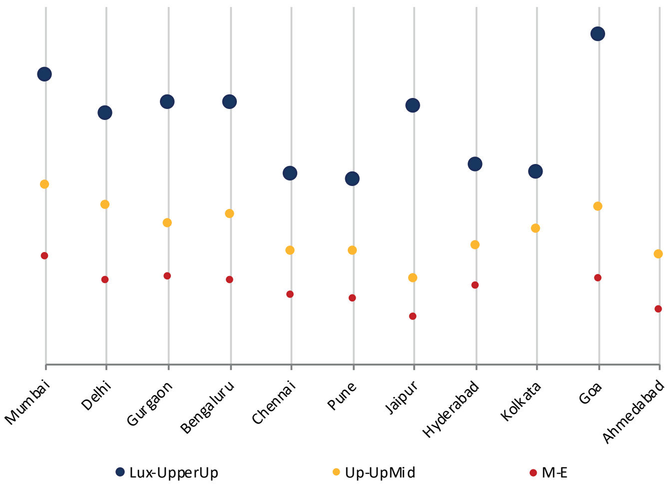
Source: Horwath HTL Research & STR

- Delhi NCR has the best balance; Delhi has very limited balance issues possibly helped by a thriving and supply diversified Aerocity. Gurgaon could gain Lux-Upper Up demand – and this will likely come.
- Mumbai has more Lux-UpperUp demand and this helps the city's ADR. Its mid and lower tier dropped Occ in 2019 and could beef up both demand and supply depth.
- Bengaluru has worked well through sizeable Lux-UpperUp supply increase over the last 2 years; fortunately the gain is for the Up-UpMid segment reflecting better rate outlook for that city.
- Chennai is struggling due to demand-supply imbalance on OMR; that is gradually starting to work out.
- Hyderabad is in growth mode and its Lux-UpperUp shortfall is not unusual; this can correct over time although the substantial supply in city centre areas of Hyderabad may remain a limitation.
- Jaipur is hurting from too much Up-UpMid demand, at M-E rates. Goa on the other hand, has a surfeit of M-E supply – off the coast – and that has limitations.

Segmental Performance

Luxury hotels are in the 5-digit ADR positioning, in the mid 10k level. UpperUp hotels could do well to narrow the gap with Lux Hotels, thereby creating growth space for Upscale hotels, and in turn other segments. Relative segmental rate levels, across Key Markets, are presented below:

Segmental Rates - Major Cities



Source: STR

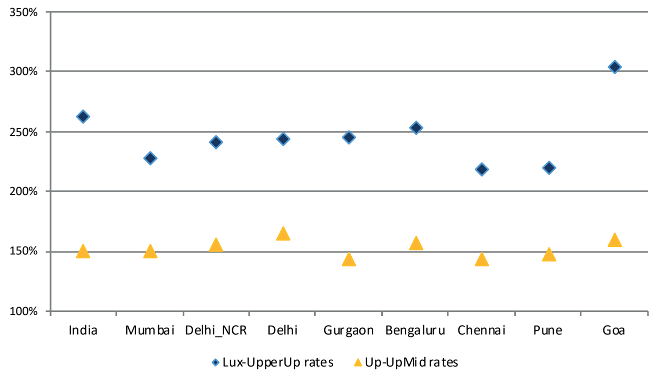
Goa continues to have the widest range and Pune the narrowest.

There is also stark variation between city rates in each segment – three metro cities of Chennai, Hyderabad and Kolkata as well as Pune have a lot of catching up to do with the three major metros, and even Jaipur. Lux-UpperUp ADR for Chennai, Pune and Kolkata is ahead of Mumbai's Up-UpMid ADR, but only by 4-8%.

Significant variations are also seen in the other segments. Pune and Chennai Up-UpMid ADR is marginally above Mumbai's M-E rates. Jaipur goes to the bottom for Up-UpMid and M-E segments, showing material rate dilution from the strength and quality of its Lux-UpperUp product.

Comparative segmental rates should be examined for the reflected achievement and potential for individual markets. The chart below shows Lux-UpperUp and Up-UpMid rates as a percentage of M-E ADR (taken as the base of 100).

Segmental Rate Comparison



Source: STR

- Higher M-E rates provides smaller premium percentages for the two higher segments in Mumbai; Lux-UpperUp rates could be stronger though.
- Delhi creates sizeable premium because its M-E rates are low – lower than Gurugram and equivalent to Bengaluru.
- Gurugram doesn't do too well at the Up-UpMid segment; M-E rates are strong but Up-UpMid rates comparatively lack mite.
- Pune can be expected to improve, as Occ has crossed 70%, though new supply could dampen rates over 2019 and 2020.
- The top-tier in Chennai remains constrained by combination of lack of new investment in the city and supply surge in the mid and lower tier.

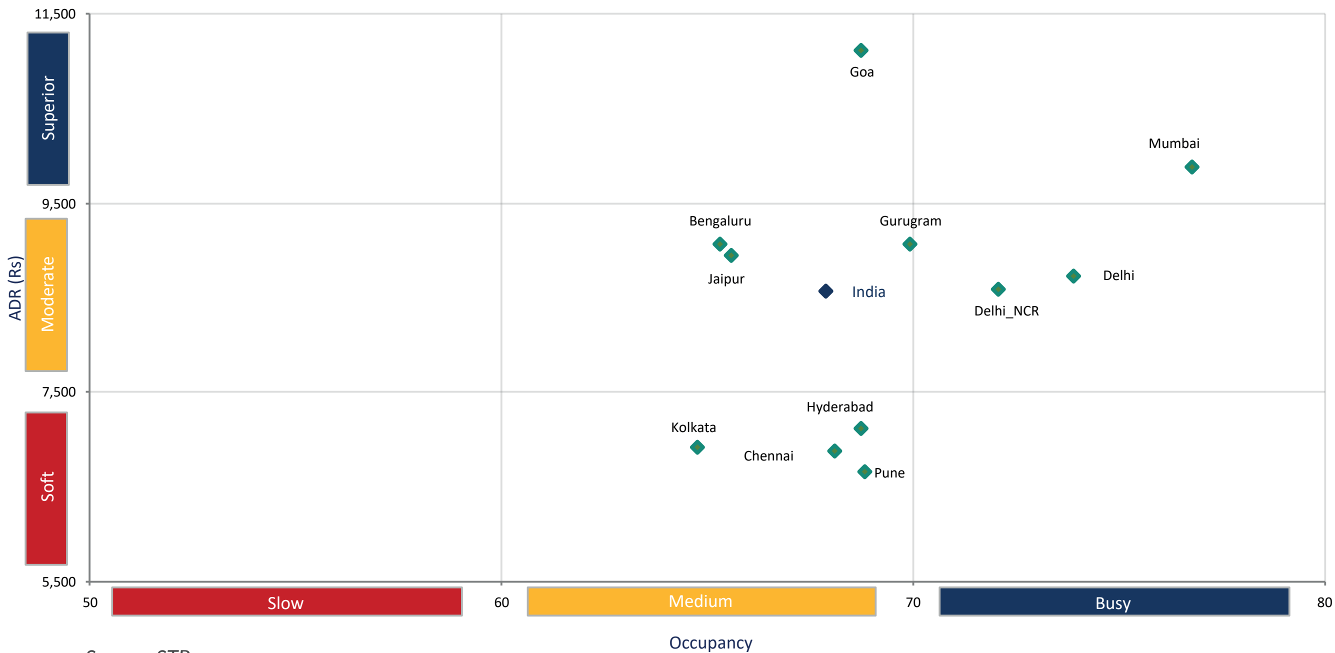
Segmental Performance

Luxury – Upper Up

With 35% of total inventory, this segment enjoyed a positive year with ADR and RevPAR growth in all Key Markets:

- Mumbai and Delhi are the only two markets with Occ > 70%; Gurugram was almost there.
- Most other markets are >65%; Kolkata at 64.7% has done well to hold steady amidst major supply growth.
- Goa ADR comfortably crossed 11k, though with Occ loss.
- Mumbai ADR nears 10k; Bengaluru and Gurugram moved up smartly to cross 9k ADR; Jaipur was in touching distance. Delhi saw limited rate growth and remained somewhat short of 9k.
- Hyderabad and Jaipur grew ADR by over Rs. 600 and Rs. 500 respectively – significant no doubt but also a correction of sorts as overall rate growth is about Rs. 1k over 4 years and 3 years respectively.
- Chennai yet remains slow and seemingly unfocussed.

Lux-UpperUp Performance - India and Key Markets



Source: STR

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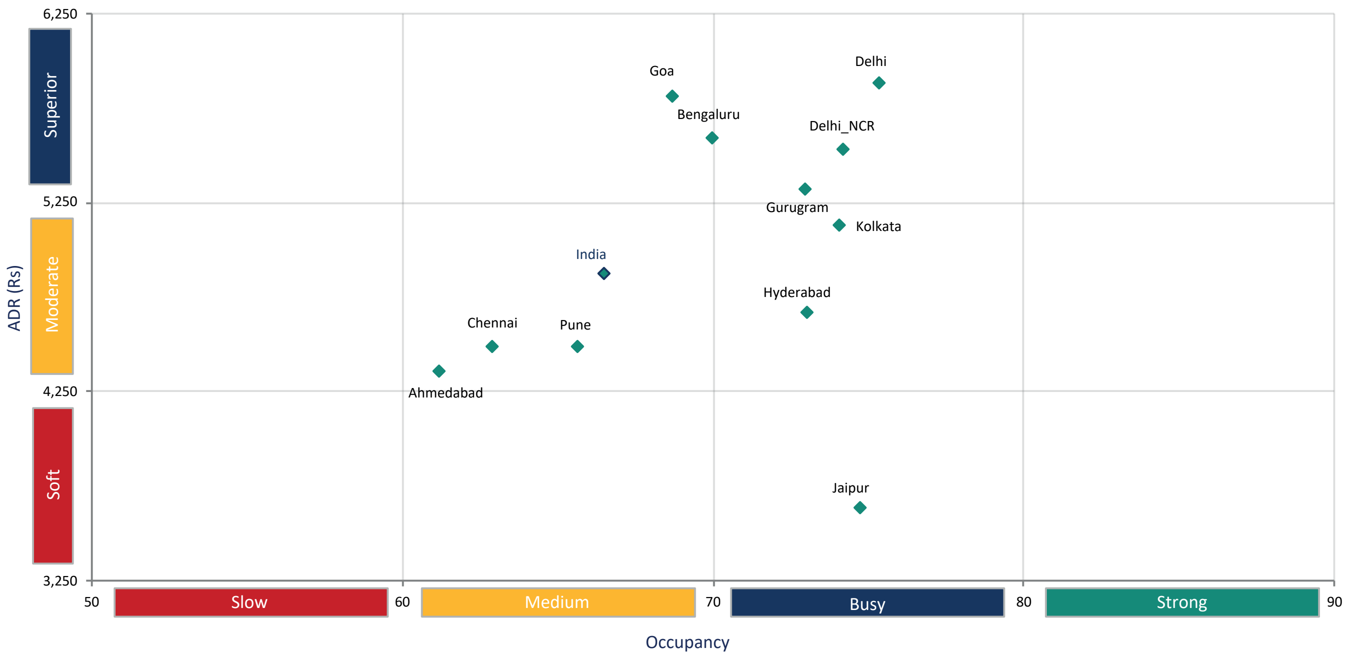
Upscale-UpMid Performance - India and Key Markets



Source: STR

Upscale – Upper Mid

With 40% inventory share, this segment is a vital cog for results to churn forward.

Steady 66% Occ in the last 3 years, (66.5% for 2019), with 11% ADR growth while dealing with 12k supply increase can create a dual perspective. Positivity on supply being absorbed; or a sense of under-performance for a core segment. The latter is more the case – the segment's performance continues to be underwhelming, even allowing for substantial supply share for non-Key Markets. This segment should be targeting 70% all-India Occ levels.

Mumbai led the Occ chart with 78.4% - the city had crossed 80% in the previous two years.

Delhi NCR and its constituents, Kolkata, Hyderabad and Jaipur are in the mid 70's, with Bengaluru just getting to 70%.

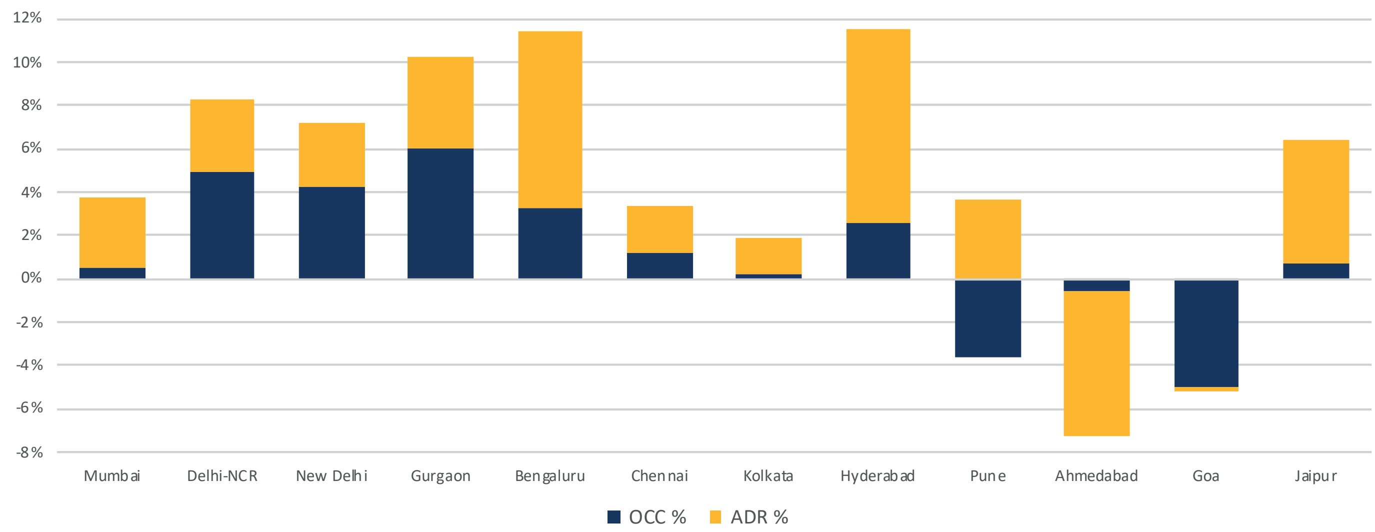
However, Chennai, Pune and Ahmedabad – with 15% of all-India segmental inventory were in the low to mid 60's. Goa and Bengaluru, with 13% of all-India segmental inventory have substantial scope for growth. Thus, a better outcome of some of these Key Markets would benefit this segment.

The challenge is Occ outside the Key Markets. Segmental inventory outside the Key Markets has supply share of 38%. Data for 5.5% of all-India supply, comprised within non Key Markets reflected Occ in the mid 40's to mid 50's.

From an ADR perspective, only Mumbai touched Rs. 6.4k. Delhi NCR and its constituents, Bengaluru, Kolkata, and Goa were in the low to high 5k. All other Key Markets were in the mid Rs. 4k level with the exception of Jaipur which remained in the mid 3k level.

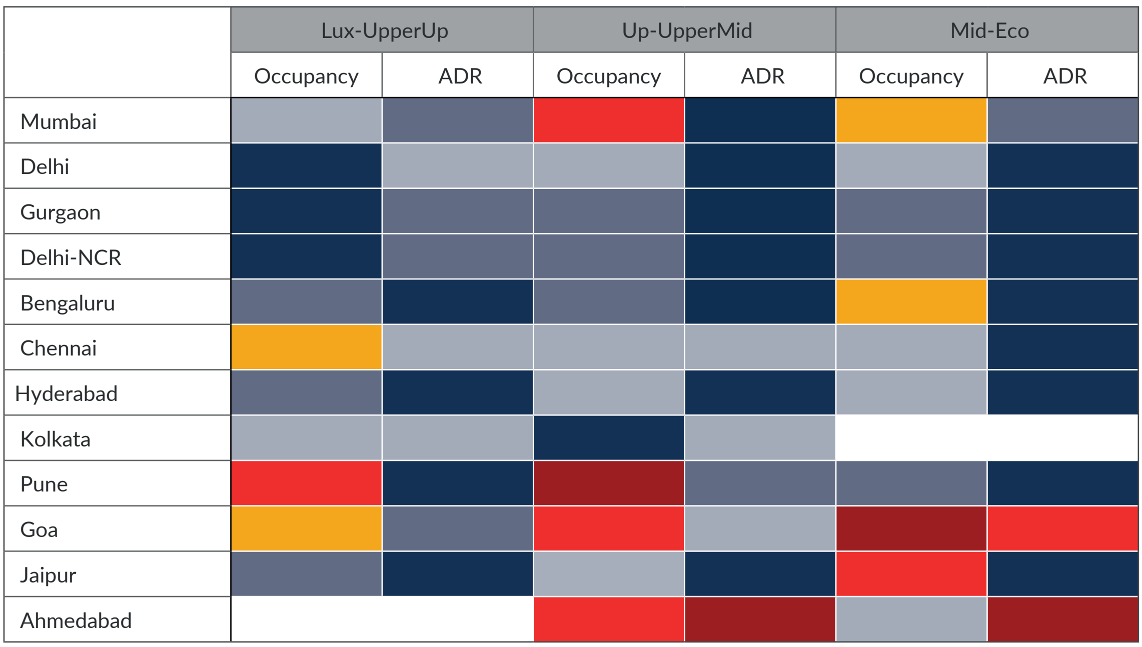
Success of the Up-UpMid segment is critical for a strong performance, and for longer term returns, because this segment is the mainstay of the hotel sector and will help widen demand base in Key Markets and all other markets.

India Hotel Performance by Key Markets: YoY Occupancy & ADR Growth



Source: STR

Key Markets: Segmental Performance - YoY Occupancy & ADR Growth

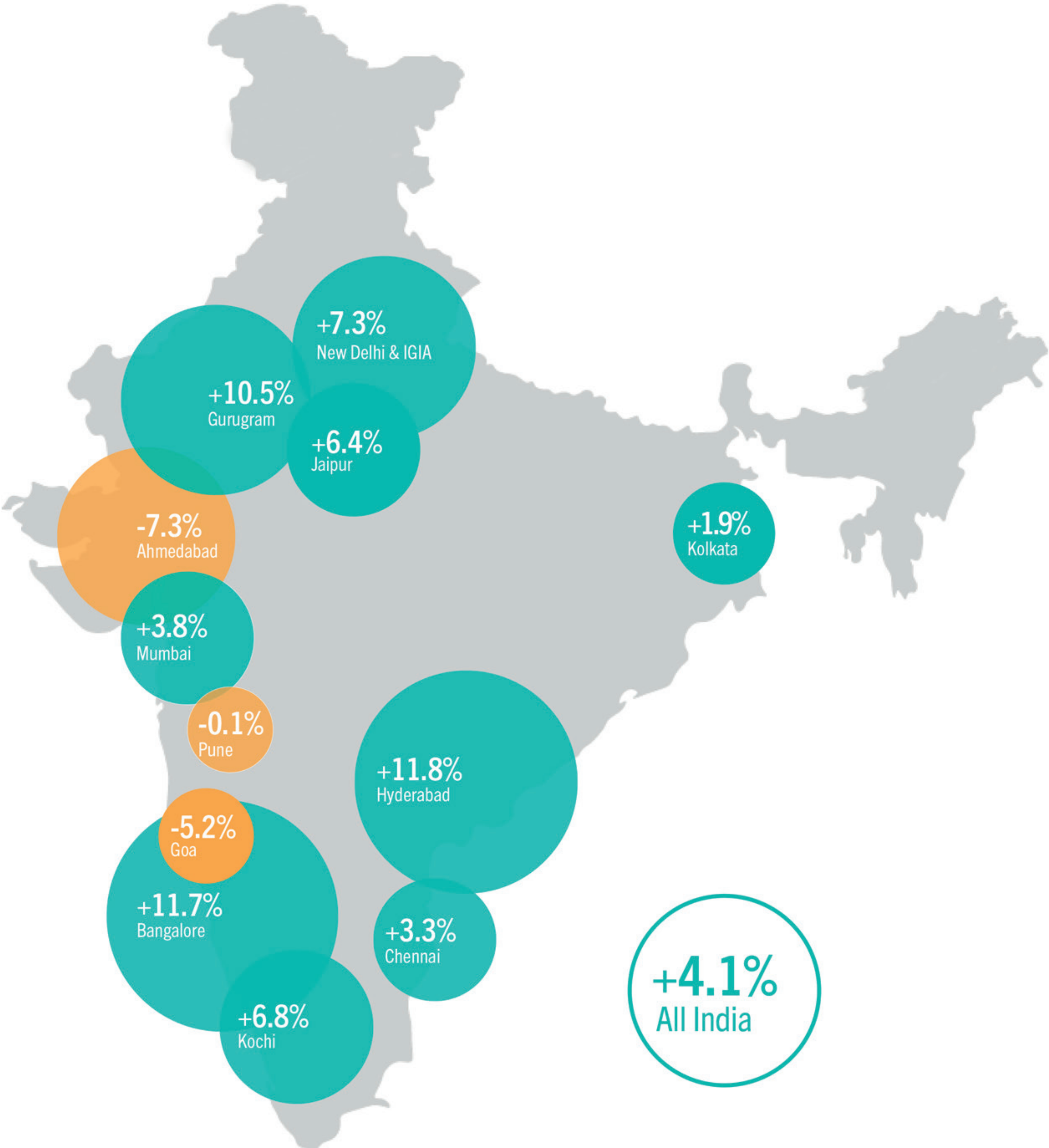


KEY

Negative Value	>-4	(-2)-(-4)	>-2
Positive Value	<2	2-4	>4

Source: STR

India - Key Markets: YoY RevPAR Change



Source: STR

Midscale-Economy Performance - India and Key Markets

Source: STR

Midscale – Economy

With 25% supply share on all-India basis, this segment has grown inventory by 30% in the last three years including 3.3k rooms in 2019.

This segment is primarily a rooms driven operation; with lower price points it relies upon good occupancies to gain meaningful margins (in percentage and absolute terms). In this context, Occ levels in the low 60's are simply not supportive of viability. The segment has remained in a narrow range of low 60's for the last 5 years, peaking at 64.2% and declined to 62.5% in 2019. At this level of operation, long term viability of the segment as a whole is a concern – individual markets and hotels are of course doing better.

Mumbai and Delhi have each moved by 1.4 pts, in 2019; Mumbai declined while Delhi grew to take the lead position from an Occ standpoint. Hyderabad came in at second spot. All three markets are at >75%. Pune Occ grew to pass 70%. Gurugram and Bengaluru were in the high 60's and the remaining Key Markets in the mid 60's. Only Goa with 50.3% was way below the national average.

The Key Markets, other than Goa, have 46% of the national segmental supply. What is worrisome is that if 46% is materially or very significantly ahead of the national Occ, the remaining 54% would be performing very poorly to pull down the all-India number to its reported level.

From ADR perspective, all-India segmental ADR grew 5.6%; all Key Markets except Goa and Ahmedabad registered growth. Mumbai leads the rate pack, at 4.3k; there is substantial crowding in the mid 3k's while Chennai and Pune remained close to the 3k marker.

Only Ahmedabad and Jaipur were way behind, in the mid 2ks – these cities seem to lack the market momentum and headroom for M-E rate growth, being hemmed in by modest rates in the Up-UpMid segment. Quite likely, the M-E segment is itself placid about its rate structure.

Combined with lack of scale, low M-E Occ create long-term concerns; more so when ADR levels are also low for some markets. Undoubtedly, the competition comes from low pricing at free-standing hotels and disruptive pricing by aggregator hotels. The segmental numbers will bear an interesting watch as certain chains are re-rated in 2020, based on their updated products and price positioning (e.g. Ginger's lean luxe product and several converted Holiday Inn Express hotels).

Key Markets

Mumbai

Occ moved up to 77.1%; ADR grew 3.3% and RevPAR 3.8%.

The Lux-UpperUp segment did reasonably well, growing RevPAR by 5.7% based on Occ and ADR growth.

The Upscale-UpMid segment dropped Occ, but increased room demand per day on the back of new supply; it also increased ADR smartly, by 6%. However, the M-E segment continues to drop Occ and has done so every year since 2016 – supply addition of 460 rooms (<25% of 2015 supply) is not a valid cause because segmental supply is limited.

Lux-UpperUp ADR failed to reached 10k; it should have, considering the strong Occ levels on weekdays. The swathe of hotels in Mumbai East micro-market (5k rooms) seemed to under-achieve - 77% Occ, at Rs. 8.8k ADR, doesn't exploit the market potential, diluting the healthy growth in South-Central Mumbai and West Mumbai.

The city dropped Occ, compared to 2018, in every even month including February; it possibly failed to foresee the demand strength for November thereby achieving limited rate gain for that month. Revenue management skills reflected for Feb 19 (ADR gain of 1k, with 86% Occ) should be smartly exercised for better ADR in other months when Occ exceeds 80% - ADR for three such months was lower than ADR for Feb 19 by Rs. 400 to Rs. 1k.

Navi Mumbai and Thane declined sharply in Occ (-4.8pts), causing -5.7% impact on RevPAR.

Leisure demand is in a positive mode, evidenced by performance improvements in south Mumbai and some west Mumbai hotels; demand from outside the city and staycations can be expected to continue, to the benefit of the city's hotels.

The much awaited convention centre is now expected to open in 2020; when it does, it would be a material game changer for the city. In the meantime, one can hope that the slower economy will not materially impact Occ in the city; by past trends, one can expect ADR pressure in 2020.

Delhi

The capital city has come up with a solid performance, improving Occ by + 3 pts, ADR by Rs. 200 and RevPAR by 7.3%. It benefitted from nominal supply growth, adding only 1% to its inventory in 2019; total new supply in the last 3 years is only 663 rooms.

City Occ of 74.8% was supported by Occ growth across all segments; Occ for the Up-UpMid segment is at 75.3%, the other two segments are about 2 pts on either side.

ADR levels also moved up for each segment although Lux-UpperUp ADR at Rs. 8,725 seems comparatively soft; it trails Mumbai, Gurugram, Bengaluru and even Jaipur. On the other hand, Up-UpMid ADR is pushing towards the 6k level and is second to Mumbai. M-E ADR is comparable to Bengaluru.

The city has gained materially from greater stability at Aerocity hotels. The IGIA micro market (Aerocity and proximate hotels) comprises a little over 30% of the cities inventory and its performance is crucial for the overall results. Supply is reasonably well segmented with 35% in the Lux-UpperUp space, 45% in the Up–UpMid segment and 20% in the M-E category; in contrast, the rest of Delhi comprises 55%, 34% and 11% respectively in these segments.

IGIA Occ crossed 77%, with ADR nearing 6.5k, and RevPAR closing on 5k. New Delhi (excluding IGIA) had an Occ gap of -3.5 pts but a superior ADR by Rs. 900 with the higher ADR being inevitable given the supply composition for Delhi; in fact, under better conditions the gap should have been wider. Nevertheless, it establishes that Aerocity has matured as a destination drawing demand for business, leisure, MICE and weddings and crew. ADR levels can be expected to rise as several hotels see demand preference over city hotels, particularly in seasons. This micro market will see more demand creators than competitive supply in the medium term (even counting completion of hotel on plot No. 13), to its operating benefit.

From the New Delhi (other than IGIA) perspective, corporate, leisure and MICE demand must continue to grow; Pragati Maidan will help demand creation. So will the Dwarka convention centre although this will also help push demand and ADR in the IGIA micro-market as well.

Gurugram (formerly Gurgaon)

Stable supply for the last three years, and demand growth from the services sector have enabled Gurgaon to spring back with +4.0 pts on Occ and +4.3% on ADR. Occ grew between 3.1 and 5.2 pts across different segments. Healthy rate increases saw Lux-UppUp ADR cross 9k, pushing through a rate increase after three years of stagnancy. M-E ADR grew by over Rs. 300; M-E Occ also gained well, but remained sub-70%.

Gurgaon's hotel market has certainly revived and should gain from a modest new supply pipeline. Expanding commercial space near Udyog Vihar will help hotel performance; completion of the Dwarka convention centre will also help, till such time as direct supply is created for that convention centre.

However, structural issues remain with need for deeper capacity in the Upscale-UpMid space, larger MICE facilities in that segment, and hotels with better scale.

Bengaluru

The city appears keen to live up to its inventory leadership status, putting in a strong performance in 2019. 67.6% Occ, 8.1% ADR growth and Rs. 4.5k RevPAR are commendable considering the city has added 2.2k rooms between 2017 and 2019.

Every segment was a contributor –

- Lux-UpperUp ADR crossed 9k, with Occ rebounding well to 65.3% (+3.5pts);
- Up-UpMid Occ touched 70%, with ADR growth of over Rs. 400;
- M-E Occ declined but ADR grew strongly to register almost 9% RevPAR gain.

Some of this is because of extraordinary demand-supply imbalance on ORR enabling unusual ADR levels – but the inventory benefitting from this is only about 11% of the city's total.

Only the months of Jan and Nov had major Occ gains; July has continued the pattern of alternate years gains for the third time running. October was an expected negative this year; April and August were small negatives.

The city is helped by strong demand for commercial real estate from the services sector, and other elements of economic activity. The economy is evolving in a better rounded manner, which will create long-term benefit. Continued city expansion, through focus on economic expansion and residential zones to support commercial needs, are creating new micro-markets and thereby opportunities and demand for hotels. Major supply shortages on ORR have created unique rate and Occ opportunities for Up-UpMid hotels enabling heavy rate premia.

The city's supply pipeline is large; but so is its pipeline of new commercial space – the future therefore looks keen. And the airport (fastest growing airport globally in 2018) will continue to grow rapidly, to support enhanced travel needs; it now has a second runway.

Chennai

100 new rooms; ADR growth of Rs. 108; RevPAR growth of Rs. 110. Even all-India numbers (with non Key Markets) were better!!

ADR and RevPAR growth, across all segments was in the narrow range of Rs. 52 to Rs. 135. Lux-Upper Up Occ declined by -0.3 pts; the other two segments had limited Occ growth.

The city had the lowest Occ, ADR and RevPAR among metro cities – RevPAR below 3.5k is abysmal for a metro city. And its not that the supply pattern is overly skewed – at 38%, 42% and 20% between Lux-UpperUp, Up-UpMid and M-E, there is reasonable balance.

Pain in the auto sector has translated to the Chennai hotels; lack of service sector investment deepened the pain; and then there was little water to wash the tears. The service sector issue is being addressed with some major developments coming up on OMR. The other issues have a longer-term impact; the industry must get its head around the water shortages which will certainly cause recurrent pain.

Chennai has also shown that a fundamentally non-MICE destination can only make moderate inroads into that segment. MICE is not the panacea for all markets.

Hyderabad

The city continues its Occ growth trend which started in 2014; Occ touched 71.5% and ADR grew by 9% so that RevPAR was just shy of 4k (up 11.8% over 2018).

During these 6 years, the city has added 2.4k rooms, including 1k in the last 2 years.

The Occ growth trend has been replicated for the Lux-UpperUp and Up-UpMid segments. More importantly, Lux-UpperUp ADR grew almost 10% in 2019, comfortably crossing 7k; this enabled +14.3% RevPAR increase.

Up-UpMid hotels have put through limited rate increases every year after 2014; 2019 increase was more significant (Rs. 262), enabling city-wide RevPAR to sit between Bengaluru and Chennai and ahead of the all India average. The M-E segment (only 1k inventory of chain affiliated hotels) registered 16.4% ADR increase, to achieve a level reasonably comparable to Delhi and Bengaluru; this was achieved together with limited Occ growth.

The city is clearly benefitting from stability of government, and a forward looking attitude towards commercial development. Commercial space increase by 20 msf in the last 3 years, with 30 msf expected in the next 3 years. The Convention Centre is more active; hotels are also enjoying better demand for social events and weddings. Newer business developments away from the core city / Cyberabad areas will draw newer investment opportunities for business activity and for hotels. For example, the airport zone and areas in reasonable proximity beyond the airport are seeing newer business developments.

Kolkata

ITC Royal Bengal

With 66% Occ (only the decimals have changed) over the last 4 years, the market has been substantially resilient while absorbing 2k new rooms. Further, city wide ADR was Rs. 5,905 for 2013 and is Rs. 5,960 for 2019; in these six years, the lowest it went down to was Rs. 5,663.

Kolkata lacks a strong and sustained growth base from corporate or commercial activity. But it has made up for this through a mix of demand sources - services sector, PSUs, its status as the lead city in the east drawing demand for healthcare, retail, leisure and recreation, sports events, corporate MICE, institution MICE and weddings – an interesting but very satisfying 'jhal muri'. MICE and weddings, as also an insatiable appetite for good food, create substantial F&B revenue at hotels.

New supply has sought to redefine the landscape. ITC's Royal Bengal adds 456 rooms and apartments, with massive banquet facilities. JW Marriott and Westin also created large inventory and function spaces; new upscale and midscale hotels have added supply rate diversity.

And yet, the older hotels in central Kolkata have retained their customer loyalty and preferred luxury status from corporate and leisure visitors.

The city has underscored the importance of F&B, entertainment and banqueting – if ITC and JW Marriott are gaining heavily under new format products, The Park maintains its niche for F&B and entertainment, resulting in consistently high Occ (in the 90's).

The State's push for tourism, and the creation of exhibition and function venues, will further support this market. Better corporate growth would be a huge benefit – more yeast to the "Look East" policy will make Kolkata's Mishti Dohi even more enjoyable.

Ahmedabad

In 2018, the city broke the cycle of alternate year growth, gaining ADR with a minor loss in Occ and reporting its best numbers in 9 years. However, it failed to keep momentum even in a year which would see positive results under the normal cycle. Key events were somewhat tepid, causing -0.4 pts Occ decline, -6.8% ADR loss and -7.3% RevPAR decline. 4 new hotels were added replacing four hotels deflagged during the year, with net addition of 124 rooms.

Among key markets, 'Ahmedabad is the lowest in ADR and RevPAR; only Kochi is lower in Occ. Crucially, the city lost RevPAR in November 2019, when all key business cities were gaining handsome results. Lack of demand depth has come to the fore, with no solid core from corporate, commercial, manufacturing, MICE or other demand creators; weddings have saved the day to a fair extent but have limited sustaining power in a market that can drive a hard bargain.

A significant supply pipeline, increasing inventory by 39% through 2023, will create challenges unless the city develops a tangible and sustained demand base. The city needs demand depth and maturity, particularly with a supply pipeline that includes premium hotels with needs for commensurate pricing.

Pune

Pune had a soft year relative to its potential. With RevPAR decline of 0.1%, it cannot be considered as a bad year; but the fact is that Occ declined (compared to 2018) in all but four months, importantly also in February. On the other hand, the market gained rate in every month (including October) enabling 3.6% ADR growth.

ADR improvement was led by the Lux-UpperUp segment (+Rs. 375). It was supported by Rs. 135 gain for Up-UpMid hotels; these however materially lost Occ. M-E performance was more positive, with Occ touching 70% and ADR crossing 3k.

Slowdown in manufacturing had a distinct impact; supportive MICE activity also declined and the pressure on margins has encouraged more day visits from Mumbai. The closure of Jet Airways had a material bearing on travel from markets outside Mumbai; and severe flooding negatively dampened business travel for several days in Q3.

As a market, there is sufficient commercial depth and hotel supply segmental balance for this city to jump back. It has an excellent new luxury hotel and continued commercial supply growth. However, the market must seek to create newer demand avenues as well – it took to MICE demand as a significant source, a bit too readily.

Goa

A decline that could have been avoided – or at least minimised. Because it has occurred for largely avoidable reasons. A key leisure destination has slipped from 71.2% Occ to 65% Occ.

Pressure from alternate accommodations is a market force, complacent pursuit of international travellers is not. Air fares are an uncontrollable market force for a destination; high taxi fares and restrictive rules for taxi hire are not external market forces for the destination. Bankruptcy of a charter operator is a market force; choosing to load all eggs in one basket (repeatedly, and with multiple previous instances of negative consequences) is not a market force.

Competitive pricing in Thailand, Malaysia and Sri Lanka is a market force; high GST is not. Environmental regulations are needed; so are basic behavioural regulations particularly when the demand profile is very mixed and lacks exposure; however, motivated constraints on development, and undue regulations on entertainment can impede the experience.

Goa has all of this. What it does is to start driving away demand; and the element that goes away is often the discerning element that you don't want to see go away.

As a destination, Goa has generally remained uni-focussed on its source of volume based in-bound demand – as long as charter business if flowing through a couple of principal players, why bother cultivating wider demand scope? When it fails, it hurts – this happened with the Russians a few years ago, with Europe before, and is happening with the collapse of Thomas Cook in the late summer of 2019. No doubt business is down; and the impact will carry through to 2020 as the initial months have been hit.

Goa lost Occ, ADR and RevPAR in 2019. The fact that Lux-UpperUp ADR rose by Rs. 263 and went into the 11k level is a relief of sorts. So is the nominal rate increase at the Up-UpMid hotels; however, RevPAR for this segment was down -3%.

The M-E segment makes up about 22% of Goa's hotel supply. This segment lost 8 pts in Occ, Rs. 124 in ADR and 16.6% in RevPAR.

Marginal declines in 2017 and 2018 could be attributed to a consolidation cycle for a destination that saw several growth years. But no attempts were made to stem the losses; restrictive pressures continued to arise. Goa's airport needs a major uplift; the solution was a new airport but that keeps getting pushed back.

The guest comes for recreation; the business is to provide recreation, relaxation and entertainment. But it's a business and needs serious focus and strategy – particularly when the business is critical for the state's economy.

Jaipur

Jaipur had a relatively better year (compared to 2018), with 0.4 pts Occ increase, rate growth of Rs 293 and 6.4% RevPAR gain. Occ at 68.4% is very reasonable relative to other similar markets; however market wide ADR at Rs. 5,424 is very low for a key leisure market – it is lower than the ADR for Agra and less than half the ADR for Udaipur.

This is a weak result for a market that has added less than 800 rooms in the last three years.

Segmental results were a mixed bag, with ADR being the crucial issue.

The Lux-UpperUp segment did well to grow RevPAR by 10.9%. Yet this ADR is 58% of this segment's ADR for Udaipur – admittedly, Jaipur has a larger supply proportion of upper upscale hotels which are proving dilutive. Even comparing with Goa which has wider share of upper-upscale resorts, Jaipur is > Rs. 2k lower than Goa in terms of Lux-UpperUp ADR.

The challenge is the ADR for the other two segments – Up-UpMid ADR at 60% discount to Lux-UpperUp ADR; M-E segment ADR is a third lower than Up-UpMid ADR.
The city lost Occ, compared to 2018, for 6 months of the year including in March and December; on the other hand, it was the only key market that gained Occ, ADR and RevPAR, even if nominally in October 2019 when every other market performed poorly. Rate gains were achieved each month for the first half of the year; but then this positive petered out with losses in two month and nominal gains in three other months.

The hotels seem to have settled into a soft rate structure – if the entire summer (5 months) saw rates in the mid 3k levels, winter rates didn't hugely grow either; rates for Q1-19 were about 6.5k, with Nov and Dec getting a 12% premium.

Jaipur is a prime example of inability to push up rates when you start too low. And then failing to make the hard calls to put better value to the hotels.

Kochi

The recovery from 2018 floods has been slow and was not helped by severe floods in 2019.

Thus, Occ grew nominally to 56.9%. ADR grew more substantially (Rs.294) to close a little below 5k. Kochi has 3.1k rooms of which 30% has been added in the last 3 years.

It is seeking to grow its business importance, mainly in the IT and Services sector. However, effective growth has been somewhat slower so that hotels are not seeing major benefit.

MICE and leisure business has likely been constrained by reduced air capacity and, consequently, higher airfares. Even the new Convention Centre is reported to have a slower start than initially expected.

Kochi has the ingredients about business, leisure and MICE – it needs the Gods to smile on this key city in 'Gods own country'.

Leisure sector

The leisure sector has growth potential, as demand for leisure is rising rapidly. A look at some leisure markets – Rajasthan as a whole, Himachal (HP), Uttarakhand (UTK), Kerala (excluding Kochi) and Agra, gives good pointers.

These markets have a total of 19.6k rooms, with 3.8k rooms added in the last three years mainly in Rajasthan and UTK. The size of hotels (and resorts) is small, with average of 70 rooms; excluding Jaipur, the average size drops to 61. In the Up-UpMid and M-E segments, the size is 75 and 51 respectively. Do these have long term viability? Is this the reason why average Occ in the hills is in the 40's, with no ability to create demand diversity (MICE and weddings) for business outside the main season?

Agra has the highest Occ, but this has remained in the mid to high 60's for the last 3 years. Kerala has the highest ADR at Rs 6,249 but possibly helped with a low 50's Occ. HP and UTK have Up-UpMid and M-E ADR in the low 5k and low 3k levels; however, their market wide result differs by Rs 1k – HP at Rs 6,159 and UTK lower because HP has a larger supply share at the Lux-UpperUp level.

Segmental ADR levels in Rajasthan are lower than some other leisure destination by 15 to 25%, showing the impact of rate dilution in off-peak periods to gain Occ.

Are we creating sufficient value-add for the destination, relative to the resources we are using? The resources are nature (hills) and heritage (Rajasthan and Agra) and we must have a duty of care to value these properly so that these are preserved for the longer term. Mere volume is damaging unless supported by adequate pricing. Further, just like anything that is free, low rate options can breed apathy and carelessness in the manner of use of these precious resources? Some countries, including Sri Lanka and Bhutan in our neighbourhood have stipulated minimum pricing. In India, we have free pricing – a sense of responsible pricing will create current and long-term value.

Other growth markets

Several other markets have gained momentum, benefitting from enhanced airport connectivity and / or deeper economic development creating business travel needs.

Amritsar, Lucknow, Jaisalmer and Varanasi have gained from enhanced flight connectivity drawing larger numbers of leisure and MICE visitors. Indore, Surat, Vizag and Guwahati have drawn more business and MICE demand, at times benefitting from regional growth. Kannur airport will create growth opportunities in a wider region on the coast and the hills within Kerala and Karnataka. More UDAN operations will benefit regional locations such as Belgavi and Hubli, Ajmer and Pushkar.

Our thanks to the following branded and independent hotels for their valuable data contribution

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