



# EYEING DEVELOPMENT

Emerging from the lean phase, last year has seen the industry limp back to normalcy. What does 2016 hold for it, experts share an inside view point

BY BABITA KRISHNAN

The government has been successful in projecting a strong global image for India as a compelling destination. Tourism, especially, is high on the government's agenda, and this positive trend has greatly helped the hotel industry. According to recent industry reports, the average hotel occupancy in India currently stands at 60.3%, marking the first time in five years that pan-India hotel occupancy has exceeded 60%, following a stretch from 2010 to 2014 when occupancies ranged between 57% and 58%. Average room rates did not decline for the first time in 50 months. Consultants also estimate that demand for hotel rooms is growing at a pace of 11 to 12%, while fresh supply has fallen as much as 5% in the past year. This gap will allow new hotels to thrive in key need cities.

"The outlook on the sector looks positive and we are expecting an upward growth this year. A higher occupancy would result in higher average yield," says Param Kanampilly, chairman and MD, Concept Hospitality Pvt Limited. Endorsing this, Jehangir Aibara, director, Mahajan & Aibara, feels that the absorption of existing supply will become easier, "especially in light of strong double-digit percentage growth in room-night demand. Our view is that 2016 is likely to be the first of four to five years in the impending up-cycle".

India is a strategic market for most brands as is evident in the expansion chart for 2015. Wyndham Hotel Group announced 10 new deal signings including two new property conversions under the Howard Johnson brand and Ramada Plaza with the Unique Mercantile Group. "We also inked our first ever deal in Bangladesh with the Intraco Limited for Ramada Encore Dhaka, Ramada Plaza in Cox's Bazar, Ramada Chittagong and Ramada Comilla." Deepika Arora, regional VP, Eurasia, Wyndham Hotel Group, shares the footprint of last year.



Jehangir Aibara, director, Mahajan & Aibara



Param Kanampilly, chairman and MD, Concept Hospitality

1&2, St. Regis Mumbai and Le Meridien Nagpur are owned by ABIL and operated by Starwood Hotels & Resorts.

## TRENDS

According to Achin Khanna, MD consulting and valuation, HVS, South Asia, various trends that are reflective of a maturing industry are becoming evident of late. Institutional funds and private equity players are giving keen consideration to hotel investments in India. As a result, logical and fair-valued transactions are likely to become more commonplace in the year ahead. "While the cost of borrowing still remains high, the debt-equity ratios in some of the new projects has been rationalised. The repayment tenures being offered by lenders, too, seem to have been extended, a welcome indicator that banks are beginning to appreciate and understand the unique nature of the hotel sector," he adds.

Several hoteliers over invested in markets which cannot command rates to justify these investments. Owners are now more savvy in understanding what the potential revenues are and what amount of investment can justify returns. Aibara feels that 2016 could see some more consolidation deals in the hospitality sector as well as key players in the agglomeration business expanding across segments and geographic markets. The combined strengths, either by way of geographies or as a result of systems and processes are but a few of the many virtues that these merged entities may benefit from in the future.

Arpit Pant, regional director, Preferred Hotels & Resorts, welcomes the E-visa facility being made available to citizens of approximately 180 countries in several phases. "Foreign tourist arrivals notched up a 6.8% growth with 8.44 lakh arrivals in January 2016 as compared to 7.91 lakh in January 2015. On the domestic front, we have witnessed states focusing on promoting tourism through heavy campaigns, and, if successful, these would open up opportunities and expose more cities and destinations apart from the





Achin Khanna, MD, consulting & valuation, HVS South Asia.



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Deepika Arora, regional VP, Eurasia, Wyndham Hotel Group.

3 & 4. Radisson Blu Nagpur owned by Bestech Hotel Group.

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traditional popular hubs," he adds.

Amongst many, key factors driving the industry growth are technology and innovation which have resulted in rise of social media, digitisation, online bookings and transactions. The growth of the internet, too, has played a key role in globalising the sales efforts as well as marketing opportunities for the hotel industry. Hotel bookings is one of the least penetrated segments within the travel categories in India, and online bookings account for 16% of bookings currently, with a recent report projecting this to grow to 25% by the end of the year.

According to Arora, another key emerging trend is the MICE segment which has immense potential and provides tremendous growth opportunity in India. "At Wyndham, we are optimising digital innovation and

adopting newer technology to enhance customer experience across our brands and help our partners bring in business. In addition we are also tapping into the MICE market to help boost our revenues. We will continue to monitor the industry trends and embed them in our plans," she says.

### CHALLENGES

Major hurdles the industry is facing are lack of transparent approvals and permissions and restrictive financing terms from lenders. These can be worked around by the much awaited single window clearances and infrastructure status respectively. In addition, inadequate project management is another significant challenge today resulting in delays and cost overruns. Opportunities for signing multi-asset deals will likely become more relevant in the near future. Conversion of existing assets would also increase as and when hotel contracts signed 15-20 years ago reach their natural conclusions. As the top six markets become relatively saturated in their ability to witness more new supply, growth will likely come from tier-II and III markets across India. Leisure markets are clearly seeing more business from domestic travellers than ever before and the opportunity to capitalise on the massive domestic audience by signing hotel projects in both existing as well as upcoming leisure markets is certainly going to become interesting.

### LEARNINGS

Developers need to build hotels to suit the market requirements. Being a cyclical sector, where supply comes in batches, the way to tide over lean periods is to borrow within reason, develop the 'right' product and manage efficiently. According to Aibara, the lean phase, if the company has kept a sufficient cash reserve, is the best time to renovate products as occupancies and overall revenue losses would traditionally be on the lower side. Companies should use lean periods to renovate their products, tighten cost control systems and build more robust operating efficiencies. This will allow the hotel to emerge into a cyclical upturn where one can look to accumulate cash by being better positioned within its competitive landscape. Asset owning organisations can undertake this exercise on a global/regional basis if there is saturation in the markets they are currently operating in, provided they manage their risk profile effectively.

### FUTURE

This year will drive greater opportunities for the hospitality sector, which is projecting a very successful year. What will allow more hotels to thrive are the Smart Cities that keep being developed to enhance



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the consideration of corporations, as well as a huge investment in the tourism sector overall. The independent hotel space will hugely benefit from these trends as well, as travellers show a growing desire to experience the authentic, unique nature of each destination they visit - a perspective that independent hotels are renowned for providing.

"Due to its strong capabilities in global sales, marketing, distribution, quality, and guest loyalty programmes, Preferred Hotels & Resorts is a strong partner for best-in-class independent hotels in the Indian subcontinent. Our strong regional presence coupled with dedicated global support network has enabled us to help member hotels significantly enhance their distribution reach. We have several exciting opportunities lined up for 2016, and look forward to a very successful, fruitful year ahead," says Pant.

Arora, also, would continue to invest and grow in the region with a focus on tier-II and III cities as potential markets for expansion, "And accelerate our growth either through managed business model or an acquisition. In addition, the re-launch of our award winning Wyndham Rewards Loyalty programme with a strong membership base will help drive more business to our franchisees' hotels by enhancing customer experience. In the coming years, our top priority will be to also adopt innovative sustainable practices through our Wyndham Green programme, which focuses on sustainability across the company and our offerings. Overall, our endeavour is to move to a leadership position in the near future."

#### **CONCLUSION**

2016, in a lot of ways, seems to be the year where demand for hotel rooms may outpace supply as was evident in the latter half of 2015, which is what led to RevPar increases across the country. This supply constraint may start an uptick of fresh greenfield projects or stalled projects that could come back on stream.

According to Aibara, the pace of development of new hotels is unlikely to accelerate during the year as the hospitality market will just be recovering from the supply-demand imbalance and chains are likely to wait for two to three years before venturing into new projects. Real estate developers are also suffering from a sluggish residential sales markets and are unlikely to invest in expensive hotel projects unless the projects, in some way, aid the sales of their projects. This might be a good time for hotels to complete their renovations in time to catch the peak of the cycle with renovated, repositioned products. ■