

Lemon Tree targets affordable housing

The firm will spin a new entity, Lemon Tree Residences, to focus on developing a million sq ft of residential accommodation in Delhi - NCR

The lucrative and fast growing affordable housing segment has attracted the attention of upscale Lemon Tree Hotels, which is looking to leverage its brand in the real estate segment. The company would spin a new entity for the realty venture to be called Lemon Tree Residences to focus on developing a million square feet of residential accommodation in Delhi-NCR, particularly Gurgaon. The promoters propose to offload up to 70 to 74 per cent equity in the realty venture to private equity players.

Lemon Tree Hotels, promoted by Patu Keswani, has Warburg Pincus, Kotak Realty Fund, and Shinsei Bank as its investors. Warburg has invested Rs 210 crore while Kotak Realty Fund and Shinsei Bank has jointly invested \$30 million in the hotel chain. Warburg Pincus invested Rs 70 crore separately in the company's budget hotel chain Red Fox Hotels.

"We have identified three possible sites in Gurgaon, where we will be looking to invest Rs 100-130 crore for acquiring an asset for developing apartments priced at Rs 30-80 lakh"said chairman and managing director of Lemon Tree Hotels, Patu Keswani. The objective is to price their product at 20 percent less than the prevailing market rate, he added.

The total project cost is expected to be around Rs 250-300 crore for building 1,000 apartments and the project is expected to be launched next year. The company is in talks with a few private equity players for financing the project, said Keswani, declining to reveal their names. "We will remain limited to the NCR for two reasons - one, that there is a lot of demand and potential for affordable housing in areas like Gurgaon and two, real estate is increasingly becoming a localized play where most developers tend to concentrate their area of operation to their region of influence"he said. Keswani is looking to offload up to 70-74 per cent of equity in the realty venture that will offer two, three and four bedroom apartments.

Analysts, however, say venturing into real estate at this juncture, when there are signs of slowing absorption across certain markets may not be beneficial. "I think their investment in real estate is quite avoidable"said a hospitality industry analyst who spoke on condition of anonymity.

Lemon Tree Hotels is aiming for a 2,000-room inventory by the end of the present calendar year. It at present has 1,300 rooms with two hotels, in Bangalore and Hyderabad slated for opening in November and December respectively.

"The focus of our expansion will be on the north, west and south India regions as most of the growth in India will initially be in these regions"said Keswani who's now pushing for the hotel chain's public listing by 2012, depending on market conditions.

The missing link in this chain- that of a top-end hotel brand- will also be addressed, he disclosed, "I realize that we are missing out on the CXO-level of guests. So we will be addressing their requirements with a premium hospitality brand positioned above Lemon Tree"he said.

He admits that the company's focus on owning their assets as opposed to following the franchise or management contract route will eventually help it get higher valuation when it debuts with its IPO. "Eventually, we will go asset light, after listing. I will design and build a hotel and then sell off a large stake and use the proceeds to invest in my future projects"disclosed Keswani. His budget hotel brand, Red Fox, is also likely to follow a similar pattern with the

assets of both companies being spun off as a separate entity.

According to Anil Advani, director of Quantum Vistas, a hospitality consultancy, Lemon Tree cleverly exploited a niche to establish a strong brand presence.

"They brought in a brand in a segment where none existed and came with a niche product in locations which had potential"he said.

He points to the examples of Indrapuram in Delhi NCR and Hinjewadi in Pune where the hotel chain grabbed the first mover advantage.

"In Hinjewadi particularly, there's a lot of IT business but no hotel chain had moved in to tap the potential"he added.

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