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Builders check in to hotel sector with ₹10K-cr purse

High demand, limited supply spark rush; occupancies expected to rise this year

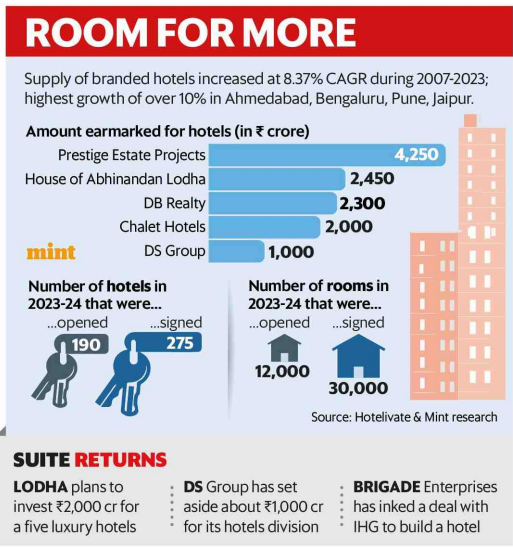
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1 Last month, Prestige Estates Projects, a real estate company primarily focused on the southern states, signed an agreement with global hospitality giant Marriott International to manage six of its upcoming hotel projects in India. The Bengaluru-headquartered group set aside a significant budget for these projects: ₹4,250 crore, or about \$500 million.

A month prior, in March, D B Realty announced plans to demerge its hospitality division and create a subsidiary called Advent International Ltd that would subsequently be listed on the stock markets. The company recently hired hospitality industry veteran Rahul Pandit to expand its hotels arm to manage assets worth ₹2,300 crore.

Property developers with significant hospitality business, such as K Raheja Corp which operates Chalet Hotels Ltd, have earmarked at least Rs 10,000 crore combined to develop or manage hotels across India over the next 5-7 years, drawn by the rapid growth of the hospitality sector.

"Globally, yields in asset classes like office or retail are subdued while the quantum of supply that



can be added on the lodging front is still pretty high," said Rahul Pandit, the new chief of D B Realty's hospitality business, who previously led Lemon Tree Hotels and Indian Hotels-operated Ginger. "That is why there is suddenly so much interest in hotel investments."

Hospitality industry giants too are planning significant budgets to

capitalize on what industry experts are calling a 'golden era' for India's hotels sector.

Take, for instance, international hospitality chain Hyatt Hotels Corp. In a recent interview with *Mint*, Hyatt's global president and chief executive Mark Hoplamazian said the company had its sights set on India's bustling hos-

pitality industry, particularly the luxury segment.

Mumbai-based developer House of Abhinandan Lodha has outlined plans to invest ₹2,000 crore for constructing five luxury hotels in cities known for their spiritual, cultural or tourism attractions—Varanasi, Vrindavan, Amritsar and Shimla.

House of Abhinandan Lodha has also signed a deal with hospitality giant Leela Palaces, Resorts and Hotels to develop a 5-acre, 100-room luxury hotel in Ayodhya, which is expected to be operational by 2028.

Consumer conglomerate DS Group, which has been in the hospitality business since 2000 and owns five 5-star properties including Holiday Inn Express in Kolkata and Radisson Blu Hotel Guwahati, last year earmarked about ₹1,000 crore for its hotels division.

Bamboo Hotel Global Centre (Delhi) Pvt. Ltd, a joint venture between Prestige Hospitality and Marine Drive Hospitality & Realty Pvt Ltd, is set to construct India's largest integrated hotel complex at Delhi Aerocity.

As for Bengaluru-based developer K Raheja Corp., its hospitality arm Chalet Hotels in March acquired a Courtyard By Marriott

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resort for ₹315 crore.

Chalet Hotels' managing director and chief executive Sanjay Sethi in a recent interview with Mint said the company was looking for "big-box", or large inventory, hotel assets, and would add about 800 rooms to its ownership portfolio. Chalet Hotels has earmarked ₹2,000 crore to reach a total room count to 5,000 in the next three-four years.

Another Bengaluru-based developer, Brigade Enterprises, recently signed a deal with global hotel company IHG to develop an Intercontinental Hotel in Hyderabad.

A golden era in hospitality sector

"The (hotel) sector's golden era is being driven by high demand juxtaposed with limited supply growth, creating an optimal investment climate," said Mandeep S. Lamba, president, and CEO of South Asia, for hospitality consultancy HVS Anarock.

"Traveller demand over the past two years has provided a strong foundation, allowing hotel companies to not only recover from the pandemic but to achieve their best performance figures in FY23, a trend that should reflect in numbers of FY24."

A recent analysis by HVS Anarock of India's top 23 listed hotel companies by market capitalization shows these companies experienced a significant turnaround in the 2022-23 financial year, with year-on-year growth rates doubling on average in a post-covid recovery.

"The financial resurgence is evident in the soaring share prices of hotel companies, which have grown significantly over the past two years compared to their global counterparts," said Lamba.

"This is a testament to the



India's hotels sector grew at a compound annual growth rate of 8.4% between 2007 and 2023, according to HVS Anarock. BLOOMBERG

market's confidence in their recovery strategies and improving industry fundamentals. This is also reflected in successful large-ticket IPOs, such as those by SAMHI Hotels and Apeejay Surrendra Park Hotels."

As the Indian hotel industry matures, there is also a shift from scattered capital to more organized institutional funding. Investors in the hospitality sector are becoming more focused, selective, and looking at larger-scale investments.

This could lead to a consolidation, with big players expanding their portfolios through acquisitions and investments, and major players holding significant sway over standards and market dynamics. India is currently estimated to have about 180,000 branded hotel rooms. "A lot of these developers always had intent to develop in the (hospitality) sector, but now it is much more structured," said Achin Khanna, managing partner, strategic advisory, for hospitality consultancy Hotelivate.

"While the bulk of hotel ownership remains with single-asset owners, we do see this formalizing more now," he added. "This change is reflective of the place where the hos-

pitality sector in India is at right now, and the cycle is far more sustained and stronger than previous ones."

The supply of branded hotels, or hotels in the organized sector, increased at a compound annual growth rate of 8.37% between 2007 and 2023, with the most significant growth, of over 10%, seen in Ahmedabad, Bengaluru, Pune and Jaipur, as per data from HVS Anarock.

Even so, demand for hotels is outpacing supply growth in the organised sector, driving up room rates, which also explains the increased interest in the sector. Revenue per available room, or RevPAR, a key measure of financial performance in the hospitality sector, reached Rs 4,662-4,940 in 2023, a significant increase of 29-31% from 2022 and 19-21% from the pre-pandemic year of 2019.

The occupancy rate last year improved by 3-5 percentage points to 63-65%, but short of the pre-pandemic level of 65-67% in 2019. HVS expects India-wide occupancy to improve to 66-67% this year, which coupled with a 6-8% increase in average room rates, will likely push up RevPAR to Rs 5,281, which would be 31-33% higher than in 2019.