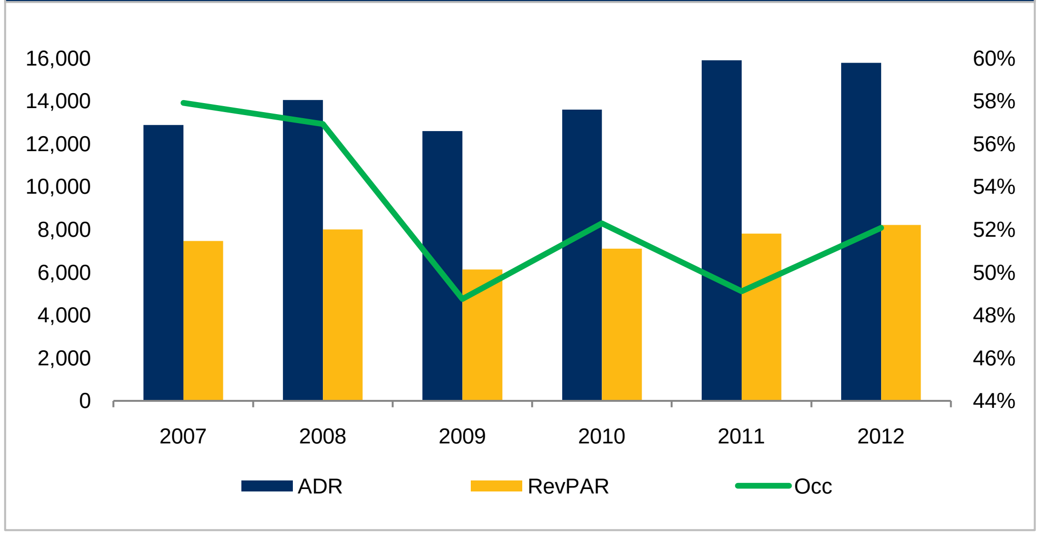
India Hotel Market Review – Vol. 5

In this edition, we principally analyse the performance of the luxury leisure sector in India. To enable deeper perspective, we have contrasted this with performance of luxury hotels in three key business destinations.

The luxury leisure segment considered comprises 19 resorts, with 1,749 rooms. These have been specifically selected based on achieved standards & profile, market perception and targeted five-digit ADR (in INR). For the luxury hotels in business destinations we have 30 hotels in Mumbai, Delhi NCR and Bengaluru comprising 8,400 rooms, in line with STR Global definitions.

Luxury Leisure

Luxury Leisure Segment - Peformance Data



Performance of luxury leisure hotels for January & February is summarised below

	Occupancy	ADR (Rs.)	RevPAR (Rs.)
Jan and Feb 2013	70.4%	19,086	13,433
Jan and Feb- Average (2007 to 2012)	70.0%	17,045	11,938

While occupancies have seen a double-dip decline, ADR has grown between 2009 and 2011, steadying in 2012 due to demand softness in the European source markets.

RevPAR for 2012 has been the highest achieved by this sector in the last six years, and likely the highest ever for the luxury leisure segment in India. In fact, RevPAR has grown consistently over the last 4 years, through a combination of ADR and occupancy improvement.

The improvement has continued through Jan and Feb 2013 – ADR in each of these months has been the highest for the respective months, with January crossing Rs. 19,800 and February being just shy of Rs. 18,500. Occupancy for Jan 2013 was unfortunately down by 2.1 points over Jan 2012, while Feb 2013 occupancy at 75% was nearly 4 points higher than Feb 2012.

In fact, occupancy touched 75% in February 2013 after a gap of 58 months – the previous occasion when the luxury leisure sector in India registered more than 75% occupancy was back in March 2008.

The sector achieves its highest ADR and RevPAR in December; unfortunately, occupancy in December has hovered around the 60% level which is about ten points lower than the peak levels in February and also lower than January and November.

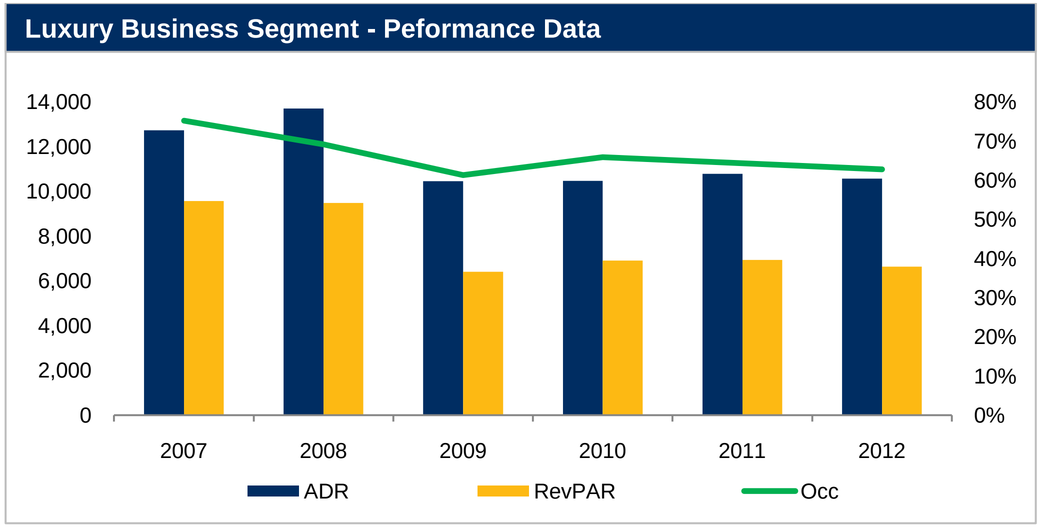
The seasonality factor, with sharp decline in summertime occupancies, is a matter that luxury leisure hotels are unable to overcome – clearly, the domestic market is unwilling to pay commensurate prices for their luxury holidays in India.

The moderate annual occupancies, in the low to mid 50's level, combined with the absence of sizeable F&B revenue support at least at resorts in Rajasthan pose challenges in new investment at the luxury leisure level. It may be useful to create a wider appeal and revenue potential, possibly through upscale MICE and weddings – but then the very ethos of luxury may be sacrificed in the interests of better viability. Mixed use developments, with luxury homes in resort destinations may selectively offer a solution.

The lack of development confidence in the luxury leisure segment has caused near stagnation of supply in the last seven years. The spread of luxury leisure supply needs to widen through western and southern India. Rajasthan and Goa have the main concentration of luxury resorts and even then the aggregate inventory is small.

Luxury Business Hotels – Mumbai, Delhi NCR, Bengaluru

The results of luxury hotels in these three main business cities of India tell a somewhat different story:



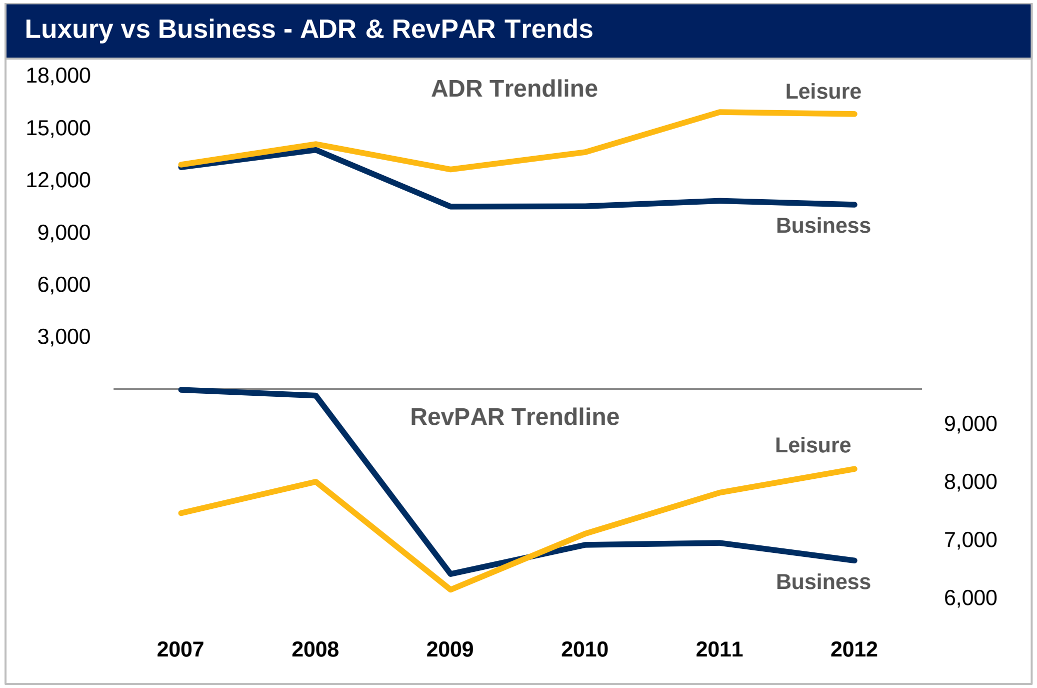
Flattish occupancies and flat ADR's since 2009, at levels clearly below par for business cities in India, are a challenge for the luxury sector. 2013 has started no different -

	Occupancy	ADR (Rs.)	RevPAR (Rs.)
Jan and Feb 2013	68.3%	11,142	7,612
Jan & Feb - Average (2007 to 2012)	73.5%	12,464	9,162

This segment is a clear reflection of the decline of global business interest in India. Per Horwath HTL-India, the overall supply increase in this set of hotels since 2007 has only been 25% – thus, creation of new supply at the luxury level cannot by itself be a significant cause of underperformance. The new supply includes award winning and prestigious hotels such as The Oberoi Gurgaon, Leela Chanakyapuri and Four Seasons Mumbai. Besides the change in travel composition to India, pricing and demand at luxury hotels have been impacted by substantial new supply and more competitive pricing in the Upscale and Upper Upscale segments.

It is interesting that ADR for luxury business hotels (taken as a group) in the three main business cities has not crossed Rs. 14,000 since November 2008 and has remained under Rs.12,000 since November 2011. Importantly, the variation between summer rates (in the low to mid Rs. 9,000 range) and the rates in better seasons is also quite limited – generally, the rate pick-up has only been Rs. 1,000 to Rs. 2,700 (rarely even Rs. 3,000). One would typically expect a bigger pick up in winter; however, demand levels have lacked the strength to force stronger rates in winter. Of course, individual hotels may have enjoyed better performance.

The stark difference in trends for these two segments is reflected below:



Luxury resorts and luxury business hotels had similar ADR levels in 2007 / 08. Undersupplied cities led to high occupancies and RevPAR, while seasonality caused leisure occupancies and RevPAR to be significantly lower. As occupancies fell across business cities (demand drop and sharp supply increase in Upscale and Upper Upscale segments), city based luxury hotels suffered a rate drop; on the other hand, luxury leisure has managed gradual rate increases.

The flex point in 2010 has led to a widening reverse gap in terms of RevPAR, with luxury leisure being 24% higher than luxury business for 2012; the gap is as large as 78% in the first two months of 2013 - leisure does admittedly have its strongest period in these months, but a 78% gap is too large to gloss over.

It will be interesting to watch the luxury segment over the next 36 months, particularly with the following questions:

- Will the opening of five new hotels in this space in Bengaluru (Ritz Carlton, JW Marriott, two Shangri-la and Four Seasons) redefine luxury in Bengaluru or cause deep grimace?
- Will a largely steady supply position enable luxury hotels in Mumbai to regain higher grounds?
- Will Banyan Tree in Kerala and Hilton Shillim encourage luxury leisure spread in southern and western India?
- Will Aerocity lead to a re-DIAL?

If you have any questions or wish to learn more about Horwath HTL and STR Global, please do not hesitate to contact us.

Rushabh Shah	Dhritiman Mukherjee
Associate Director	Business Development Manager
Horwath HTL - India	STR Global
rshah@horwathhtl.com	DMukherjee@strglobal.com
+91 22 6631 1478	+91 22 6631 1480