Horwath HTL

Hotel, Tourism and Leisure

Hotel Review Report - 2017
INDIA

February 2018

Foreword

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

STR as the global leader in benchmarking, has provided the data facts from the 800 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 over 100 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.

Hotel, Tourism and Leisure

STR

STR is the source for premium data benchmarking, analytics and marketplace insights. We provide data that is reliable, confidential, accurate and actionable, and our comprehensive solutions empower our clients to strategize and compete within their markets. Our range of products includes data-driven solutions, thorough analytics and unrivalled marketplace insights, all built to fuel business growth and help our clients make better operational and financial decisions.

STR is continuously working to enhance our product offerings while shaping the future of industries. We maintain a presence in 15 countries and collect data for more than 59,000 hotels across 180 countries.

Horwath HTL

Horwath HTL is the global hospitality consulting brand of Crowe Horwath International. Crowe Horwath HTL Consultants Pvt. Ltd. is a member of Crowe Horwath International, an international network of independent accounting and consulting firms with 600 offices in 120 countries - ranked 8th globally.

Horwath HTL has 50 offices in 39 countries across Asia Pacific, North and South America, Europe, CIS countries and Africa. In 2015, we celebrated 100 years of professional involvement in the hospitality industry. The consulting experience of our team in India, covers over 100 Indian cities, towns and destinations and 20 international destinations. Assignments have been undertaken for hotel chains, promoters, development companies, private equity investors and international lenders

Introduction

2017 will be associated with two defining events – the liquor ban for bars located 500 metres from highways, and GST. The first shut down an important element of the travel and hospitality experience – a routine everyday life need for foreign visitors; the latter, pushed up the travel bill to the long-term detriment of leisure and MICE travel. Additionally, foreign tourist arrivals crossed 10 million for the first time, up 15.6% from 2016.

All India Occ rose 1.4 pts to 65.3%, the highest in last nine years. Growth was foreseen but fell short of expectation as. ADR grew a mere Rs. 89, and still remains behind the 2013 marker; high GST clearly had its impact.

About 10k rooms were added in 2017 to chain-affiliated hotel inventory, taking the total count to 133k – supply slow down has enabled some operating consolidation with beneficial results. But a thinner supply pipeline is a longer–term concern; the lack of appetite for upper-upscale hotels is a bigger concern. On the other hand, increasing supply spread through newer markets is creating opportunity.

Good News:

- All-India Occ up; ADR up +1.6%; RevPAR + 3.8%.
- Most major markets saw growth across parameters; among the declines, the most notable was a drop in Occ at Goa, rate and RevPAR decline in Gurugram.
- e-Visa numbers are up nearly 60%, to 1.69 million.
- New bankruptcy and insolvency resolution regulations will bring assets to market, forcing recalcitrant owners to reasonableness; this will further improve lending appetite for the sector.
- Demand and development continues to grow outside major markets.
- F&B and banquets continue to be significant revenue generators across all segments, but the pace of growth has declined; APC’s are largely stagnant.
- Several roads were reclassified from highways to main roads – the things you have to do to get a drink.
- UDAN will open up many markets; domestic mid-tier brands particularly stand to gain.
- Travel numbers are burgeoning, but airport and highway capacities are coming under pressure.
- Longer duration loans are more pragmatic and are making life easier.
- Hotel transactions are slowly increasing, with more rationality of expectations by sellers and buyers.

Bad News

- ADR growth is very slow. As every year goes by without meaningful rate gain, the ‘real’ ADR is declining further – there is no real gain.
- GST at 18% and 28%. One of the biggest potential employment generators and exchange earners is being penalised by outdated conceptions on global competitive pricing; further, the rule makers adopted ‘published rates’ as a criteria – the days of published rates are long gone!
- The parameters for ‘good’ location changed. Direct access from a highway is now considered terrible – in India, only.
- High GST has started to divert domestic leisure and MICE demand overseas.
- Early completion of Navi Mumbai and Mopa airports is critical; as is expansion of Bengaluru and Pune.

Fake News

- We don’t need foreign visitors – the throbbing domestic market is sufficient. Temporarily, yes. In the long term, no – see the scale of top-tier demand shortfall in Goa and Jaipur and the need for (and potential gain from) upper tier foreign demand becomes absolutely evident.
- The world loves us so much that they will come inspite of weak infra, no convention centres and high taxes
- Occ and ADR will surge in 2018 – positive thinking, but expect moderate results
- There is no money to be made in the leisure sector – in fact, the potential is massive, across segments
- Anything above Rs. 7,500 is luxury
- Indians don’t need to eat when they travel – you are denied input tax credit on food bills on business trips
- Staffing challenges are over; payroll costs will decline – wishful thinking
- Projects delays don’t cost money and lost opportunity - the guest is patiently waiting for your hotel’s doors to open. Strongly disputed by struggling owners
- Development will remain concentrated on major markets – no, it will diversify in location and segment.

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 68% of total chain-owned/managed/affiliated inventory.

We have used a performance matrix to report and analyse the results. The horizontal and vertical axes 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+ (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.

Overview Of Performance - India

Year	Occ%	ADR	RevPAR
2015	61.7	5,602	3,459
2016	63.9	5,706	3,646
2017	65.3	5,795	3,786

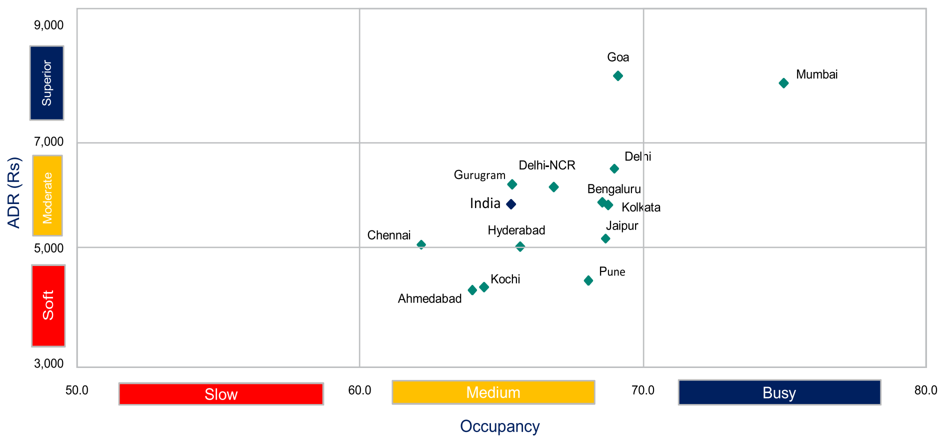
Source: STR

Highlights:

- Occ for all key markets and across all segments, except the Up-UpMid segment for Chennai, crossed 60%. Only Mumbai maintained 70%+ Occ on market-wide basis; Goa dropped below 70% in 2017.
- ADR growth has been modest across most markets – Pune, Jaipur and Bengaluru have done relatively better. ADR performance remains weak positive.
- All markets, except Gurugram, gained RevPAR, with Pune, Jaipur, Ahmedabad and Bengaluru gaining over 10%.
- Mumbai and Goa continue as leaders. Goa ADR crossed 8k; Mumbai was a shade below 8k and 6k in ADR and RevPAR respectively and is the only market in the Busy-Superior rate zone.

Undoubtedly there is an improvement over last year, with only 3 markets remaining in the Medium-Soft zone (seven last year). But the middle is indeed bloated – we need to rapidly get rid of this 'obesity', preferably by moving to the right and up on Occ.

Overall Performance - India and Key Markets



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

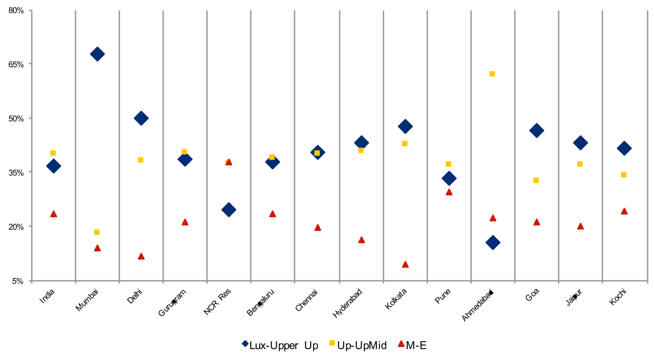
Source: STR

Let us look at the major shifts that occurred in 2017:

- The all-India marker has moved to the right, with better Occ. The move up for ADR was very marginal.
- Mumbai moved to the centre of the top right quadrant; Goa fell back into the Medium Occ quadrant while moving up the rate axis.
- Three cities enjoyed smart moves, diagonally up on the right side. Bengaluru with 10.6% RevPAR growth; Pune and Jaipur with 11.5% and 12.2% RevPAR gains respectively. These were the real good stories.
- By sheer numbers, Ahmedabad is also a big positive, moving smartly right and up – but 2017 was the 'Vibrant event' year which causes benefit every two years; hence the growth must be tempered by this reality.
- Delhi moved up and to the right, signifying Occ and ADR gains although the latter was very modest; Gurugram on the other hand moved right but dropped on the Rate axis.
- Chennai and Kolkata moved marginally up the rate axis but in the wrong direction for Occ; declines of less than one pt in Occ, but this is material in a year where the Occ trend has otherwise largely been positive. Chennai at least breasted the 5k rate mark.
- Kochi was somewhat similar, except that it had rate loss almost negating Occ gain to result in 'barely there' RevPAR positive.
- Hyderabad moved almost horizontally to the right; Occ growth of 2.1 pts accompanied by modest rate increase – this city's ADR also crossed the 5k mark.

Segmental Supply

Marketwise Segmental Supply Share



Source: Horwath HTL Research

At all India level, the middle and lower order batting is thriving. Up-UpMid supply crossed the 50k mark and has 40% supply share. M-E supply grew by 3.6k rooms though supply share grew marginally. Lux-UpperUp supply share declined by 1 pt. The skew is widest in the older markets and micro-markets; markets which mainly developed in the last 15 years have a much narrower skew. Thus, Mumbai's rate leadership is also a factor of major supply share at the Lux-UpperUp level. Pune, on the other hand, has the least skew and a market ADR about Rs. 3,500 below Mumbai – the two cities also have significantly different demand make-up.

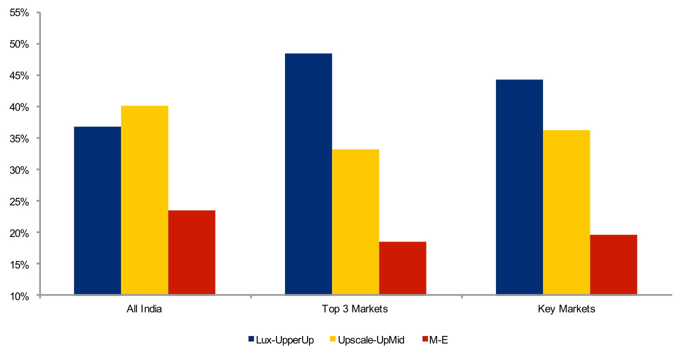
The composition of new supply in 2017 is interesting:

- One hotel in Mumbai, 2 in Bengaluru, none in Delhi and 7 in NCR (other than Delhi). Only 1,400 rooms added in the main 3 markets in India
- Another 1,400 in the other 3 metros
- 550 rooms in non-metro major markets
- Over 4k rooms outside the main markets.

If we look at conversions:

- 862 rooms in the six metros; 200 rooms in other major markets
- 39% of conversion inventory is outside the major markets
- 43% of conversions are in the Up-UpMid segment; another 50% in the M-E segment.

Overall Segmental Supply Share

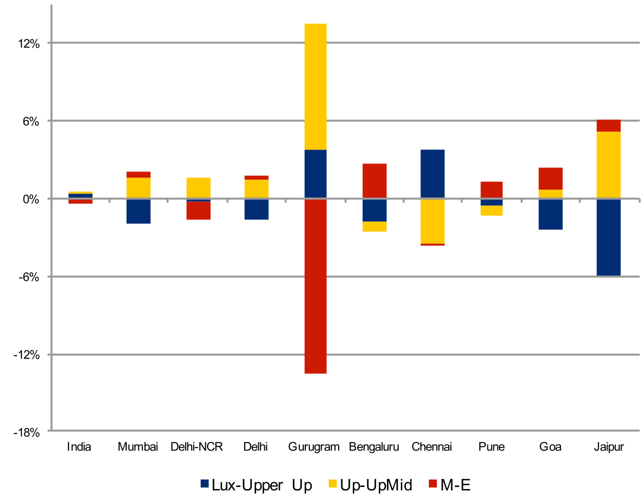


Source: Horwath HTL Research

Delhi-NCR, Mumbai and Bengaluru hotels remain key to the quality of results as, over the years, 36%-40% of chain-affiliated supply is concentrated in these markets. In aggregate, the 13 key markets have 68% of national supply.

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.



Source: Horwath HTL Research & STR

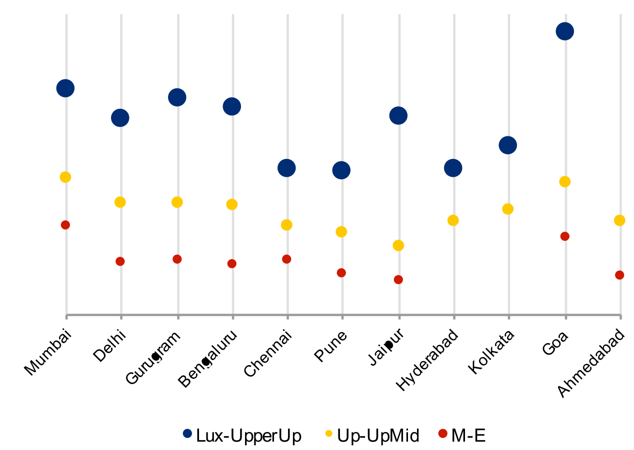
- Mumbai, Delhi and Goa have a shortfall of Lux-UpperUp demand, and a premium from the other two segments. While Mumbai and Delhi reflect potential for new supply outside the top-tier, Delhi and Goa need more sustained demand creation in the top-tier. Jaipur also materially needs demand creation push at the Lux-UpperUp tier.
- Gurugram could look at more supply creation outside the M-E segment; possibly in the Up-UpMid segment. There are no Upscale big boxes in this market.

Creation of supply depth across price segments is essential and inevitable as the market moves to maturity. It is equally important that a balance is maintained, aided by positive demand creation efforts, for longer-term stability, returns on investment and valuations.

Segmental Performance

Relative segmental rate levels, across key markets, are presented below:

Segmental Rates - Major Cities

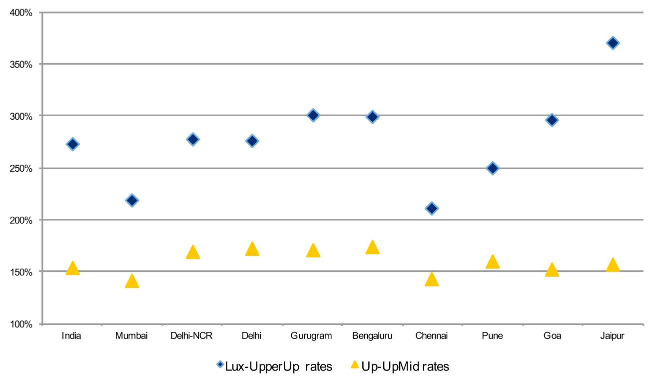


Source: STR

- Goa has the widest range, Chennai the narrowest.
- The spread between Up-UpMid and M-E rates is almost even in Delhi, Gurugram, Bengaluru, Ahmedabad and Goa; the spread is smaller in Mumbai and even narrower in Chennai, Pune and Jaipur.
- M-E rates in Mumbai are in a comparable range to Up-UpMid rates in Chennai, Hyderabad and Ahmedabad, and higher than Up-UpMid rates in Pune and Jaipur. This is mainly attributable to the nature of these markets and predominantly domestic / low end foreign groups attracted at Up-UpMid hotels in these several markets.
- ADR levels across segments, but particularly at the Lux-UpperUp segment, are still much lower than the product quality – no market achieves $180.

Comparative segmental rates need further examination. The chart below reflects Lux-UpperUp and Up-UpMid Rates as a percentage of the M-E ADR (which is taken as the base of 100).

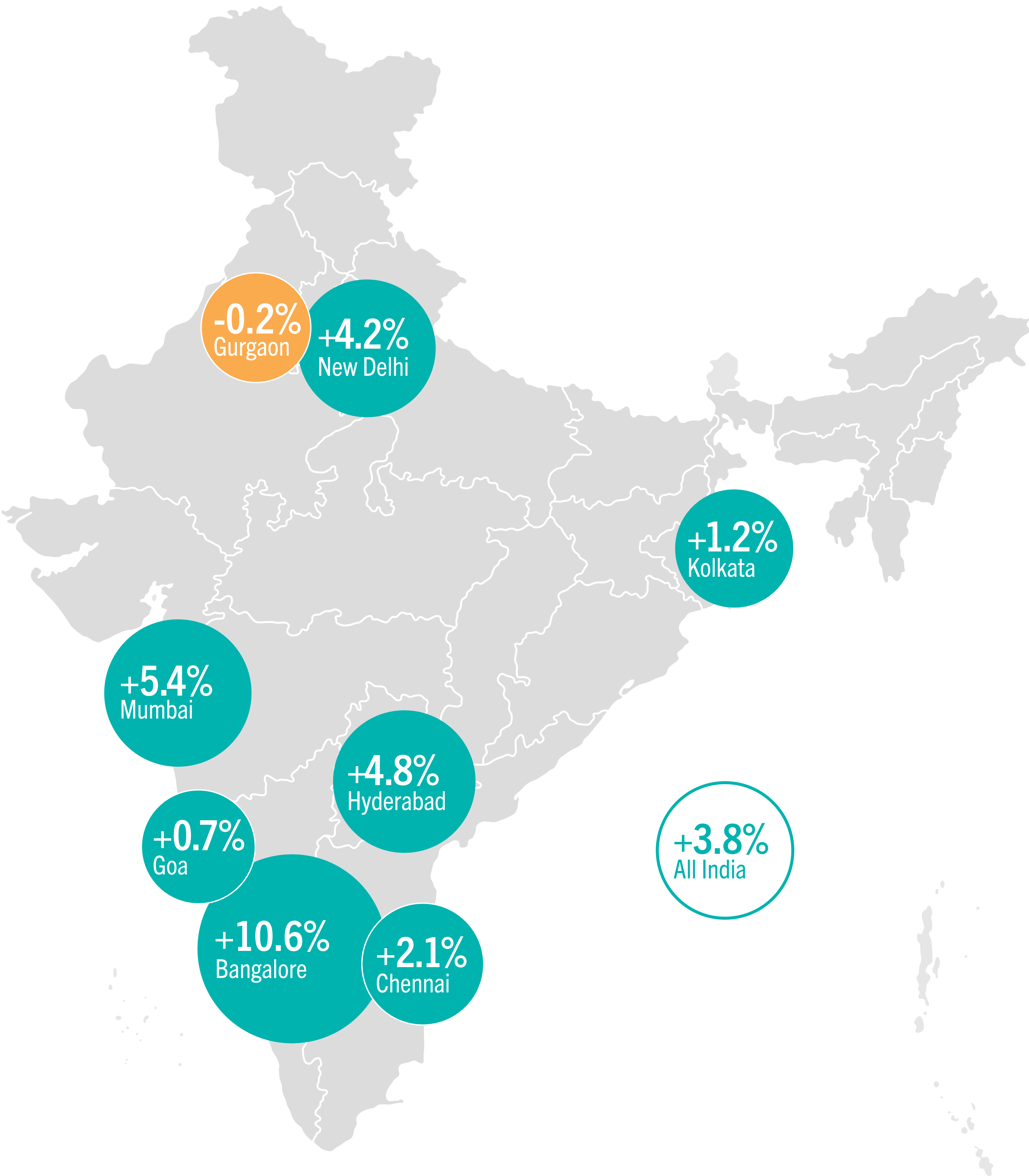
Segmental Rate Comparison



Source: STR

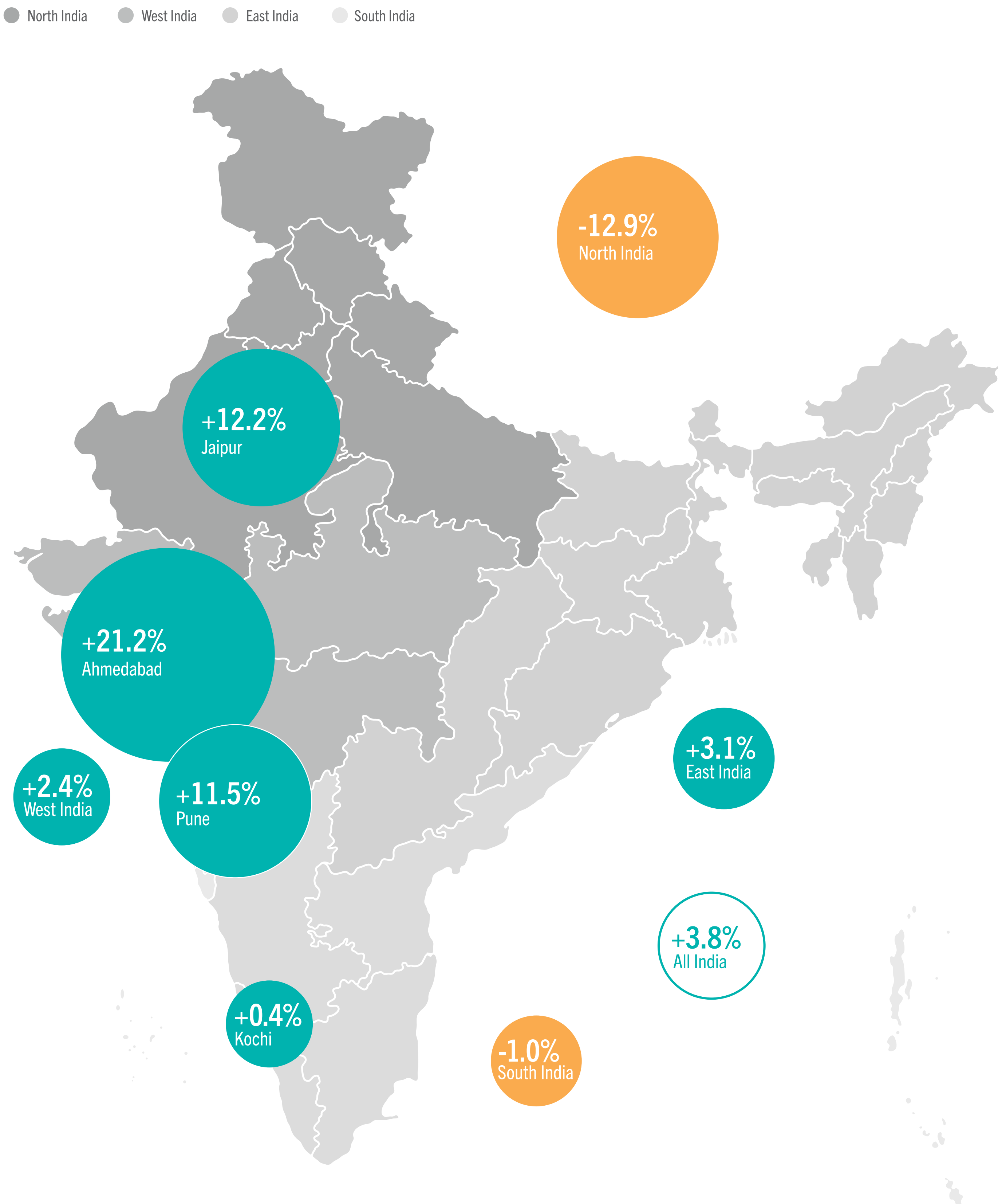
- Jaipur has the highest gap; Lux-UpperUp rates are 3.7 times M-E Rates; this gap should widen as the Fairmont and newly opened JW Marriott push for higher rates.
- Chennai and Mumbai have the smallest spread.
  The top-tier in Chennai is bogged down by modest corporate growth and supply surge in the mid and lower tier; however, such low rates are also the making of the hoteliers themselves.
- As far as Mumbai is concerned, one fails to understand the lack of aggression among Upper-Up hotels particularly when demand is strong. The typical 'khadoos' (local term for 'unyielding') Mumbai attitude needs to come to the fore and rates pushed up.
- Goa has improved rate premiums by 25 to 40 pts for the Up-UpMid and Lux-UpperUp segments. The market could urgently do with additional genuinely luxury supply, but this seems a while away.
- Bengaluru and Gurugram are similarly placed, and appear to be working through new supply impact in various micro-markets.
- Pune has slightly retracted from the 2016 position, but has benefitted from meaningful increase in M-E ADR.

India Major Cities - YoY RevPAR Change



Source: STR

India Regions - YoY RevPAR Change



Source: STR

Segmental Performance

Luxury – Upper Up

This segment has 49k rooms, at about 37% of the all-India chain affiliated inventory; of this, 38k rooms (79% of segmental supply) are in the key markets. The 2017 performance status for key markets is reflected below:

- The Busy-Superior zone remains empty. And nobody is Strong & Healthy.
- Mumbai is busy but with moderate rates; Goa rates are way ahead of other markets and very close to a Healthy classification; but is in the medium Occ zone.
- Kolkata moved out of the Busy zone into the medium zone – not unexpected with new supply in this segment. The city has gained rate, though it still remains in the Soft bracket.
- The Medium-Moderate zone remains tenanted by Delhi, Bengaluru, Gurugram, residual Delhi NCR and Jaipur (representing nearly a third of segmental supply) and about 12% of total supply; no wonder national numbers remain moderate.

Lux-UpperUp Performance - India and Key Markets

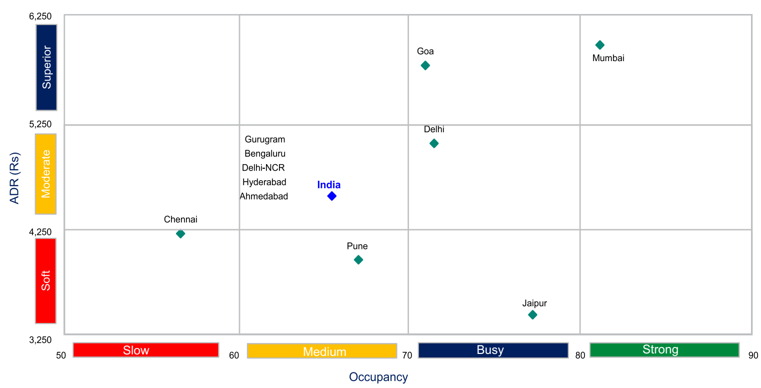
Source: STR

Upscale – Upper Mid

This segment has 53k rooms, at 40% of the all-India chain affiliated inventory; of this, 32k rooms (60% of segmental supply) are in the key markets. The 2017 performance status for key markets is reflected below:

- This is the segment where the Strong Occ zone comes into play, for Mumbai.
- Jaipur joins Delhi and Goa in the Busy zone; Delhi itself has moved into this zone in 2017. However, these markets are in three distinct rate zones – Goa with superior rates thanks to strong domestic demand; Delhi with moderate rates largely due to rate pressure at the top, and Jaipur hurting from supply surge and heavily discounted group, wedding and MICE business.
- Chennai remains a Soft rate under-performer.
- Pune remains in the soft rate zone but has moved to the right within the Medium Occ zone.
- ADR for Delhi and Gurugram has crossed 5k; Bengaluru almost so. Pune is a shade under 4k while Jaipur needs to polist its mid-tier gems and move out of its firm mid-3k footing; Jaipur may get this opportunity as the upper tier rates have started improving.

Upscale-UpMid Performance - India and Key Markets



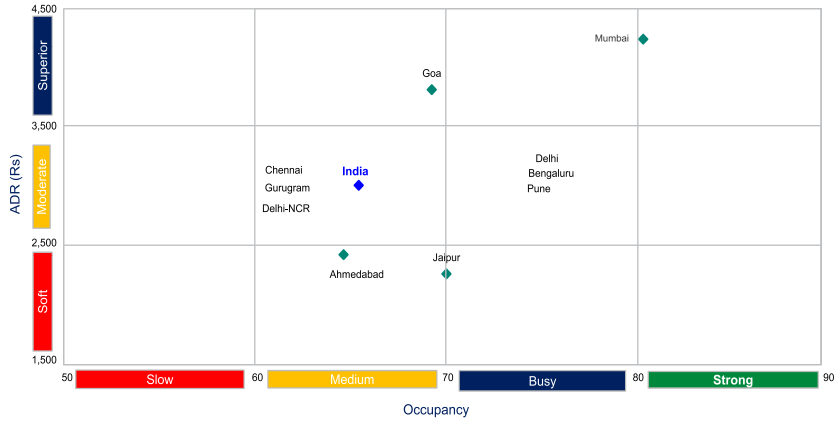
Source: STR

Midscale – Economy

This segment has just under 31k rooms, at 23% of the all-India chain affiliated inventory; of this, 15k rooms (50% of segmental supply) are in the key markets. The 2017 performance status for key markets is reflected below:

- Mumbai is the only market just crossing into the Strong Occ zone; it is also positioned high on the rate axis. While the strong M-E performance for Mumbai is often attributed to limited segmental supply, the reality is that only Bengaluru and Pune have larger segmental inventory in absolute numbers. Although Delhi-NCR as a whole has the largest segmental inventory, supply in the individual markets of Delhi and Gurugram is much smaller than in Mumbai.
- Pune and Goa have swapped positions – Pune going up to the Busy zone and Goa regressing to the medium zone.
- Happily, there is no Under-performer; all other markets have at least moved to the Medium Occ zone, with Jaipur even pushing close to the Busy zone.
- All markets, with the exception of Chennai have gained ADR.

Midscale -Economy Performance - India and Key Markets



Source: STR

Key Markets

Mumbai
Occ growth to 75%; 3.4% ADR growth and 5.4% RevPAR. A strong performance on the face of it; but in our view it remains under-whelming.

Hotels are showing typical characteristics of a business city, impacted by weak weekends and a sizeable monsoon season. Up-UpMid and M-E hotels seem to be capping at or about 80% Occ; several of these lack the facilities to generate residential MICE demand and to compete with rate discounting by the Lux-UpperUp hotels for weekend MICE. Staycations at several hotels are a boon, and efforts to enhance this will continue to create benefit.

South & Central Mumbai hotels have held Occ and improved ADR by 4.4% which is higher than the city-wide and segmental ADR growth for the city; thus, these hotels have been mildly accretive to the city numbers and have evidenced the potential for MICE and leisure. However, central Mumbai hotels must continue to up their game.

Navi Mumbai returned to growth with RevPAR up by 4.9%.

Mumbai is the home of Bollywood and Indian cricket; surely, something can be conceived to capitalise on this for better weekend business. Innovation is needed.

What is also needed is the confidence to increase rates amidst a situation where hotels are largely operating to capacity on weekdays.

Delhi
69% Occ at about $100 (got there only because the Rupee got stronger) is what the capital city reports.

Lux-UpperUp segment remained flat with ADR levels that are 1k behind Mumbai. With 50% city-wide supply share, continued lack of buoyancy at this level is hurting. And GST is not the real cause because Delhi previously had high luxury tax levies.

The mid-tier has done well, with Occ and ADR crossing 70% and 5k respectively. As new segmental supply is slowing, there is potential for further quantum jumps.

Pollution during the tourist season in winter is a hazard; lack of a convention centre is another. The large and further expanding airport must surely be used for larger inbound promotions. Delhi may, in fact, be a ripe case to push demand growth by reducing taxes.

Gurugram (formerly known as Gurgaon)
The stars of this market shone less brightly in 2017. The market saw 10% supply growth, 9% demand growth, marginal negative RevPAR for the Lux-UpperUp hotels and -5.2% RevPAR decline for M-E hotels.

The Up-UpMid segment was the only positive with +7.7% RevPAR; Occ moved up to 69.4% and ADR crossed 5k. Pressure from Aerocity hotel's expansion, removal of the tax differences as GST replaced luxury tax and impact of the liquor ban over 8 months are three basic causes for this softness. The city is yet to create a long-term strategy to widen its demand base which materially rests on corporate and business demand.

NCR Others
Other areas of NCR have 17% supply share in Delhi NCR, adding 400 rooms in 2017. This new supply has mainly been at the M-E level and caused the market RevPAR to dip by -4.1%. Occ at exactly 60% and ADR marginally above 4k reflect softness in demand depth. The market was clearly not able to digest the double-digit RevPAR growth reported for 2016.

Bengaluru
A good year. Occ up to 68.8%; ADR with +Rs 240; and +10.6% RevPAR. So what if it didn't have a Sunny ending. The city has created substantial supply over the years and a balance between different segments – even if its demand patterns are materially skewed by the vast predominance of IT and ITeS sectors. The city possibly benefitted from lack of major new supply in 2016 and the first part of 2017.

All segments are positive – the Lux-UpperUp segment enjoyed its highest Occ and RevPAR after 2008; its highest ADR since 2011. The Up-UpMid segment grew Occ by 6.8 pts to its highest level in the last 8 years; combined with limited rate growth, it achieved over 12% RevPAR increase.

The M-E segment continued a modest Occ push with another Rs. 200 added to the rate; all parameters were at their highest since the global financial crises. But this segment appears to be struggling for Occ growth beyond the low-mid 70's. Bengaluru is a business city, without leisure and event demand and a convention centre; as such M-E hotels lack a natural weekend demand base.

M-E hotel managers have to find a way to push up to 80% Occ, for this segment to truly deliver value to the owners – short-term growth will not come from upward re-rating of the Up-UpMid segment because that itself has a long way to go for its own Occ.

The year ahead may not be as easy, with Conrad having opened and Sheraton Grand opening in Whitefield. However, there appears to be stronger demand buoyancy, particularly as the aerospace sector takes deeper root and general corporate business, BFSI and retail activities grow.

Chennai

A prolonged struggle between supply and demand growth. Over 5,600 rooms added since 2010; demand has grown by 3,200 rooms per night. And the pain is distributed across segments.

City-wide Occ marginally declined to 62.2%; it has remained flattish for 3 years now. City-wide rates grew 3% in 2017, but have been flattish for 4 years now.

The Lux-UpperUp segment did create space with +7.5% RevPAR growth, mainly rate led; however, with segmental Occ still in the mid-60's the headroom is massive and so also the potential for headwinds. Note that segmental ADR compared only with Hyderabad and Pune; it is 2k-3k lower than the big 3 markets.

But the Up-UpMid segment regressed – Chennai is the only metro city with segmental Occ decline in 2017, that too by a substantial -2.5 pts. And the rate change? All of Rs 35 which is less than the price for a plate of idli.

The city needs new ideas for demand; it also needs a paradigm shift in its rate structure.

Hyderabad

City and segmental Occ are at their highest since the global financial crises. City-wide and segmental RevPAR up between 4.7% to 6.5%. Positive, but to be read in the backdrop of flattish supply for last 2 years.

The city must wait for new projects by demand leaders to be completed and start creating demand. It must continue to showcase its value and diversity, its MICE capability through HICC and the Falaknuma.

Kolkata

24% supply growth in 2017; 37% in two years. Yet city-wide Occ is 68.6% and ADR at Rs. 5,831 – ahead of south India metros, ahead of all-India average and only 5% from the Gurugram ADR. Segmental ADR for Lux-UpperUp hotels is in the 7k's. That seems impressive.

This city reflects the power of MICE and events; the power of being a regional hub – these are the backbone of sustained demand. Corporate and consumer based activity is growing slowly but appears to have some legs.And food is big business – banquets and restaurants.

The Westin has just opened; ITC Royal Bengal will add 456 rooms by 2019. So it is still a way to go, but 1k rooms have been absorbed without much of a ripple.

As yet, the Bengali rosgolla (they won that IP battle too) has held its own.

Pune

Pune has performed in line with our long-term expectations. The city has made a steady recovery after the supply surge.

Market-wide Occ moved from mid 60's to 68.1%, importantly supported by Occ growth across all segments. ADR grew 5.8%, led by Lux-UpperUp segment which now has rates in the same segmental bracket as Chennai and Hyderabad.

Up-UpMid ADR remained soft, failing to cross the 4k marker, possibly as an outcome of sizeable segmental Occ growth. However, over 7% rate growth in the M-E segment will ultimately push the Up-UpMid hotels into better rate zones particularly if the upper tier continues to grow as well.

As a predominantly business destination, weekend demand is a challenge and relies on conferences and weddings; an element of staycations is also helping superior hotels. Hotels with good banquet and meeting facilities will continue to gain, or at least be more sheltered against competitive pressure which will inevitably return as new supply starts fructifying.

Ahmedabad
Great results y-o-y, with 21.2% RevPAR growth. But this needs to be put into a balanced perspective since the city has alternate years of good growth due to various events hosted biennially.

So let's compare 2017 with 2015, and the results are still good – Occ is up 9.7 pts; annualised rate and RevPAR gains of +3.25% and +12.24%.

And yet, among the major markets examined in this report, Ahmedabad ranks last in ADR and RevPAR, and second last in Occ (ahead of Chennai). The city added 2,800 rooms in the last ten years; but supply has been steady in the last 4 years. The city has several leading global brands, but a complete 'no-show' by leading upper-tier domestic brands.

Business travel is the core and lacks diversity or sustained growth base. MICE potential is substantial (take a learning from Kolkata) but is constrained by prohibition on liquor. F&B revenue contribution is sketchy.

A concerted effort towards event creation, and sustained implementation of business investment, will be needed for hotels to generate better demand and performance.

Goa
The last we checked, Goa receives 80 flights a day – that is quite something. But tourists are cost-sensitive, even at UpperUp levels, and are hurt when material additional taxation is imposed.28% GST has hurt Goa as can be seen from -1.6 pts Occ decline at the Lux-UpperUp level (67.5% Occ is the lowest in five years). Yes ADR did rise by about 4%; but the demand decline could become a concern. Lux-UpperUp ADR in Goa has a trend of sharp growth every other year; 2018 is that second year and one will need to carefully watch this.

Market-wide RevPAR growth of 0.7% is the slowest in Goa since 2010 (barring a decline in 2015).

The destination has everything going for it; the Goans are even learning Hindi to cope with the demand surge from north India – but everyone comes to Goa for a good time, for a good tipple and for entertainment. Please don't take it away.

Substantial new supply is in the pipeline and is expected to be readily absorbed, if tourism is left unhindered.

Jaipur
A good year for the Pink City –
- Highest Occ (city-wide and segmental) in the last eleven years, with Up-UpMid Occ at 77% claiming second rank among the key markets.
- Lux-Upper-Up ADR moved into the 8k's after five years.
- M-E Occ just shy of 70% (though rates are abysmal).
- +12.2% market-wide RevPAR.

Time for a toast, if you are not sitting within 500 metres of a highway.

Kochi
The city remains muted, relative to potential. Officially sober too; but hotel bars cannot partake the 'under-cover' drinking. And that's bad for business – proximity to the highway is now a bug-bear, and Kochi has had a lot of development along the highway.

So what do we have? RevPAR growth of +0.4% with Occ gain and ADR loss. The Kakkanad Info Park is starting to be active, and that's a positive. The new Grand Hyatt has excellent banqueting and rooms; can it help lift Kochi?

Newer Markets
This year we present several newer markets, which continue to grow as business / leisure / MICE destinations in their own ways. These present potential new build and conversion opportunities. For ease of data presentation, we have clustered these into several regional sectors. To the maximum extent practicable we have attempted to maintain similarity of business-type, within the cities / towns in each cluster.

Regions / Cities
Western: Bhopal, Nagpur, Vadodara, Surat and Indore
Northern: Jammu, Srinagar, Shimla, Dehdradun, Mussoorie, Lucknow, Amritsar, Varanasi
Eastern: Patna, Ranchi, Guwahati, Bhubaneshwar, Raipur, Vizag, Siliguri, Gangtok
Southern: Trivandrum, Mysore, Coimbatore, Madurai, Vijaywada
Supply composition in these regional markets is summarised below:

Region	Lux-UpperUp	Up-UpMid	M-E	Total
Western	764	2,498	990	4,252
Northern	1,553	2,741	1,405	5,699
Eastern	629	1,974	1,181	3,784
Southern	706	1,910	736	3,352
Supply pipeline	1,246	3,113	650	5,009

Source: Horwath HTL Research

2017 performance for these clusters, compared to 2016 performance is summarised below:

	West	North	East	South
2017 Occ	63.1%	55.3%	58.4%	61.1%
Change (pts)	2.8	-6.9	2.7	0.5
2017 ADR	3,973	5,621	4,340	4,302
% Change	-0.3	-6.4	0.4	-1.6
2017 RevPAR	2,507	3,106	2,532	2,627
% Change	2.4	-12.9	3.1	-1.0

Source: STR

Predominantly business cities in the Western cluster have good demand, with Occ only 2.2 pts below the national average. This cluster added 789 rooms in 2017 (23% inventory growth) which has dampened its ADR. ItsUpperUp hotels are older properties and don't pull their full weight in rate terms.

The Northern cluster is mainly leisure oriented and the impact of seasonality is visible in the mid-50's Occ. Lucknow is the main business city in this cluster and has seen substantial capacity addition in the last 2 years.

Cluster rate is pulled up by some upper end hotels, resulting in only 3% discount to the national average and premium position over several major markets. In RevPAR terms, this cluster is stronger than Kochi, Pune and Ahmedabad. Leisure does sell, although these markets may be a little hard to break into.

The East cluster is predominantly business hotels; the impact of some recent upper-tier additions is still to show, possibly thereby depressing Occ without also reflecting the full rate benefit. Several of these cities also enjoy strong MICE and weddings demand.

The Southern cluster comprises cities that are regionally primary markets outside the metros (and Kochi). And yet the performance gap is sizeable because of lack of momentum in commercial development. Hence capacity increase in 2017 has only been 6%. Diversification of business away from metro cities can enable much stronger growth in these markets and deepen business opportunities in the region.

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

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Our sincere thanks to branded and independent hotels for their valuable data contribution:

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