

A Comparison of Hotel Room
Supply & Demand Generators for
10 Key Asian Cities across **6 Countries**

ROOM for
GROWTH 



Foreword

The impact of the ongoing pandemic on the hospitality sector continues to unravel with each passing day as the disruption it has caused will no doubt continue to influence the sector going forward. While doom and gloom currently rule the roost, the return of the equity markets is a positive cue for the sector. Additionally, past events have shown that the hospitality sector's resilience to bounce back post a calamity, whether it is the terrorist attacks of September 2001, SARS in 2003, or the Great Financial Crisis in 2008, remains strongly ingrained.

The hotels sector is extremely cyclical in nature and contingent upon the demand-supply gap prevailing at the time. Unlike the previous cycles, the current decline in the sector's performance is a factor of demand and not supply. The supply growth rate prior to COVID had been steadily declining for the past few years, which if COVID had not occurred, would have meant in the sector's performance rising stronger than the combined rate of the previous decade. In fact, after witnessing the lowest ever occupancy in April 2020, the sector is showing early signs of revival, albeit in a few segments.

As per our India Hotels Outlook Report, August 2020, occupancy and average daily rate (ADR) will reach pre-COVID levels by 2022 & 2023, respectively. We anticipate that the shift in cost structures due to COVID will continue to remain, which combined with the return in performance in 2023 will result in better yields for hotels and cap rate compression is also expected to occur.

The Indian hotels sector was poised to grow to greater heights driven by increasing demand in the pre-COVID era and the current crisis is just a speed-breaker in its path. As a famous adage goes, "in every crisis lies an opportunity", this calamity can also be turned into an opportunity for the sector as this is perhaps an opportune time to invest in hotels.

India is one of the fastest growing travel & tourism (T&T) economies in the world thanks to its diverse landscape, rich heritage, and cultural diversity, which attracts tourists from across the country and the world. However, we have still not tapped into the full potential of tourism in the country, mainly due to the lack of good quality hotel infrastructure.

Even our major cities still lack the critical tourism infrastructure needed to boost hotel demand.

India cumulatively has less organized hotel rooms (excluding aggregators) compared to its peers in Asia, especially when viewed under the lens of the country's population and its demographic profile. For instance, China, its closest comparison in total population has nearly nine times more organized hotel supply.

There is significant demand-supply gap even in our key cities such as Delhi NCR, Mumbai and Bengaluru, which still have the lowest proportion of branded hotel rooms among the major Asian hotel markets.

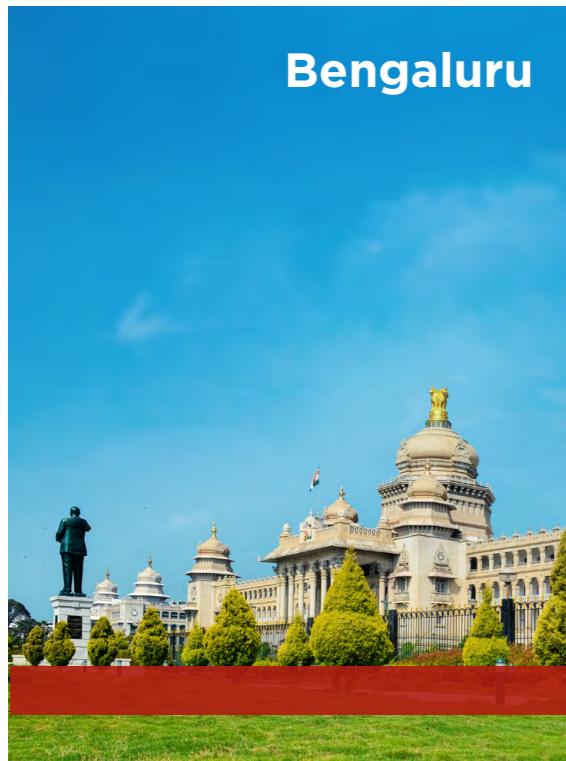


In this report, we have analyzed the hotel room supply in the three main cities in India – Delhi NCR*, Mumbai and Bengaluru – with other key Asian cities, comparing hotel density based on population, air traffic and Grade A office stock – the three main factors driving hotel room demand in any country.

Our analysis shows that there is still room to build hotels in India, but careful planning is needed to develop the right type of property in the right market as hotel development capital costs and gestation periods are high compared to other real estate assets.

We hope that you find the report insightful and look forward to hearing back from you.

10 Key Asian Cities



* Delhi NCR in this report refers to Delhi and Gurugram only

India's Most Developed Hotel Markets are Still the Smallest in Asia

The three key cities in India – Delhi NCR, Mumbai & Bengaluru – have the lowest proportion of branded hotel rooms compared to other major Asian hotel markets.

These three cities, which are the most mature markets in India, must combine their branded supply to match up to Singapore's total branded hotel supply. It is, thus, an understatement to say that our Indian cities have a massive amount of untapped opportunity to grow.

The closest competitor to our major markets is Jakarta. Our largest market, Delhi NCR, which is a composition of two sub-markets, will have to more than double up in supply to become larger than Jakarta.

While the factor of growth to match Bangkok and Tokyo for our largest market is more than 3 times and 4.5 times, respectively, the stark contrast with Shanghai and Beijing, which are nearly 9 times in size, takes the cake.

The above statements are even more acute, when the subdued performance of the sector in the past decade is often attributed to the strong rate of supply growth, which in reality is largely on account of the very low base of hotel rooms in the country.

Branded Hotel Rooms Supply in 2019

DELHI NCR*

29,000+
BRANDED
HOTEL ROOMS
2019

MUMBAI

0.8x

BENGALURU

0.9x

8.5x

BEIJING

9.1x

SHANGHAI

2.5x

HONG KONG

3.2x

BANGKOK

2.5x

SINGAPORE

2.1x

JAKARTA

4.7x

TOKYO

10 Key Asian Cities

Supply Growth Trend (2015-2019)

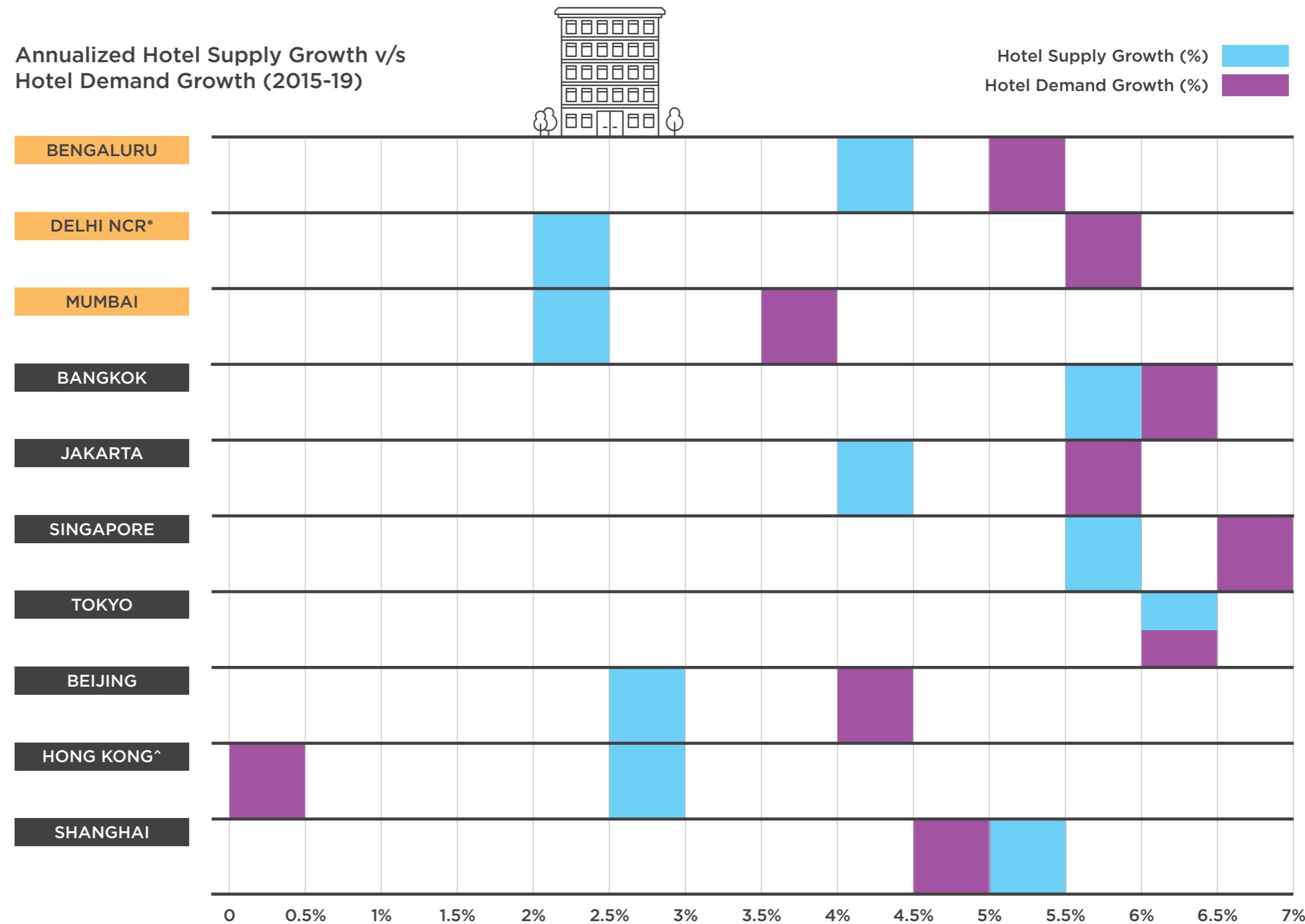
Except for Bengaluru, the other two Indian cities - Delhi NCR and Mumbai - have witnessed the slowest growth in hotel supply during 2015-2019, compared to the other major Asian markets. In fact, even Bengaluru has witnessed growth rates much lesser than most other major Asian markets. In absolute terms, while a market such as Singapore has witnessed development of nearly 14,300 new rooms (2015-2019), Bengaluru has witnessed development of nearly 4,100 rooms over the same period.

No amount of supply growth is beneficial for a hotel sector without a symbiotic growth in demand. The Indian cities have witnessed significant demand growth compared to their Asian counterparts.

Delhi NCR and Bengaluru witnessed >5% growth in demand, outshined only by Singapore, Bangkok & Tokyo, which are among the most global destinations in the world. Demand growth in Mumbai was strong but did not rank as well as the other two Indian cities.

Amongst these 10 cities, Tokyo witnessed the fastest growth in hotel room supply at 6.4% owing to the city preparing itself for the 2020 Olympics.

Annualized Hotel Supply Growth v/s Hotel Demand Growth (2015-19)



[^] Due exception should be provided to Hong Kong, which witnessed unduly disruption at the beginning of 2019, which has impacted our annualised rate change.

* Delhi NCR in this report refers to Delhi and Gurugram only

Source: Compiled by HVS ANAROCK Research

Factor #1

DRIVING HOTEL DEMAND

Population



Hotels Sector vis-à-vis Population

India is the second most populous country in the world, with one of the largest working-age population globally (over 41% of the total population in 2019). The favorable demographics and economic factors have been driving the growth in the hospitality sector, with both leisure and business travel on the rise.

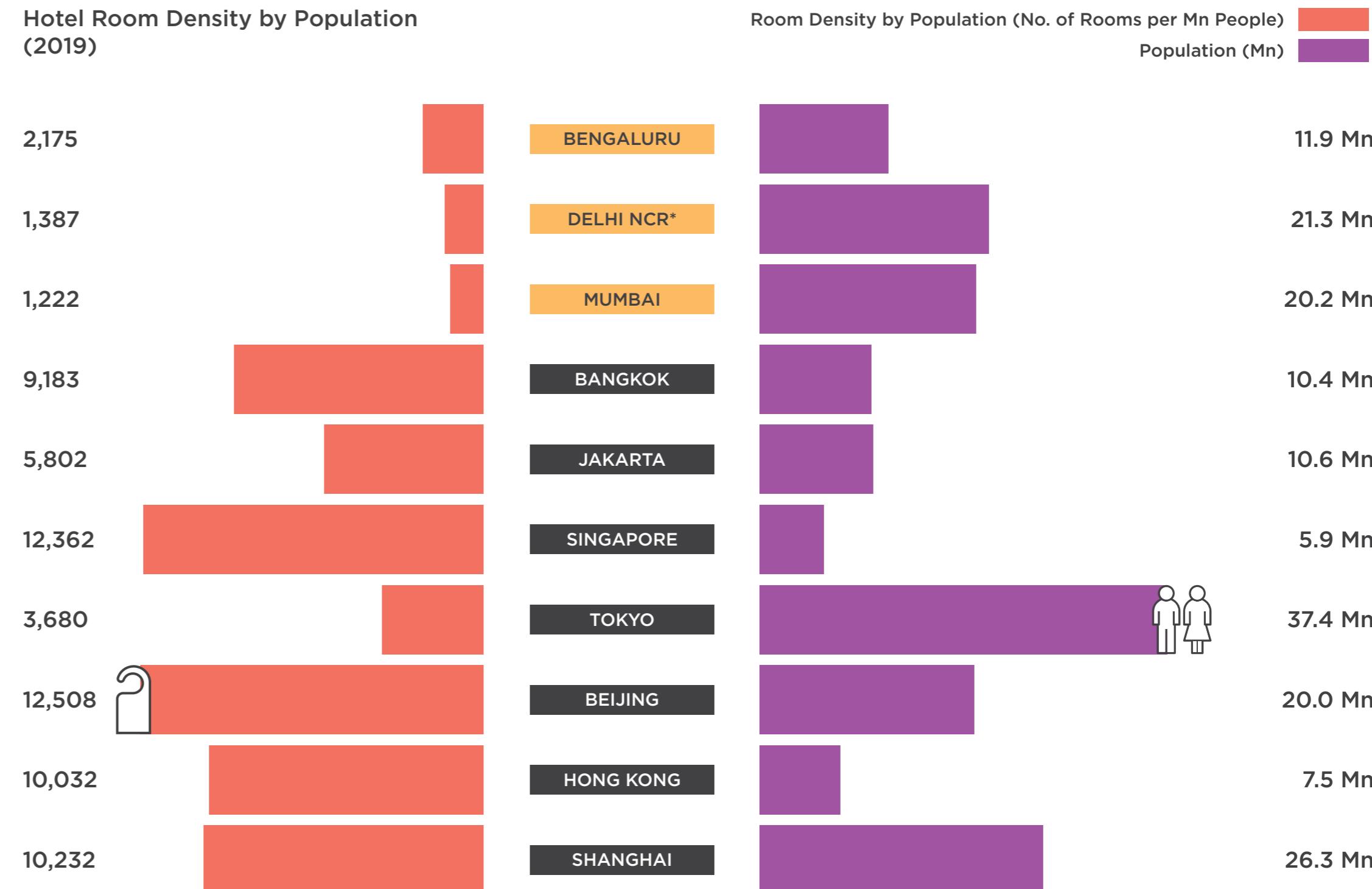
However, the absolute inventory of hotel rooms in India relative to market size (measured in this regard by the city's population) remains one of the lowest not only in Asia, but also the world.

Delhi NCR & Mumbai offer less than 1,400 rooms per million (Mn) people, while Bengaluru offers a little over 2,100 rooms per million people.

In comparison, Tokyo, the nearest peer, offers 3,680 rooms per million people. Meanwhile, the room count per million people soars to more than 10,000 rooms in Hong Kong, Shanghai, Singapore, and Beijing.

While population metrics of a city do not directly impact the performance of the hotels sector in the same city, it does indirectly represent the economic standing as well as the opportunity for the city.

Hotel Room Density by Population (2019)



* Delhi NCR in this report refers to Delhi and Gurugram only



Factor #2

DRIVING HOTEL DEMAND

Air Passenger Traffic

Hotels Sector Demand is Correlated to Air Passenger Traffic

India is set to become the world's third-largest aviation market by 2024-25, according to the International Air Transport Association.

The number of operational airports in the country have increased significantly from 50 in 2000 to 137 in 2019, with plans in place for an additional 100 airports by 2024. But the total size of the branded hotels segment in the country is ~140,000 rooms, smaller than the total inventory of Shanghai.

Rising disposable income combined with the introduction of low-cost carriers and the improving air connectivity through the UDAN scheme has resulted in significant growth of air passenger traffic in India.

The hotels sector relies heavily on the aviation sector from demand perspective, with a high degree of correlation between growth of hotels sector and that of airline traffic. The growing aviation market will continue to be a strong catalyst for the hotels sector.

Delhi, the busiest airport in the country handled over 68.5 Mn passengers in 2019, nearly the same amount handled by Singapore's Changi Airport, and not too far off from that of Shanghai. But the penetration of hotel supply to passenger traffic is less than half of the closest international city in Asia.

Hotel Room Density by Air Passenger Traffic (2019)

768

431

524

1,452

1,132

1,062

1,611

2,505

1,052

3,535



Room Density by Air Passenger Traffic (No. of Rooms per Mn Air Passengers)

Air Passenger Traffic (Mn)



BENGALURU



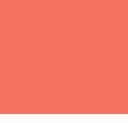
DELHI NCR*



MUMBAI



BANGKOK



JAKARTA



SINGAPORE



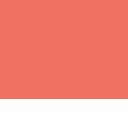
TOKYO



BEIJING



HONG KONG



SHANGHAI



33.7 Mn



68.5 Mn



47.1 Mn



65.4 Mn



54.5 Mn



68.3 Mn



85.5 Mn



100.0 Mn



71.4 Mn



76.2 Mn

* Delhi NCR in this report refers to Delhi and Gurugram only

Sources: 'Worldwide Airport Traffic Report, Calendar Year 2019', Airports Council International; Airports Authority of India; Industry Sources; Media Reports; Compiled by HVS ANAROCK Research

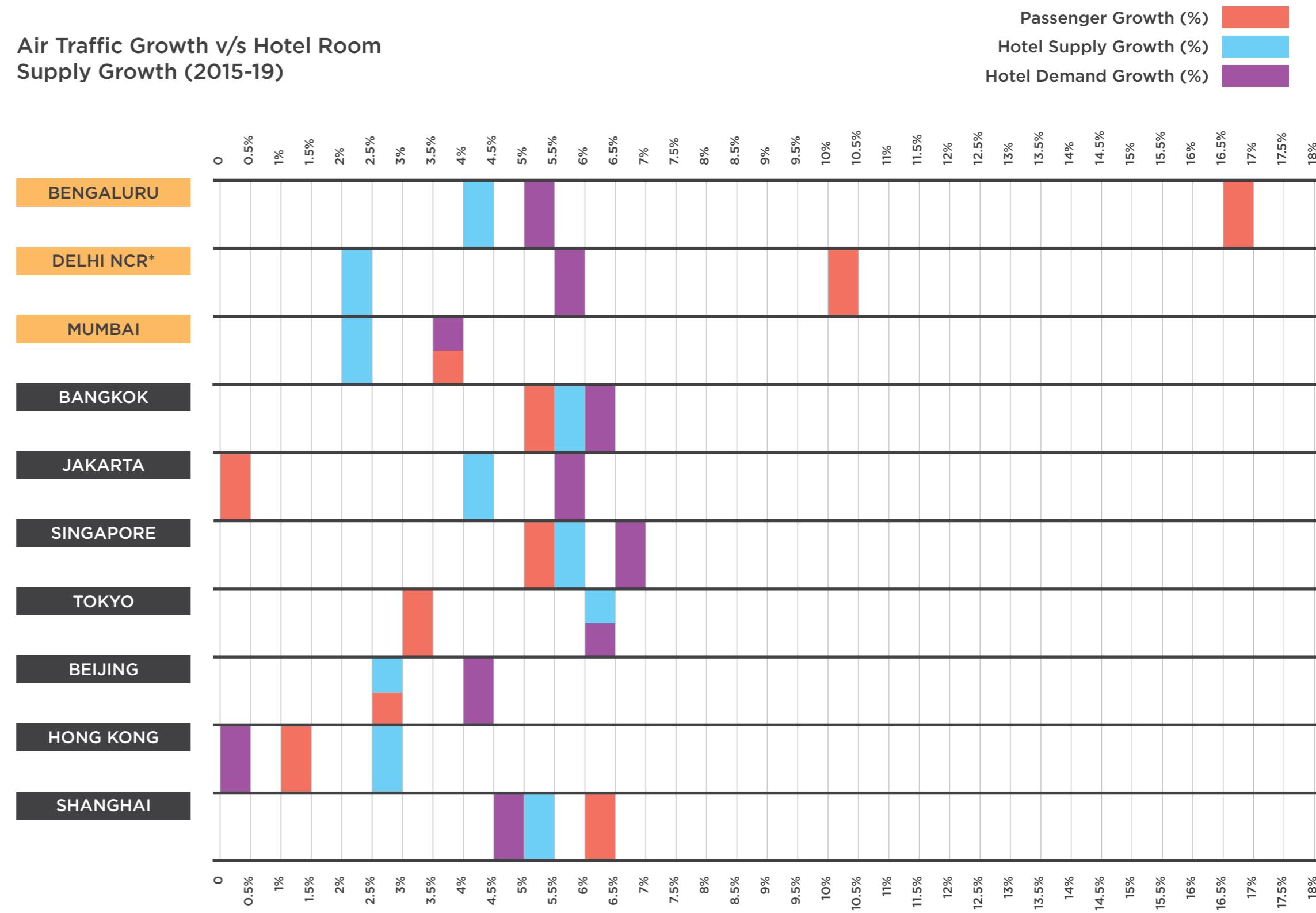
Air Traffic Growth v/s Hotel Room Supply Growth (2015-2019)

The earlier analysis does not consider the massive airport expansion plans set out for all the major cities in the country. From Delhi's newly announced Jewar Airport (capacity of 12 Mn passengers per year after phase 1) to Mumbai's planned development in Navi Mumbai (capacity of 10 Mn passengers per year on completion of phase 1) and Bengaluru's Terminal 2 expansion work, which had begun pre-COVID (additional capacity of 25 Mn passengers per annum in phase 1), the additional capacity pre-COVID was set to be absorbed between 2024-2027. While COVID has reset the timelines for both the sectors, new hotel supply growth is expected to be further constrained.

Until 2019, Delhi NCR, Mumbai and Bengaluru witnessed the lowest hotel supply growth compared to airline passenger growth. The increasing passenger traffic in these cities will add pressure to the existing hotel supply.

While most Asian markets witnessed either nearly flat or mid-single digit air passenger traffic growth rates, both Delhi NCR and Bengaluru, outshined by growing in double digits. The rate of growth in Delhi NCR combined with its absolute passenger traffic showcases the market's potential for growth.

Air Traffic Growth v/s Hotel Room Supply Growth (2015-19)



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Sources: 'Worldwide Airport Traffic Report, Calendar Year 2019', Airports Council International; Airports Authority of India; Industry Sources; Media Reports; Compiled by HVS ANAROCK Research



Factor #3

DRIVING HOTEL DEMAND

Grade A
Office Stock

Hotels Sector vis-à-vis Grade A Office Stock

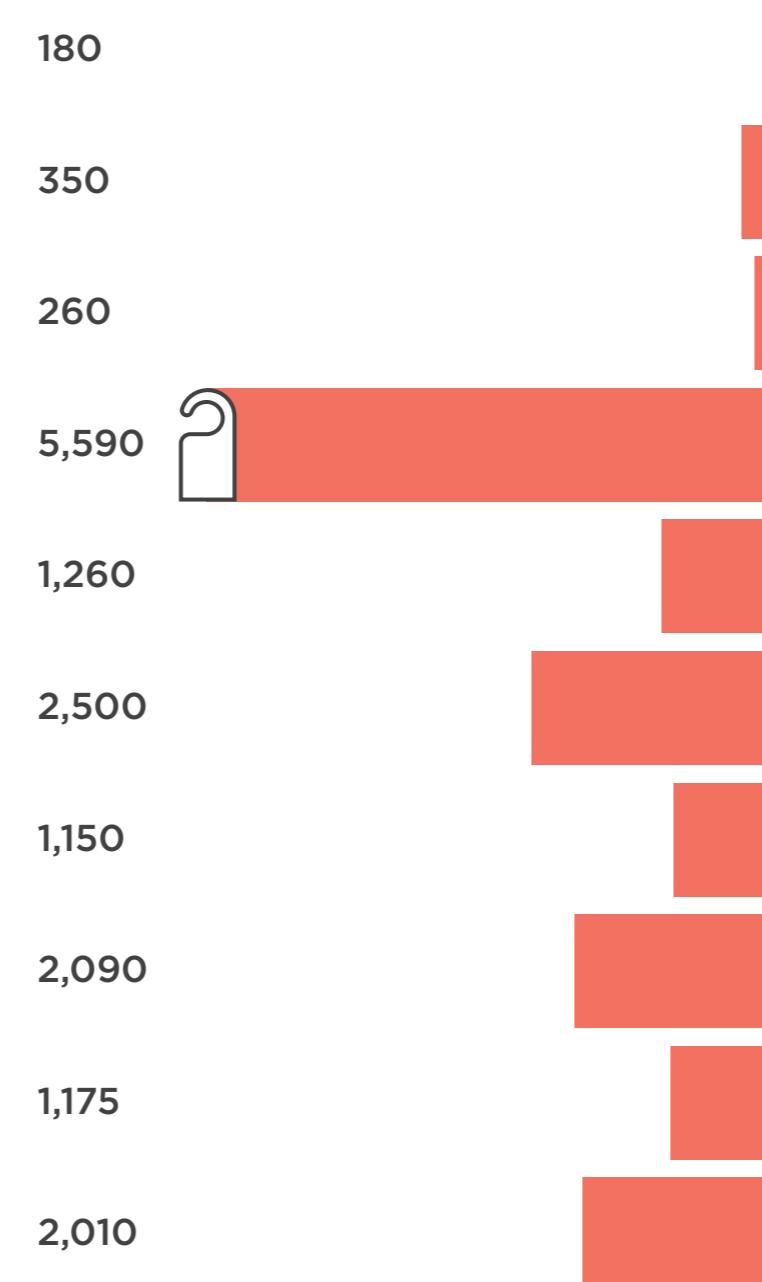
Another key catalyst for hotel demand is the size and the growth of the commercial office market as a large part of demand in major cities across the globe is led by corporate activity.

India has witnessed significant increase in Grade A office stock in the past few years, driven by its robust economic growth and development of a thriving services sector, especially in the Information Technology (IT) and Information Technology Enabled Services (ITeS) industry.

Despite the large commercial office stock, room density per million square feet (Mn sf) of Grade A office stock in Indian cities is the lowest.

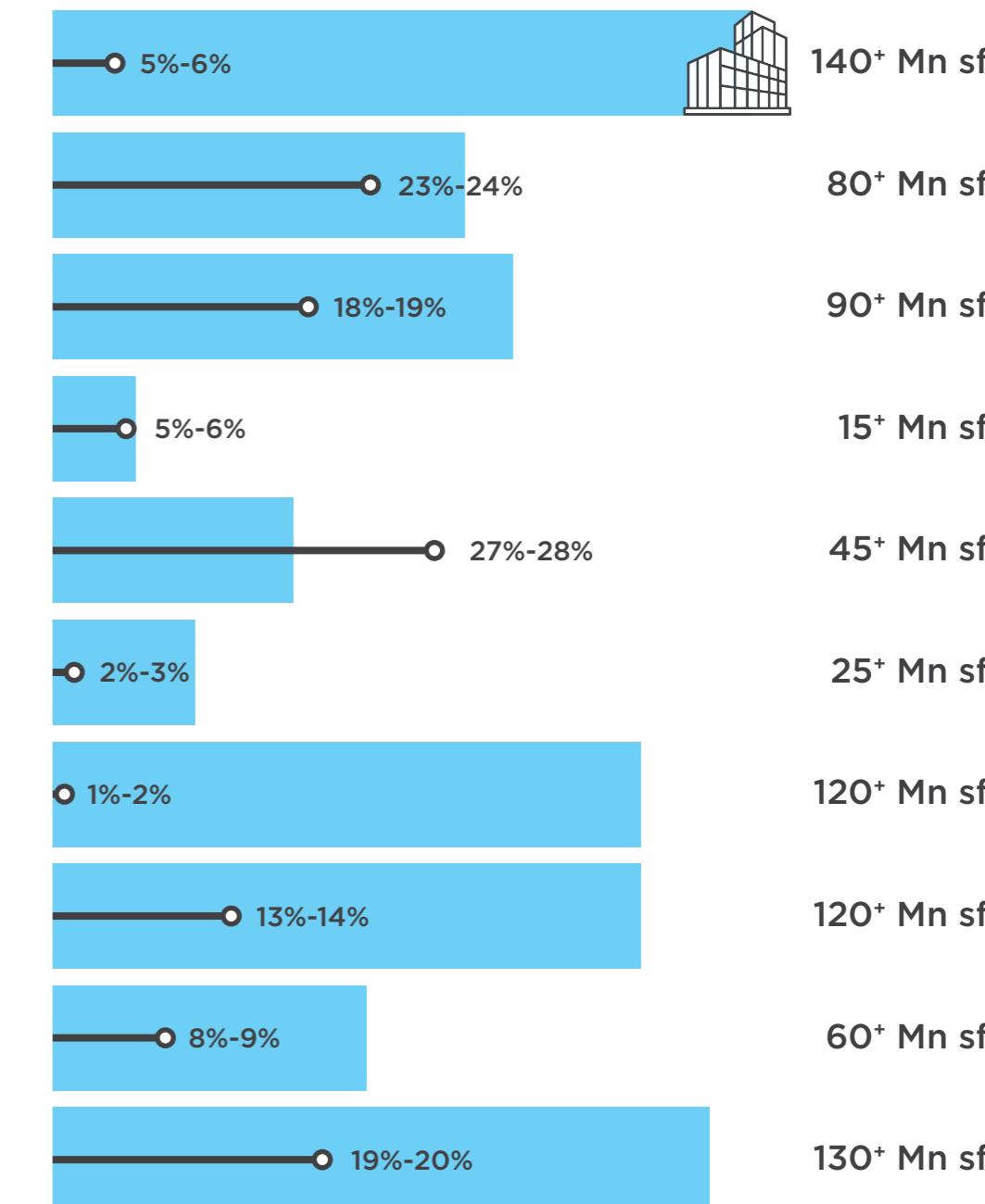
Bengaluru, which has the largest Grade A office stock amongst these 10 Asian cities, has the lowest hotel room density per million square feet (Mn sf) of Grade A office stock. Meanwhile, Delhi NCR and Mumbai's room density by Grade A office stock is four times less than their closest peer, Jakarta, which has half of the office stock in comparison.

Room Density by Grade A Office Stock (2019)[#]



Room Density by Grade A Office Stock (No. of Rooms per Mn sf)

Grade A Office Stock (Mn sf) Vacancy (%)



* Delhi NCR in this report refers to Delhi and Gurugram only

[^] Grade A CBD only

[#] Rounded off to nearest decimal

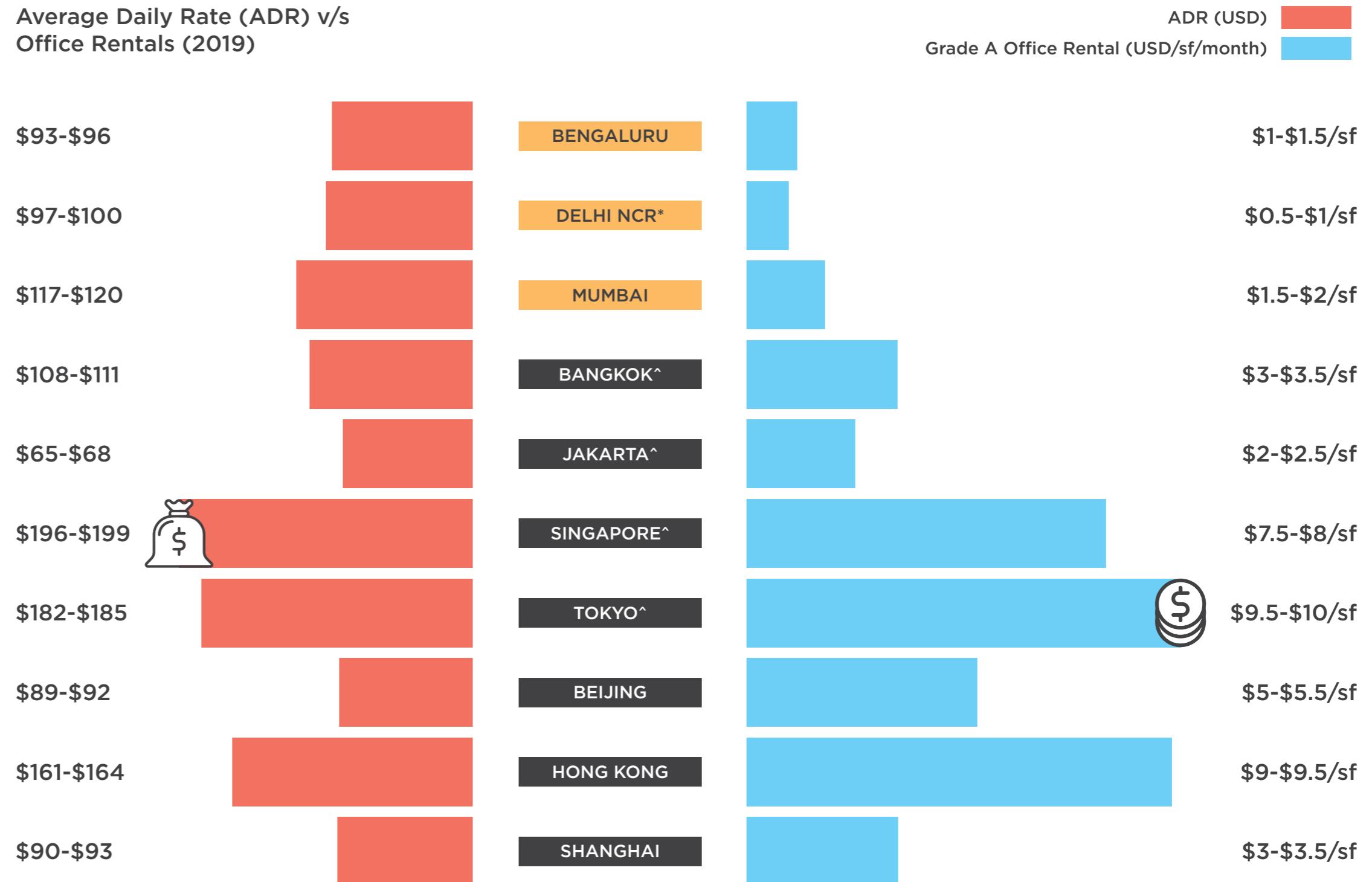
Hotels Sector ADR vis-à-vis Grade A Office Rentals (2019)

Commercial office rentals in India are significantly lower compared to the other Asian cities, while the difference in ADR is much less.

For instance, office rentals in Singapore are almost seven times higher than that in Delhi NCR, whereas ADR in the Singapore hotels sector is only twice the ADR in Delhi NCR.

This is one of the reasons contributing to better hotel yields in India compared to commercial office space yields in the country.

Average Daily Rate (ADR) v/s Office Rentals (2019)



* Delhi NCR in this report refers to Delhi and Gurugram only
^ Grade A CBD only

Source: Compiled by HVS ANAROCK Research



Overview

HOTEL DEMAND

India v/s Other
Asian Cities

Indian Cities, Though Under-penetrated, are Still at Par on Occupancy with Asian Counterparts

The three Indian cities, though still under-penetrated, have been performing at par with the other Asian cities, especially on the occupancy front.

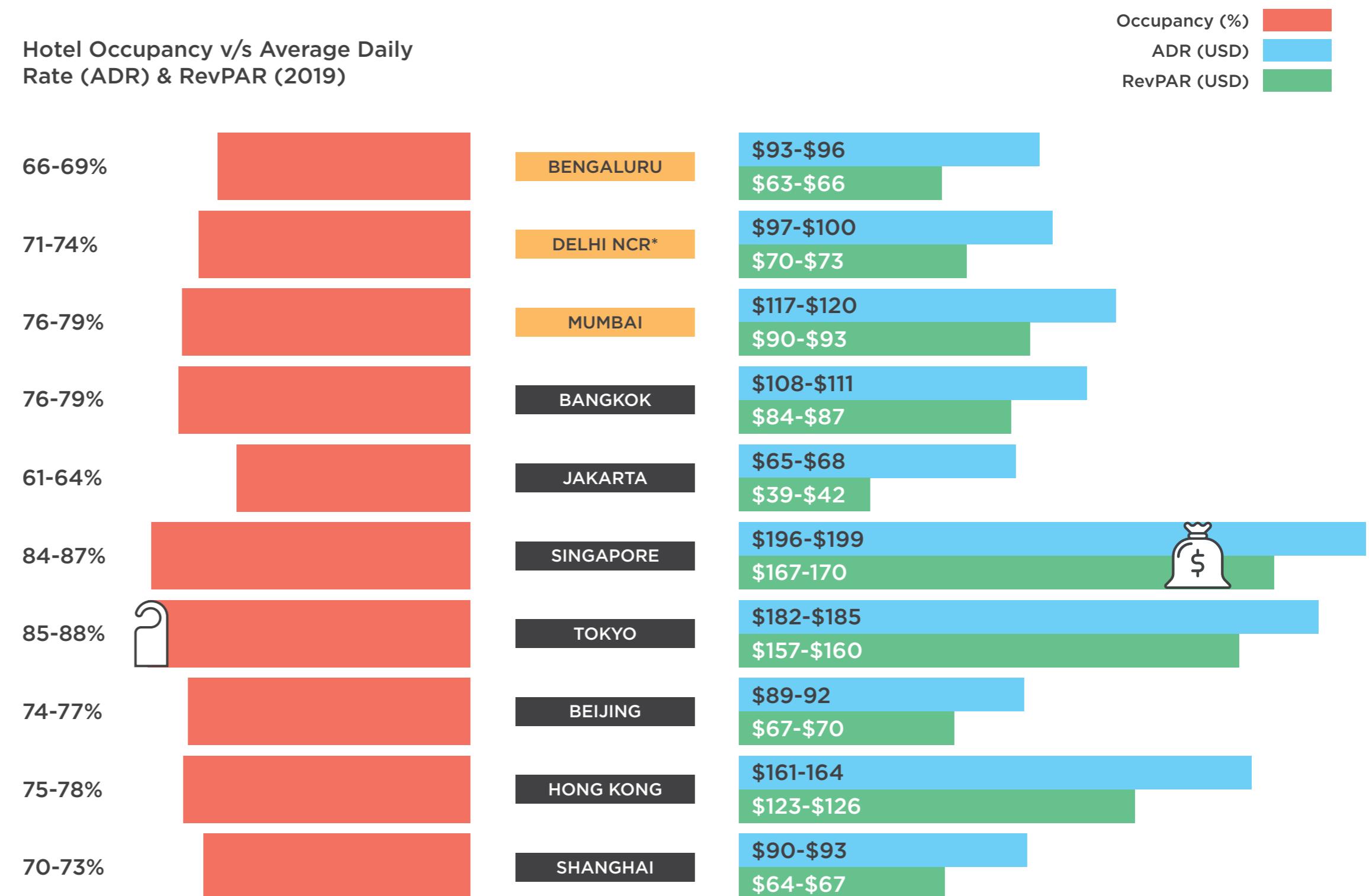
However, the revenue per available room (RevPAR) is still low on account of lower ADR in these cities, showcasing the significant untapped potential in the sector.

Delhi NCR, Mumbai and Bengaluru are primarily corporate markets, but the ADR in these cities is much lower than the other financial districts such as Singapore, Hong Kong and Tokyo.

Bengaluru has RevPAR in the same range as Beijing and Shanghai, but the hotel supply in the Chinese cities is almost ten times more than that of Bengaluru.

Jakarta has the lowest RevPAR amongst the ten cities, but its hotel supply is still two times more than that of the Indian cities.

Hotel Occupancy v/s Average Daily Rate (ADR) & RevPAR (2019)



* Delhi NCR in this report refers to Delhi and Gurugram only

Source: Compiled by HVS ANAROCK Research

The Indian Hotels Sector has Significant Untapped Potential

In this report we have analyzed only the top three hotel markets in India, covering just the tip of the iceberg with respect to the significant untapped potential across the length and breadth of the country, especially in the leisure segment.

There are several unexplored and under-developed beaches, wildlife sanctuaries, heritage sites and hill stations etc. in India which can be developed into established world-class year-round tourist destinations but are lagging due to lack of good infrastructure facilities, including last-mile connectivity and good quality hotels.

Hotel stay is an important aspect which can make or break the holiday experience for a tourist and good quality hotel supply can go a long way in making a tourist destination successful.



With domestic tourists, including the vast number of Indians travelling abroad for holidays, expected to lead the revival of demand for hotels in the COVID era, now is perhaps the perfect time to focus efforts on developing new and unexplored leisure destinations in the country.

1

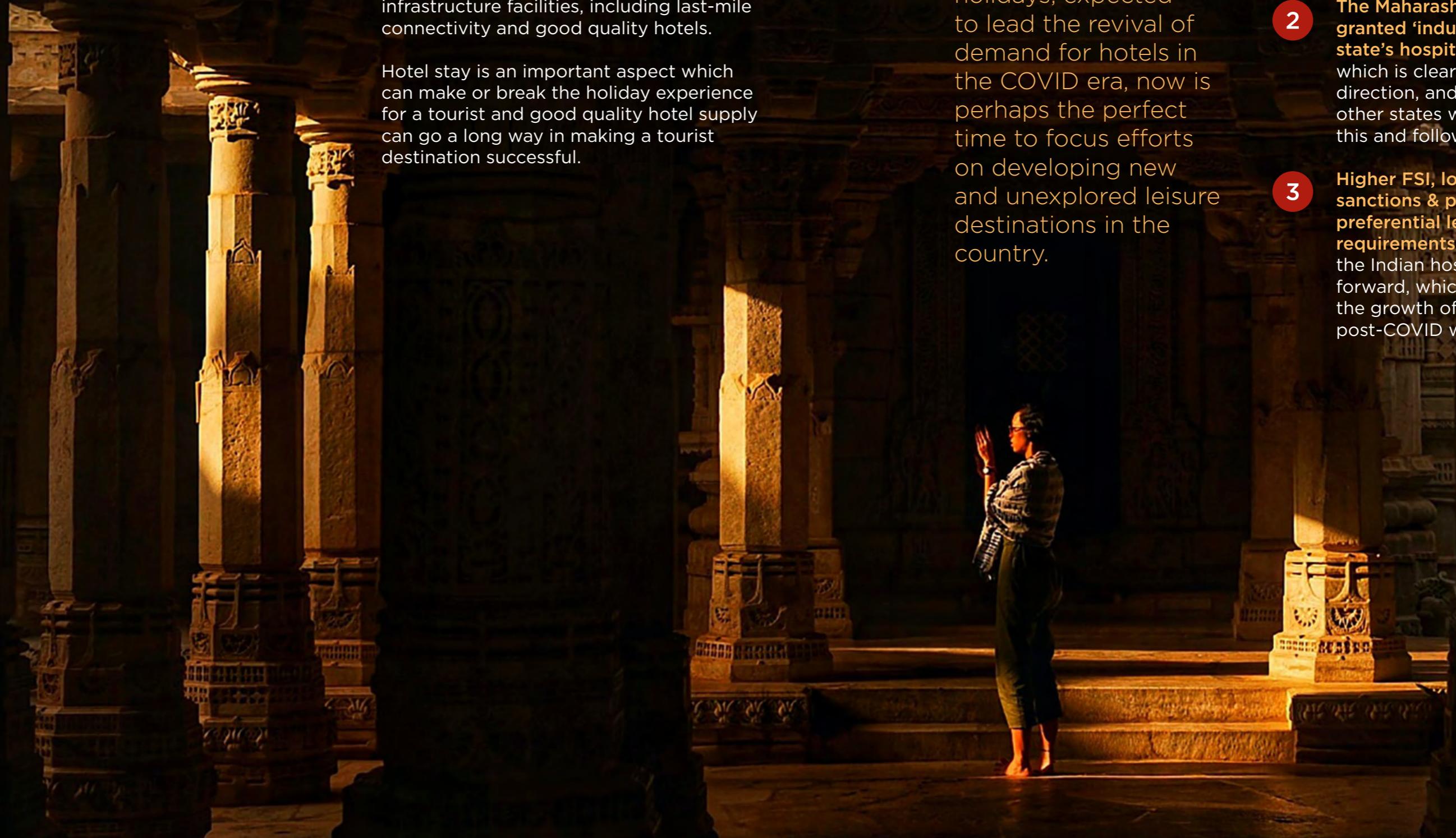
Both the central and state governments must provide policy guidelines and incentives to support the development of hotels in key cities and destinations.

2

The Maharashtra state government granted 'industry' status to the state's hospitality sector recently, which is clearly a step in the right direction, and we now hope that other states will take cognizance of this and follow a similar model.

3

Higher FSI, lower number of sanctions & permissions and preferential lending are key requirements for the growth of the Indian hospitality sector going forward, which will in turn boost the growth of the economy in the post-COVID world.



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