Indian Hospitality Industry Overview **2020**

TAJ FATEH PRAKASH PALACE
UDAIPUR

Foreword

The year 2020 will go down in history books as the year that shook the world – economies, businesses, organizations, and people – out of its comfort zone with a multitude of radical disruptions, which were both painful as well as opportune. The Indian hotels sector has not been any different. After a successful 2019, the year 2020 was expected to be the year that finally set the pace for a consistent upward performance trajectory for the sector. There is no denying that the year broke several records, but not the kind that the sector players were hoping for, as the onslaught of the COVID-19 shock pushed the sector off its growth path. Despite the mayhem caused by the pandemic, it has also accelerated certain much-needed transformations, which, in our view, will help in the sector's growth in the future.

After reaching record-low occupancy in April 2020, the sector closed the year with an India-wide occupancy in the range of 33-36%, reflecting a decline of 31-33 percentage points. In the wake of falling demand and occupancies, hotels reduced tariffs significantly to attract business, thus, pulling down revenue per available room (RevPAR) to a dismal low of ₹1,500 - ₹1,800 in 2020, reflecting a decline of 57-59%. Our estimates indicate that the sector (including organized, unorganized, and semi-organized segments) has incurred a total revenue loss of approx. ₹900 Bn in 2020.

In the aftermath of the ongoing pandemic, brand signings by keys witnessed a year-on-year decline of 40% in 2020. Signings were especially low in the first half of the year, due to the uncertain market conditions and challenges related to closing deals on virtual platforms because of the COVID-19 lockdown and restrictions. During the year, 100 new hotels entered the branded hotels market, while an additional 35 hotels were rebranded. Tier 3 & Tier 4 cities continued to show aggressive growth as brands tried to spread their distribution based on steadily improving demand from these cities. 2020 was a challenging year for hotel transactions as well, which declined by 50% compared to 2019, but was still much higher than the previous peak achieved in 2015, showing the resilience of the sector.

2021 will be a crucial year for the hospitality sector as it emerges from the disruptions and embarks on the path to gradual recovery.

Due to the evolving nature of the pandemic, not only many countries, but even states in India are now reintroducing travel restrictions and lockdowns. At the same time, the gradual rollout of the COVID-19 vaccine across the globe and in India is expected to help restore consumer confidence and help ease these restrictions during the year ahead. We expect demand to improve considerably in 2021, driven by strong economic growth, corporate performance, and people making-up for the lost time by giving-in to their pent-up desire to travel. However, hygiene, cleanliness and safety will continue to remain top priorities in the post-COVID world.

Domestic leisure travel, particularly to motorable destinations, will continue to show a steady increase in 2021. Meanwhile, corporate demand will remain subdued, at least in the short term, as the convenience of virtual meetings overshadows travel. We expect India-wide occupancy to improve to 56-59% in 2021, which will push RevPAR to ₹2,500 - ₹3,000 during the year. Rate pick-up for luxury business hotels is likely to be the slowest and for luxury leisure to be the fastest. We expect mergers & acquisitions (M&A) activity in the industry to accelerate in the second half of the year, with hotel transaction volumes exceeding USD 1 Bn in 2021, as several assets and asset owners come under financial stress and look for exit.

Though the 2021 Union Budget failed to provide any direct and immediate support to the Indian hospitality sector, the fillip given to other sectors such as healthcare and infrastructure will indirectly help in the tourism and hospitality sector's growth in the long-term. Furthermore, India's economic fundamentals continue to be strong, and the country is expected to bounce-back to reclaim its title as the world's fastest-growing major economy in the next fiscal with 11.5% growth, as per the International Monetary Fund (IMF)*. This bodes well for the Indian hospitality sector and will help in its sharp recovery during the next couple of years.

* As per media reports in January 2021

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SECTION 1

Travel & Tourism (T&T) Sector

COVID-19's Devastation on the Global T&T Sector

Novel Corona Virus or Covid-19 wreaked havoc across the world in 2020, as the outbreak, which started in China at the end of 2019, spread like wildfire across continents with no country being completely immune from its impact.

The economic impact of the outbreak has been devastating, as global trade and travel came to a standstill because lockdowns and travel restrictions were implemented like a raging fire across the globe.

Key Highlights*

Global International Tourist Arrivals (ITAs)

381 Mn^ 2020 — ↓74% Y-o-Y

1,500 Mn 2019 — ↑4% Y-o-Y

^ Plunged to the levels of 1990s

Loss of Global ITAs

1,100 Mn 2020 — ↓74% Y-o-Y

37 Mn 2009 GFC# — ↓4% Y-o-Y

2 Mn 2003 (SARS) — ↓0.4% Y-o-Y

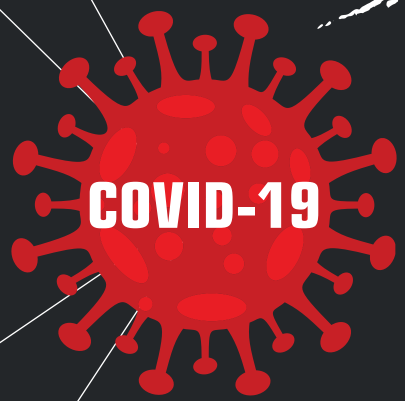
Estimated Loss in Tourism Exports

USD 1.3 Tn 2020 → **11x more than** The loss recorded during the 2009 GFC

Jobs Lost

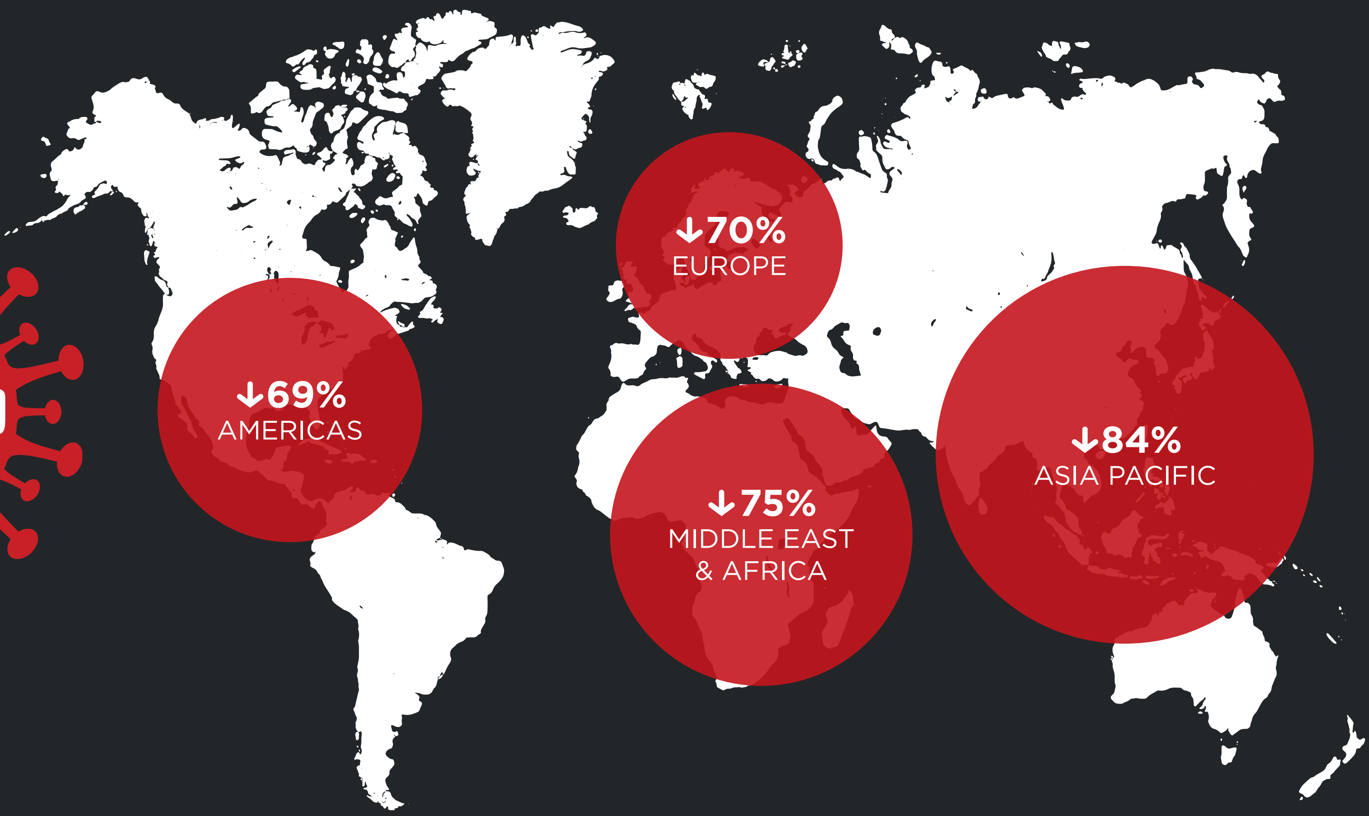
100 Mn - 120 Mn 2020

Direct tourism jobs at risk, many of which are in small-sized & medium-sized enterprises



International Tourist Arrivals (ITAs) Year-on-Year Change (Y-o-Y %) by Region*

↓74% World



*All data shown is an approximation and for calendar year
2009 Global Financial Crisis

Source: "World Tourism Barometer", United Nation's World Tourism Organization, January 2021 edition; HVS Research

COVID-19 Impact on Indian T&T Sector

Job Losses in T&T Sector*

40⁺ Mn or 50%
of direct & indirect jobs in 2020

Air Passenger Traffic*

2019 | 2020

Total Air Passenger Traffic

2020	2019	Y-o-Y	Period	2020	2019	Change	Period	2020	2019	Change
143.2 Mn	349.3 Mn	↓ 59%	JAN to FEB	60.8 Mn	58.4 Mn	↑ 4.1%	MAR to DEC	82.4 Mn	290.8 Mn	↓ 71.7%

Total Air Passenger Traffic | International

2020	2019	Y-o-Y	Period	2020	2019	Change	Period	2020	2019	Change
20 Mn	70 Mn	↓ 71%	JAN to FEB	11.9 Mn	12.7 Mn	↓ 1.4%	MAR to DEC	8.2 Mn	57.9 Mn	↓ 85.9%

Total Air Passenger Traffic | Domestic

2020	2019	Y-o-Y	Period	2020	2019	Change	Period	2020	2019	Change
123 Mn	279 Mn	↓ 56%	JAN to FEB	48.9 Mn	46.3 Mn	↑ 5.5%	MAR to DEC	74.2 Mn	232.9 Mn	↓ 68.1%

Foreign Travel Arrivals (FTAs)

2020	2019	Y-o-Y	Period	2020	2019	Change	Period	2020	2019	Change
2.6 Mn#	10.9 Mn	↓ 76%	JAN to MAR	2.4 Mn	3.2 Mn	↓ 22%	APR to DEC	0.21 Mn	7.7 Mn	↓ 97%

Key Highlights

India first started feeling the ripple effects of the global COVID-19 turmoil towards the end of February 2020, with the situation worsening thereafter as India like most other countries went into a lockdown towards the end of March.

Total air passenger traffic in India reached record lows in the aftermath of the pandemic as flying across the country was ceased. Domestic flights resumed in India from 25th May 2020 after a gap of two months.

However, all scheduled international commercial flights continue to remain suspended since March 2020, with only the flights under air bubble agreements with various countries being operational.

The 'Vande Bharat Mission' was launched in May 2020 to evacuate Indians stranded abroad after the COVID-19 breakout; as of 5th January 2021, over 4.49 Mn people had availed this service.

Impact on the Indian Hotels Sector*

40-50%

Of direct employees in the organized Indian hotels sector have **lost their jobs** and a similar number have been impacted by **salary cuts**

₹ 900 Bn

Estimated total revenue loss in 2020 for organized, semi-organized and unorganized segments

*All data shown is an approximation and for calendar year
Similar to 2001 level

Source: Airports Authority of India; Indian Ministry of Tourism; HVS Research

COVID-19 Related Government Assistance & Support across the Globe

Governments across the globe provided economic stimulus and assistance to mitigate the economic fallout of the COVID-19 pandemic.

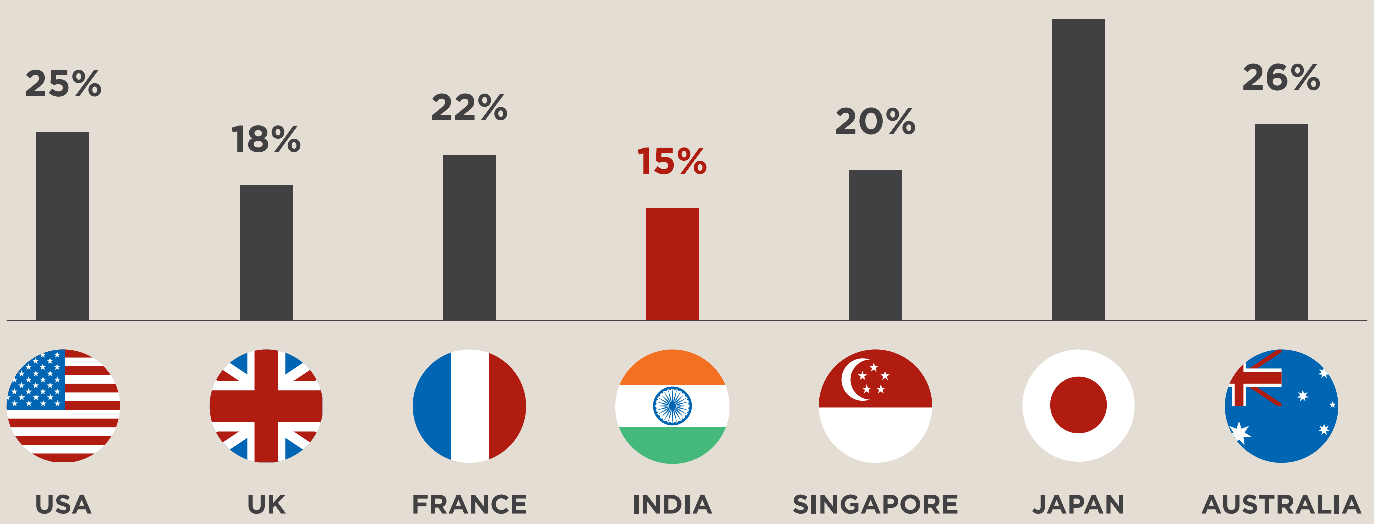
Several countries even announced sector-specific relief measures for the aviation, travel & tourism and hospitality sectors, which have been severely impacted by the pandemic.

COVID-19 Assistance – At a Glance*

USD 19.5 Tn (and counting)

Stimulus measures announced by the governments and central banks across the globe, as per IMF

Overall Economic Response by 8 Countries (as % of GDP)



₹29.87 Tn (USD 400 Bn) worth of overall support till November 2020 by the Government & RBI, reflecting approx. 15% of GDP

Some key highlights:

₹1.70 Tn (USD 22 Bn) initial relief package in March 2020
₹20 Tn (USD 260 Bn) COVID relief package in May 2020
₹2.65 Tn (USD 37 Bn) comprehensive stimulus package in November 2020

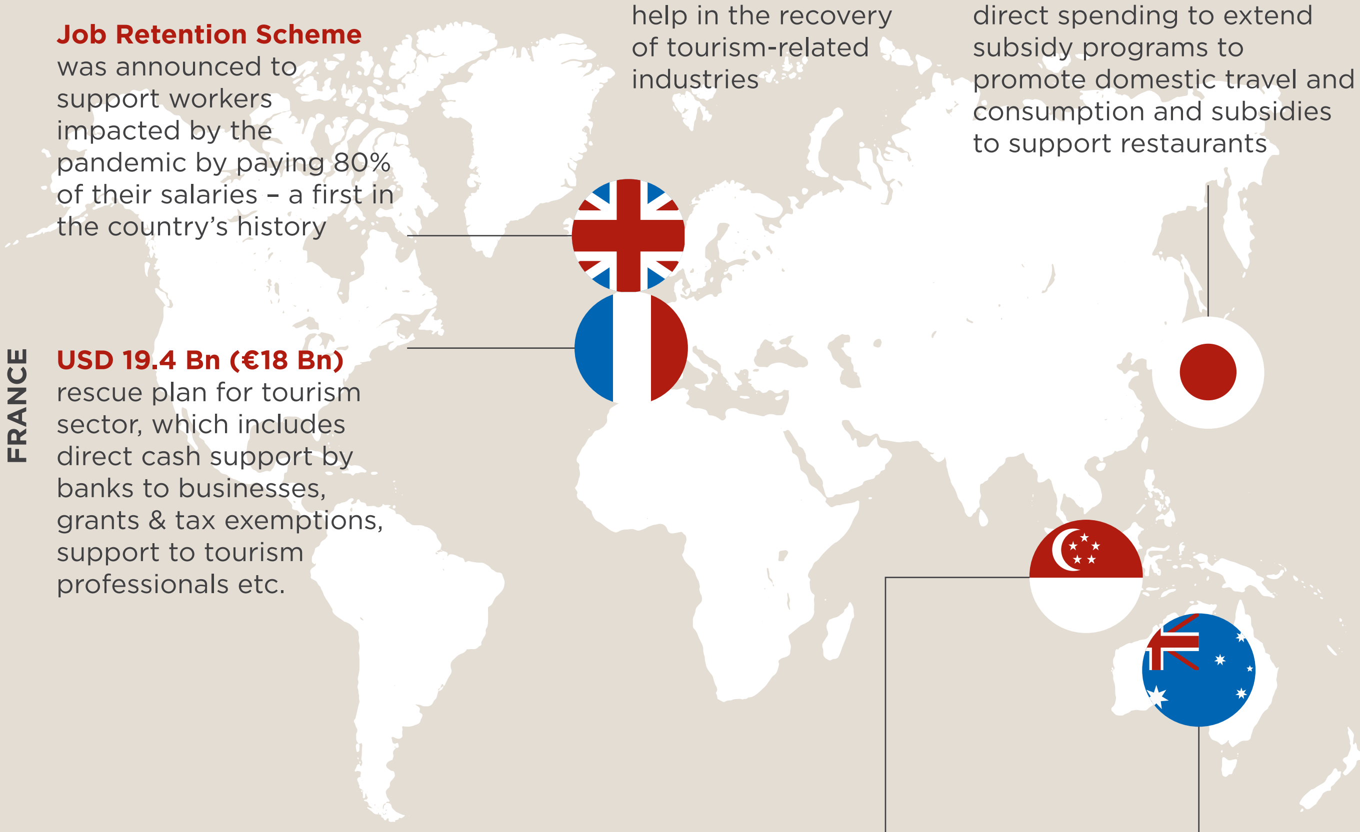
Key measures have been announced to improve liquidity, ease tax compliance burden across sectors, raise default thresholds for invoking bankruptcy proceedings, incentivize job creation and boost rural employment, support construction & infrastructure sectors etc.

Direct Payments to Americans amounting to **USD 290 Bn**

Enhanced Unemployment Aid amounting to **USD 260 Bn**

Economic Stabilization Assistance amounting to **USD 454 Bn**

Specific Measures to Support T&T Sector* (An Indicative List Only)



UK

£4.6 Bn relief package for hospitality and retail sectors

Job Retention Scheme was announced to support workers impacted by the pandemic by paying 80% of their salaries – a first in the country's history

FRANCE

USD 19.4 Bn (€18 Bn) rescue plan for tourism sector, which includes direct cash support by banks to businesses, grants & tax exemptions, support to tourism professionals etc.

JAPAN

USD 15 Bn (¥1.68 Tn) earmarked to stimulate consumption and help in the recovery of tourism-related industries

USD 670 Bn (¥73.6 Tn) worth measures announced in December 2020, including direct spending to extend subsidy programs to promote domestic travel and consumption and subsidies to support restaurants

SINGAPORE

USD 305 Mn to revive the tourism and aviation industries, and full property tax waiver to hotels, serviced residences etc. for 2020

Wage subsidies and support for local employees in the sector

Up to 50% of third-party professional cleaning fees capped at USD 20,000 per establishment for licensed hotels and tourism establishments

SGD 320 Mn in August 2020 for tourism credits to encourage local tourism

AUSTRALIA

USD 928 Mn tourism support package to boost local travel

Support includes airline ticket subsidies, cheap loans to small tour companies and financial aid for country's two largest airlines etc.

*All data shown is an approximation; Initiatives announced till 11th March 2021

Source: Government websites, IMF & WTTC; HVS Research

COZZET STAY
AMRITSAR

SECTION 2

Indian Hotels Sector Review

2020 Performance Review

HVS ANAROCK India Hotels Outlook Report

Hit hard by the repercussions of the COVID-19 pandemic, the Indian hotels sector witnessed one of its lowest performances ever in 2020, in line with the estimates in our 'India Hotels Outlook' report.

India KPIs 2020

Occupancy

33-36%
↓31-33
percentage points

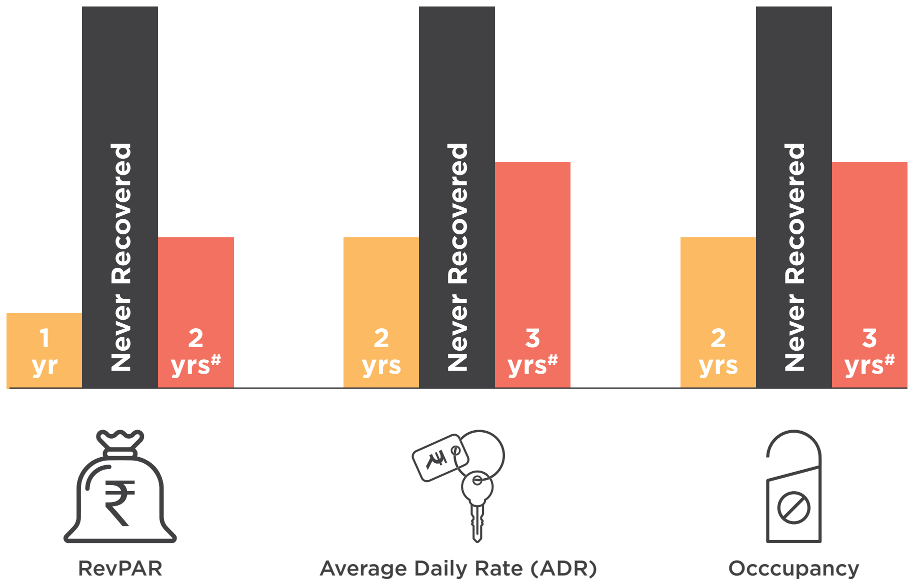
ADR

₹4,700-5,000
↓18-20%

RevPAR

₹1,500-1,800
↓57-59%

Recovery in Previous Cycles & COVID-19 Forecast (in Years)



9/11 Attack (2001) | GFC (Sep 2008) | COVID-19 (2020)#

HVS Projections


THE LEELA
UDAIPUR

*All data shown is an approximation and for calendar year

Source: HVS ANAROCK India Hotels Outlook Report, August 2020

2020 Quarterly Highlights

Q1

2020 started on a positive note with all major hotel markets recording the highest-ever business-on-books for February. However, the euphoria started to fade when corporates started to cancel bookings as early as end of January, which reflected in the market performance as it recorded a RevPAR close to ₹3,700 in Q1, around 19% lower than last year.

Q2

The quarter was marred with lockdown, travel restrictions and uncertainty. Demand was limited to stranded travelers and mandatory institutional quarantine business. As a result, the country recorded only 15%-16% occupancy at below ₹3,500 rate.

Q3

Early signs of revival were visible in the market as the lockdown restrictions started to ease. **This revival was primarily due to people traveling to motorable leisure destinations.** In the absence of corporate demand and government restrictions on event size, the revival in the conventionally corporate-heavy markets was assisted by social events.

Q4

The onset of the festive & holiday season in the last quarter of the year brought some much-needed cheer as people flocked to leisure destinations. This was complimented by easing of government regulations on event sizes and the availability of a larger number of auspicious wedding dates as per the Hindu Calendar. **The sector focused on social events and other indirect room demand generators such as staycations and stayevents.** This enabled the industry to achieve occupancy level closer to 35% and ADR north of ₹4,000 during the quarter.


CONRAD
BENGALURU

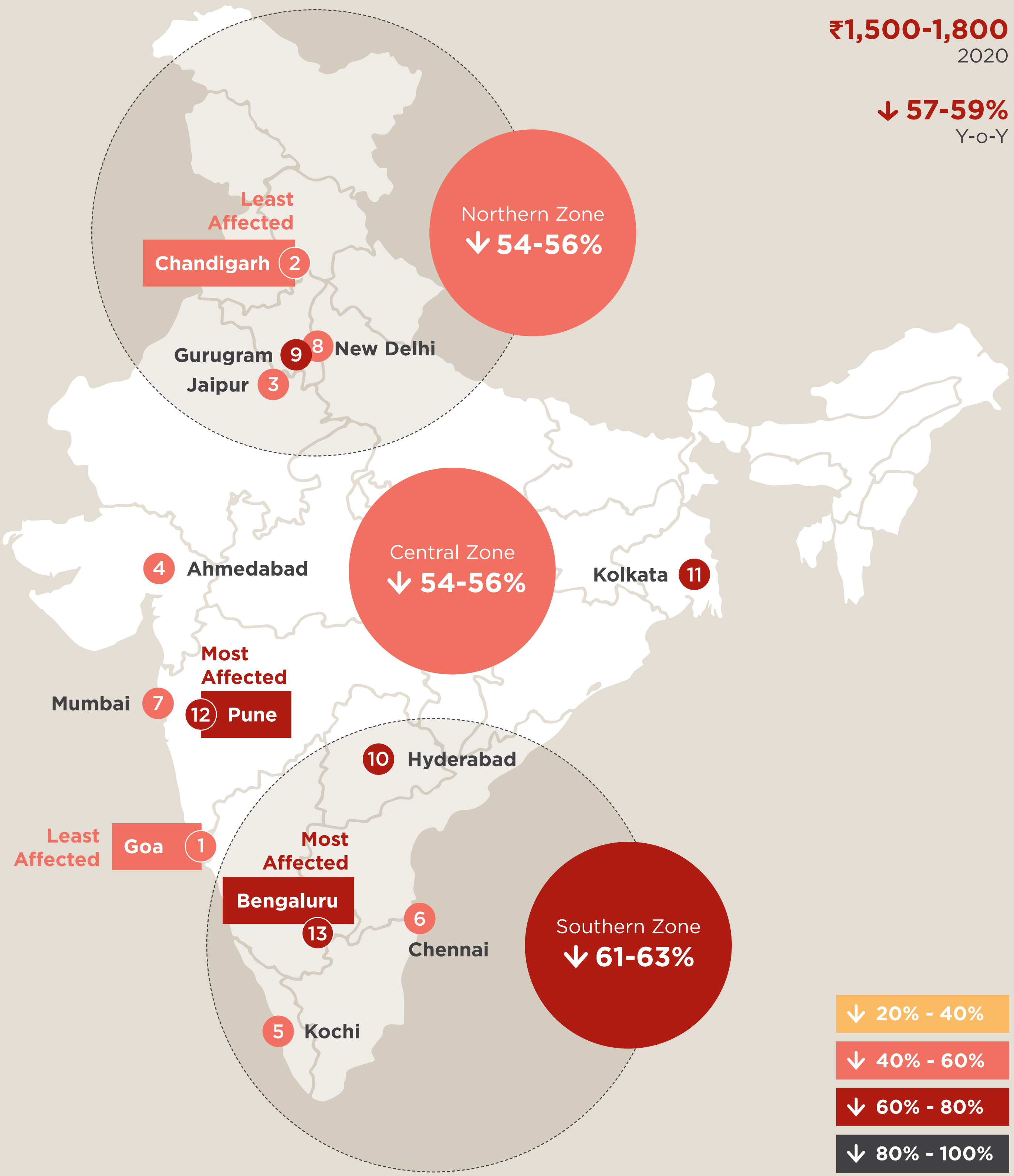

GINGER
GOA

RevPAR Decline Across India's Key Markets (2020 vs 2019)

India RevPAR

₹1,500-1,800
2020

↓ 57-59%
Y-o-Y



* All data shown is in approximation and for calendar year
Map not to scale, for representative purpose only

Source: HVS Research

Key Takeaway – Leisure vs Business Markets in 2020

Hotel markets in business destinations, especially those focused on IT-ITeS^ such as Bengaluru and Pune, suffered the most as corporate travel and MICE# came to a halt. The 'staycation' packages, however, helped in shoring up the occupancy at some city hotels.

Meanwhile, the revival of domestic leisure travel during the latter part of the year helped improve the occupancy in leisure hotel markets, especially the motorable leisure destinations in the country.

Goa continued to be the leading leisure destination and this year too it has lived up to its reputation as the country's most resilient market.

With the slightest easing in travel restrictions, people started flocking to Goa. The restriction on international travel and a smaller number of active COVID-19 cases made it the preferred choice not only for domestic leisure travelers but also as a wedding and honeymoon destination.

Surprisingly, Chandigarh (also popularly known as the Tri-city region) was the second least affected market.

The region acts as the transient point for travelers heading towards various leisure destinations in the Himalayan states. It is famous for conducting large social events and is considered one of the biggest markets for social banqueting.

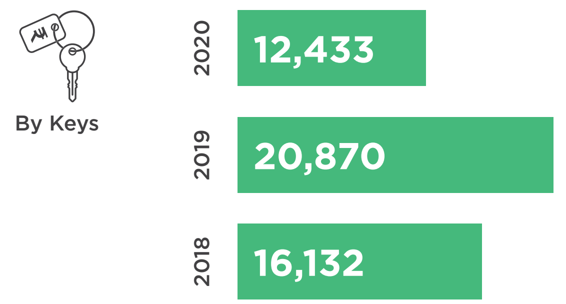
As the COVID-19 restrictions eased, the market benefited from the movement of social events from unorganized venues to hotels as resident events and reached approx. 80% of pre-COVID demand level by December 2020.

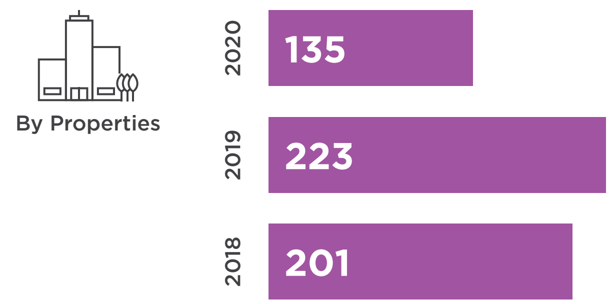
^ Information technology & information technology enabled services
# Meetings, incentives, conferencing & exhibitions

2020 Brand Signings

Brand Signings During 2018 to 2020*

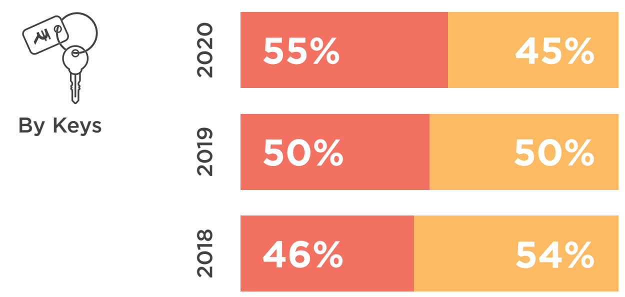
Brand signings by keys witnessed a year-on-year decline of 40% in 2020 in the aftermath of the ongoing pandemic. During the year, 100 new hotels with 9,757 keys entered the branded hotels market, while an additional 35 hotels with 2,676 keys were rebranded.

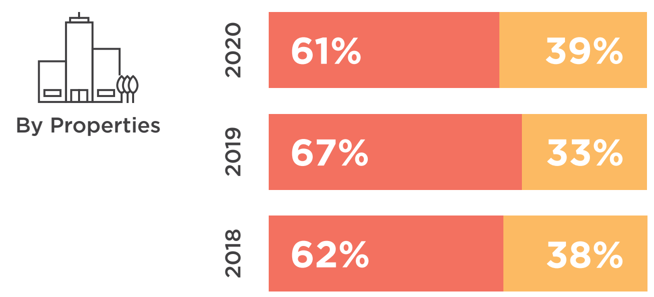


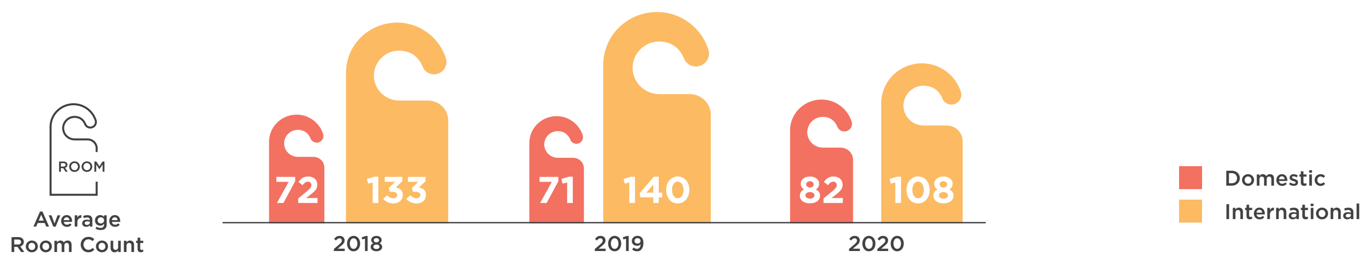


International vs Domestic Brands

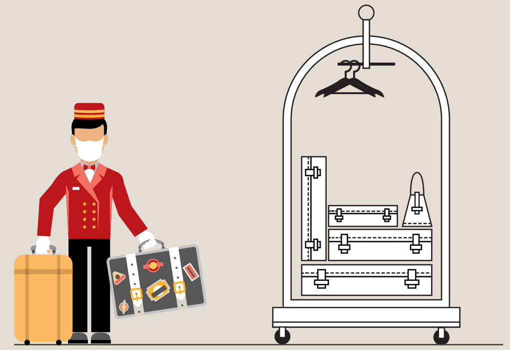
Domestic hotel operators continued their aggressive growth strategy and managed to further increase their share in the annual brand signing numbers by signing more properties (61% of the total signings by property) than their international peers, with an average key count of 82 keys during the year. In a shift in strategy, international hotel operators also showed a keenness in signing smaller properties in 2020, as they adapted to the changing market dynamics and looked at increasing their footprint in smaller cities. Consequently, in 2020, the average key count for international hotel operators declined to 108 keys compared to 140 keys in 2019.







*As reported by 24 hotel operators as of 31st January 2021 for CY2020 & media reports
2019 numbers have been updated as per new information reported by hotel operators



Top 3 Operators

By Keys

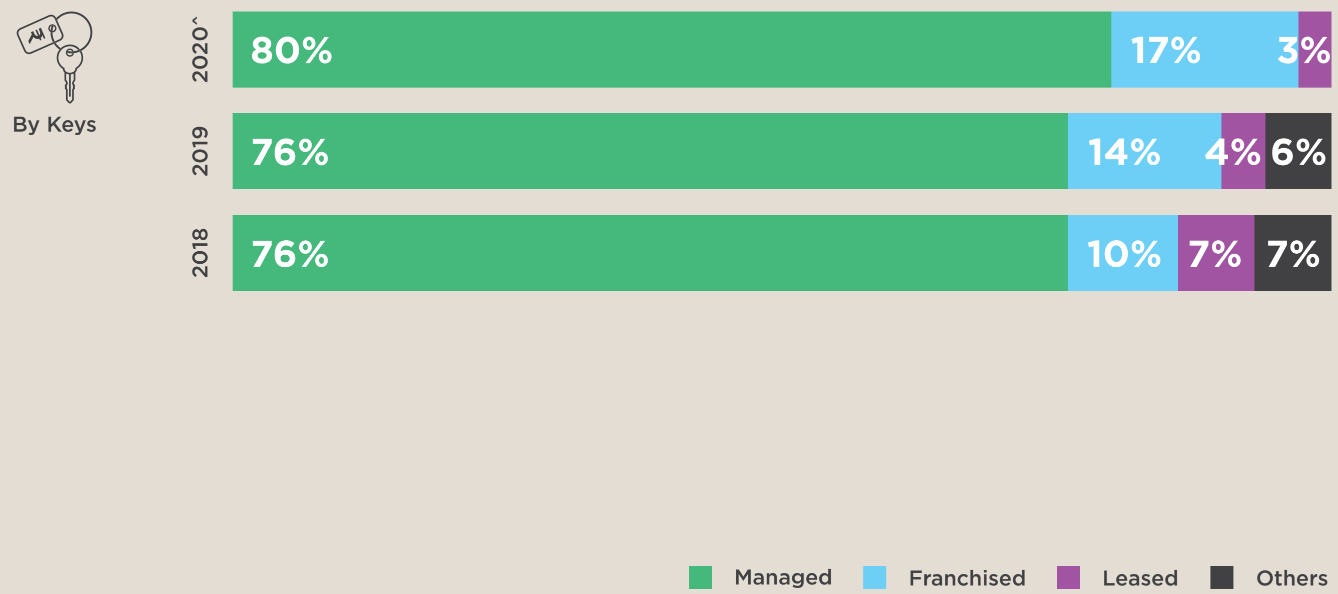
1. IHCL
2. RADISSON HOTEL GROUP
3. SAROVAR HOTELS & RESORTS

By Properties

1. IHCL
2. SAROVAR HOTELS & RESORTS
3. WYNDHAM HOTELS & RESORTS; THE FERN HOTELS & RESORTS

By Contract Type

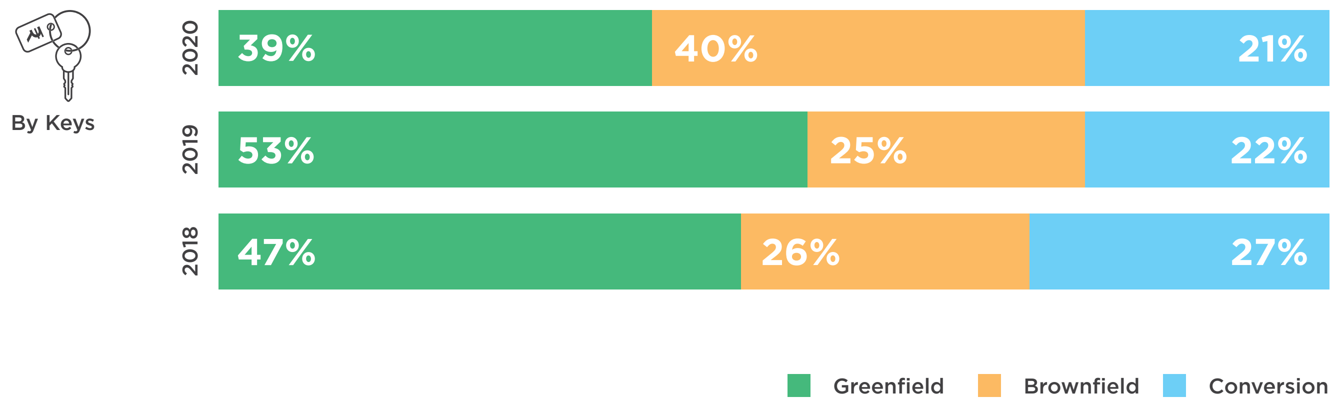
Management contracts continued to be the preferred form of brand signings, accounting for 80% of the total signings by keys in 2020. However, franchising is steadily strengthening its position and accounted for 17% of the signings by keys in 2020 compared to 14% in 2019. Leasing and other forms of contract continued to lose their charm over the last year.



^ For 2020, Others has been clubbed with Leased since it accounted for less than 0.5% of the total signings

Source: HVS Research

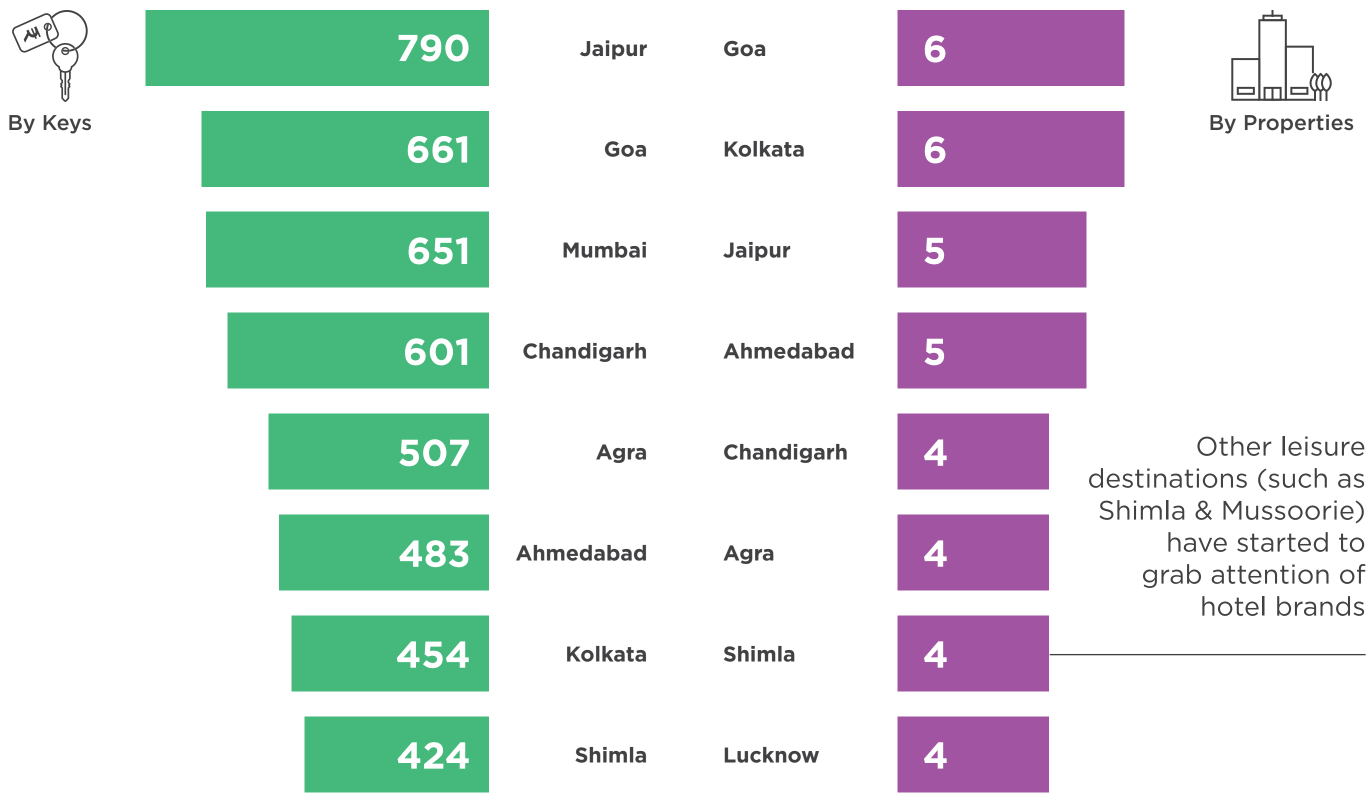
By Development Status



In the year marred with uncertainty, hotel operators preferred to sign projects that are less risky and have a higher chance of completion compared to greenfield projects. As a result, brownfield projects grabbed the pole position in 2020, accounting for 40% of the signings by keys, followed by greenfield with 39% and conversion/rebranding accounting for 21% of the total signings by keys.

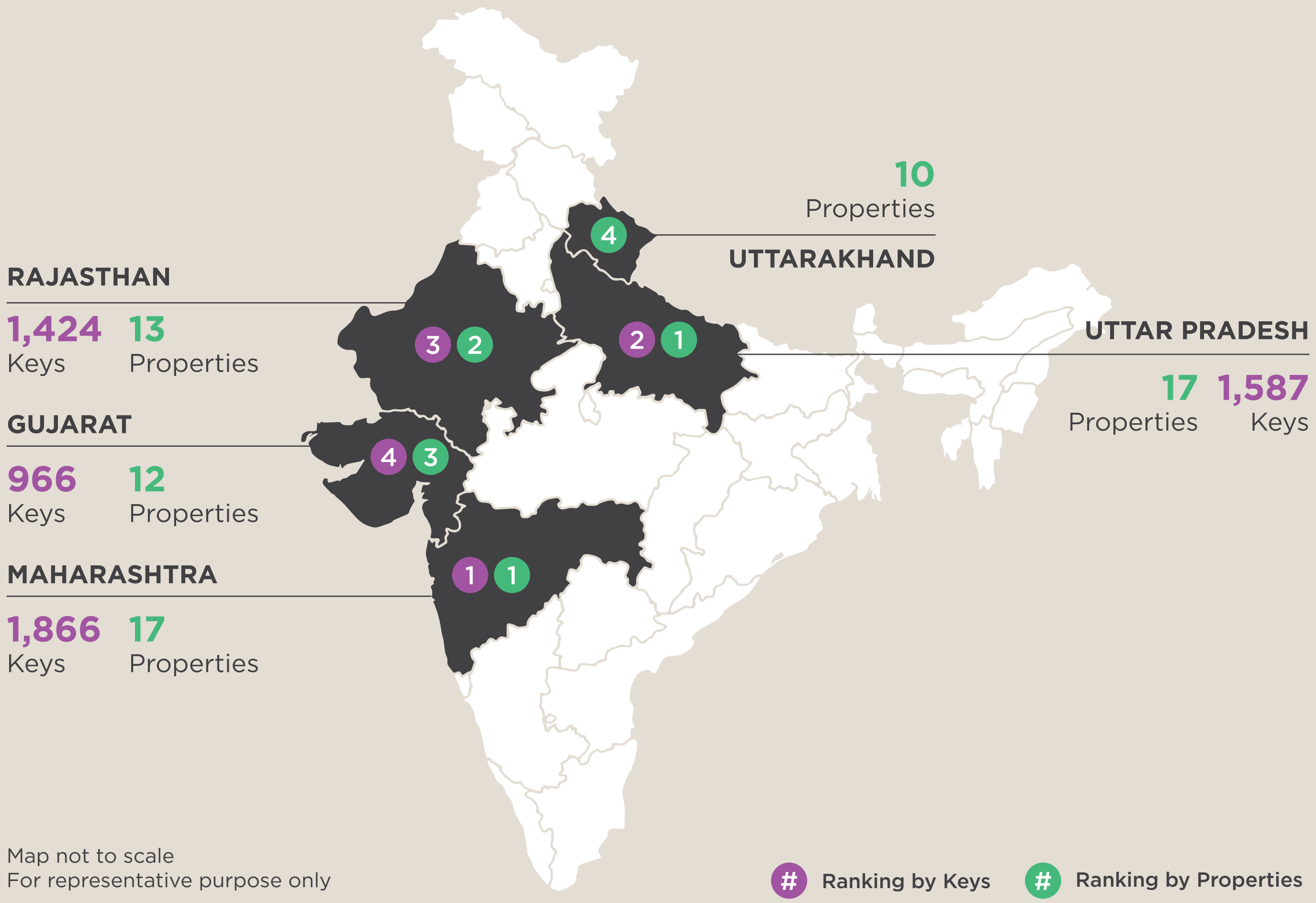
In terms of number of properties, brownfield accounted for 45% of the total signings, while greenfield properties accounted for 29% of the signings during the year. Hotel rebranding or conversion is gaining momentum and accounted for 26% of the total signings by properties in 2020.

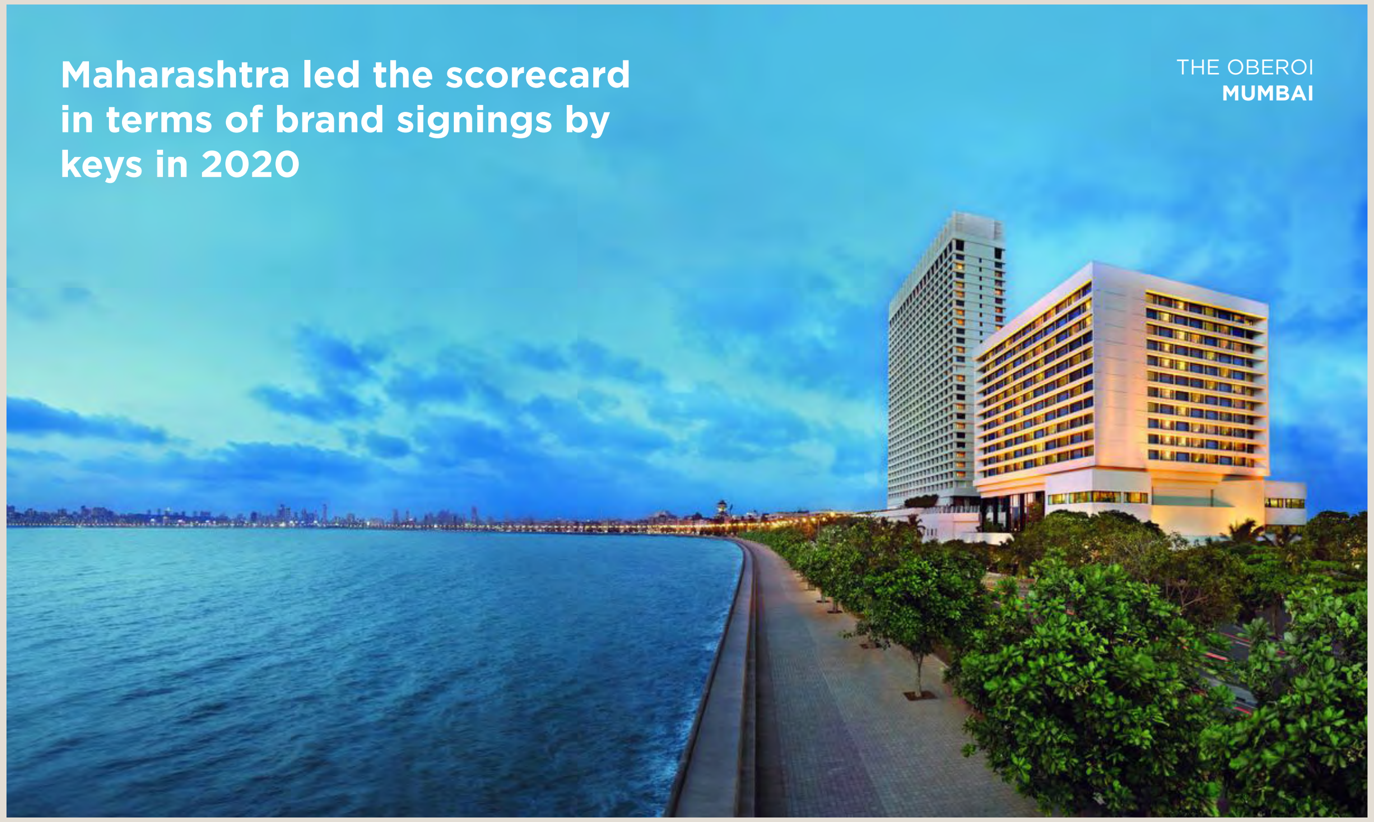
Top Destinations (Ranking by City)



Source: HVS Research

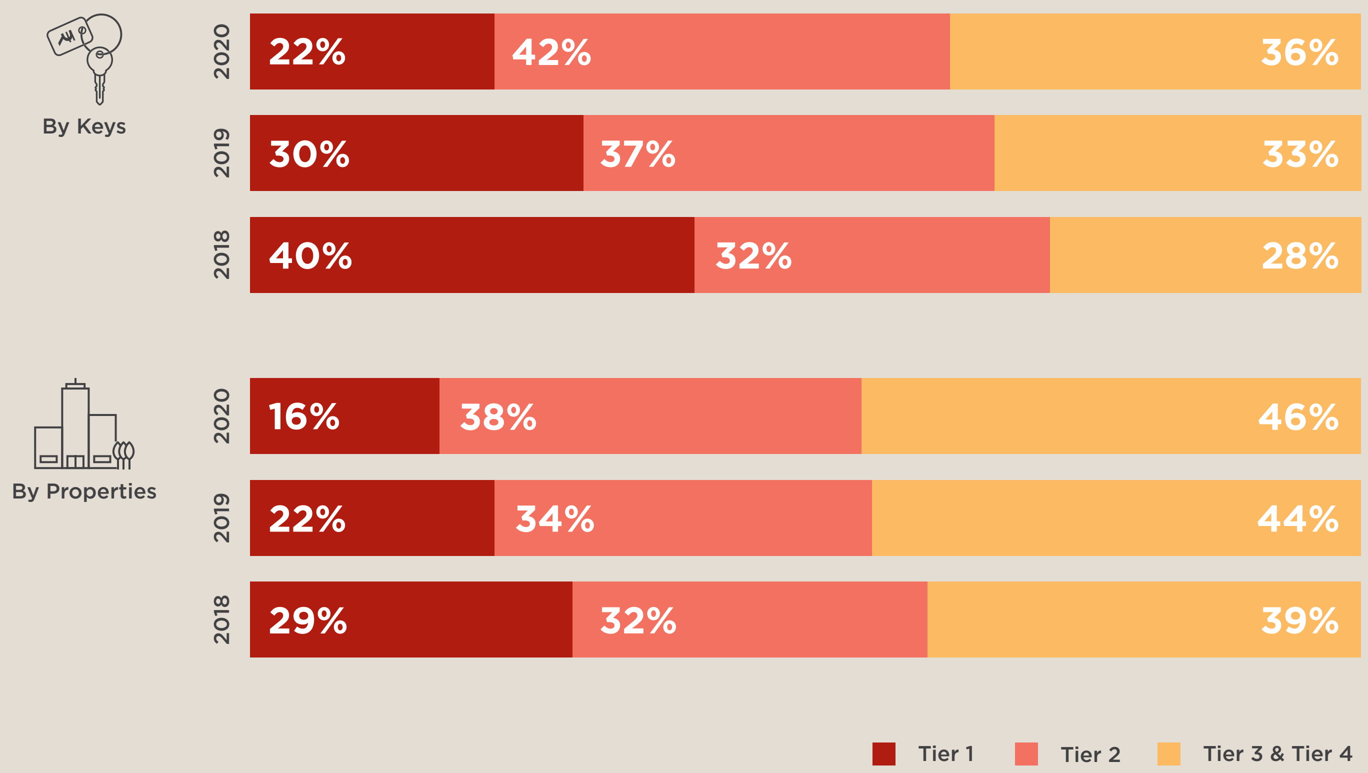
Top Destinations (Ranking by State)





By Tier Classification

Hotel operators also continued to increase their footprint in Tier 3 and 4 cities, which accounted for 46% of the total signings by properties during the year. The share of the Tier 1 cities continues to decline as these markets have limited sites left for hotel development.



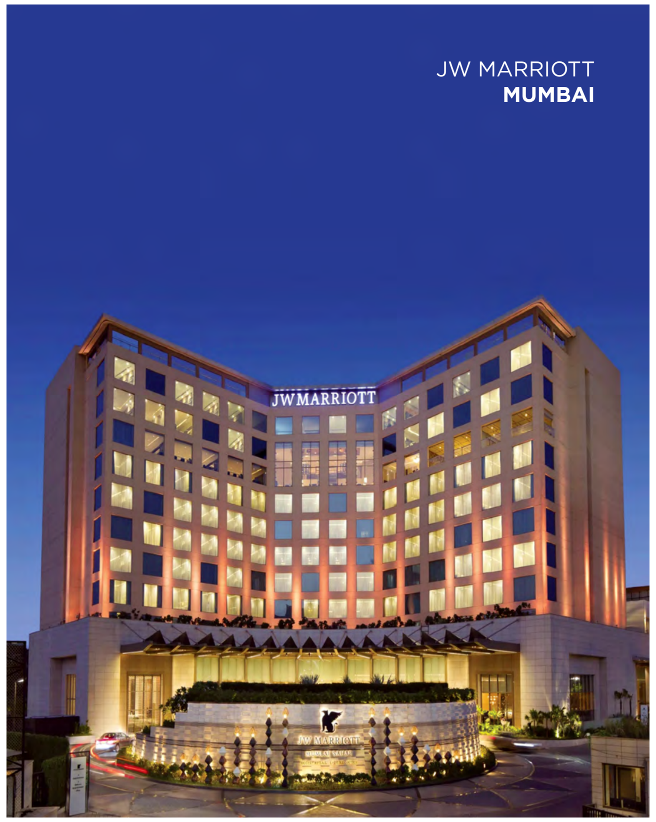
*All data shown is an approximation and for calendar year

Source: HVS Research

By Market Positioning

Midscale hotels remain the market leader with respect to the number of properties signed in 2020. The upscale hotels have also increased their market share substantially from the previous years. These two segments continue to be the sweet spot for upcoming development and are driving the growth in the sector. In terms of keys, midscale segment is the most preferred segment in the country, accounting for 41% of the total signings by keys in 2020, followed by upscale (37% of total signings), economy (11% of total signings) and luxury (11% of total signings).

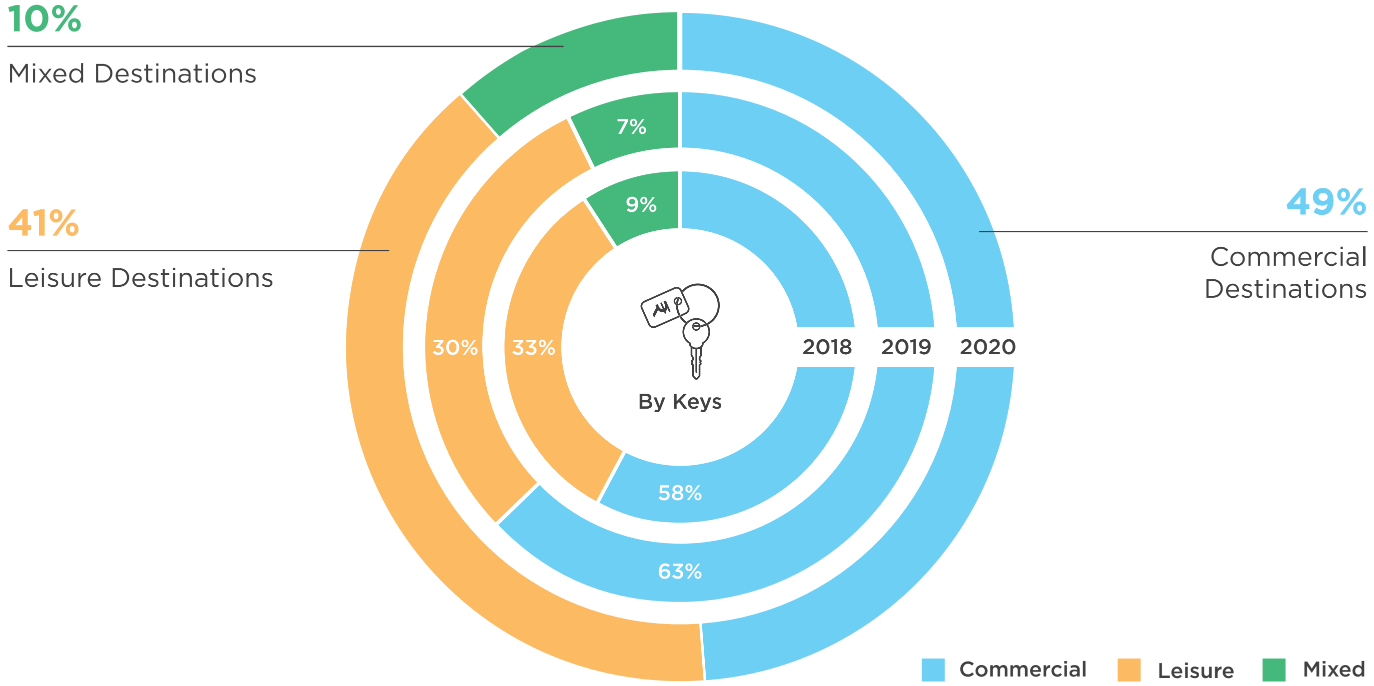
		Economy	Midscale	Upscale	Luxury
By Keys	2020	11%	41%	37%	11%
	2019	16%	38%	35%	11%
	2018	6%	58%	27%	9%
By Properties	2020	13%	49%	31%	7%
	2019	20%	51%	23%	6%
	2018	6%	71%	15%	8%



*All data shown is an approximation and for calendar year

By Market Segment

Though commercial destinations continued to witness the majority of signings (49% of total signings by keys), leisure destinations have also picked up pace in 2020 as hotel companies renewed their focus on increasing footprint at leisure destinations in the post-COVID era. As a result, 41% of the total hotel signings by keys in 2020 were in leisure destinations in the country.



Source: HVS Research

2020 Brand Openings

Brand Openings During 2018 to 2020*

By Keys

2020	4,537
2019	9,316
2018	7,215

In 2020 the sector recorded the opening of 4,537 branded keys, considerably lower than the scheduled opening of around 15,000 keys.

The domestic brands continued to be ahead of their international peers by opening 61% of the properties during the year.

International vs Domestic Brands

By Keys

	Domestic	International
2020	50%	50%
2019	55%	45%
2018	32%	68%

By Properties

	Domestic	International
2020	61%	39%
2019	69%	31%
2018	52%	48%

Domestic International

Top 3 Operators

By Keys

1. IHCL
2. WYNDHAM HOTELS & RESORTS
3. THE FERN HOTELS & RESORTS

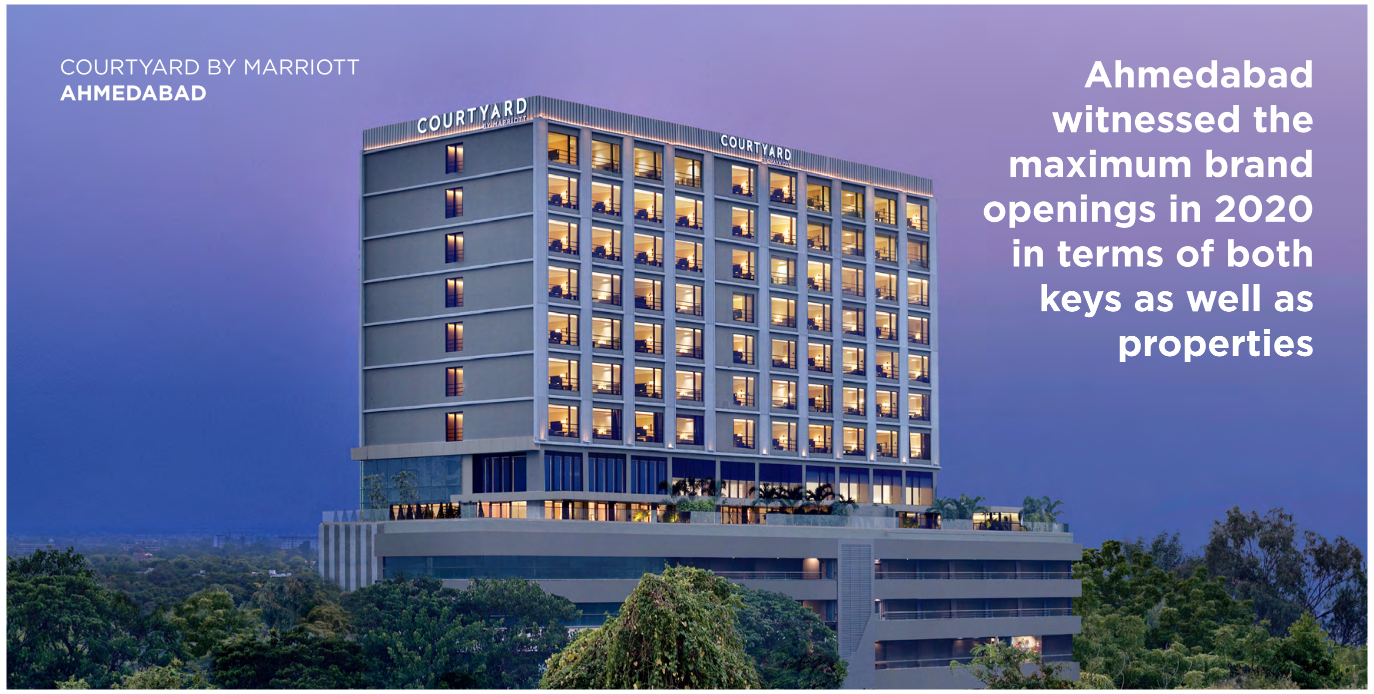
By Properties

1. IHCL; THE FERN HOTELS & RESORTS
2. WYNDHAM HOTELS & RESORTS; SAROVAR HOTELS & RESORTS
3. lemon tree HOTELS; CHOICE HOTELS

*As reported by 23 hotel operators as of 31st January 2021 for CY2020 & media reports

Top Destinations

By Keys		By Properties	
Ahmedabad	596	Ahmedabad	3
Bengaluru	534	Bengaluru	3
Dwarka	311	Dwarka	2
Gurugram	263	Jaipur	2
Jaipur	211	Kolkata	2
Mumbai	206	Goa	2
Pune	172	Udaipur	2
Chennai	171	Lucknow	2



COURTYARD BY MARRIOTT
AHMEDABAD

Ahmedabad witnessed the maximum brand openings in 2020 in terms of both keys as well as properties

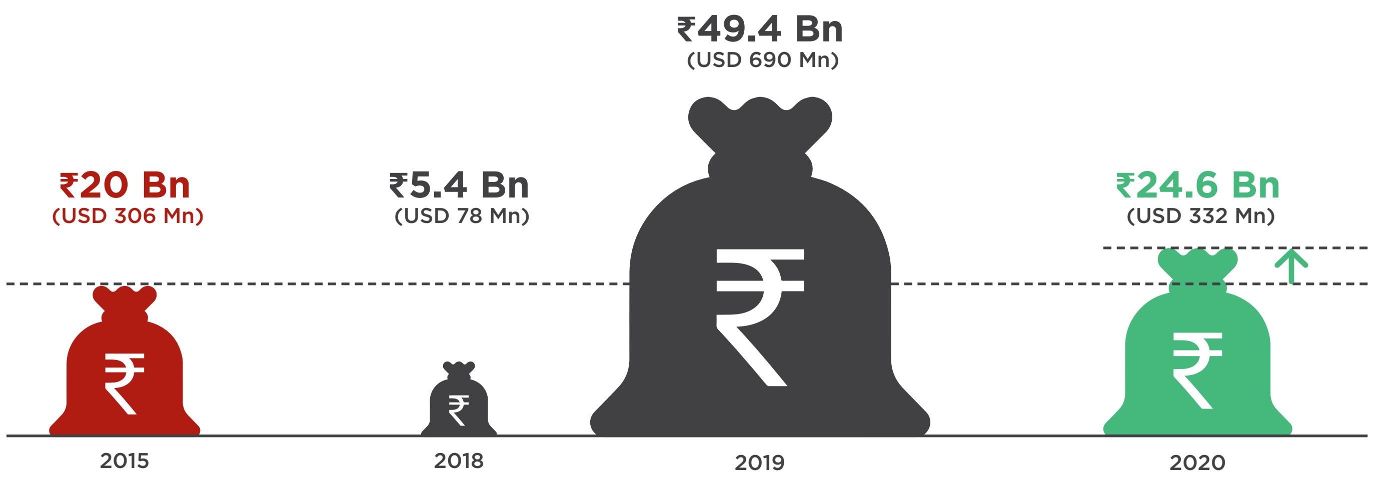
Source: HVS Research

Hotel Investments

2020 was a challenging year for hotel transactions in India, with hotel transactions value in the country contracting by almost 50% compared to the previous year, though not totally disappearing as was expected.

The total value of hotel transactions in India reached ₹24.6 Bn in 2020 compared to ₹49.4 Bn in 2019, higher than the previous peak of ₹20 Bn in 2015, showing the resilience of the sector even during the crisis.

Hotel Transaction Values*



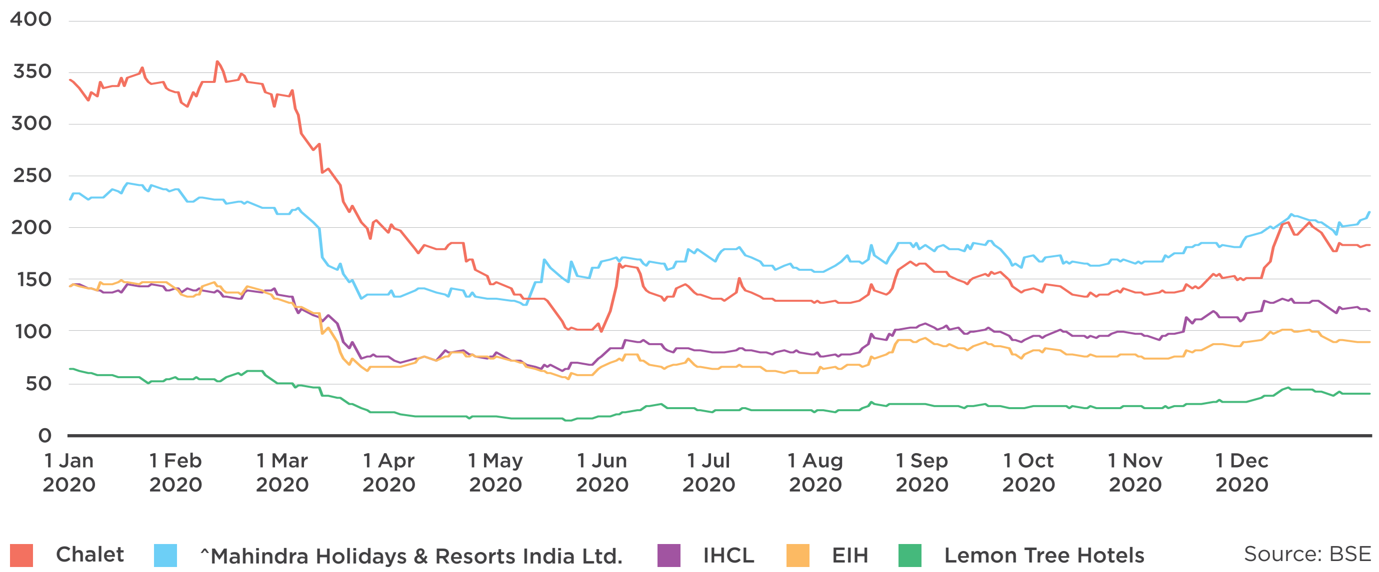
Source: HVS Research

Performance of Key Hotel Stocks

Hotel stocks bore the brunt through the year, lagging the recovery in the overall stock market by a significant margin, caused by the apprehension that the hotels sector would be one of the last few to recover from the aftershocks of the pandemic. However, by the end of the year, hotel stocks had gained ground from their May 2020 lows.

The recovery has largely been led by the growth of domestic leisure demand.

Daily Closing Share Prices (1st Jan 2020 – 31st Dec 2020)



Source: BSE

Going into 2020, M&A activity in the sector was expected to be stronger than that witnessed in 2019. The year began on the right note with the stated key deals. However, due to the uncertain market conditions, and challenges related to conducting due diligence and closing deals on virtual platforms, companies adopted a wait-and-watch policy, deferring their M&A plans, especially during the second and third quarter of the year.

Market sentiment started improving towards the latter part of the year with deal activity resuming in December 2020.

Key Hotel Transactions in 2020*

Asset	City	Seller	Acquirer	Value (₹ Mn)
FEB 2020				
Trident	Hyderabad	Golden Jubilee Hotels & EIH	Blackstone	5,850
Novotel, Nagar Road	Pune	Belaire Hotels Pvt. Ltd.	Chalet Hotels	2,900
Hotel-6	Zirakpur	Auromatrix Hotels	Mountainia Developers & Hospitality	600
Golden Tulip Hotel	Bengaluru	Ekram Hotels Pvt. Ltd.	Satyadeo Hospitality	500
DEC 2020				
Ritz-Carlton, Worli	Mumbai	Sahana Group	Oberoi Realty	10,400
Aloft, Cessna Business Park	Bengaluru	Prestige Group	Blackstone	2,140
Oakwood Residence, Whitefield	Bengaluru	Prestige Group	Blackstone	1,360
Aloft	Ahmedabad	Confidential	Confidential	860

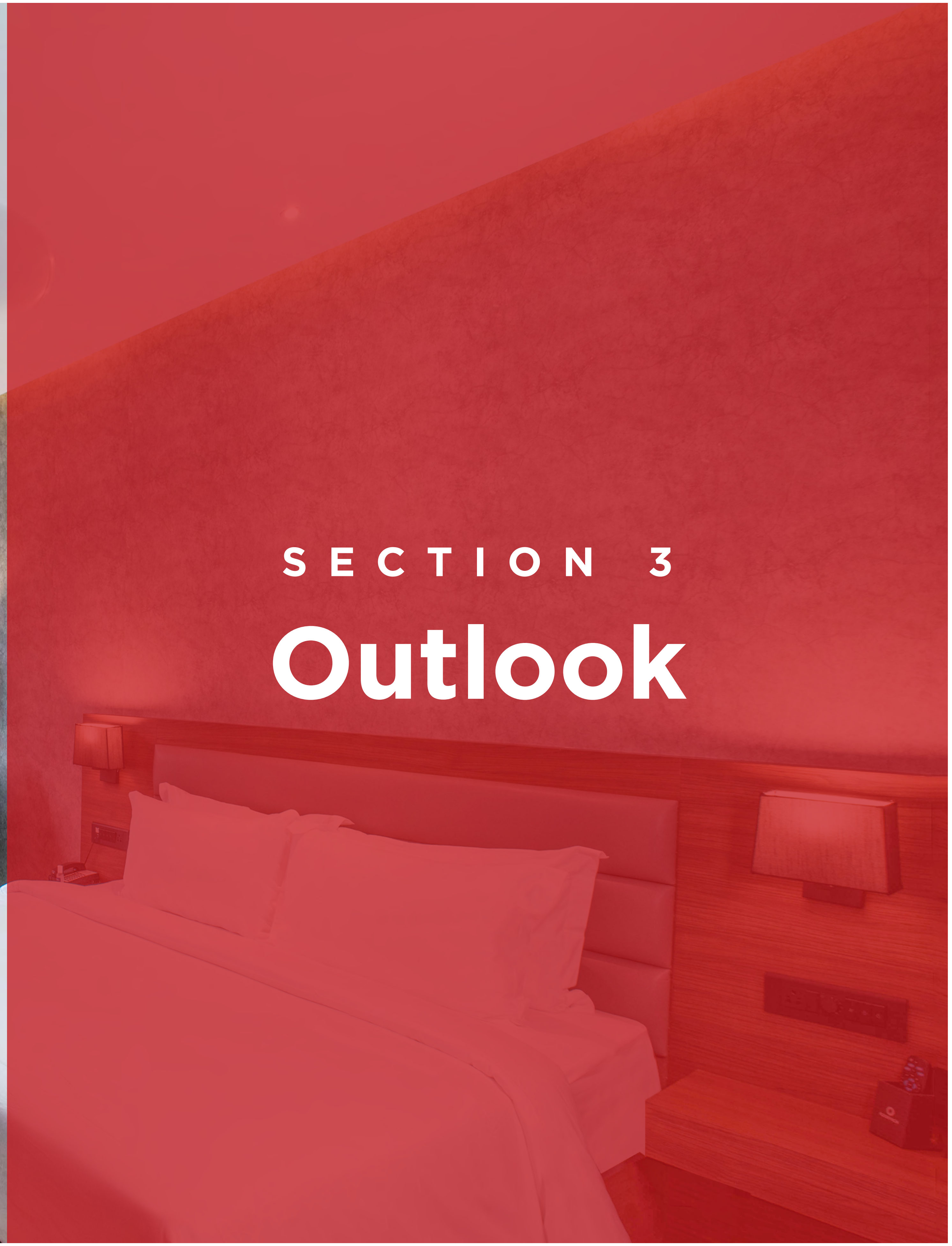
Oberoi Realty's acquisition of 50% stake in the upcoming Ritz Carlton hotel in Worli, Mumbai

This single megadeal accounted for over 40% of the total M&A spend in the Indian hotels sector in 2020

*All data shown is an approximation and for calendar year

Source: HVS Research compiled from media reports & market sources

SAROVAR PORTICO
BHIMTAL



SECTION 3

Outlook

Outlook 2021

2021 will be a crucial year for the hospitality sector as it emerges from the disruptions and embarks on the path to gradual recovery.

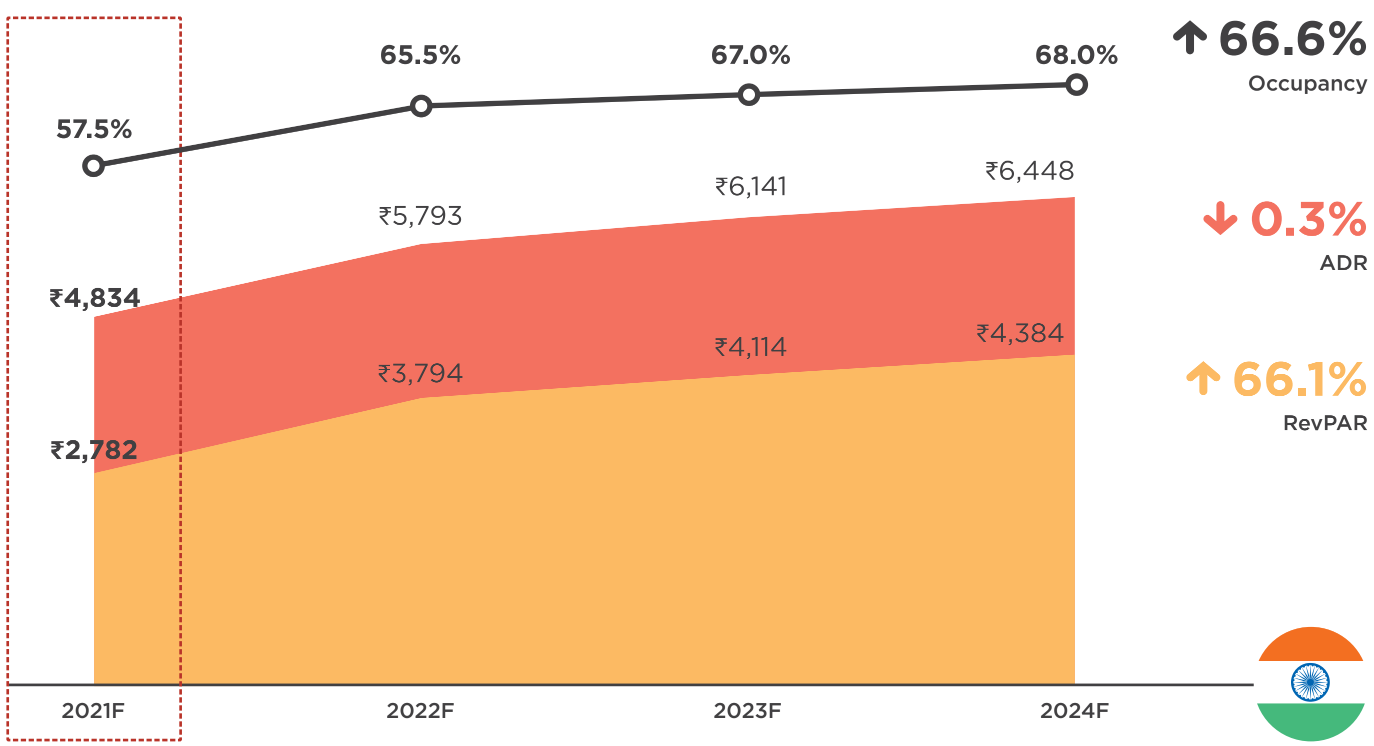
The first ever 'digital' budget of the country failed to provide any direct and immediate support to the sector, but the fillip given to certain other sectors will indirectly help in the tourism and hospitality sector's growth in the long-term.

The funding to the Tourism Ministry was slashed by 19% compared to the previous year, even though the allocation of funds for promotion and publicity has been increased. The strong emphasis on infrastructure sector in the current Budget will assist in job creation and in turn improve demand, which bodes well for the hospitality sector.

A similar trend was witnessed after the September 11 attacks, when the central government increased its focus on infrastructure development which resulted in strong growth in demand in the subsequent years.

We anticipate Occupancy & ADR to reach pre-COVID levels by 2022 & 2023, respectively.

2021 Forecast (Change %)

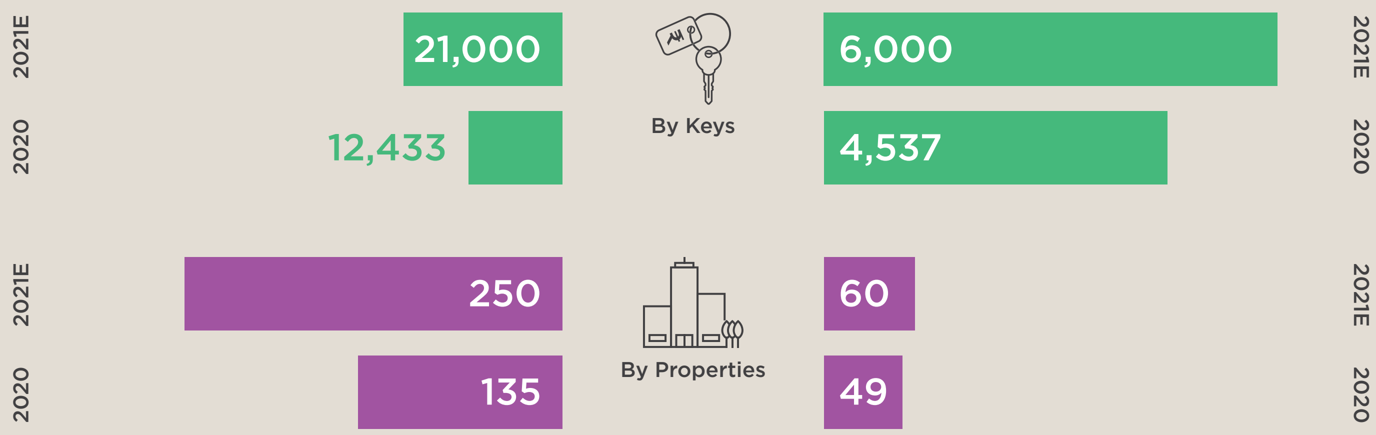


RevPAR ADR Occupancy

Source: HVS ANAROCK India Hotels Outlook Report, August 2020

Brand Signings 2021
estimated at **250 hotels** with **21,000 keys**

Scheduled Openings 2021
estimated at **60 hotels** with **6,000 keys**



Hotel transaction volumes are expected to exceed USD 1 Bn in 2021.

1. We expect M&A activity in the industry to accelerate in the second half of 2021 as several assets and asset owners come under financial stress and look for exit or ways of reducing debt.

   As per our research, the organized sector alone (includes only hotels with 80 or more keys across nine major cities in India) is suffering from a collective outstanding debt exceeding ₹ 500 Bn.

2. The hotel assets/companies going for liquidation under NCLT is expected to contribute significantly along with large ticket hotel transactions and portfolio transactions.

3. Hotel REITs are also closer to becoming a reality in the country, especially as the recent Union Budget 2021 which made access of funds easier for REITs and InvITs by enabling debt financing for these instruments, though, the lack of scale will remain a deterrent.

The Way Forward

COVID has changed the hotels sector drastically by influencing several aspects of the business. Hoteliers were forced to readjust their strategies and think unconventionally to survive during the pandemic. For instance, technology adoption was fast-tracked because it became the key enabler during the COVID era, as keyless check-in, and digital menus, that were once considered luxuries, suddenly became necessities for hotels to remain relevant. Hotels also tried to adapt to the evolving market dynamics, by thinking out-of-the-box from design to operations to improve their ROI, proactively implementing cost optimization techniques.

The following section highlights some of the key trends that are likely to shape the sector in the post COVID era.

Corporate travel will be diminished permanently

Remote working and virtual meetings are the norm today. During the last one year, companies have realized that not all meetings have to be face-to-face meetings, several of them can be conducted virtually and be as effective, while helping them save costs. Corporate travel will rebound but remain permanently reduced compared to pre-pandemic levels as most organizations are likely to embrace a hybrid work environment going forward.

ITC ROYAL BENGAL
KOLKATA

Hoteliers will increase focus on the underserved leisure segment

With domestic leisure tourism coming to the sector's rescue in 2020, hotel companies have once again renewed their focus on increasing footprint at leisure destinations. The Indian leisure segment is still underserved as there are several fledgling tourist places in India where travellers still struggle to find good quality branded accommodation and now is perhaps the perfect time to focus efforts on developing these new and unexplored leisure destinations in the country.

Hotel rebranding or conversions will gain momentum

Hotel rebranding or conversion has been a growing trend in the Indian hotels sector over the last few years. As a result, over the past five years more than 230 hotels have been converted either from a standalone property to a brand or migrated from one brand to another. However, the rate of conversions has not increased much during this period. Brand conversions still constitute only 20-25% of the total signings in the country. We expect hotel conversions, particularly standalone hotels joining larger brands, to gain considerable momentum in the next couple of years as both hotel owners and brands consider this proposition to tide over the current downturn.

Hotel design will experience significant changes

The hotels sector has already adopted certain design changes to facilitate social distancing and elevate cleanliness and hygiene to ensure the safety of their guests and employees. Going forward, we expect the sector to embrace substantial design changes – smaller lobbies & rationalized room sizes, keyless check-ins, lesser number of specialty restaurants, sustainable design elements etc. – by incorporating some of the best practices followed in more mature hospitality markets. The sweet spot for the Indian hotels sector will be in the 85-100 keys category. Overbuilding and overspending on hotels has been a perennial problem in the sector, which we now expect will be corrected.

Mixed-use developments will be the most sustainable model

Mixed-use developments are going to be the most sustainable model for hotels going forward as they leverage the best of each asset class, while hedging the risks for the investors and enhancing the overall experience for the guests. These projects provide better returns to investors by maximizing land-use efficiency, utilizing FSI optimally and lowering capital costs, thus, improving the viability of the hotel project.

Vacation home rentals will become one of the fastest growing segments

Traveller & guest preferences have evolved significantly in the last one year, with hygiene, cleanliness, safety, and privacy becoming their top priorities. People will prefer smaller, independent, and contained spaces, which will be considered 'safe havens' for travel, specifically in the upper-upscale category. These evolving preferences will lead to the growth of vacation home rentals in the country, especially when the segment develops and professionalizes further, as they provide guests additional privacy and better value compared to a hotel.

Technology will bring in fundamental changes in hotel operations

Technology adoption for hotels post the COVID impact will be at a much faster pace than witnessed earlier by the sector. Efficient usage of technology will be the new focus as it helps in reducing both capital and operating costs, improving profitability, and streamlining processes, while enhancing guest experience and personalization.

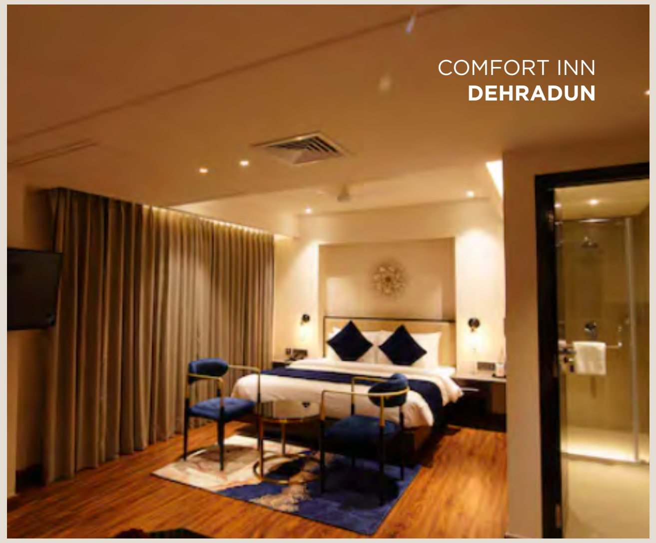
Improved profitability as 'More with Less' becomes the new staffing mantra

Staff to room ratios are expected to reduce going forward. Hotels were forced to resort to job cuts in 2020 to reduce costs and have realized that the earlier staffing ratio may not be needed to operate efficiently. Moreover, almost every aspect of 'guest service' is now available through the guests' mobile devices and hotels are also likely to increase the usage of predictive data analytics to personalize guest services in the post-COVID era.

Ancillary revenues will be a key focus area

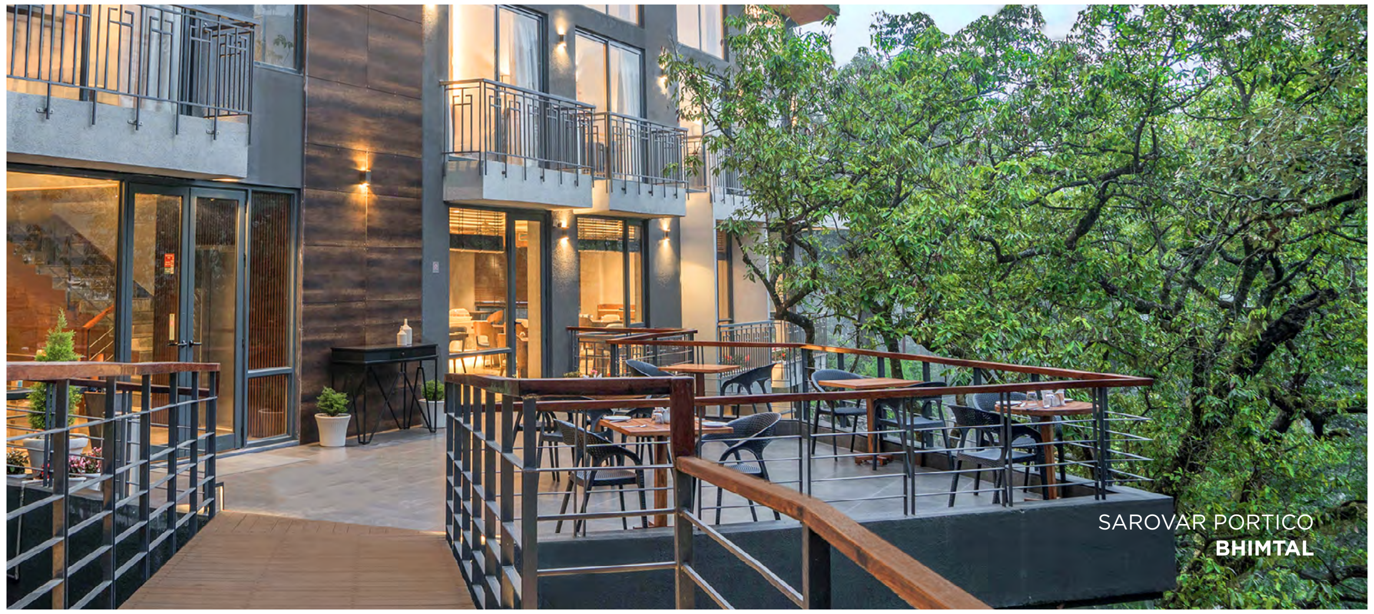
The hotels sector – having finally realized the true potential of ancillary revenues in improving the topline – is likely to follow the aviation industry's lead, making every enhancement in customer experience payable and not gratis, as the industry has been providing for time immemorial.

THE PARK
HYDERABAD



COMFORT INN
DEHRADUN

HAWTHORN SUITES BY WYNDHAM
DWARKA



Hotels will be repurposed as co-working & boutique office spaces

The 'work-from-anywhere' or hybrid work environment is here to stay. Hotels already have all the required facilities and infrastructure needed by professionals to conduct their businesses. Some hoteliers can, therefore, repurpose certain areas of their property for boutique corporate offices. They can also lease out or partner with organizations in the co-working industry to develop special packages for professionals looking for an 'office' space near their homes. Certain sections in a hotel can also be repurposed to allow occupation of the space by high-net-worth organizations and companies.

Outsourcing of F&B spaces in hotels to independent operators to increase

Hoteliers will reimagine F&B by outsourcing hotel outlets to standalone marquee restaurants that had made their mark in the pre-COVID era but are now facing an existential crisis post-COVID. This model can be beneficial for both the stakeholders, as hotels get an opportunity to win-back the customer share they lost to standalone restaurants over the last few years, while the restaurants get an opportunity to renew operations on a revenue share model and benefit from captive clientele as hotels get back to normalcy.

Hotel management agreements to undergo changes in the COVID era

Management agreements and the owner-operator relationship came under the scanner during the pandemic as the stakeholders tried to survive the adverse market conditions. Minor changes such as reduction in discretionary marketing and sales spends, and flexibility to owners on payments has already been implemented. Fluidity has also increased on certain insurance clauses, implementation of brand standards, force majeure amendments, sales and marketing spend, and usage of FF&E reserves.

Going forward, we expect owners to increasingly stress on changes in certain provisions in the management agreements such as shorter terms, lower base fee, higher incentive fee, and renegotiation of group services fee to name a few.

With franchising steadily gaining popularity in India, we expect the role of a third-party asset manager, which has traditionally been underplayed in the country, to become crucial as both hotel owners and operators realize the true benefits & potential of working with professional asset managers to review and improve their hotel performance in the post-COVID era.

Rethinking the future with greater focus on sustainability

Last but not the least, sustainability will become more than a buzzword as the only silver lining during the lockdown was the positive impact it had on the environment. Adopting eco-friendly practices will not only help hotels win over travellers, who will increasingly prefer 'green' holidays in the COVID era but will also help in reducing costs and improving the bottom line in the longer run. The current crisis has been an eye-opener of sorts for all of us and it is imperative that all the stakeholders collaborate to increase the sector's focus on sustainability by adopting greener practices as we gradually embark on the path to recovery.

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Level 7, Tower B, Building No. 9, DLF Cyber City
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+91 124 488 5580

Mumbai
1002, 10th Floor, B Wing, ONE BKC, Plot No. C-66
G Block, BKC, Bandra (E), Mumbai 400 051
+91 22 4293 4293

AUTHORS

Akash Datta
Sr. Vice President (South Asia)
Consulting & Valuation, HVS ANAROCK

Dipti Mohan
Principal Consultant - Research
HVS ANAROCK

Anuj Roperia
Sr. Consultant (South Asia)
Consulting & Valuation, HVS ANAROCK

DESIGNER

Dr. Paridhi Gupta
Deputy Vice President - Design
ANAROCK Capital

CONNECT WITH US

Mandeep S. Lamba
President (South Asia)
mlamba@hvs.com

Ajay Mehtani
Sr. Vice President (South Asia)
Asset Management & Executive Search
amehtani@hvs.com

Akash Datta
Sr. Vice President (South Asia)
Consulting & Valuation
adatta@hvs.com

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