



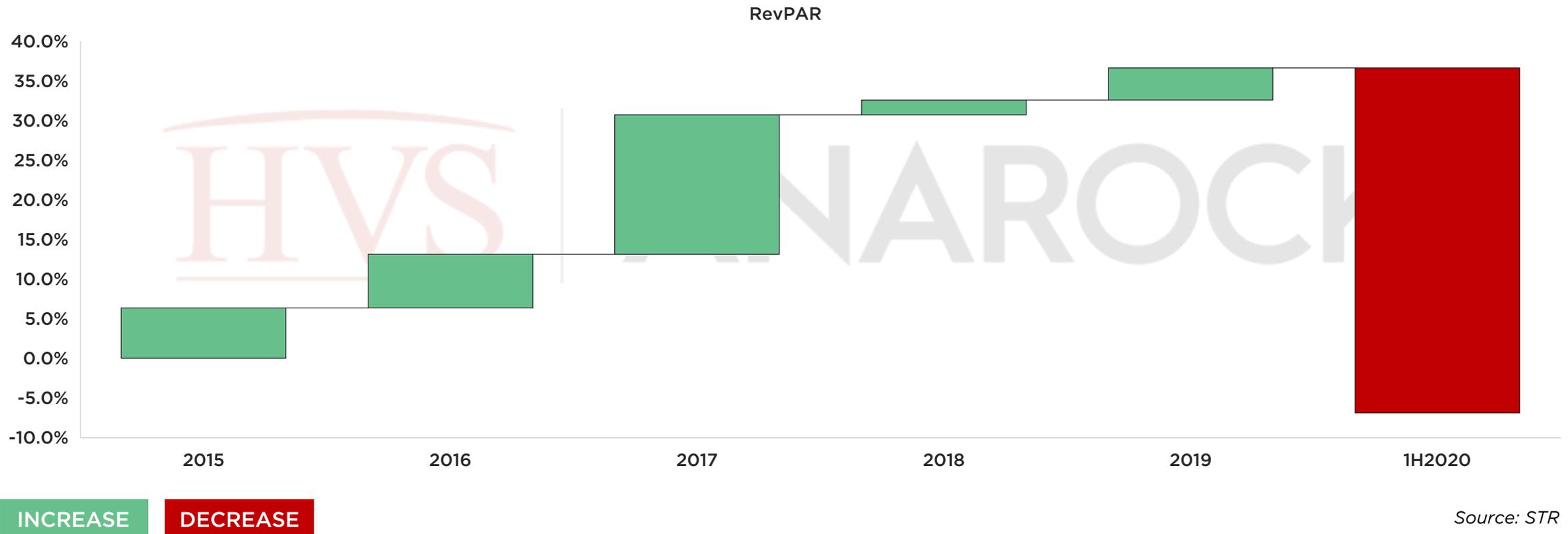
India Hotels Outlook

Impact of COVID-19



The hotel growth cycle abruptly ended after 5 years of consecutive RevPAR growth

The markets were set on a path to recover the grounds lost due to the past disruptive events and supply overhang as the year 2020 started on a positive note with strong performances in the first two months. The onset of COVID-19 and the subsequent travel restrictions and nation-wide lockdown, however, has had an unprecedented impact on the sector.



Source: STR

Unprecedented downturn – Indian hospitality sector



REVENUE LOSS

Organised
INR 40,309 Cr

Semi Organised
INR 8,379 Cr

Unorganised
INR 41,126 Cr



OCCUPANCY

↓ 31.6
percentage points



REVPAR

↓ 57.8%

Estimated Total Revenue 2019
INR 1,58,113 Cr

Estimated Total Revenue Loss 2020
INR 89,813 Cr

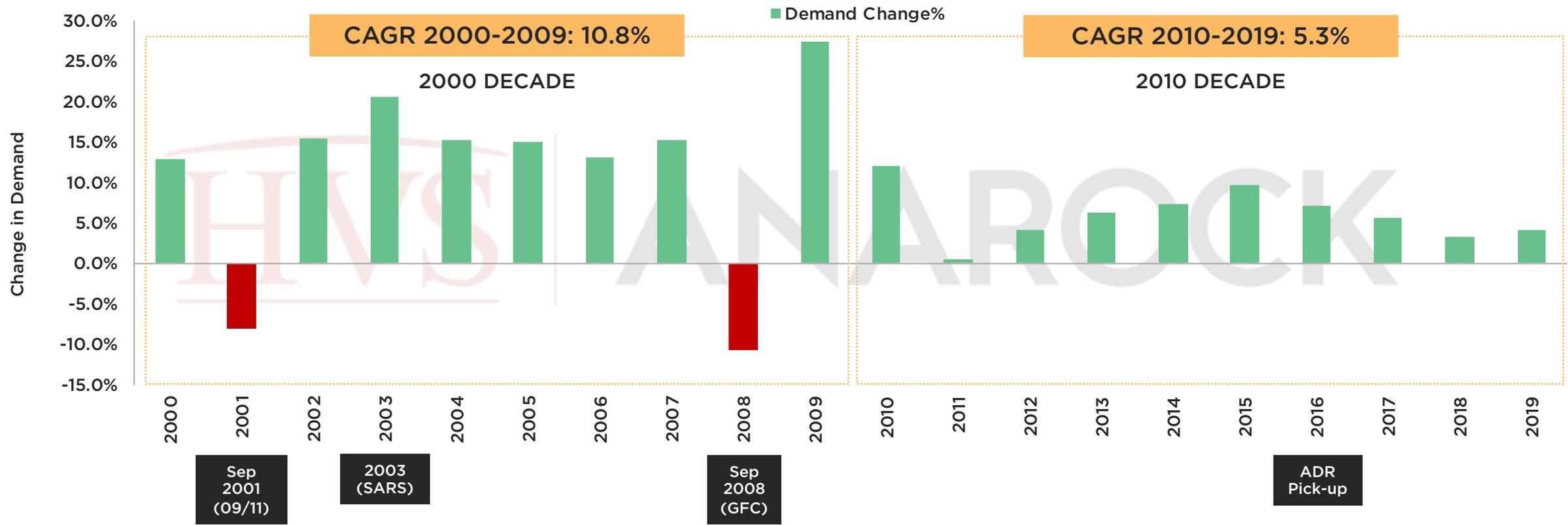
Where do we go from here?

HVS | ANAROCK



Prior cycles did not witness severe erosion in demand from disruptive events

Immediately post 2001 and 2008 crises, demand grew at strong rates following short term impacts. Demand in the 2010 decade grew at 5.3% CAGR as against 10.8% CAGR in the 2000 decade.



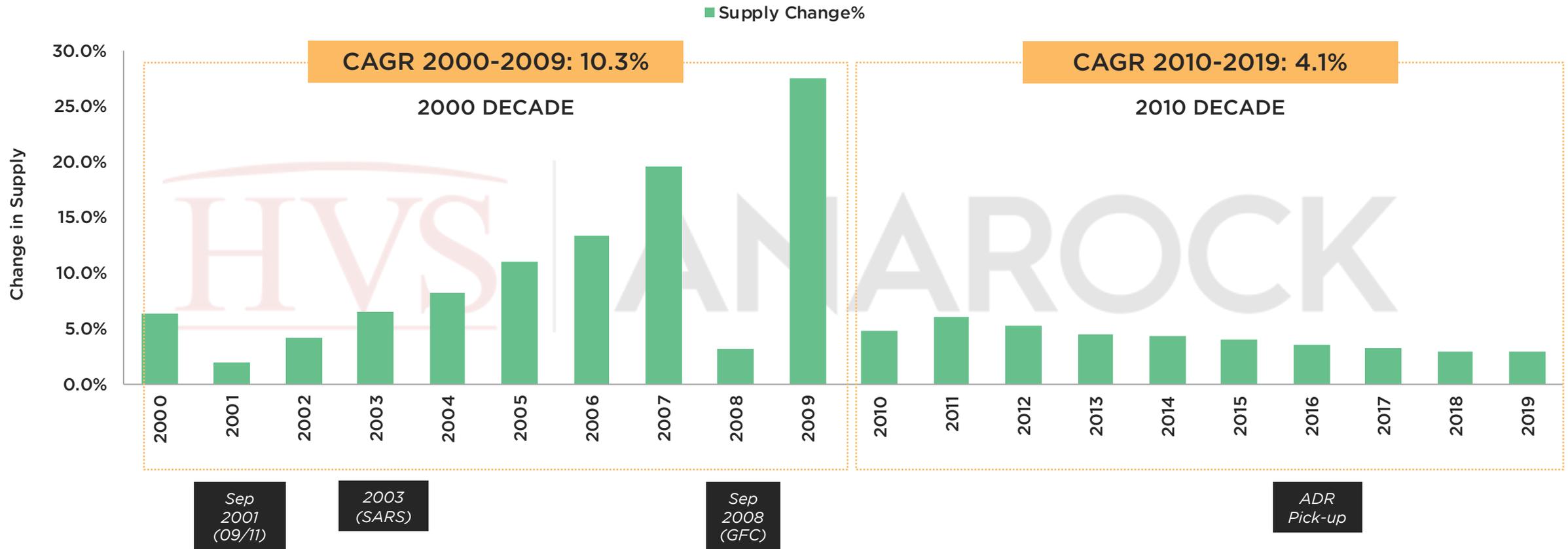
INCREASE

DECREASE

Source: HVS Research & STR

Prior cycles supply growth has varied with a significant slowdown in the current decade

Supply growth in the 2010 decade has been substantially lower at 51% as compared to a 158% growth in inventory in the 2000 decade.

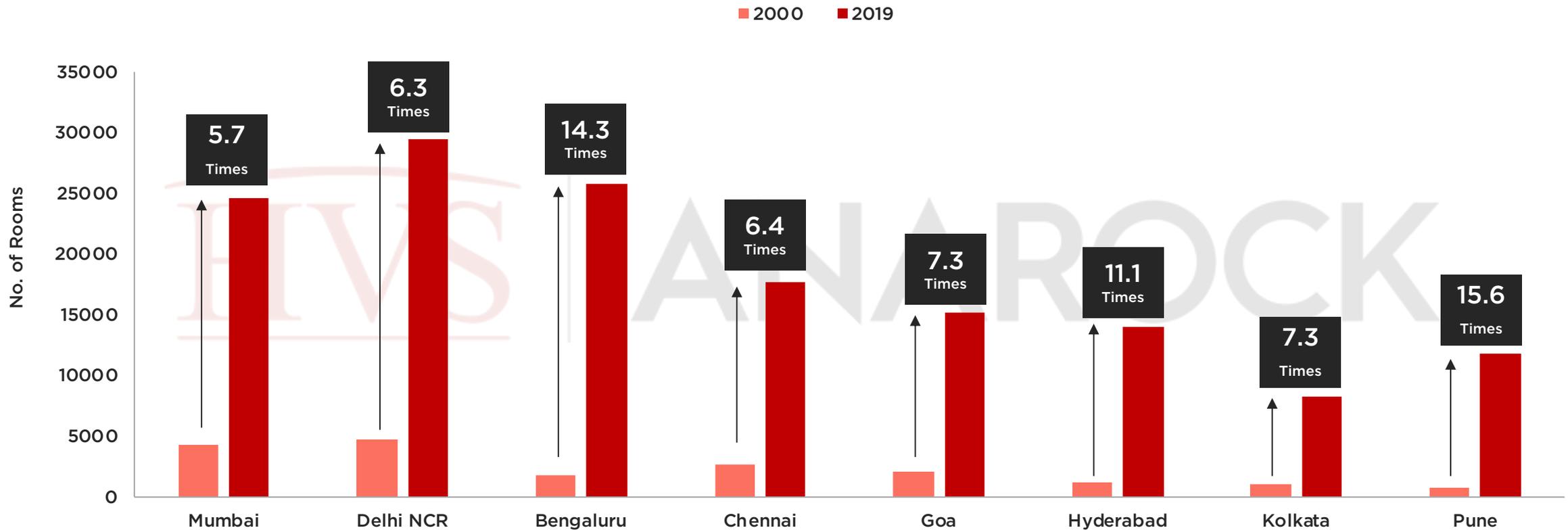


INCREASE

Source: HVS Research & STR

Supply profile of major markets has transformed

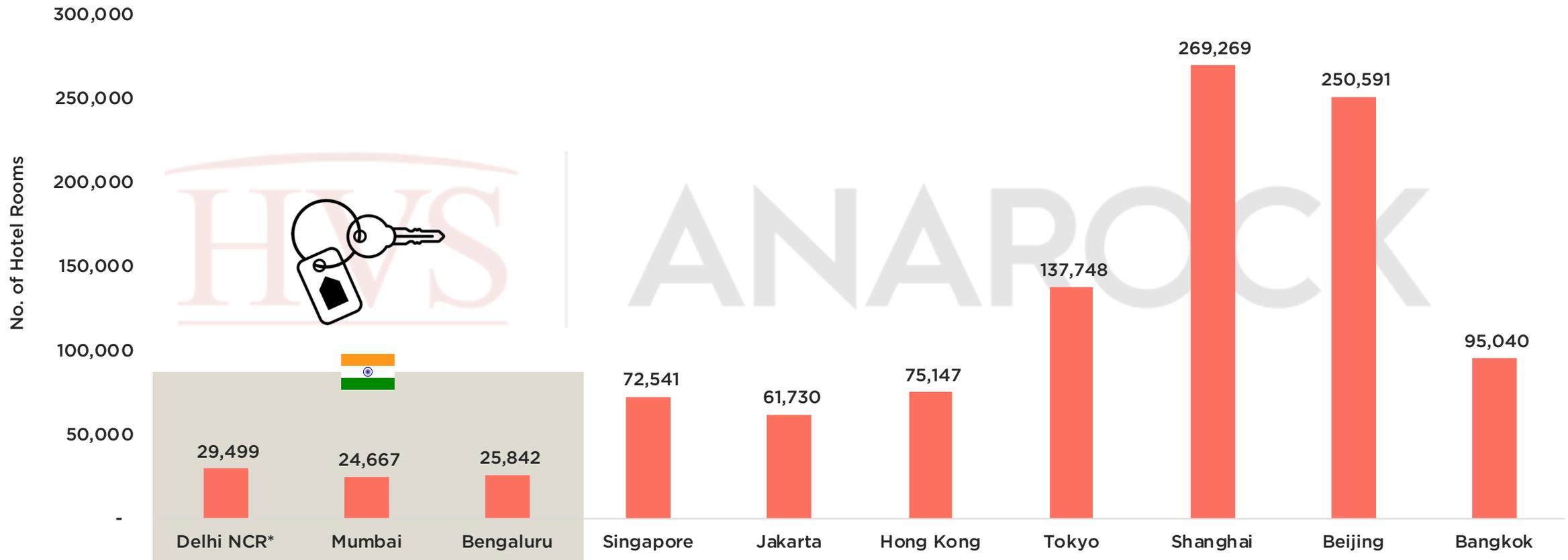
Pune, followed by Bengaluru and Hyderabad, the tech epitomes of India, have witnessed the fastest growth in supply over the last two decades. Bengaluru has risen from being the 5th largest market in the country to the 2nd biggest.



Source: HVS Research & STR

Supply profile of major Asian markets

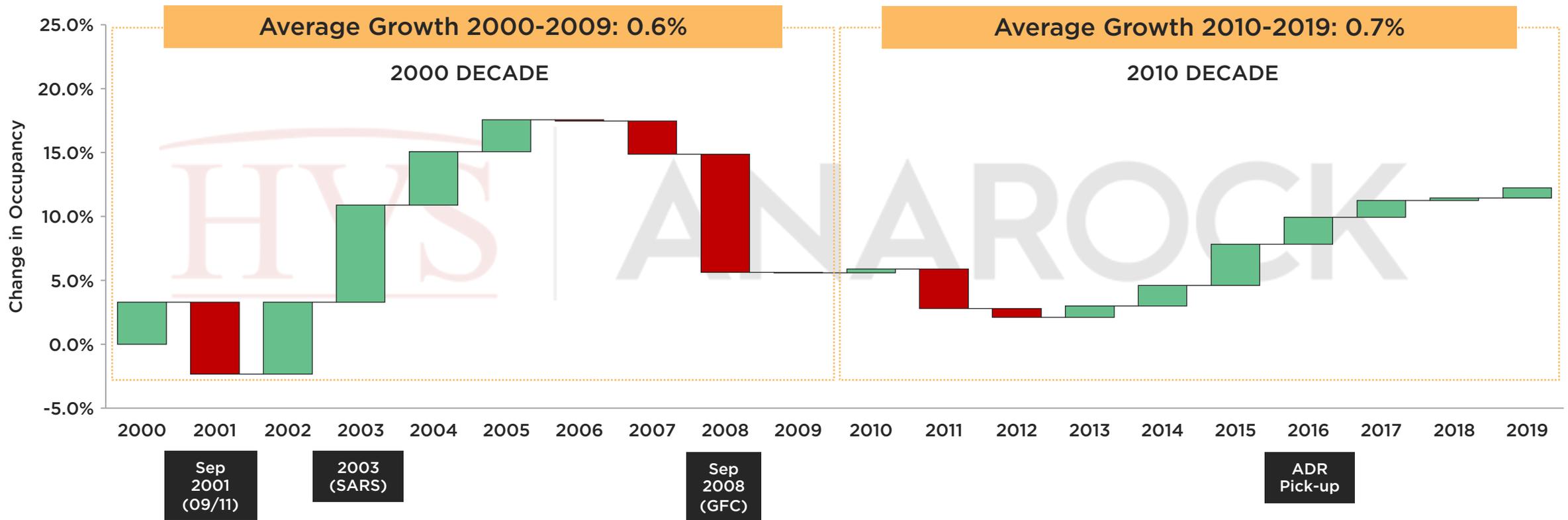
India, however, continues to have the lowest proportion of branded hotel rooms compared with major Asian hotel markets. Shanghai and Beijing are nearly 10 times the size of our major hotel markets.



Source: HVS Research & STR

Prior cycles Occupancy change

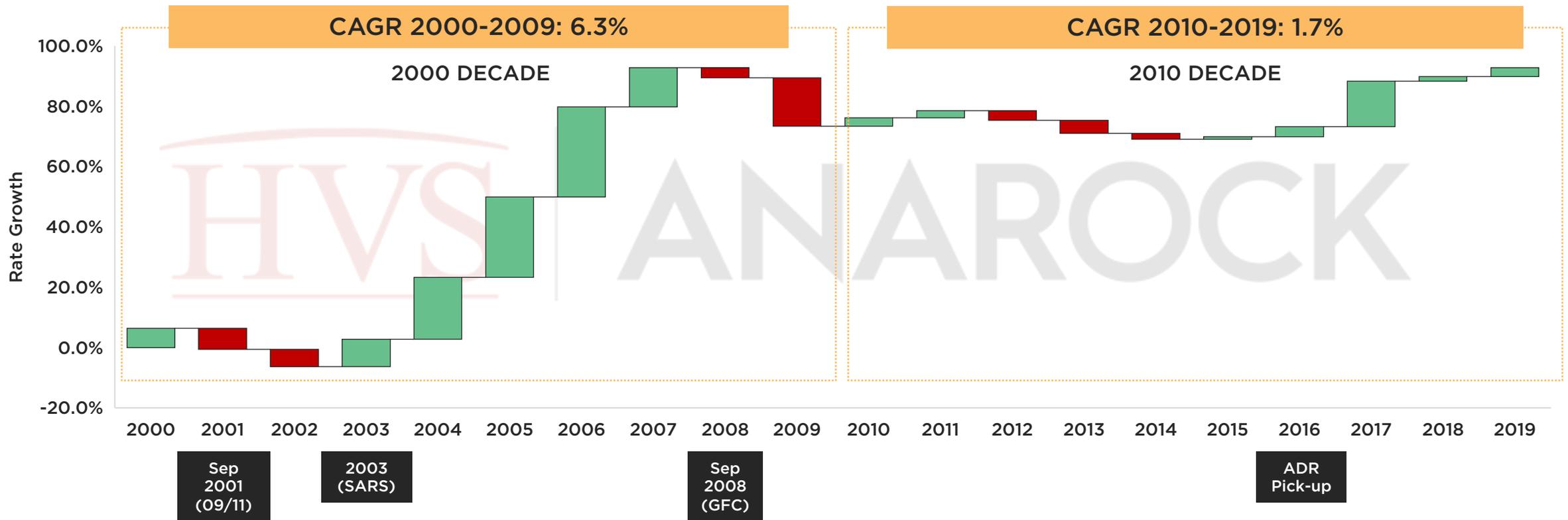
Occupancy growth rates in the 2010 decade has been lower than the 2000 decade on account of supply absorption. Since 2013, occupancy growth has recovered much of the lost ground until it was hit by the COVID-19 impact.



Source: HVS Research & STR

Prior cycles Average Rate change

The industry witnessed its largest rate growth in the 2000 decade @ 6.3% CAGR as the country's economy opened post liberalization and demand outstripped supply by a significant margin. Apart from 2017, average rate growth, post the GFC crisis, has been limited in the 2010 decade growing at a CAGR of 1.7%.



Source: HVS Research & STR



CORPORATE

Corporates are expected to put restrictions on non-essential employee travel. Even for the essential employee travel, allowance limits are likely to be reduced.

Senior Management travel also expected to reduce in the short term.



MICE

The number of International Corporate MICE travelers will be significantly reduced.

A large number of weddings planned at international destinations have relocated to domestic destinations. The size of the weddings will be reduced.



LEISURE

Domestic tourists will be major demand drivers. 'Revenge' travel witnessed in China could foster among Indians too.

The ~25 Mn outbound Indian travelers will also be an attractive segment for the leisure market.

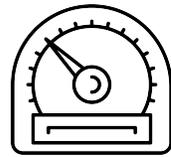
Business Midscale & Economy Hotels to recover faster than Luxury & Upscale counterparts.

Leisure Luxury & Upscale Hotels to recover quicker than the Economy & Midscale counterparts.

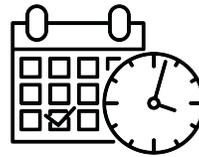
As of May 2020, supply was forecast to increase at a CAGR of 2.8% during the 2020-2024 period. Given the recent events, supply growth is now expected to be lower, and at a slower pace, than previously anticipated.



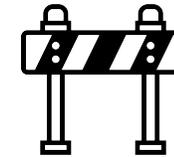
Under-construction projects may face delays on account of labour shortages and issues pertaining to vendors and supply chain.



Muted market conditions will likely lead to delayed openings; some projects may be on hold pending recovery.



Financing challenges on account of negative sentiment for the sector is likely to delay projects.



Changes in market conditions may render proposed projects infeasible; as a result, some projects may be postponed or canceled.

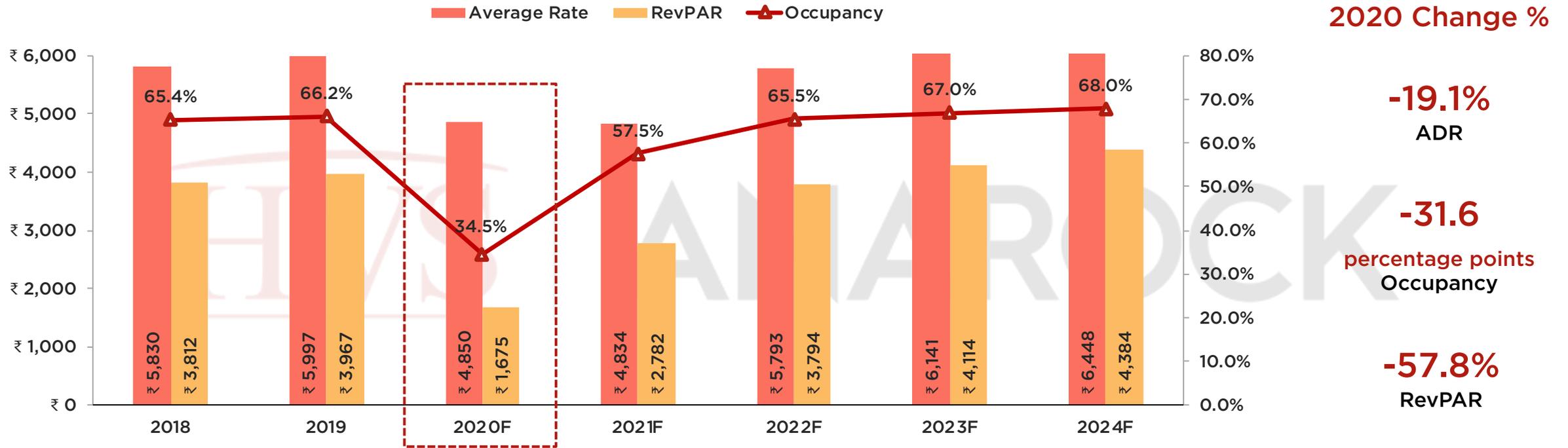


Some properties may close on account of financial stress and not reopen for an extended period of time, resulting in negative supply growth.

Some properties are likely to be repurposed to other asset classes such as Hospital, Student Housing, and Co-Living.

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

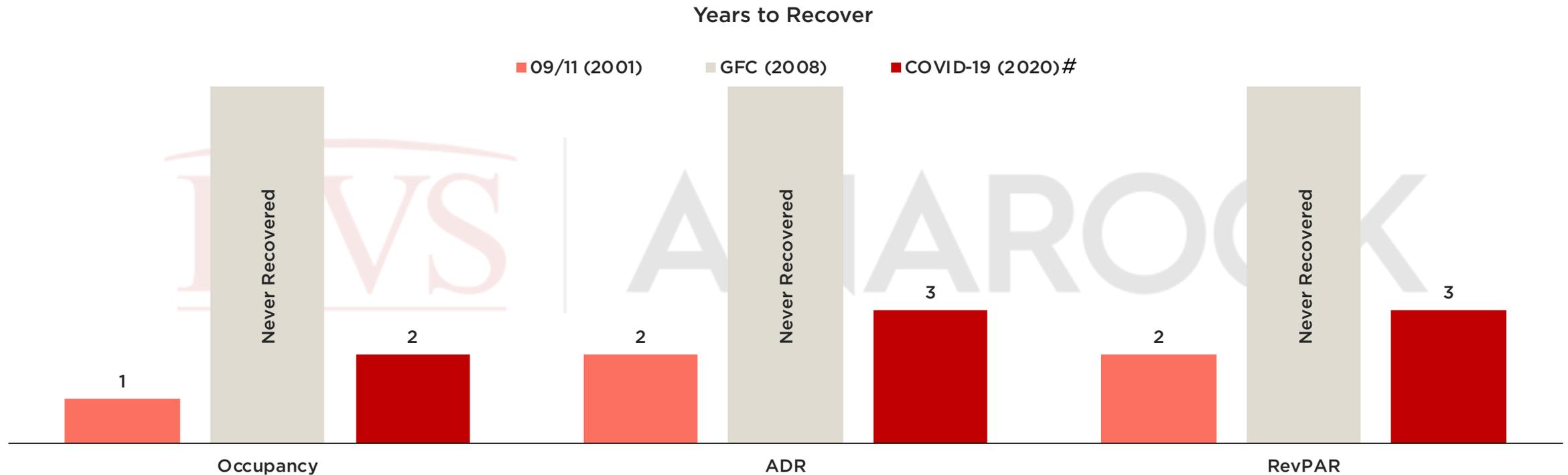
The following forecasts for the India hotels industry reflects the current outlook of market participants, assuming recovery from COVID-19 begins in the second half of 2020.



Demand Change	3.3%	4.2%	-47.2%	75.5%	17.9%	5.0%	2.7%
Supply Change	3.0%	3.0%	1.2%	5.3%	3.6%	2.6%	1.2%

Source: HVS Research

'Years to recover' reflects the time from the event year to levels immediately prior to the major event. Both Occupancy and ADR will recover much quicker in this cycle due to limited supply growth subject to vaccine being in place not later than 2021.



HVS Projections

Source: HVS Research

How will markets & hotels be affected?

More Vulnerable

- Full-service hotels, dependent on group business
- Gateway markets that depend on international travel
- “Fly to” markets that depend on air travel
- Independent non-affiliated properties
- Upscale & Luxury Hotels which have over 50% international business
- International leisure destinations with high FIT or GIT movement

Secondary and tertiary markets are expected to hold up better.

Gateway and the top 10 metro markets will witness short term volatility.

Motorable Leisure markets could see a quicker rebound.

Less Vulnerable

- Hotels that primarily rely on transient segments
- Economy and midscale business hotels
- Suburban, small metro town properties
- “Drive-to” resorts
- Extended-stay hotels
- Drive-to markets, which can be expected to recover faster than those dependent on air travel
- Properties affiliated with strong brands

1

This cycle could be unique in terms of the rapid and dramatic decline of demand, like never seen before, but there could be some similarities to other cycles.

2

Supply growth is expected to slow significantly, as new or under constructions projects are delayed or abandoned and several highly leveraged assets are shutdown.

3

The pace of immediate demand growth is correlated to the level of stimulus infused by the government to revive growth, besides the availability of a cure and vaccine

4

We anticipate Occupancy and ADR to reach Pre-COVID levels by 2022 and 2023 respectively, with supply growth expected to remain dormant.

5

Upscale/Luxury Leisure and Branded Economy/Mid-market business hotels are expected to lead the recovery growth in the sector.

6

The transaction market will witness high activity due to likely softening in values and increased availability of stressed assets.

Superior Results Through Unrivaled Hospitality Intelligence. Everywhere.

HVS has been supporting the hospitality industry in India and around the world for over 40 years. Our senior staff represents a collective 300+ years of experience advising our industry, including through multiple prior cycles and events.

Our expertise covers the full range of hospitality assets and spans the full lifecycle of a hotel, including services that support developers, owners, operators, lenders, and investors.

This knowledge and experience is available to support you as you navigate these challenging times. We are fully functional on a remote basis, so even though we are not currently traveling, our staff can access the full resources of HVS on your behalf.

Let us know how we can assist you.



Connect with us!

For any queries, please reach out to

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