

## **Dutch PF manager APG invests Rs 650 crore in Lemon Tree Hotels; forms JV to build 35 hotels**

Dutch pension fund manager APG will invest a total of Rs 650 crore to take a 6% stake in Lemon Tree Hotels and form a JV with the Delhi-based mid-market hotels group to build 35 hotels in the country in four years.

APG, which manages the Netherland's largest and the world's third largest pension fund Stichting Pensioenfonds ABP, will hold 47% shareholding in the joint venture-Fleur Hotels Pvt Ltd-while Lemon Tree will hold the balance 53%.

Fleur will set up 35 hotels (totalling 4,500 rooms) at an investment Rs 2,250 crore, of which Rs 1,000 crore will be equity and Rs 1,250 crore debt, a company executive told ET. All the hotels under will be branded as Lemon Tree Hotels, Lemon Tree Premier or Red Fox Hotels, he said.

The decade-old hotel company started by Patu Keswani currently owns and operates eighteen hotels in fourteen cities with 2,000 operational rooms, making it the fourth largest hotel room owners in the country. It is already adding another 1,600 rooms, and on completion of the proposed hotels by 2016-17, the chain will co-own and operate over 8,000 rooms.

Confirming the developments to ET, Lemon Tree Hotels chairman and managing director Patu Keswani said, "This deal will significantly increase the supply of mid-market rooms in India, which has huge unmet demand for this category of hotels. On completion of these proposed hotels, Lemon Tree will be a dominant player in the mid-market hotel segment."

APG, which is one of the world's largest investors in the real estate sector, has also acquired between 5 and 6% stake in Lemon Tree Hotels.

Global private equity group Warburg Pincus also has a 25% shareholding in the company, but Keswani said Warburg will remain invested in the company.

Kaushik Vardharajan, MD of hotel consultancy HVS India, "The greatest opportunity today lies in the budget and mid-market hotels segment. Luxury hotels have been focussed on international and high-end domestic travellers but there are 700 million domestic movements and these people are looking for moderately priced rooms."

The investment opportunity currently is higher in this segment as the cost per asset is lower and since these hotels do not require any fancy designers and specifications, they can be built faster. "These hotels are more efficient and profitable than high-end hotels," he says. The net income margins for luxury hotels today are between 30-40% while those for mid-market and budget hotels are between 40-55%.

According to HVS, around 102,400 hotel rooms will come up in the country over the next few years. For the first time, over 50% of these rooms are in the mid-market and budget categories.

APG's senior portfolio manager Sachin Doshi said, "With one of the world's fastest growing economies, strong domestic consumption, rapid urbanisation and young demographics, India presents an attractive long term investment opportunity for us."

APG manages pension assets totalling about e299 billion, as of March 2012, and administers over 30% of all collective pension schemes in the Netherlands.

**May 02, 2012**