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New hotel chains tap small cities via management deals

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Newer Indian hotel chains such as Fern, Choice Hotels, Pride, Royal Orchid, Sarovar Hotels and Lemon Tree are inking deals with developers and individual asset owners as the industry sees a jump in domestic travel.

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Management contracts for key hotels are increasing as local hotel operators prefer to work with the domestic hotel management firms which offer flexibility and charge lower management fee. Additionally, not many international chains have brands that operate in this budget and mid-scale segment.

According to real estate consultancy JLL, contracts in mid-market and budget categories of Indian brands grew 74% between January and September 2022 as compared to the same period in 2019. These contracts are largely for smaller hotels with about 50 rooms on an average in tier 2 and 3 cities.

Comparatively, international operator signings went up 36% from 36 hotels with 4,794 rooms in 2019 to 49 hotels with 5,106 rooms in 2022.

India has about 150,000 branded hotel rooms.

Jaideep Dang, managing director of JLL's hotels and hospitality group, said the trend picked up post-covid. "We see a lot of conversions from privately branded hotels to chain hotels in mid-market and budget hotel categories. Owners are picking Indian



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hotel brands to work with because Indian hotel operators are flexible with scale, product specifications, agreement terms and fees. Most of these hotels are 40-60 rooms each, which international chains do not agree to sign," said Dang.

Sarovar Hotels & Resorts managing director Ajay Bakaya said the company has a pipeline of 45 hotels in the next five years. "We have been strong both on the openings and signings. We are looking at opening about 10 hotels a year. Most of these are new projects and in tier 3 and 4 locations. That's where we see the demand to brand hotels because there is a shortage of rooms in these areas," he said.

A city like Gorakhpur barely had two decent hotels, he said. "We performed beyond the owner's expectations in this city. We are now getting a lot of queries from such locations and there is scope to run many 80-100 room hotels. People in these locations like to spend money on weddings and that is where the big demand is and it is going unfulfilled," he said.