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Rising demand drives hotel expansion plans

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India's largest hotel chains are rapidly expanding their portfolios amid record-high room rates. In the last week alone, half a dozen hotel companies across India have announced new development plans, including management contracts with independent owners and launching properties signed in the past few years, to capitalize on the soaring demand for hotel accommodations.

Buoyed by hotel demand outstripping supply, many top hotel operators are signing up new properties in the first quarter of FY24. Hospitality industry consultants estimate that between 100-150 hotels could have already been signed this year.

Many of these are new developments, led by the growth in tier 2 and 3 cities, and, in some cases, are conversion properties. Take Indian Hotels Co. Ltd (IHCL), which runs the Taj chain of hotels, for



The appeal of smaller cities is increasing rapidly for hotel developers. MINT

instance. In the first quarter of this fiscal, it signed 11 new hotels across Delhi, Gurgaon, Indore and Guwahati, compared to 29 signed in all of FY20.

The company said it had a record year for signings and openings last year, with 36 hotels signed and 16 new hotels opened and is hoping to surpass that number. "We have continued that momentum in the first quarter of FY24 with an all-time high number of 11 signings and five hotel openings," said Suma Ven-

katesh, executive vice president of real estate and development at IHCL.

For other listed operators like Lemon Tree Hotels, the strategy is to go beyond just tier-one cities. The company is now targeting tier 2-5 cities as well. A lot of these hotels will be conversion properties wherein an unbranded hotel converts to either its franchise or signs up to be managed by it under its Keys or Premier hotel brand.

"Our experience of operating hotels in tier 2, 3 and 4 cities has been phenomenal. This is because asset-light growth has a network effect. When we open hotels in smaller cities, we always see more customers coming in from those cities to our hotels in bigger cities when they travel. Given our size and the fact that we are present in key metro cities, we do see it as a winning strategy," said Vikramjit Singh, president of Lemon Tree Hotels.

In the first quarter of this fiscal, the company has signed six hotels in total, and four of these are in India, in Benga-

luru, Lucknow, Rajahmundry and Tirupati, with an average inventory size of hotels of between 80-100 rooms.

Consultants attribute this growth to the significant improvements in infrastructure and last-mile connectivity to Tier 2, 3 and 4 cities in recent years. Several organizations have expanded their presence to these smaller cities chasing lower operational costs and cheaper and widely available talent. Some level of business travel to these markets and domestic leisure travel to lesser-known and off-beat locations has also increased since the pandemic has also kept these businesses interested.

With a lack of quality hotel supply, it's no surprise that Tier 2, 3 and 4 cities are becoming increasingly appealing for hotel development. Even major domestic and international hotel brands are looking to capitalize on this opportunity, said Mandeep S. Lamba, president of South Asia for consultancy HVS Anarock.