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Hotel boom tale of two halves: luxury rises, budget struggles

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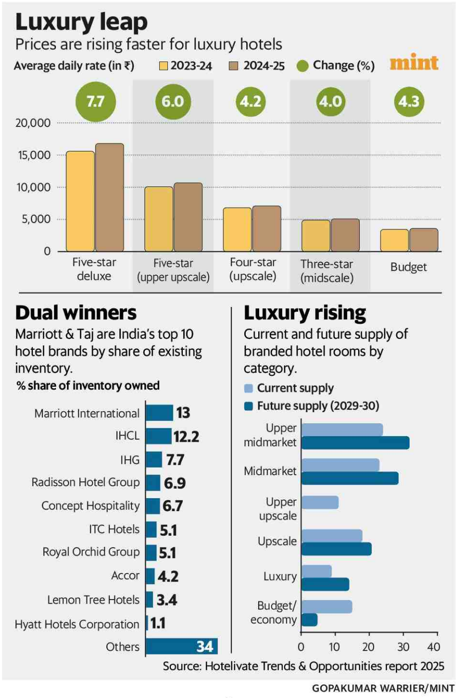
India's hotel industry is booming—but not evenly. Luxury hotels in major metros are raising rates and revenues sharply, while midmarket and budget hotels, especially outside big cities, are seeing slower growth as new supply keeps pace with demand.

A recent government move may help midmarket travellers: rooms priced below ₹7,500 now attract just 5% goods and services tax (GST), down from 12%. Still, the impact on occupancy and investor returns is expected to be modest. Rooms above that threshold remain in the 18% bracket, meaning most expensive hotels could still be out of reach for many.

"On a blended nationwide basis, there isn't much of a correlation between the GST regime change and expected performance of hotels," Achin Khanna, managing partner and strategic advisor at Hotelivate told *Mint*.

"While consumers will be pleased, this won't translate into higher occupancies. It's one of those 'good-to-have' benefits for the guests...Hotel owners and investors are not happy because of the input tax credit being taken away for rooms at the 5% GST category. The industry had sought a 12% flat rate (with input credit provisions) and not a 5% and 18% structure," Khanna said.

A night in a five-star deluxe averaged at ₹16,797 as of March 2025, up almost ₹1,200 from the previous year, while a budget room cost about ₹3,581, roughly 4% more than a year ago. Luxury rooms now cost nearly five times as much as budget stays, though midmarket hotels may see some relief thanks to the GST cut, according to Hotelivate's *Trends & Opportunities 2025* report, accessed exclusively by *Mint*.



The GST change coincides with record occupancies across the country and a development pipeline exceeding 100,000 rooms. Luxury hotels in Mumbai, Delhi, Bengaluru, and Hyderabad—together holding 28% of India's branded supply—saw rates climb 8.3% in 2024-25. By contrast, midscale hotels in smaller towns recorded just 3% growth, as new openings almost matched bookings, leaving little room for rate hikes, the report said.

The top 10 hotel companies now control 65.3% of India's branded supply, a sign of growing consolidation.

The report said nationwide occupancy, or the proportion of rooms sold, rose to 68% in 2024-25, up from 67.3% a year earlier. Average daily rate (ADR) climbed 4.7% to ₹8,432, while revenue per available room (RevPAR), which blends occupancy and price, rose 5.7% to ₹5,736.

However, the gains have been lopsided as leisure markets show strong performance at the luxury end, but the influx of lower-positioned hotels has diluted overall averages and, in some cases, even triggered RevPAR decline. Khanna cautioned: "Smaller industrial towns reflect ambitious supply additions that can outpace current demand realities. Unless supply is carefully matched to prevailing market conditions, the risk of underperformance increases meaningfully."

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