



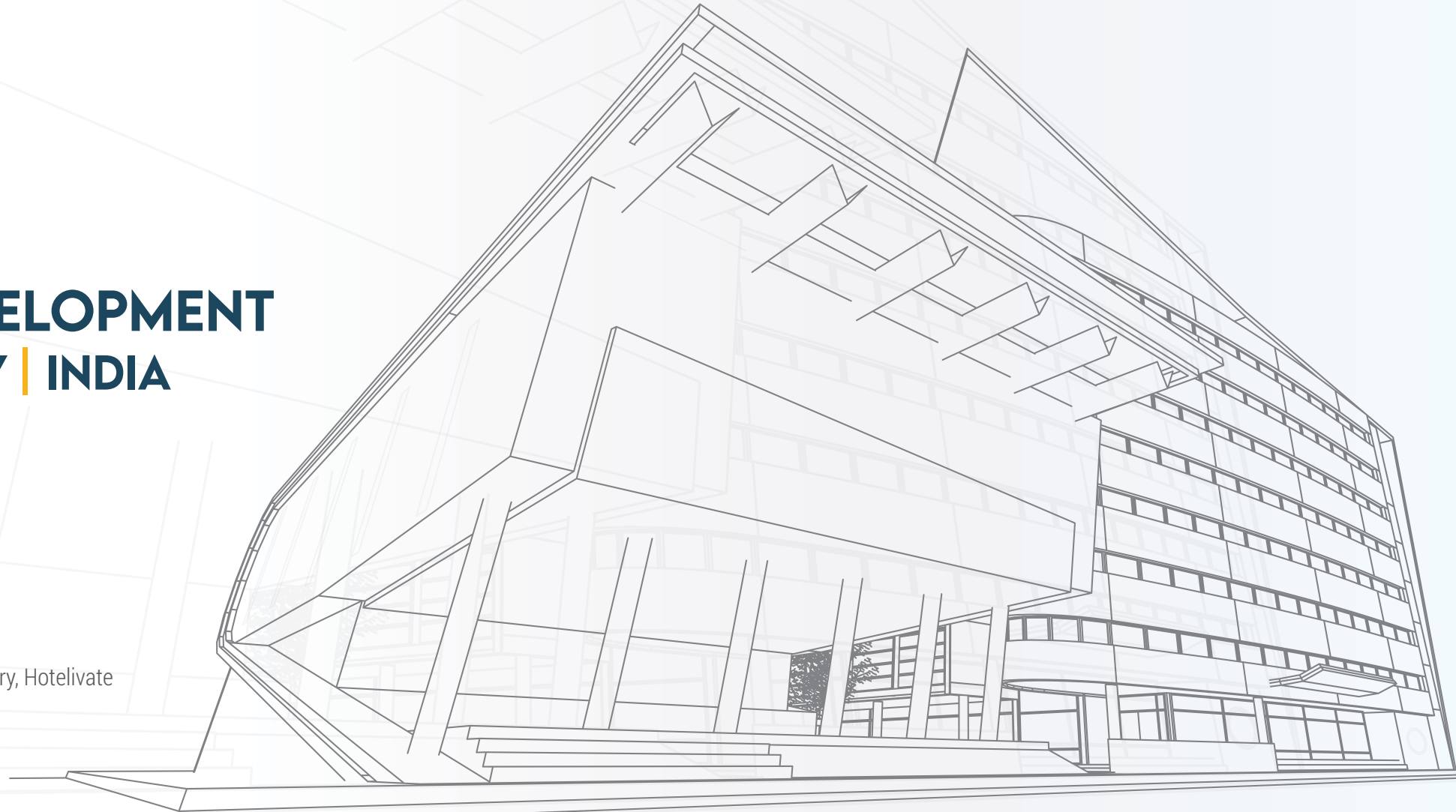
2021 HOTEL DEVELOPMENT COST SURVEY | INDIA

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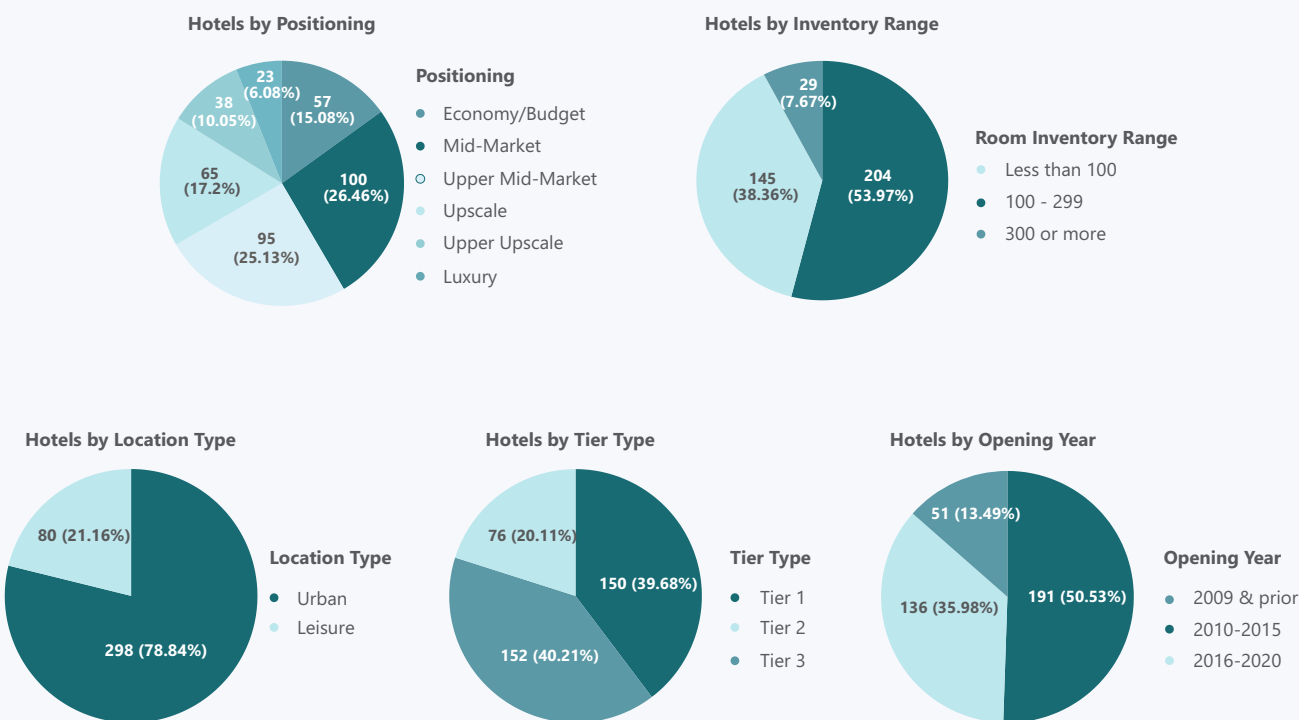
Understanding the Report

Hotelivate is pleased to share the analysis and insights of the **2021 Hotel Development Cost Survey | India**. This survey presents the results of an extensive review of actual development costs of nearly 400 hotels, across positioning and locations, that opened in the country between 2002 and 2020, in addition to offering an in-depth understanding of trends and the factors impacting them.

The survey sample set profile of **378 hotels**, having **55,488 rooms** across 102 Indian cities, has been illustrated below. Totally, this represents **~40% of the nation's branded/organised hotel inventory** spanning 38 hotel companies with numerous sub brands. In the report, where the sample set profile has influenced the survey results in ways contrary to the trends witnessed on ground, we have provided the necessary indications. This section further offers qualifying conditions and the methodology deployed whilst analysing the data.

SURVEY SAMPLE SET PROFILE

Figure 1: Sample Set of the Survey



Hotels Represented

378



Inventory Represented

55,488



Brands Represented

38



Cities Represented

102

Figure 2: Hotel Brands Represented in the Survey

Accor	Independent	Royal Orchid Hotels
Berggruen Hotels	Indian Hotels Company Limited	Sarovar Hotels & Resorts
Best Western Hotels	ITC/Fortune Hotels	Shangri-La Hotels & Resorts
Choice Hotels	Jaypee Hotels & Resorts	Spree Hotels
Citrus Hotels	Lemon Tree Hotels	Svenska Design Hotels
Concept Hospitality	Lords Hotels & Resorts	The Leela Palaces Hotels & Resorts
Dusit Hotels & Resorts	Marriott International	The Park Hotels
Four Seasons Hotels and Resorts	Mayfair Hotels & Resorts	The Zuri Hotels & Resorts
Golden Tulip Hotels	Oakwood	Triumph Realty
Hard Rock Hotels	Oberoi Hotels & Resorts	Whitbread PLC
Hilton Hotels & Resorts	Peppermint Hotels	Wyndham Hotels & Resorts
Hyatt Hotels & Resorts	Planet Hollywood International	
IHG	Rosakue Hospitality	

Mid-Market and Upper Mid-Market hotels have the highest representation in the sample set, together accounting for 52% of the total; this supports the trend that the development of lower positioned hotels has gained traction in the last decade.

Additionally, most of the hotels are based in urban locations (primarily in Tier 1 and Tier 2 cities) and have 100–299 rooms, with the mean inventory of the sample set being 147 rooms. Also, 85% of the hotels opened in 2010 or later years, allowing for the identification and analysis of more recent trends.

QUALIFYING CONDITIONS

The development cost of each hotel and related information has been **self-reported by the respondents**. While careful attention has been paid to address anomalies and filter out incomplete or questionable data, we have not independently verified the accuracy of each data point.

The survey results **do not consider effects of inflation, change in prices of essential commodities, and currency exchange rates**, and instead reflect the development cost provided by the respondents as of the opening year of the hotel. Moreover, hotel development costs are impacted by a variety of factors that are unique to each project and hence, **the survey results must not be viewed in isolation**. They are only meant to serve as a guideline to aid comparison across positioning and other parameters used in this survey.

Not all hotels in the sample set have provided complete information on the breakdown of the development cost or other related information that has been analysed in this report. In such cases, we have carved out subsets of the sample to perform the analysis, eliminating responses with insufficient information.

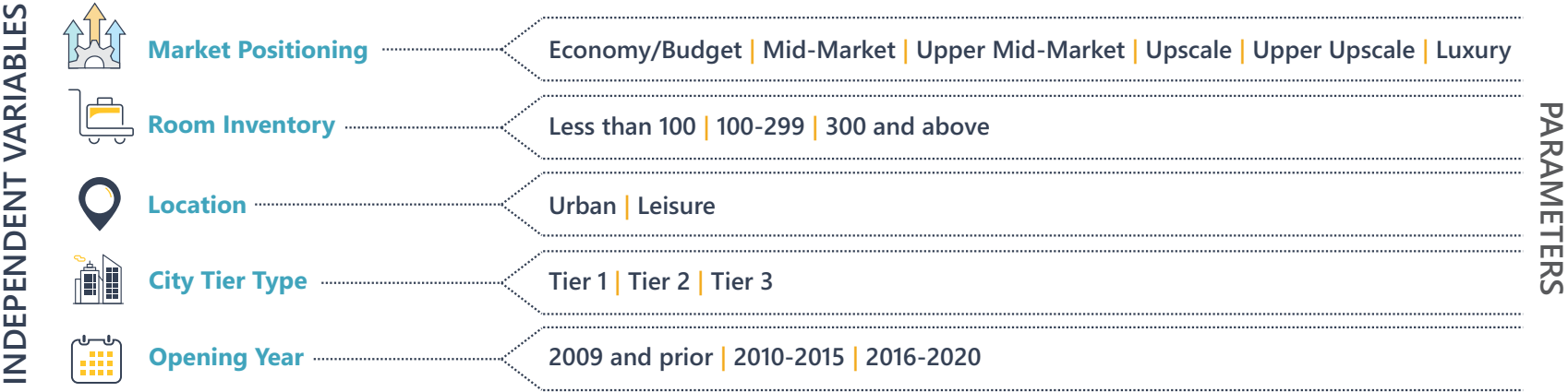
All information has been collected and analysed by the staff of Hotelivate. **Data confidentiality** has been strictly maintained throughout this report, with survey results being presented only in the aggregate; no individual hotel, brand or operator has been identified. Hotelivate reserves the right to amend all or part of the report without prior notice. **No information contained in this report may be reproduced or distributed in any form without the due acknowledgment and prior written consent of Hotelivate.**

PRESENTATION OF SURVEY RESULTS

In this report, the survey results have been presented under the following four major sections:

- Section A:** Development Cost per Key
- Section B:** Development Cost per Key Breakdown by Major Cost Categories
- Section C:** Average Development Cost per Square Foot of Average Total BUA
- Section D:** Construction Tenure

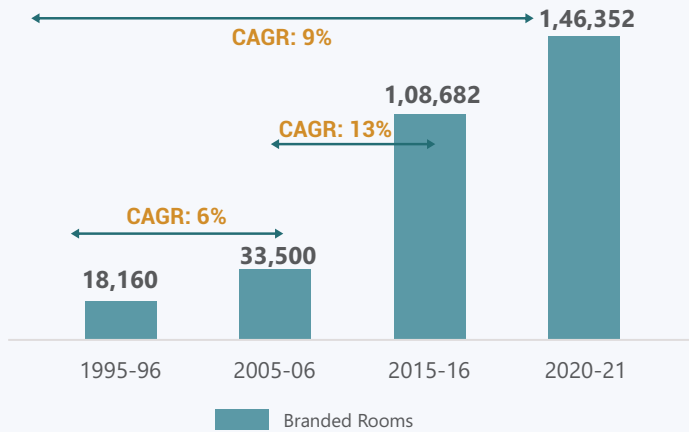
Under each section, we have performed detailed analyses using **five primary independent variables**, as highlighted below.



Hotel Development Through the Ages

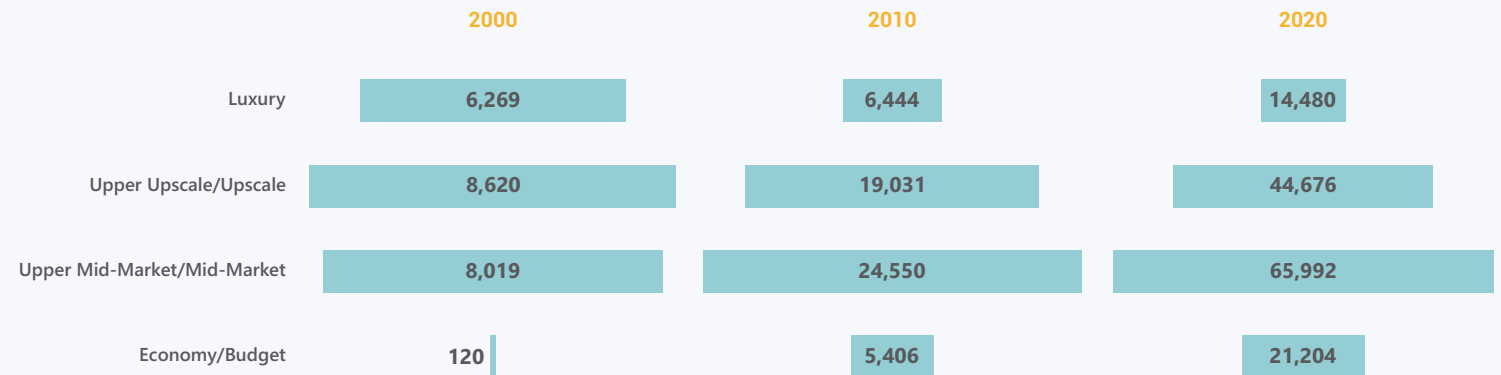
In the mid-90s, when the market size of branded/traditional chain-affiliated hotel rooms in India was assessed for the first time, there were around **18,200 rooms** operating across budget to luxury positioning. Per our latest estimates, this figure stands at over **1,46,000 rooms** as of 2020-21. Such an impressive growth has been possible owing to numerous factors, including the advent of international hotel chains in India; rising popularity of the asset-light model for expansion (franchise and management contracts); increasing tourism demand (both domestic and international) that has resulted in the need for quality accommodation across positioning; improving macroeconomic conditions that have supported the growth of businesses in the country, further enhancing commercial travel; and a gradual shift in hotel development from upscale-luxury hotels to budget mid-market hotels that are quicker and relatively less expensive to build.

Figure 3: Growth in the Branded/Traditional Chain-Affiliated Room Inventory in India | 1995-96 to 2020-21



Note: Branded/Traditional hotel chains refer to companies with hotels that are predominantly organic-branded.
Source: Indian Hospitality - The Stats & Pulse (S&P) Report FY2021

Figure 4: Branded/Traditional Chain-Affiliated Room Inventory in India by Positioning | 2000 vs 2010 vs 2020



Around two decades ago, the Indian branded hospitality landscape was referred to as an inverse pyramid, with a larger chunk of rooms operating in the upscale-luxury category; however, this has **transformed dramatically since then, with almost 60% of the current room inventory positioned in the economy/budget-upper mid-market space** (Figure 4, above).

As the supply of rooms rises, heightening the competition across positioning, determining the viability of hotel projects becomes even more necessary. To that end, a critical component to assess is the hotel development cost. How much does it cost to build a hotel? How long does it take? Is it different across locations? Has it increased or decreased over the years? Endeavoring to address these questions and many others, we are pleased to share the results of the 2021 Hotel Development Cost Survey | India.

Section A: Development Cost per Key

The sample set of 378 hotels (across all positioning) has a total development cost of **₹57,372 crore**, with the average development cost per key computing to **₹1.03 crore**. The survey results have been presented below by the primary independent variables listed earlier in the report.

Figure 5: DCost/Key (IL) by Positioning

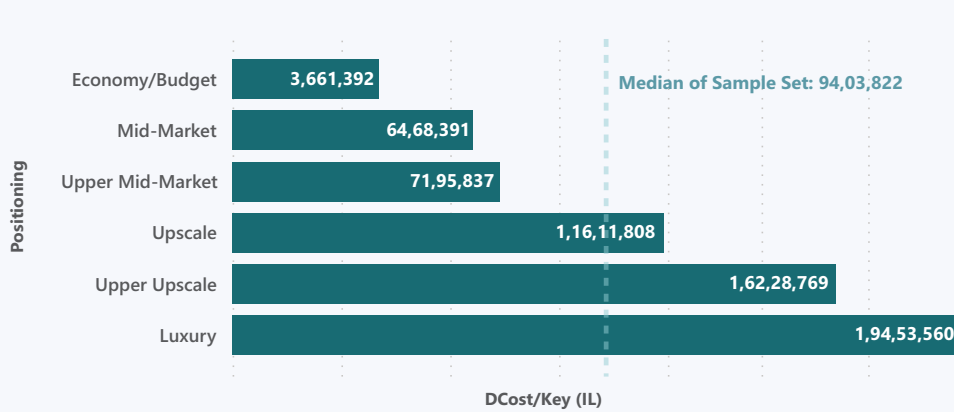


Figure 6: Avg. DCost/Key (IL) by Inventory and Positioning

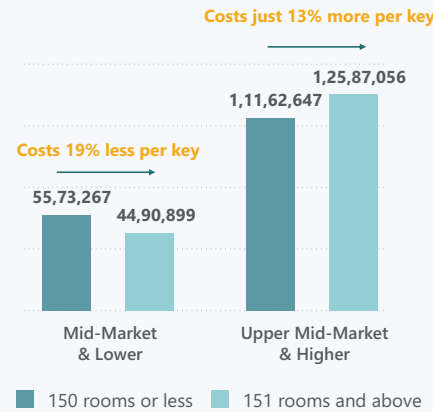


Figure 7: DCost/Key (IL) by Inventory Range

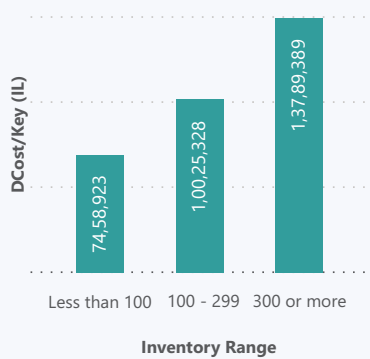


Figure 8: DCost/Key (IL) by Tier Type

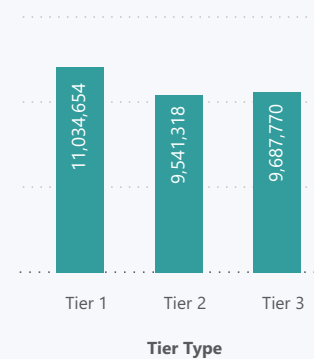


Figure 9: DCost/Key (IL) by Opening Year

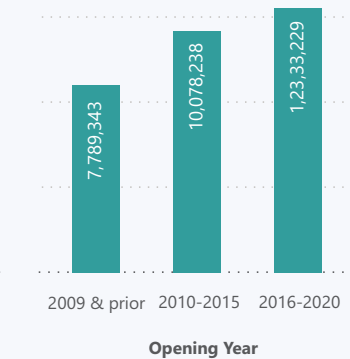
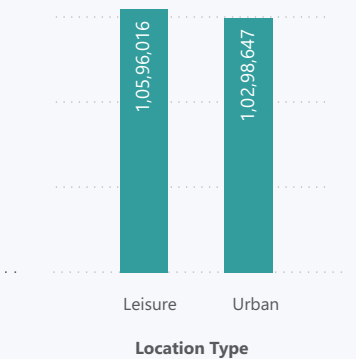


Figure 10: DCost/Key (IL) by Location Type



*All numbers are in Indian Rupees

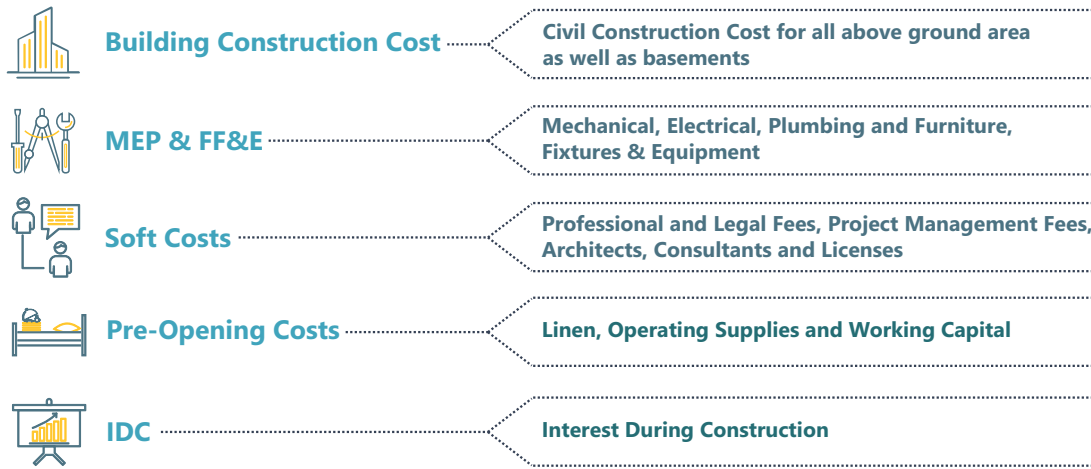
**DCost/Key (IL) = Development Cost per Key (Including Land Cost)

Key Insights

- Validating the general understanding that development cost increases with the rise in hotel market positioning, our findings suggest that an economy/budget hotel in India costs **₹36.61 lakh/key** to build while a luxury hotel costs a little over five times at **₹194.54 lakh/key**.
- The range of development cost within the same positioning is vast, **indicating a lack of standardisation**. This can be attributed to two main factors – (i) some international brands tend to position their product a notch higher to gain acceptance from the Indian market, and (ii) personal aspirations of Indian owners to develop landmark projects as against efficient ones.
- On analysing development cost by inventory and positioning (Figure 6) to determine whether economies of scale can be achieved beyond a certain number of rooms, we found that mid-market and lower positioned hotels, which are predominantly rooms-oriented, can optimise up to ₹11 lakh/key (or **19%**) if they have 150 rooms or higher. Though this is not the case with higher positioned hotels, possibly due to the presence of more built-up public areas, such as F&B outlets, meeting facilities and other operating departments such as spas and fitness centres, it is interesting to note that the incremental cost per key is moderate (**13%**), to build an upper mid-market or higher positioned hotel with an average inventory of 252 rooms vis-à-vis another with 98 rooms. Hence, the viability of developing higher inventory must be evaluated in the context of market conditions.
- Hotels in Tier 1 cities have a higher cost per key in comparison to Tier 2 and Tier 3 cities in India. We also observe that while the land cost is substantially lower in Tier 3 cities than in Tier 1 (and to a lesser extent Tier 2), the costs related to construction, MEP and FF&E aren't vastly different (detailed later in the report). It must be noted, however, that the average room inventory of hotels in Tier 1 cities is 193 rooms, while that in Tier 2 and Tier 3 cities is 126 room and 98 rooms, respectively.
- Leisure hotels in India seemingly cost slightly more to build than urban hotels although the average room **inventory of leisure hotels in the sample set is 95 rooms**, while that of **urban hotels is 161**. While this impacts the development cost per key one must also note that many emerging leisure destinations in the country are limited by the availability of resources to efficiently build a hotel, increasing the overall development costs as a result.
- Hotel development costs have increased over the years, with the cost per key **rising by 28%** between the periods 2009 and prior and 2010-2015. **Hotels that opened in the last five years cost 58% more** to build per key than those that opened in the early 2000s.

Section B: Cost per Key Breakdown by Major Cost Categories

In this section, we have presented the survey results pertaining to the composition of the development cost of hotels by the salient cost categories, further analysed by the primary independent variables. It must be noted that for this specific analysis, we looked at a subset of **104 hotels comprising 13,322 rooms**, eliminating entries with insufficient information.



Key Insights

- ◆ Building/construction costs make up the highest portion of hotel development costs for most market positioning except upper upscale/luxury hotels, where MEP & FF&E collectively constitutes the largest cost category.
- ◆ While Professional & Legal costs represent a near similar level of contribution across positioning, in absolute figures, upper upscale/luxury hotels have average soft costs that are 5.5 times more than economy/budget hotels.
- ◆ Unsurprisingly, land cost as a percentage of total development cost (incl. land) is the highest for economy/budget hotels due to lower cost of construction for such hotels, resulting in lower project cost as a whole, while IDC is the highest in case of upper upscale/luxury hotels possibly due to a longer construction tenure and higher absolute amount of debt.
- ◆ The ratio of various cost categories to the total development cost per key has remained comparable over the years; however, land cost has increased, contributing a higher percentage of the total.

Figure 11: Development Cost Breakdown by Positioning

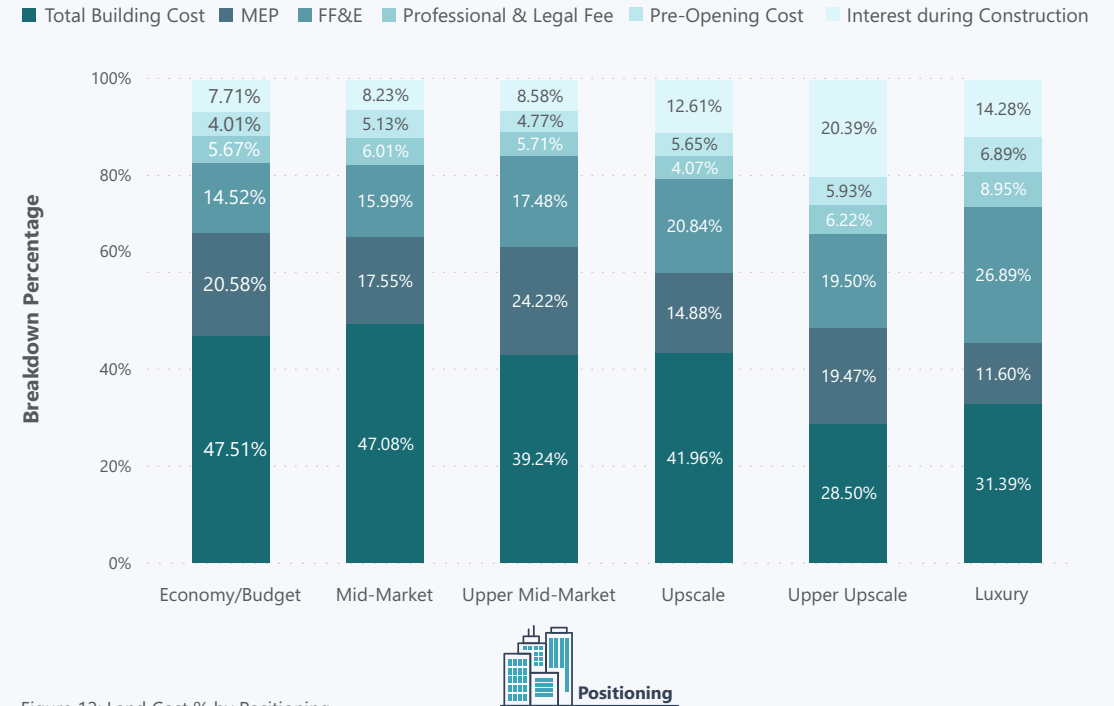
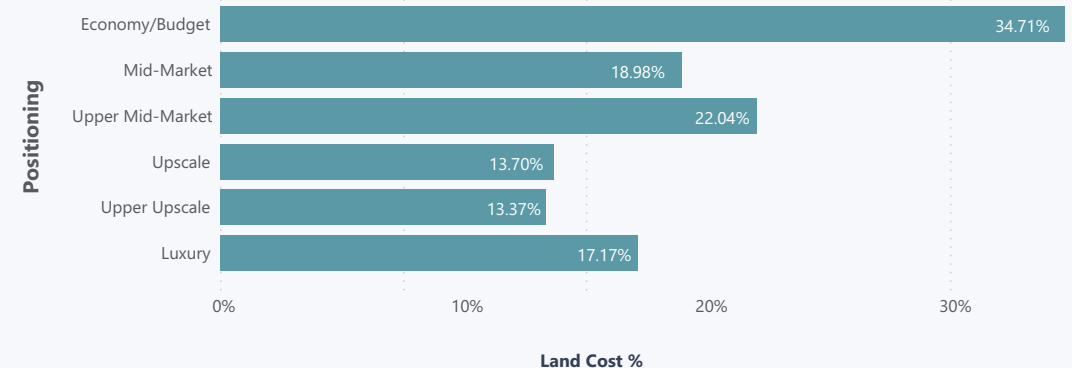


Figure 12: Land Cost % by Positioning



■ Total Building Cost
 ■ MEP
 ■ FF&E
 ■ Professional & Legal Fee
 ■ Pre-Opening Cost
 ■ Interest during Construction

Figure 13: DCost Breakdown By Inventory Range

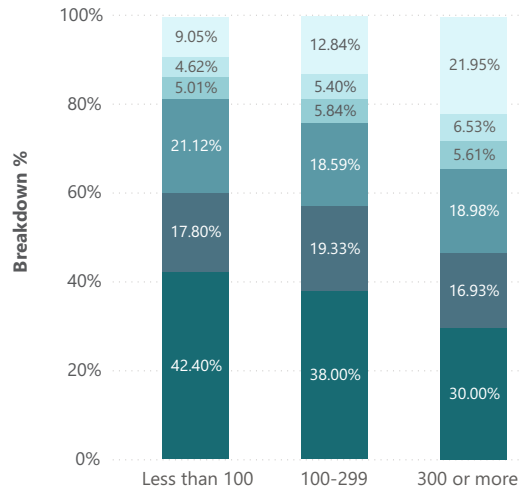


Figure 14: Land Cost % by Inventory Range

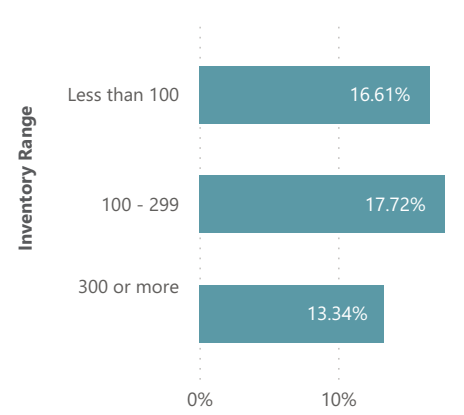


Figure 15: DCost Breakdown by Location Type

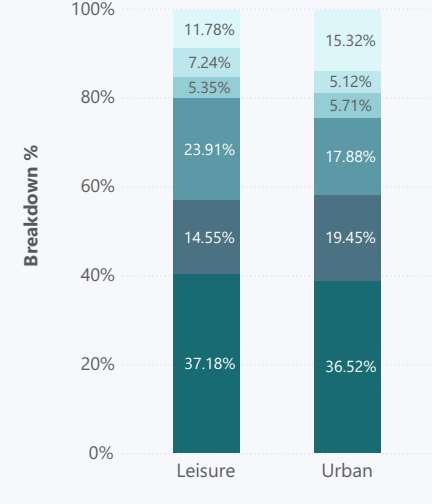


Figure 16: Land Cost % by Location Type

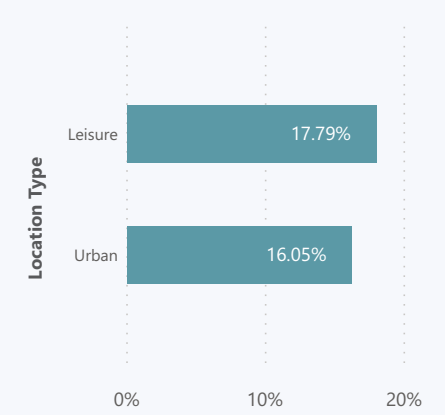


Figure 17: DCost Breakdown by Tier Type

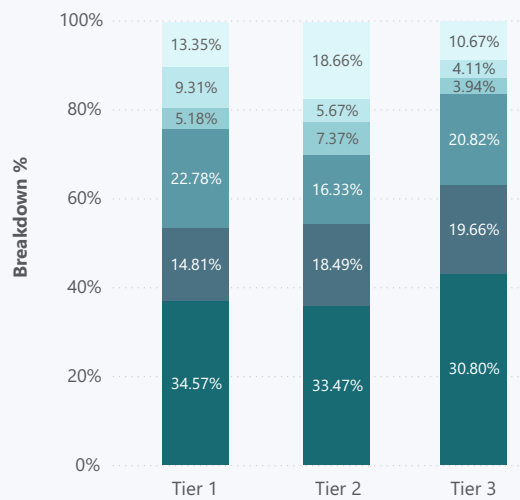


Figure 18: Land Cost % by Tier Type

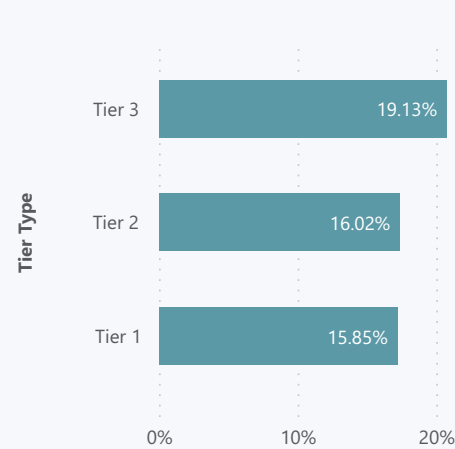


Figure 19: DCost Breakdown by Opening Year

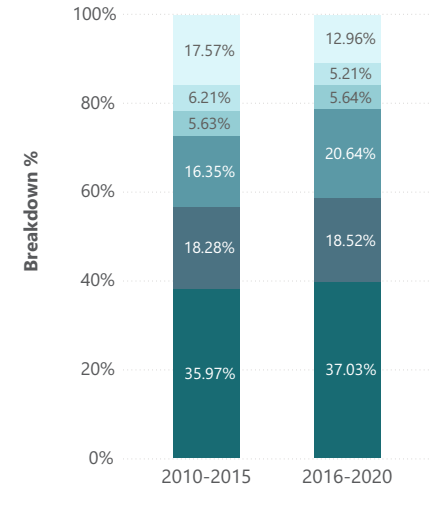
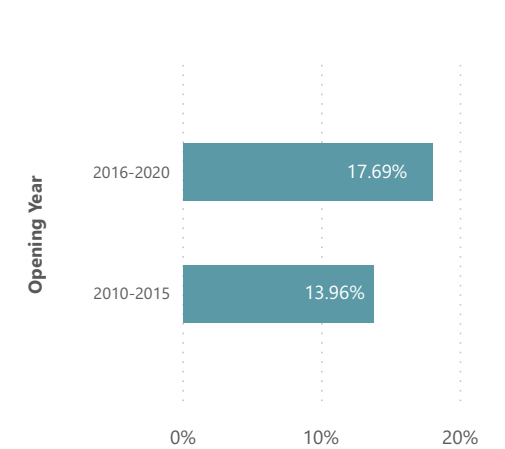


Figure 20: Land Cost % by Opening Year



Section C: Development Cost per Square Foot of Average Total Built-up Area

This section looks at the Total Built-up Area (BUA) of the surveyed hotels, and the Average Total Development Cost per Square Foot of the Average Total BUA by the primary independent variables. For this analysis, we considered a subset of **143 hotels comprising 18,261 rooms**, eliminating entries with insufficient information. Moreover, for the calculation of **Gross Floor Area (GFA)**, only the BUA “above” ground has been considered.

Key Insights

- ◆ We observe that the BUA below ground (typically basements) tends to **average 27%** of the Total BUA, with luxury hotels representing the higher end of the range, possibly owing to a larger support team as well as higher requirement of back of the house areas.
- ◆ Although the development cost per key rises with the increase in positioning, the development cost/ft² of total BUA is nearly similar across for budget/economy to upscale positioning, rising steeply only for upper upscale/luxury positioned hotels, driven mainly by **high FF&E costs, soft costs, and MEP costs**, as mentioned in the previous section.
- ◆ An important aspect to bear in mind here is that economy to mid-market hotels are represented almost equally (40% of the total) in both Tier 1 and Tier 3 cities in this subset; however, the product profile is quite different. In Tier 3 cities, such hotels have fewer rooms and more public areas (F&B outlets and event venues), whereas in Tier 1 cities they are akin to room factories.
- ◆ The larger incremental spaces in Tier 3 cities are not as expensive to build/furnish as rooms. Thus, with an average room inventory of 98 keys, similar positioned hotels in Tier 3 cities have a lower development cost when compared to Tier 1 cities (where the mean room inventory is 190 keys).
- ◆ In this subset, economy to mid-market hotels constitute 31% of all hotels that opened between 2010 and 2015 and 50% of all hotels that opened between 2016 and 2020. Consequently, the GFA/ft² is lower for hotels that opened in the last five years. This is reflected in the average development cost per key as well.

Figure 21: BUA (Sq Ft) & GFA/Key by Positioning

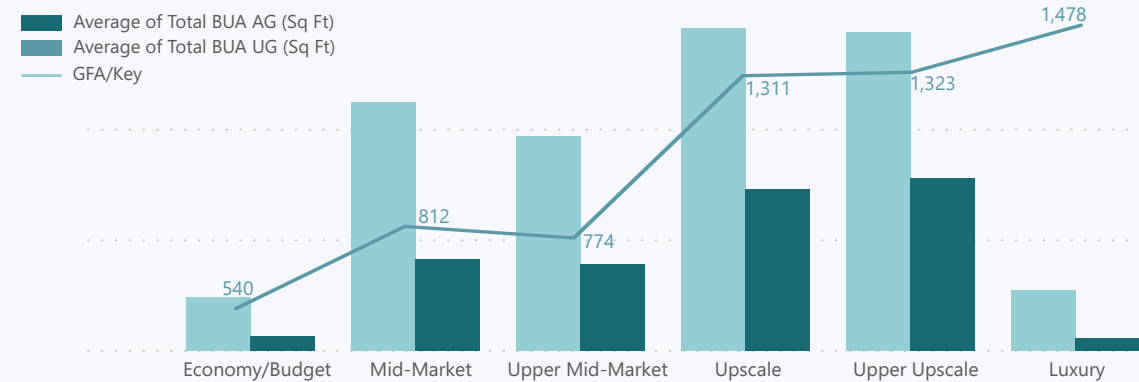


Figure 22: DCost/Key (IL) & DCost/SqFt (IL) by Positioning

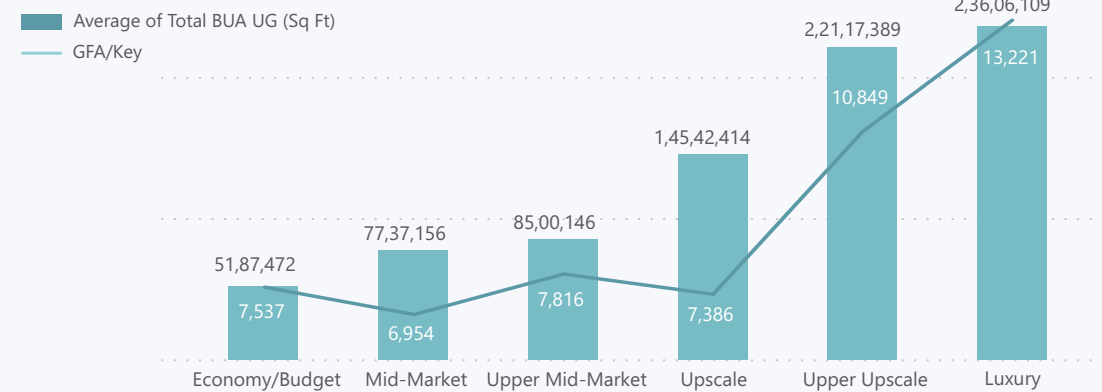


Figure 23: Avg. BUA (Sq Ft) & GFA/Key by Inventory Range

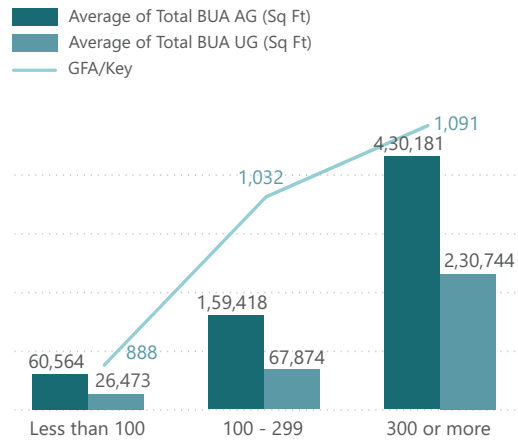


Figure 24: DCost/Key (IL) and DCost/SqFt (IL) by Inventory Range

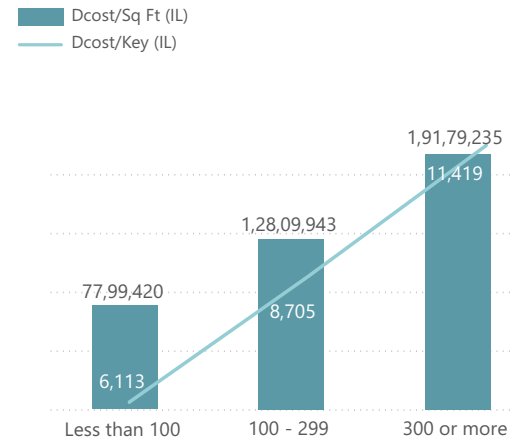


Figure 25: Average of Total BUA AG (Sq Ft) and GFA/Key by Location Type

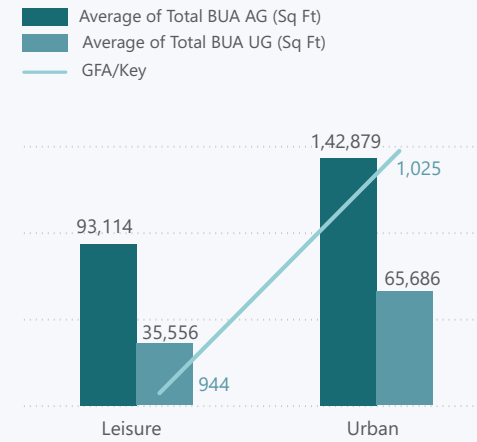


Figure 26: DCost/Key (IL) and DCost/SqFt (IL) by Location Type

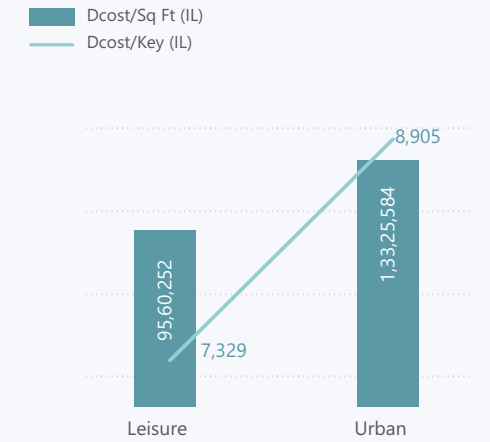


Figure 27: Average of Total BUA AG (Sq Ft), Average of Total BUA UG (Sq Ft) and GFA/Key by Tier Type

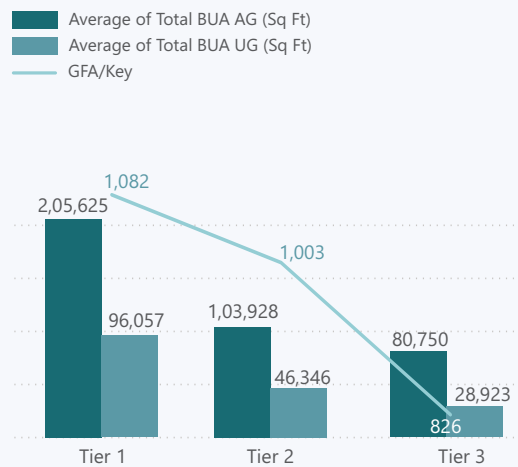


Figure 28: DCost/Key (IL) and DCost/SqFt (IL) by Tier Type

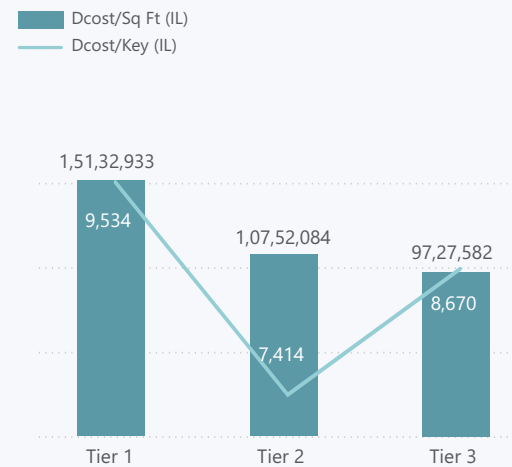


Figure 29: Average of Total BUA AG (Sq Ft), Average of Total BUA UG (Sq Ft) and GFA/Key by Opening Year

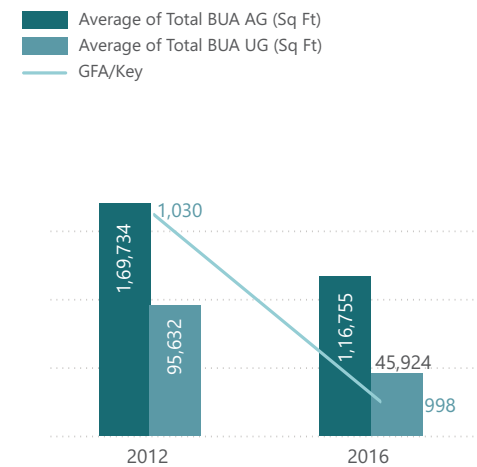
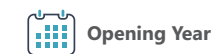
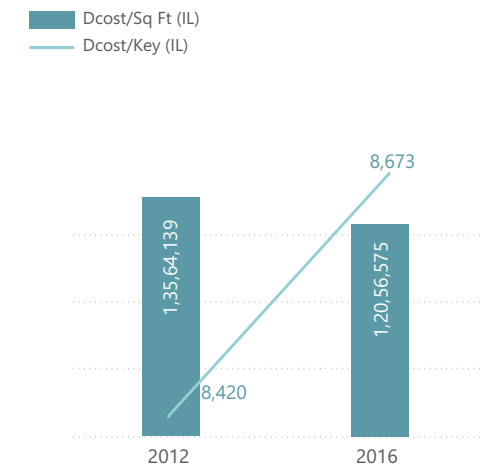


Figure 30: DCost/Key (IL) and DCost/SqFt (IL) by Opening Year



Section D: Construction Tenure

We also analysed the construction tenure of the surveyed hotels to analyse its impact on development cost. For this analysis, we reviewed a subset of **352 hotels comprising 52,442 rooms**, eliminating entries with insufficient information.

Figure 31: Construction Tenure by Positioning

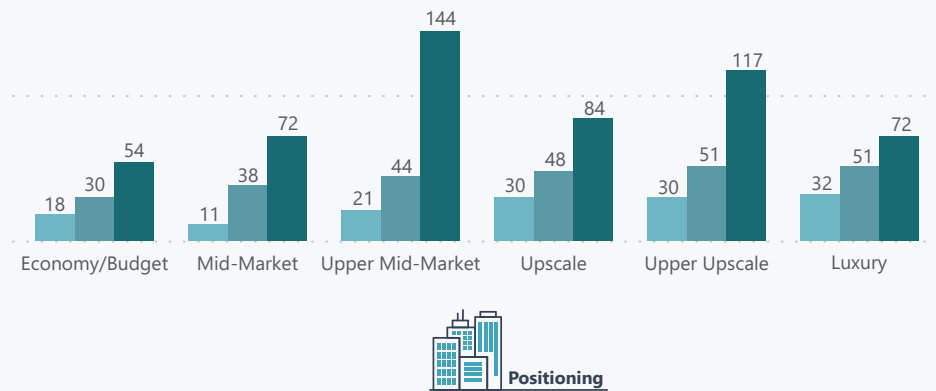


Figure 32: Construction Tenure by Inventory

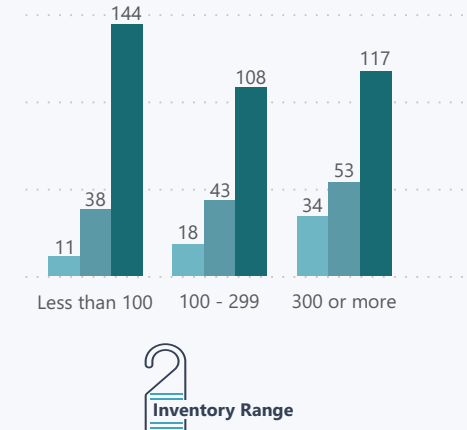


Figure 33: Construction Tenure by Tier Type

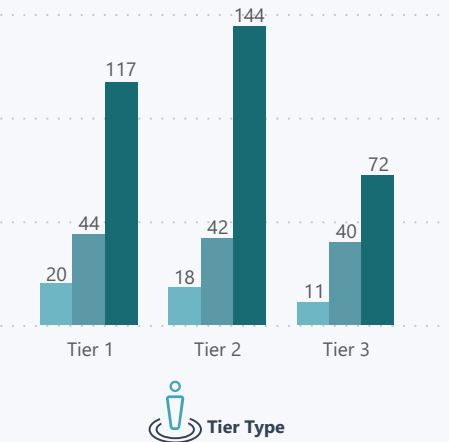


Figure 34: Construction Tenure by Location Type

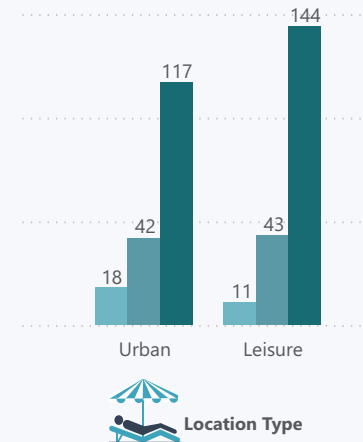
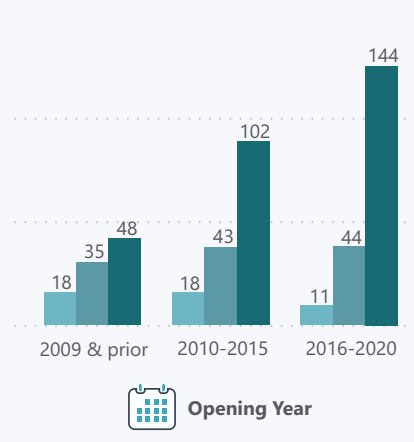


Figure 35: Construction Tenure by Opening Year



Key Insights

- ◆ The average construction tenure of all hotels in the subset is **42 months**.
- ◆ When reviewed by positioning, as anticipated, luxury and upper upscale hotels have the longest construction tenure averaging **51 months** and economy/budget hotels have the shortest tenure averaging **30 months**.
- ◆ However, when one looks at the maximum tenures, there are hotels that took 8 to 12 years to build as well, many of which were in politically unstable regions, holding back commercial and infrastructural development.
- ◆ Nonetheless, maximum tenures ranging from **54 months** to **144 months** point to the fact that the actual time taken to acquire the funding and statutory licenses, permissions and approvals to open hotels in India delays projects.
- ◆ Expectedly, large format hotels take longer to build (**53 months on average**) than smaller hotels (**38 months on average**). Additionally, the fact that most of the large format hotels in the subset have a higher positioning, further contributes to this trend.
- ◆ Hotels in urban and leisure locations suggestively take nearly the same amount of time to build and open. Even when viewed by positioning, upscale-luxury hotels in both leisure and urban locations take, on average, **46-51 months to open**.
- ◆ Construction tenure of hotel projects in India has increased over time even though lower positioned hotels are being built, project management companies are being hired and more technology is being used. That said, many emerging locations are being tapped in recent years, where initial logistical challenges could have delayed hotel projects to a certain extent.

Additional Takeaways for Developers

Overall, we note that **hotels in India, particularly in the economy to mid-market positioning, offer substantially more non-room areas** in the form of multiple F&B outlets and meeting facilities than similarly positioned hotels in North America or Europe. While this has always been true for domestic hotel chains, international brands that have an established presence in the country or have recently entered, have also realised the need to offer extended F&B options. While F&B contributes anywhere from 20%-45% of the top line, based on the positioning, it certainly increases the development cost of hotels as well.

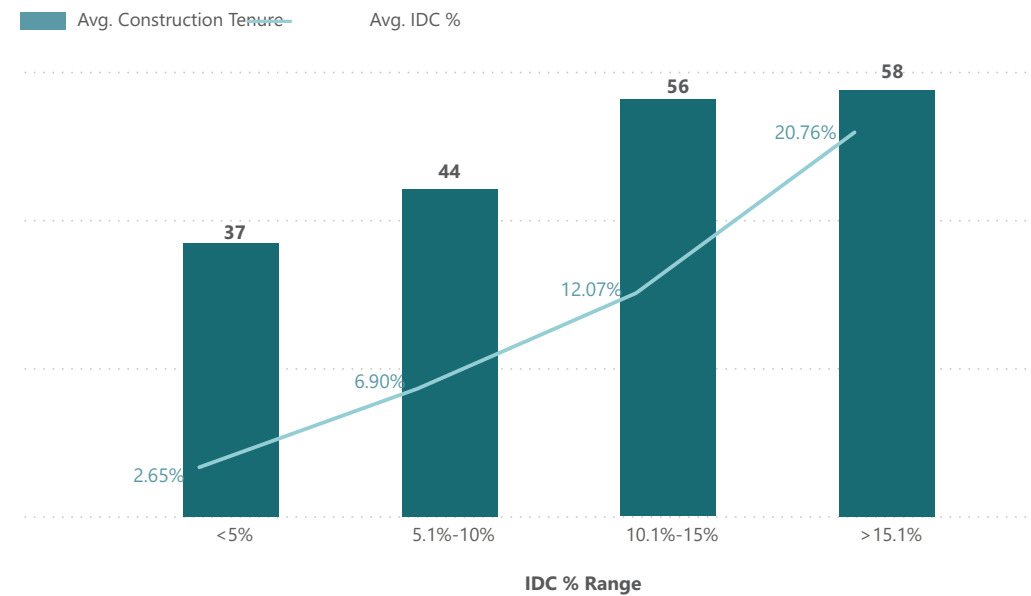
The availability of less expensive manpower in comparison to North America and Europe has allowed international brands to develop **full-service instead of select-service hotels**, even in the budget and mid-market space in India. This further contributes to an increase in the development costs.

Another critical aspect to consider is the **rise in construction input costs** in recent years, especially that of cement and steel. However, the implementation of uniform Goods and Services Tax (GST) is being viewed positively by the construction industry, as it has helped standardise taxation rates of raw materials across states. Going forward, an increased use of technology, streamlining of development regulations by the government, and the advent of international contractors and project management companies will likely make hotel construction in India more efficient.

While on this analysis, we also reviewed the **impact of construction tenure on Interest During Construction (IDC)**. As Figure 36 shows, when you have a longer construction tenure, IDC costs are understandably higher, irrespective of the market positioning. For example, 53% of the hotels with an IDC between 10.1%-15% of the development cost and 44% of the hotels with an IDC over 15% of the development cost are in the upper mid-market and below segments.

On average, IDC accounts for 15% of the total development cost of hotels in India, which is on the higher side. This is largely attributable to the high lending rates as well as long construction tenures for hotel projects in the country. The industry's long-standing demand from the government for being accorded the infrastructure status that could possibly address this challenge hasn't fully been met yet. In 2012, infrastructure status was granted to three-star or higher category hotels outside cities with a population over one million. Then in 2013, the government granted infrastructure status only to hotels with a project cost of more than ₹200 crore (excluding land). Significantly, both thresholds covered a very small percentage of hotel projects in the country.

Figure 36: Avg. Construction Tenure & Avg. IDC % by IDC % Range



IN CONCLUSION

Our report seeks to provide trend lines across a variety of data points and matrices relevant to the development cost of hotels. Having said that, hotels are a unique asset class with the development timeline and cost breakdown for each one being different. This report provides broad indicators to aid developers in controlling individual cost lines without getting entrenched in the specifics of the outcome. To reiterate, there is no ideal cost structure for hotels of any positioning, but an understanding of cost breakdown and range for the development cost per key can result in efficient cost structures and hotel development.

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2021
HOTEL DEVELOPMENT
COST SURVEY | INDIA

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Strategic guidance and leadership throughout the initial development stages of a hotel project



Revenue Management

Strategic and operational revenue management support



Strategic Advisory

Trusted hospitality advisors for achieving optimal economic returns for your hospitality ventures



Transaction Advisory

Innovative solutions for deal identification and structuring