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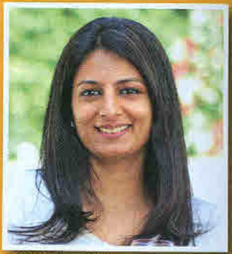
"We plan to invest an additional ₹600 crore in the hotel space."

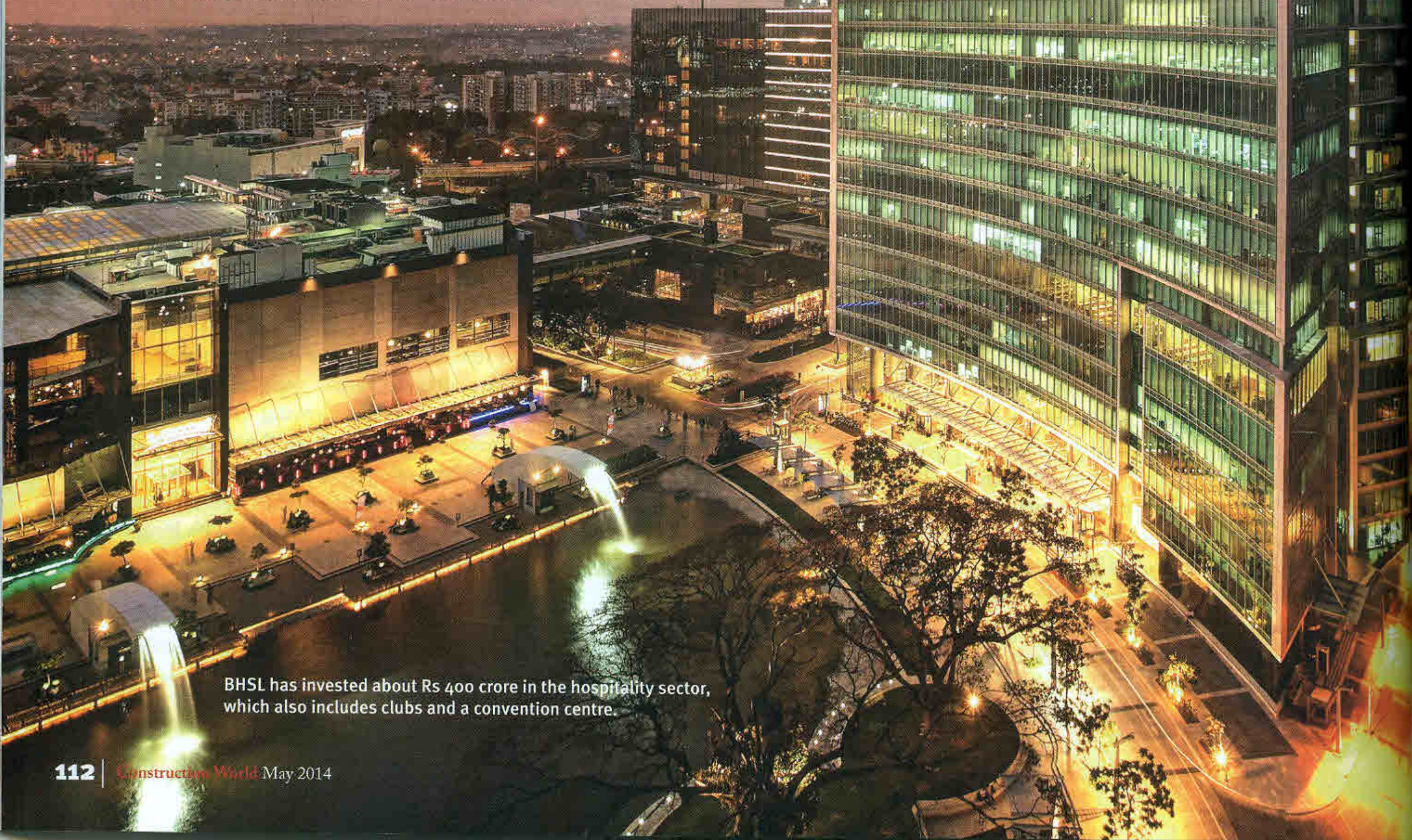


Nirupa Shankar, Director, Brigade Hospitality Services Ltd

Having entered the hotel space in 2004 with Brigade Hospitality Services Ltd (BHSL), Brigade Group's confidence in the hospitality sector has gained momentum. With the establishment of Brigade Homestead Serviced Residences earlier in 2001, it has pioneered the concept of professionally managed serviced residences in Bengaluru. It has also been one of the first real estate developers to get involved with lifestyle membership clubs. Moreover, in order to promote cultural activities, the company as a part of its CSR activity, has constructed the MLR Convention Centre in the city. Currently, with two operating hotels – Grand Mercure and Sheraton – in Bengaluru, the dynamic and steadfast **Nirupa Shankar, Director, BHSL,** in conversation with MONISHA RAO, says, "We are bullish on the hotel space and want 15 per cent of our business coming in from the hospitality sector." Elaborating upon the company's plans for the future, she adds, "While we have seven additional hotels in the pipeline, we have also tied up with InterContinental Hotels Group (IHG) to construct 10 more Holiday Inn hotels in India."

Key to success

Our hotels have been doing very well! Grand Mercure has had an occupancy rate of 85 per cent in February and March, as against the city's average of 58 per cent. Our room rates are also higher than the city's average – Rs 8,500 as against Rs 6,500. Besides, as a developer we try to limit our per key cost of development for a five-star hotel to Rs 1-1.25 crore and to Rs 65 lakh for a three to five-star hotel. For a mid-market hotel, like Holiday Inn, the per key cost of development is Rs 35 lakh, which may even escalate to Rs 40 lakh depending on delays in the completion of the project. To avoid such price escalations, we ensure that we budget our raw material



BHSL has invested about Rs 400 crore in the hospitality sector, which also includes clubs and a convention centre.

prices accordingly and aim to complete our projects on a timely schedule. When a hotel exceeds its time limit, the return on investment suffers drastically. For instance, if a hotel takes six years to be completed instead of three, it increases the gestation period of breakeven to 10 to 11 years, and not a lot of players have the ability to withstand it.

Rate of return

The general thumb rule followed is that hotels should ideally recover 0.1 per cent of the per key cost of development. In that context, it is relatively easier to recover the investment in the budget mid-market segment because the demand is high. However, with changes in the market scenario and new supply, revenue models could suffer from time to time. In the luxury segment, developers need to be conscious about their initial budget and must carefully analyse market conditions. For example, since 2007-2008, Bengaluru's average city rate has dropped down to Rs 6,500. This has impacted the revenue model of many in the industry. Thus, one needs to smartly strategise investment because the market dictates the rates and not vice-versa. While a lot of hotels are generating a return of 8-10 per cent per annum, some have generated 12 per cent and very few have generated a return of 15 per cent.

Market overview

While on one hand experts indicate oversupply in the market, reports on the other hand highlight the shortage of rooms. The budget segment is experiencing a shortage, including mid-market, Tier I and Tier II cities in the organised sector. Despite this, nobody is running full! Not a single city's average rate of occupancy is above 70 per cent. However, there is an oversupply in certain areas like Chennai. But investments will never decrease in cities such as Delhi, Mumbai and Bengaluru, which generate the maximum demand. The market currently has about 85,000 rooms in the organised sector. By 2018, this may double to 160,000 rooms – 60-70 per cent of this is already under development. Hence, by 2018, Bengaluru will overtake Delhi to become the second to Mumbai in terms of the number of three, four and five-star rooms.

Growth strategy

As a company, we have been on the conservative side and have strategised to grow organically with our internal funds. We have recorded a good growth trajectory in the hospitality sector. For example, in 2009, in the peak of financial crisis, Grand Mercure had a 40 per cent occupancy rate but from the second year onward, it increased to 80 per cent. More important, developers need to build smart hotels and avoid overspending. We spend an enormous amount of time on the design and development stages with our in-house architects, project managers and interior designers. We carefully choose our location – avoiding overpopulated areas – or find ways to create our own demand. For example, the Sheraton has been constructed close to the World Trade Centre. With 1 million sq ft of office space and retail facilities, the rate of occupancy is certainly set to increase. We have invested about Rs 400 crore in the hospitality sector, which also includes clubs and a convention centre. We have plans to invest an additional Rs 600 crore in the hotel space. Currently, with both our operational hotels in Bengaluru, we have one hotel planned each in Chennai and Mysore, and two in Kochi.

That said, Brigade, with its major expansion plans aims to make it big in the hospitality sector.

To share your views and contribution to India's hospitality sector, write in at feedback@ASAPPmedia.com

SUSTAINABLE EMPHASIS

Exterior glass facade ensures rooms do not get too hot.

Ensure rooms are not east-west facing so they take in less sunlight.

Fresh air ventilation for common areas.

LED lighting in rooms and corridors.

Rainwater harvesting.

Reuse the water from the sewage treatment plant for gardening and flushing purposes.