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MARKET REPORT

HVS Monday Musings: Indian Hospitality Sector – 2023 in Review

DECEMBER 17, 2023

Despite prevailing global challenges, India's economic resilience had a positive ripple effect on the hospitality sector. Read on to know more.

The year 2023 unfolded as a dynamic chapter for the global hospitality sector, characterized by a blend of challenges and successes. While the world grappled with extreme climate events, escalating geopolitical tensions, growing economic headwinds, and rising travel costs, the global travel industry witnessed a resurgence. According to the United Nations World Tourism Organization (UNWTO), the first nine months of 2023 recorded a remarkable 38% increase in international tourist arrivals (ITAs) compared to the previous year, albeit trailing by a modest 13% from the 2019 levels. The Middle East led the charge, with a 20% growth in ITAs compared to pre-pandemic levels, while the Asia Pacific region emerged as the biggest gainer, experiencing a staggering 210% year-on-year (y-o-y) increase, driven by the reopening of mainland China.

India continued its ascent on the global stage in 2023, building on its status as the world's fifth-largest economy achieved the previous year. The country seized the spotlight, surpassing China as the most populous country, hosting over 200 meetings during its G20 presidency, and achieving a historic milestone by successfully landing Chandrayaan-3 on the moon's unexplored south pole, the first country to ever do so. Fueled by favorable demographics, robust domestic demand, increased investments, and improving infrastructure, India's economic resilience endured amidst global challenges, positively impacting the tourism and hospitality sectors.

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While revenge travel gradually declined, the leisure segment experienced sustained growth, driven by evolving traveler preferences and a rising interest in unique experiential travel. Inbound tourism displayed promising signs of recovery, with 7.2 million foreign tourist arrivals from January to October 2023, marking a remarkable 55% year-on-year growth and just 16% short of 2019 levels. Meanwhile, after nearly three years of restricted cross-border travel, outbound tourism from the country witnessed a resurgence, mirroring a trend akin to the pent-up demand that fueled domestic tourism in the last two years. Consequently, Jan-Oct 2023 saw 22.6 million Indian national departures, showing a growth of 29% compared to 2022 and 0.8% compared to 2019.

The MICE and corporate travel segments also rebounded during the year, despite the prevalence of hybrid work culture, online meetings, and higher airfares. Notably, total air traffic in the country during Jan-Oct 2023 was 6% higher than pre-pandemic levels, even as several aircraft remained grounded. High-profile events like the G20 meetings and the ICC Men's Cricket World Cup have played a pivotal role in revitalizing the fortunes of key commercial hotel markets like New Delhi, Mumbai, and Chennai. These markets have not only reached or surpassed pre-pandemic occupancy levels (as of YTD October 2023) but have also experienced a substantial increase (25-32%) in average rates compared to the pre-pandemic era. Finally, the resurgence of India's trillion-dollar wedding industry and the growing popularity of destination weddings also played a crucial role in the hospitality sector's growth during the year. As a result, we estimate the Indian hotel industry to conclude the year with an occupancy rate of 63–65%, marking a five-percentage-point increase from 2022, and average rates ranging from INR 7,200 to INR 7,400, reflecting a year-over-year increase of 20%. This will result in a RevPAR of INR 4,600–4,800, indicating a substantial 30% growth from the previous year.

Looking ahead to 2024, we anticipate sustained accelerated growth in the Indian hotel industry, notwithstanding ongoing global headwinds and the upcoming general elections. Growth in niche tourism segments, including religious and spiritual tourism, cruise tourism, and medical tourism, coupled with the government's renewed commitment to the industry and sustained focus on infrastructure development, augur well for the sector's enduring growth. Moreover, state-of-the-art convention centers such as Bharat Mandapam, Jio World Convention Centre, and Yashobhoomi Convention Center are expected to enhance India's standing in the global MICE tourism market.