Mid-market Hotels to Lead the Indian Hotels Sector Revival Story

The growth of domestic tourism, changing lifestyles, increasing affinity towards competitively priced branded hotels and expansion of business activity to Tier 2 & 3 cities have bolstered the popularity of Mid-market or Midscale hotels in India in the recent past. Both domestic and international hotel companies with established as well as new midscale brands have increased their presence in the country to leverage the growing demand from middle-income domestic travelers and international budget travelers, especially in Tier 2, 3 & 4 cities. New age hotel aggregators also recognized and leveraged the opportunity by attempting to consolidate the unbranded Midscale hotels under their brands and were partially successful in their endeavor.

As a result, the Midscale segment has become the largest sub-segment among the branded hotel supply in India, accounting for approximately 43% of the total supply in the country in 2019.

Increased focus on domestic tourism is expected to drive the growth of the Midscale segment in the post-COVID era

Domestic tourism is expected to become the 'knight in shining armor' for the Indian hospitality sector in the post-COVID era. Domestic travel restrictions have been eased under the Unlock 4.0 guidelines, which will lead to a gradual recovery in both domestic leisure and business travel across the country. People will be keen to travel for a change of pace, preferring 'branded products' as they are perceived to be 'safe'. The ongoing economic headwinds are likely to reduce the per capita income in the country, driving the already value-driven customer seeking a full-service hotel more towards the Midscale hotels.

Furthermore, a growing number of travelers are expected to seek 'experiences' at fledgling leisure destinations in the country, where developing and managing a Midscale hotel offers better value proposition. The growth of this segment will also be fueled by the rising demand from business travelers as companies continue to impose cost-cutting measures.

Development of industrial corridors in the country has also resulted in increased captive demand for quality Midscale hotels around highways, very similar to the situation in the US a few decades ago, when Midscale and select-service hotel room development was driven by the growth of highways in the country.

Mid-market hotels provide better development proposition in the current market conditions

Though supply growth is expected to be slower across segments in the current scenario, Mid-market hotels will still be a more viable proposition as they require lower investments and can be developed on smaller land parcels, which has often been the limitation in the country for development of large format hotels. Additionally, Midscale hotels, unlike their Upscale and Luxury counterparts, have a higher ability to offer flexi-pricing and still be profitable due to lower operational costs.

The learnings from COVID will also help in aligning our future Midscale hotels to a more efficiently built product as contactless needs will lead to smaller public spaces, fewer restaurants and enhanced technology all of which will help in reducing the capital costs, while increasing revenue generating areas like rooms and providing better returns on investment.

The key deterrents for the growth of this segment have been the high land and construction costs combined with high interest and short loan tenures, which make hotel projects unviable in India. To help domestic tourism reach its full potential in India, the government should facilitate the development of Midscale hotels by allocating well located, fully zoned land parcels at viable prices or long-term leases. The sector should also be granted infrastructure status for investments in excess of INR 25 crores to allow them to avail long-term loans at lower interest rates.

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