

HVS Monday Musings: Mixed-use development - The most sustainable model for hotels going forward

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Mixed-use development, usually a planned combination of hotels, retail, office or residential space, is a fairly widespread concept globally with several such iconic projects around the world. In the last decade or so, the concept has been gaining ground in India as well, though the combination (two or more elements) of retail, office, and residential spaces have been more popular. However, as investors look to maximize returns through efficient land usage and optimal utilization of FSI, hotels have also been added to the mix.

Mixed-use projects leverage the best of each asset class, while diversifying the risks

From the investor's standpoint, a mixed-use project is a financially sound proposition as it diversifies their income streams by eliminating the dependency on one asset class. Moreover, land availability at prime locations is a challenge in India and the FSI is also relatively low, resulting in high land costs that often make hotel projects unviable. This is where the element of mixed-use can make a difference as it can help improve the viability of a project by maximizing land-use efficiency and utilizing FSI optimally. For instance, a developer can utilize the complete FSI of a plot by developing a mall on lower floors along with a hotel on the upper floors as retail is usually limited to 2-3 floors. Hence, these projects provide better returns to investors, cushioning the high land cost and bringing down the break-even especially in smaller cities.



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From a strategic standpoint, the mixed-use development can create symbiotic win-win relationships between the various asset classes, by leveraging the synergies between them while enhancing the overall experience for the guests. For instance, a mall and a hotel in the same premises can attract a wider range of clientele, while providing the guests a 'one-stop-shop' for all their F&B, entertainment, and retail requirements. Each asset class acts as a catalyst for the other resulting in greater revenues.

Office spaces in a mixed-use development have been able to quote higher rentals because of a hotel in the same premises as the tenants can benefit from the shared amenities such as accommodation for their visiting executives or business associates, the hotel's meeting spaces, fine dining & specialty restaurants or all-day dining.

Summary

Mixed-use developments are going to be the most sustainable model for hotels going forward as they leverage the best of each asset class, while diversifying the risks for the investors and enhancing the overall experience for the guests. Read on to know more.

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Meanwhile, past studies have shown that hotels in mixed-use developments benefit from the captive clientele and usually generate higher RevPAR driven by premiums on ADR compared to other similarly branded stand-alone counterparts. The Westin Hyderabad Mindspace, the Hilton Bangalore Embassy Golflinks and the Leela Ambience Gurugram are prime examples of this trend in India. During the current pandemic in which hotels were severely disrupted and revenues deeply stressed, mixed-use developments had the advantage of significantly better cashflows on account of the other asset classes which work on annuity models and helped in tiding the crisis better.



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Last but not the least, the concept of second homes is growing in India, with people aiming to own second homes at destinations where they can drive to for a short break. A mixed-use project with the right mix of residential and hospitality elements at such destinations can provide investors & owners the best of both worlds. Meanwhile, developers can reduce their risk by utilizing the sale proceeds of the residential assets to improve cashflows, reduce debt and subsidize the capital outlay for the hotel.

Mixed-use developments are expected to become even more popular going forward, as an increasing number of people desire walkable neighbourhoods where they can live, work and play, especially in a country like India where good public & social infrastructure is still inadequate.

About **Mandeep S Lamba**



Mandeep S. Lamba, President – South Asia, oversees the HVS global hospitality practice for South Asia. He has spent over 30 years in the hospitality industry of which the last 19 have been in CEO positions. Having worked with leading International and domestic Hotel Companies such as IHG, Radisson & ITC Hotels, he also set up joint venture companies with Dawnay Day Group UK and Onyx Hospitality, Thailand to own and operate hotels in India giving him a broader exposure to the hospitality business.

An established industry leader, Mandeep has won several awards and recognitions in India and abroad for his accomplishments and contribution to the hospitality industry. He is a Certified Hospitality Administrator from the American Hotels Association (CHA), a member of the Royal Institute of Chartered Surveyors, UK (MRICS) and a member of the Tourism Council of CII (Northern India). His views are often solicited for television and print media as a spokesperson for the hospitality & tourism sector.

Prior to joining HVS in 2018, Mandeep was the Managing Director, Hotels & Hospitality Group for JLL.

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Akash Datta, HVS Senior Vice President - Consulting and Valuation, leads consulting engagements, encompassing market studies, feasibility studies, strategic planning, valuation, and forecasting. Akash has spent nearly 13 years in the hospitality industry having successfully worked with International Hotel and Consulting firms such as Hilton, JLL and HVS in South Asia and the Middle East. In 2005, Akash started his Consulting career with HVS as an analyst following which he undertook his MBA in International Hospitality Management with concentration in Real Estate Finance from IMHI ESSEC in Paris, France. Known for his industry insights, Akash works with leading companies, private clients, industry groups, and global networks. Contact Akash at +91 989 9517 404 or [\[email protected\]](#).

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