

# GROWING BUDGET HOTEL SEGMENT, ESPECIALLY IN ASIA



building a profitable scale.

Both Europe and the United States are having economic struggles so they see opportunity in India and Indonesia. According to Chief Executive Denis Hennequin of the famous Sofitel hotel in Mumbai for the next 3 years more than 70% of new rooms will be from Asia. Accor, InterContinental Hotel Groups, Starwood Capital's Louvre Hotels and Marriot International are all hoping to take the lead in

In India, a branded mid scale hotel would cost somewhere from \$40 to \$80 per room per night. This is in contrast to Indonesia where hoteliers are already being pioneered by Accor along side local firms. Exane BNP Paribas analyst Matthias Desmarais said that there is a strong need for budget hotels all over the world, particularly in Asia. InterContinental is doing well in China but Accor is getting the lead when it comes to location as compared to its other competitors. Though this strategy by Accor was well thought of, it will not start to generate big income, not until 2015 at least. Accor is already selling their US budget hotels. Mr. Hennequin said that the \$1.9 Billion budget will be allocated for the growth of Asia, Latin America and Europe sectors.

STR Global, the leading data provider in the hotel industry, predicts that China will be responsible for 56 percent of more than 400,000 hotel rooms in Asia Pacific. Both G20 members India and Indonesia will account for 18% and 6% respectively. 40% of India is expected to be economy hotels. In the next ten years, HVS estimates India will need over \$25 billion to build around 180,000 hotel rooms. Two-thirds of this budget will be allocated for mid market rooms.

The CEO of Equity International, Gary Garrabant, says that mid-scale hotels are capable of generating at least 20 % equity but not right away. This is a long term goal for all the hotel groups participating. These economy hotels are considered the McDonald's of the hospitality industry because of its colorful interiors and basic bathrooms that function. However, they are still a level higher than the usual 'mom-and-pop' hotels in Asia and will soon attract Asian travelers.

These hotels will give both business and leisure travelers more options. As long as the hotel is clean, have basic services like Wi-Fi, a hot and cold shower and good food, then it would be fine.

Though a great investment, many problems are being considered by hoteliers. For one, buying land in India and Indonesia has limits in foreign holdings and licensing will definitely delay the project. In addition to this, Paul Logan, InterContinental's senior VP says that the lack of project and construction management will play a huge role in delaying the projects as well. Hoteliers are already looking for local partners as a solution to these obstacles.

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