

Hospitality in mumbai (india)



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The Economic boom in India continues unabated. In fact India is next only to China in economic growth, consumer spending and foreign direct investment (FDI) in the Asian region.

The fact that it has a huge population makes it all the more attractive destination for FDIs. Shister (2005) stated that China huge success is giving momentum to India's intensified efforts to shake off the lingering socialist legacy that held back its economic growth for the last 60 years. The stock market bellwether Bombay Stock Exchange Sensex [Mumbai share market index] crossed the 20, 000-point milestone in October (Indian, 2007). GDP in India is expected to pass the 9% mark, while new job opportunities increase disposable incomes (Knight, 2007, p. 02). There are a number of trends that bode well for investing in the hospitality sector of the real-estate market in India, particularly Mumbai.

According to a recent study by India Brand Equity Foundation, “ US companies have taken a long-term view of India that has allowed them to focus on investing in infrastructure, establishing market presence, gaining market share and leveraging India advantages like R&D, intellectual capital, and outsourcing” (Shister, 2005). According to Knight Frank (2007), close to 100 million square feet of office space will be developed in the country over the next two years, 80% of which will be taken up by the services sector (p. 02). For the country's economy to perform consistently it must be able to encourage newer investment and business opportunities, which requires a well developed and reliable services and hospitality industry, to take care of business meetings, conferences, seminars and of course a whole set of

visitors. But India has realized the need for a strong services sector has been trying to strengthen this sector for the last couple of years.

The 2006-2007 economic survey brought out by the government of India point out towards a contribution of about 68.6 per cent of the overall average growth in GDP from the services sector in the last five years. The survey points out towards a resurgent India where the growth of industrial sector has been quite phenomenal in recent years. From a low of 2.7 per cent in 2001-02, to 7.1 per cent and 7.

4 per cent in 2002-03 and 2003-04, respectively, the industrial growth accelerated to over 9.5 per cent in the next two years and touched 10.0 per cent in 2006-07. But the number of hotel rooms available across India in all categories is labeled “abysmally low” compared to other nations, with an availability of a total of 110,000 standard hotel rooms, which leaves a huge shortage of rooms across all categories (Knight, 2007, p. 1).

A Los Angeles businessman, Danny Leiber, narrated his harrowing experience when he flew to the country’s capital to talk a deal worth multimillion dollars, ““ We had to scramble. We practically begged to get a room,” said Danny Leiber (Sharma, 2006). India would certainly like to change this kind of impression by providing better hospitality services in the country, by encouraging entrepreneurs to invest more in the hospitality sector and by encouraging more tourists to explore India. Such efforts have been underway for couple of years and in fact these efforts have started showing signs of success as well.

The share of international tourism in Indian economy is steadily on the rise (UNWTO, 2005), particularly in recent years Table-1. Table-1: Share of India

in World Tourist Arrivals Year World Tourist Arrivals Tourist Arrival to India

Share of India in World Tourism 1995 544. 9 2. 12 0. 39% 1996 575.

3 2. 29 0. 38% 1997 597. 8 2. 37 0.

38% 1998 617. 4 2. 36 0. 38% 1999 641. 1 2. 48 0.

38% 2000 685. 5 2. 65 0. 39% 2001 683. 8 2.

54 0. 37% 2002 702. 8 2. 38 0. 34% 2003 690.

9 2. 73 0. 39% 2004 766 3. 46 0. 45% 2005 808 3.

92 0. 49% Mumbai is the richest jewel in India's economic boom crown. It is known as the business capital of the country, but here too there is a huge gap between the demand and supply of hotel rooms, particularly of midrange hotels (Sharma, 2006). From increasing tourism and business travel to infrastructure improvements, rapidly growing and developing Mumbai certainly requires more hotel rooms. This offers a potentially lucrative investment in hospitality real estate.

This report is an effort to analyze the long-term prospects for developing hospitality sector real-estate in Mumbai the business capital of India.

Mumbai, India Mumbai is considered the "center" of India's finance, business, media and entertainment worlds (Wonders, 2007, p. 20). A

commercial megalopolis and financial capital, Mumbai is a gateway for all of India from its multiple connections to major global cities. Mumbai is ideal for

hospitality real estate for the following reasons. ? Mumbai has a “ floating population” of 3-5 million, a large portion of which is made up of business travelers, while 40% of the estimated 4.

4 million foreign arrivals to India visited Mumbai (Knight, 2007, p. 09). In fact the floating population forms an integral part of the hotel industry, as they are the ones who come to the city for shorter periods of stay and prefer to stay in hotels. The population of Mumbai itself stands at approximately 13-16 million (Mumbai, 2007), which obviously is not the main target for the hotel industry.

? Premium hotels in Mumbai have seen a rise in occupancy rates over the past three years, approaching 70%, but shortages still exist in various regions of the metropolis (Knight, 2007). ? Most of the Indian corporate houses have their head offices in Mumbai and many of the MNCs flocking to India prefer to set up their own offices in Mumbai. This makes it all the more desirable place for business deals and meetings. ? Mumbai is connected to different parts of India as well as the world through, sea route, air-route, and road network.

Unlike the capital city New Delhi, it’s big port city as well. Well, the fact that Mumbai is financially lucrative also appeals to the underworld as well. The city is known for a number of Underworld gangs, who also have their own business interest in the city. It is worthwhile here to mention that hotel industry also has an opportunity to serve the legal business interests of the underworld community as well. There have been some terror attacks on Mumbai in the recent past in an effort to destabilize the economy of India,

but the kind of resilience that the Mumbai people have shown has helped the city in remaining as vibrant as it was.

While there are some drawbacks to investment in hospitality real-estate in Mumbai on account of such terrorist attacks, as there are genuine fears that such incidents tend to suppress tourism potential, business travel, or FDI, a resolute city offers an opportunity to further the business prospects of the city. Recent economic data also do not support this factor as significant in the long term. Premium to four star hospitality real-estate seem the most lucrative investment, as across these dimensions of hotels in Mumbai, 65-75% of overall revenue is generated from room revenue (Knight, 2007). Hospitality industry in Mumbai is divided into two distinct regions, South and North. Those hotels in the North target airport crew (10%) and business traveler (90%) markets, while those in the South target a less risky mix of 80% of business traveler and 20% of leisure traveler markets (Knight, 2007). Mumbai has many infrastructure advantages over other locations in India that are particularly well-suited for hospitality real-estate, including a sound utility infrastructure with good supplies of potable water to the metropolis.

Daily refuse is transported to dumping grounds in Gorai and electric companies operate mainly from hydroelectric or nuclear power. Telephone service is state provided and reliable, while cell phone coverage is extensive. Broadband Internet penetration is increasing. Likewise, Mumbai has well developed roads, airports, railways and is home to one of the best “ natural harbors” in the world that handles more than 50% of the nation’s passenger traffic (Mumbai, 2007, p.

8). Literacy rates in Mumbai are higher than the national average at 86%, English is the primary language and spoken intensively, and the metropolis offers a large white collar work population (Mumbai, 2007). Western and Indian festivals are celebrated with great fanfare in Mumbai, drawing business and leisure travelers alike. Helping promote tourism and investment in the region, Mumbai has six “sister cities” that include Berlin, Germany, London, Los Angeles, Saint Petersburg, Russia, Stuttgart, Germany, and Yokohama, Japan (Mumbai, 2007, p. 10).

Cricket and football are the two biggest sports in Mumbai and draw increased visitors as well as international attention to the region, especially at those times of the year when travel to other destinations is impractical due to inclement weather conditions. Mumbai Real-Estate Market According to Knight Frank (2007), the economic boom and rapid growth of the services sector in Mumbai has had a “direct impact” on the real-estate sector (p. 02). The services sector from the hospitality industry to the IT industry has created a boom in commercial real-estate in Mumbai. According to Rathore (2007) rental markets for commercial space in the services sector is “rapidly growing,” while the leasing market across Mumbai “remains strong” (p. p.

24). Rathore (2007) argues that one sign of improving prospects for investing in services oriented real-estate is that Mumbai is witnessing “stabilization” in the industry (p. 24). Many maintain that real-estate investment offers a good long-term investment for developers in Mumbai. Gopalan, Kumar, and Mukherjee (2007) maintain that increases in the prices of real property in the city of Mumbai are driven by a number of factors that “assure that the price rise will continue” (p. 118).

Gopalan et al. (2007) argues that a study of the past five years demonstrates a number of economic trends that “ make it hard to miss the appreciation that commercial properties have taken” (p. 118). One real-estate analyst notes that hospitality real-estate prices in some areas in Mumbai have increased 50-100 percent in the last 18-24 months (Gopalan et al. , 2007).

In large measure in places like South Mumbai, and others in India like South Delhi, prices continue to rise rapidly because of continued shortages in the hospitality market compared to demand. As Gopalan et al. (2007) argue “ In places like South Mumbai supply is still not easily available and prices will continuously appreciate since demand remains unabated” (p. 120).

Considering population is expected to increase along with the number of business and leisure travelers to Mumbai, it is likely this demand will not be met any time in the next five to ten years by increased hospitality development that is already planned. Newell and Kamineni (2007) point to increased FDI and the deregulation of capital markets as “ likely to have a significant impact on the growth of real estate funds for services real-estate investment in Mumbai,” (p.

161). Up to 2005, the real-estate markets in Mumbai were found to underperform the stock market, but Mumbai’s market has “ improved its performance in recent years” (Newell & Kamineni, 2007, p. 161). While 54% of the city’s population is estimated to live in slums, these areas in Mumbai offer potentially lucrative areas for investment and development that could revitalize economies there, increase job opportunities, and pay significant profits on hospitality real-estate investment in the long term (Mumbai, 2007). Other potential development opportunities will arise from increased

growth of Mumbai's infrastructure, economic changes, and others like job growth that will be addressed later in this report.

Rise in demand and an overall shortage of supply should extend into the foreseeable future