

Scalability is a big handicap and keeps large institutional funds away from the Indian hotel transaction market: Jaideep Dang

The 2023 Hotel Investment report from JLL highlights a significant surge in hotel transactions, marking the highest number of hotels transacted in a year over the past decade, with a total of 22 hotels changing hands. While the transaction value in 2023 fell short of the 2019 figure, largely due to the substantial acquisition of The Leela Hotels stocks by Brookfield, Jaideep Dang, Managing Director of JLL's Hotels & Hospitality Group, anticipates continued buoyancy in the market, forecasting another peak in 2024.

This uptrend in transactions reflects a maturing hotel asset class, although the Indian market remains distinct, driven primarily by High Net Worth Individuals (HNIs) followed by institutional investors. Dang notes that while institutional investors are showing interest, the lack of scalable stocks in India restrains their participation. He emphasizes that the effort required for both small and large transactions dissuades institutional players from pursuing smaller deals that lack scalability.

Until a sufficient supply of scalable stocks emerges, Dang expects HNIs, Indian corporates, and select listed companies to dominate the transaction landscape. However, he observes a narrowing gap in buyer-seller expectations, attributing it to the industry's remarkable post-COVID recovery, which shifted from occupancy-driven growth to rate-led recovery, significantly bolstering bottom lines and yields.

With hotel stocks experiencing growth across various segments and city types, Dang anticipates a positive impact on the transaction market. Hotel transactions, inherently more complex than other real estate dealings due to their business transfer nature, require meticulous attention and time. Dang predicts that ongoing deal negotiations initiated last year may materialize into transactions in the near future.

Despite unprecedented occupancies and room rates enticing investors from diverse backgrounds, Dang advises a cautious approach, recommending mixed-use developments tailored to destination profiles to mitigate escalating FSI and land costs. He underscores the importance of risk hedging in project costs, advocating for prudent investment strategies amidst evolving market dynamics.