

Hotels opt for mixed land usage in smaller cities



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The trend of hotel developers opting for mixed use of property to cushion high land cost is reaching smaller cities and is not limited to luxury projects.

Under a mixed use, the hotel is constructed with a retail commercial complex such as a mall or a residential wing having apartments.

Lemon Tree Hotels, which is setting up a hotel in Purulia, West Bengal, has opted for this model. The hotel is being set up along with Carnation Hotels. "It is a practice in developed markets. It is a financially sound proposition, due to the exorbitant cost of land and finance, and hence balances the return better," explains Rattan Keswani, deputy managing director at Lemon Tree.

Two hotels they manage, at Jaipur and Dehradun, have such a commercial wing. Keswani said this model was more suitable for mid-market and upscale hotels, not the luxury ones. Sayaji Hotels, which runs six mid-scale hotels in non-metro cities, opened one last year in Maharashtra's Kolhapur. The hotel has come with the city's largest mall, DVF City.

Some new luxury projects are also coming up under a mixed use model. For exam-

ple, MBD Group, which owns two Radisson Blu hotels, is setting up a 184-room luxury hotel in Bengaluru. The property, expected to be operational by 2019, will also have 118 service apartments priced at ₹2 crore onwards.

Sonika Malhotra, joint managing director at MBD Group, said hotels where the land owner acquired the lot years before could survive with a hotel-only project. "But, for new land bought at a high price, mixed use makes sense. Such a model helps to bring down the pay-back period," she said.

According to estimates, land accounts for 40-50 per cent of the hotel development cost. For budget and mid-scale projects, the share of land in overall cost is much higher. Mixed use ensures the sale proceeds from the commercial or residential segment can be used to fund the hotel's construction.

Bringing a mixed use project means the developer can get upfront cash by selling the commercial space or the residences. This helps in risk mitigation. Further, any new hotel takes time to stabilise and occupancy levels increase at a gradual pace. Therefore, in the absence of mixed use, the owner is forced to look for more revenue generating space within the hotel, such as more banquet halls or restaurants, said a sector executive.