

HVS Monday Musings: Hotel Transaction Activity in 2021

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According to a recent **GlobalData** report, the global mergers and acquisitions (M&A) activity in the travel and tourism sector was worth US\$155 billion in 2021, representing an 84% increase year-on-year, with the lodging segment accounting for the largest share in terms of deal value and volume. During the year, the sector saw 27 billion-dollar-plus global M&A deals, up from 20 the previous year. This, however, is a sharp contrast to the situation in India. Hotel transactions in the country have not increased significantly post-COVID, and the sector has not yet seen a flurry of distressed transactions, as was expected as a likely result of the pandemic.

Despite signs that investors are assessing hotel assets, buyer interest in India continues to be limited. Yields remain stressed because of the uncertain market conditions and borrowing for the sector has become even more difficult than before, affecting investors' risk appetite. Asset valuations have been challenging in a near-zero cash flow environment, and the spread between ask and offer prices has been widening. Moreover, discounting of valuation by buyers due to COVID's impact on the sector is not finding acceptance with the sellers, who are hesitant to bring assets to the market in the current scenario.



There were only a handful of small ticket size transactions in 2021. The year began with the Express Group of Hotels announcing their entry into the leisure segment with the acquisition of seven Cambay Hotel properties operated by Neesa Leisure Ltd. This transaction is governed by the Insolvency & Bankruptcy Code (IBC), and its completion is subject to approvals from National Company Law Tribunal (NCLT). The other notable transaction was the INR18.25 crore acquisition of Spree Hospitality by the online travel platform, EaseMyTrip, in line with the latter's strategy to expand its footprint in the hospitality sector. Meanwhile, Sayaji Hotels expanded its portfolio by acquiring a majority stake in Intellistay Hotels for an undisclosed sum.

We expect deal activity to pick up pace in 2022 and onward. Owners will look to exit or reduce debt, while lenders will seek recourse under the NCLT due to an increase in non-performing assets (NPAs). Transaction activity will also improve as the sector continues to recover and cashflows stabilize. Investor interest in acquiring assets in leisure markets will surge, as a result of the rapid recovery in domestic leisure demand, especially as supply remains restricted in this segment. Rather than greenfield or brownfield projects, investors are likely to prefer operational assets or a portfolio of assets to expand their footprint. Some existing assets may also be

Summary

Unlike in mature hotel markets where transaction activity has been regaining ground, hotel transactions in India have not witnessed the surge which was expected on account of the stress caused by COVID.

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acquired for repurposing to an alternative use. Also, value deals where the lender and owner have both taken haircuts are the more likely to find buyers.

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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