Hotels & Resorts
Strata Sale-Lease Back Business Model

The Future of Hospitality in India

Foreword

The Indian Hospitality industry has become the backbone of the Indian economy. It contributes nearly 9% of the overall GDP and created one of the four new jobs in the country. However, with the outbreak of COVID-19, the sector became standstill with a small demand from the key sectors. Not only the hospitality industry but the entire corporate sector has been shaken due to the outbreak.

With the current scenario, work from home (WFH) has become the new normal making everybody confined within the four walls of their homes. Though the culture of WFH has gained prominence, it also has resulted in increased working hours, a lack of personal time, disrupted work-life balance between the individuals. Though the lockdown brought in the WFH culture to our country, the leisure from home concept is still something that cannot be explored.

With the rise in work from home culture for at least the financial year 2020-21, the demand for staycations and weekend getaways is expected to rise and create demand for the hospitality sector in India. The rise in this new trend has given re-birth to the concept of the strata sale-lease back model in India. As of now, the hospitality sector primarily operated on the lease, management contract, and franchise model where the developer and hotel operator entered into an agreement with the aforementioned business models and executed their hotel & resort project.

The rise of this new business model will open avenues for investors, home buyers, as well as high net worth individuals to come and invest in hospitality, focused real estate projects. The projects can either be a residential building with service apartments or a project which only has villas. The middle-class who dream to buy a home of their home will get this opportunity to invest in a self-sustainable business model that will not require any additional in-pocket expenses to run unlike Air BnB and other privately owned holiday homes.

These second homes not only are self-sustainable but also allow the individual owners to occupy them for a specific period every year as agreed upon in the contract to escape from the daily routine and might use the space for the work from home culture which is picking up pace in the country. Not only this self-sustaining asset allows you to earn from it, but it also allows you to use the space for a specific period within a year for free.

The business model was introduced in the country maybe a decade ago but due to unclear thought and lack of detailed study, the business model turned out to be unsuccessful during the first attempt. In this report "Hotels & Resorts Strata Sale-Lease Back Business Model- The Future of Hospitality Industry In India" we have tried to capture the key ingredients to make the business model successful in India by studying many successfully implemented cases across the developed nations. The report also captures the key elements of the sales agreement as well as the profit & loss statement projecting 10-year potential financial gains the investors can make from a luxury project with this business model.

Happy reading!!!

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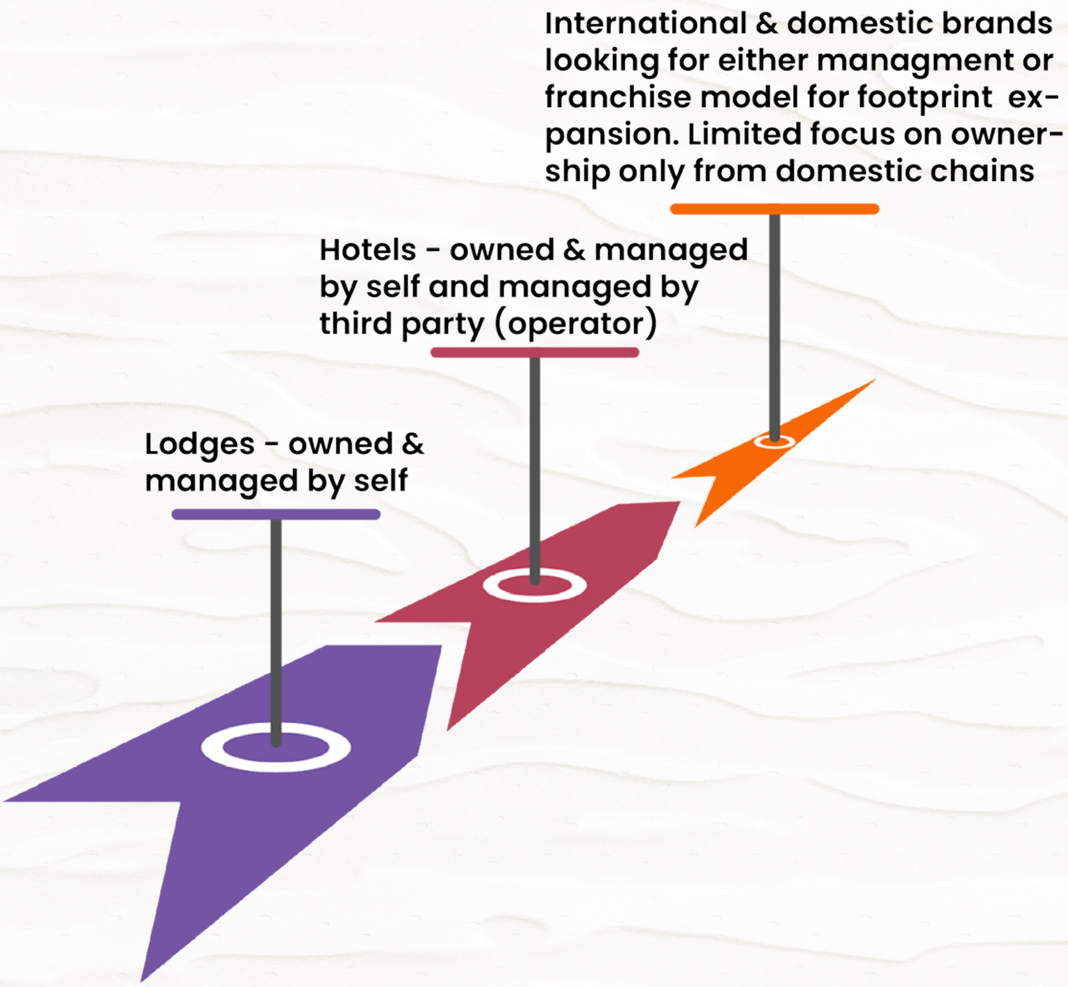
Table of Content

Overview Of Hotels In India

Hotels in India have evolved significantly over the past 2-3 decades. The industry came into existence with lodges before the hotels with star ratings took center stage. These star category hotels were limited to only top metro cities and have recently over the last 1-1.5 decade started expanding outside the peripheries of the metro cities into other destinations.

Timeline Of Hotel Evolution

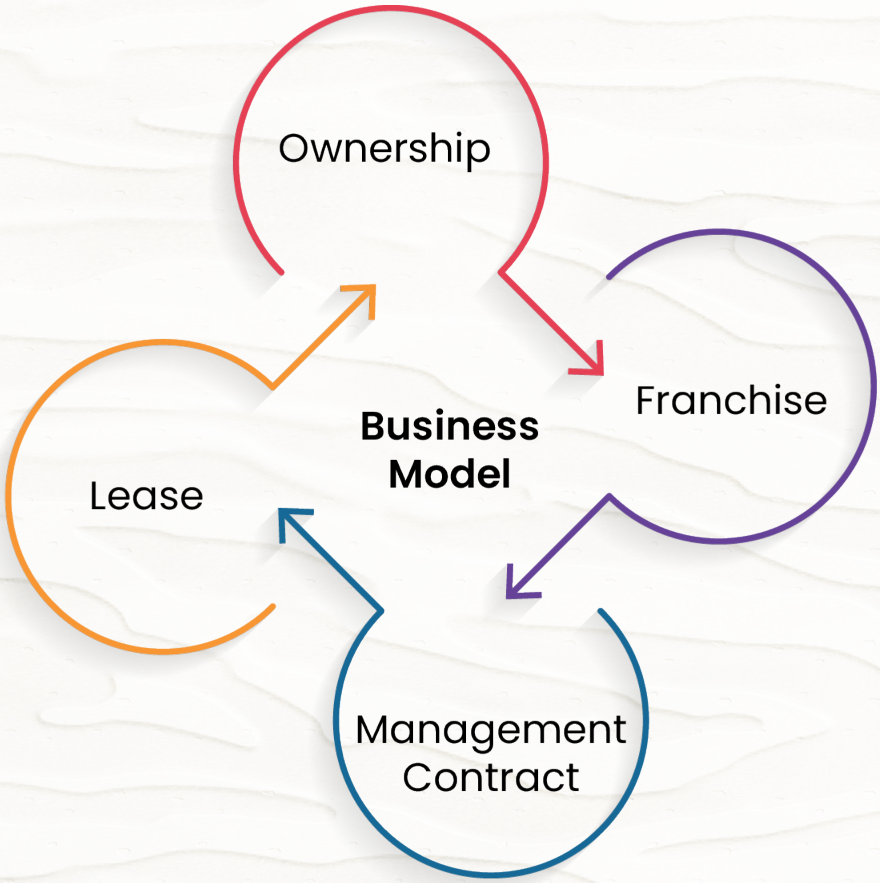


Hotels primarily were owned and operated by one person in the past. It is when the international chains entered India and changed the way. They focused on operating hotels by entering into different business models like leasing, management contract, and franchise model. This helped these operators evade the construction costs and kept their balance sheets stable with low debts. Indian hotel chains, on the contrary, started the business focusing on the ownership model and continued to invest in assets making their balance sheets leveraged with debt.

Over a period of time, these chains (domestic chains) have also started to explore the asset-light model of expansion. They have started exploring the management contract and franchise model for their portfolio expansions. These business models have helped them to expand their reach into different geographies without having to spend huge capital involved in developing a hotel property.

Types of Business Models

The hotel industry across the globe has largely been operating under the following business models:



The Ownership Model is one where the hotel is owned and operated by the same person/organization. All the responsibilities related to the hotel is with the owner of the hotel.

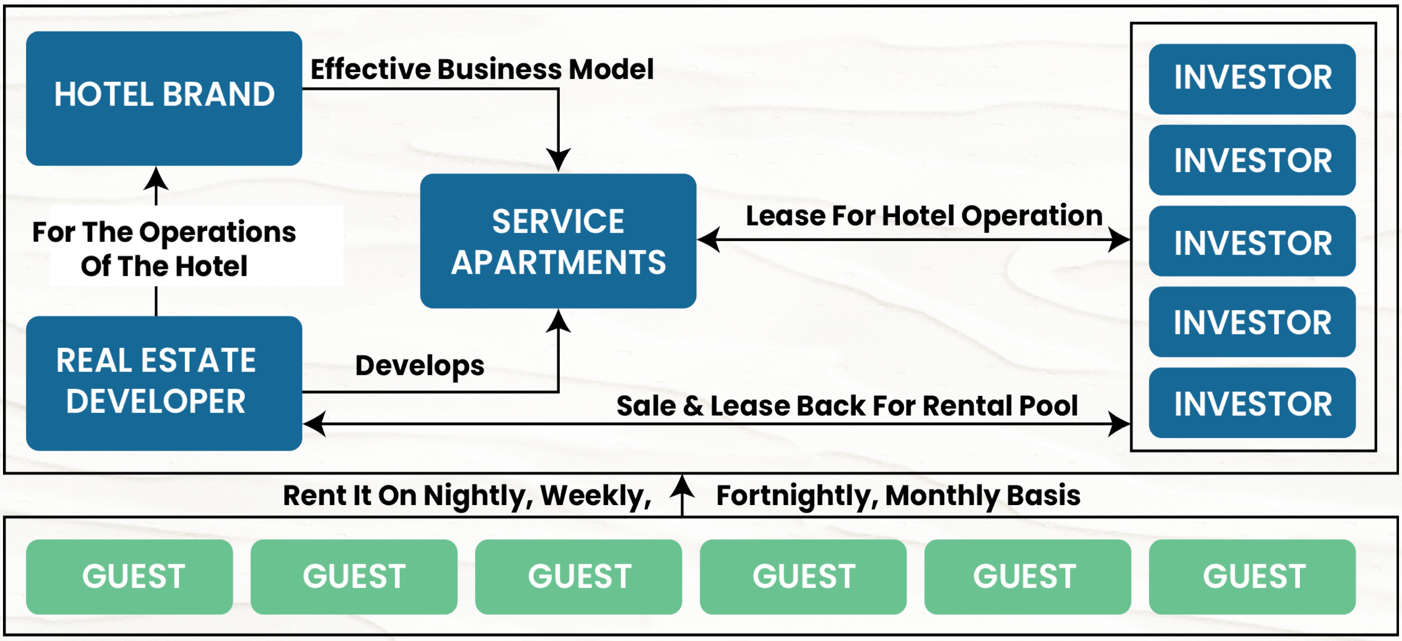
The Management Contract business model is one where the owner of the hotel ties up with a branded chain to operate the hotel. The revenue generated by the hotel is distributed between the hotel owner and the operator as per the pre-decided terms. Operator charge fee for managing the asset and fee link to total revenue and gross operating profit

The Franchise Model is where the owner takes the hotel brand's franchise for a fee (royalty) link to the revenue and operates the hotel on its own as per the brand SOP and Guidelines. The owner pays a fee link to the Revenue against the brand franchise and is responsible for the entire hotel's operational and capital expenditures.

The Lease Model is when the hotel operator pays a fixed minimum guarantee amount against the property to the hotel owner. The entire responsibilities of the operations of the hotel lie with the brand for the period the property is leased.

Apart from all these business model, there is a new hybrid business model which is in a very nascent stage in India. The Hybrid model is called the strata sale-lease back model in which the developer can partly sell the asset to the investor and lease the sold assets to create an operating business for the investor as well. In India, the strata sale-lease back mode (SSLB) is in a very nascent stage. The business model is attractive for real estate developers as it allows them to partially sell the project to investors and operate the property as service apartments.

What is Strata Sale-Lease Back Model?



The SSLB model refers to a hybrid business model that allows the developer to partially sell the property under-construction to multiple owners and lease it back from them on a fixed rental value or revenue sharing for a specified period. In a hotel, it is difficult to partially sell rooms within a property to multiple owners, however, in the case of service apartments/premium residences, it is a business model that can be looked upon for the future.

The model has been implemented in India during the start of the decade, but the implementation of the business model was unsuccessful. The model failed historically in India due to the very reason that projects developed under the business model were fully sold by the developers. Once the entire economic interest of the developer came down to zero, the interest to promote the property as a destination for weekend getaways no longer existed. Lack of economic interest, not proper implementation led to the failure of this business model in India. However, learnings from the past can be used to re-create this business model successfully.

For the successful implementation of this business model, the real estate developer needs to only sell 60-70% of the total inventory and keep hold of the remaining 30-40% inventory. The total inventory will be managed by the operator that will be running as a hotel or service apartment. Unless the developer holds a minority share in the property, the successful implementation of this business model is at stake. In a scenario, the developer wants to move out of the project, he has to ensure the entire inventory under his/her control goes to a single owner only. Just like a hotel, where the owner is responsible for the revenue and management of the property, if in this business model also, the owner/developer takes the responsibility of revenue and management, the model is likely to fail again.

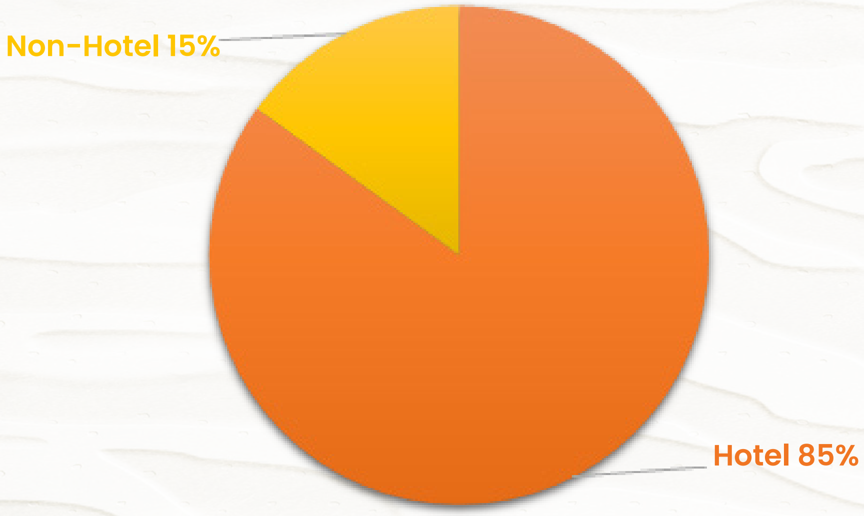
The idea of having multiple owners in the property is to off-load the capital expenditure that goes into the development of the project and make the project self-funded and less dependence on financial institutions. This model will help create a REIT like financial model for the hospitality sector.

In this new normal, work from home has become a new reality but leisure from home as a concept is not possible. People who are stuck inside their homes for more than 6 months are looking for a change and with investing in such properties, they will get the liberty to experience both from the comfort of their homes.

The Strata Sale-Lease Back Sector Today

As per Savills Research, there are more than 400 branded residential schemes at a global level, with a combined stock of more than 55,000 residential units. The sector is dominated by hotel brands, which account for 85% of branded residence space across the globe.

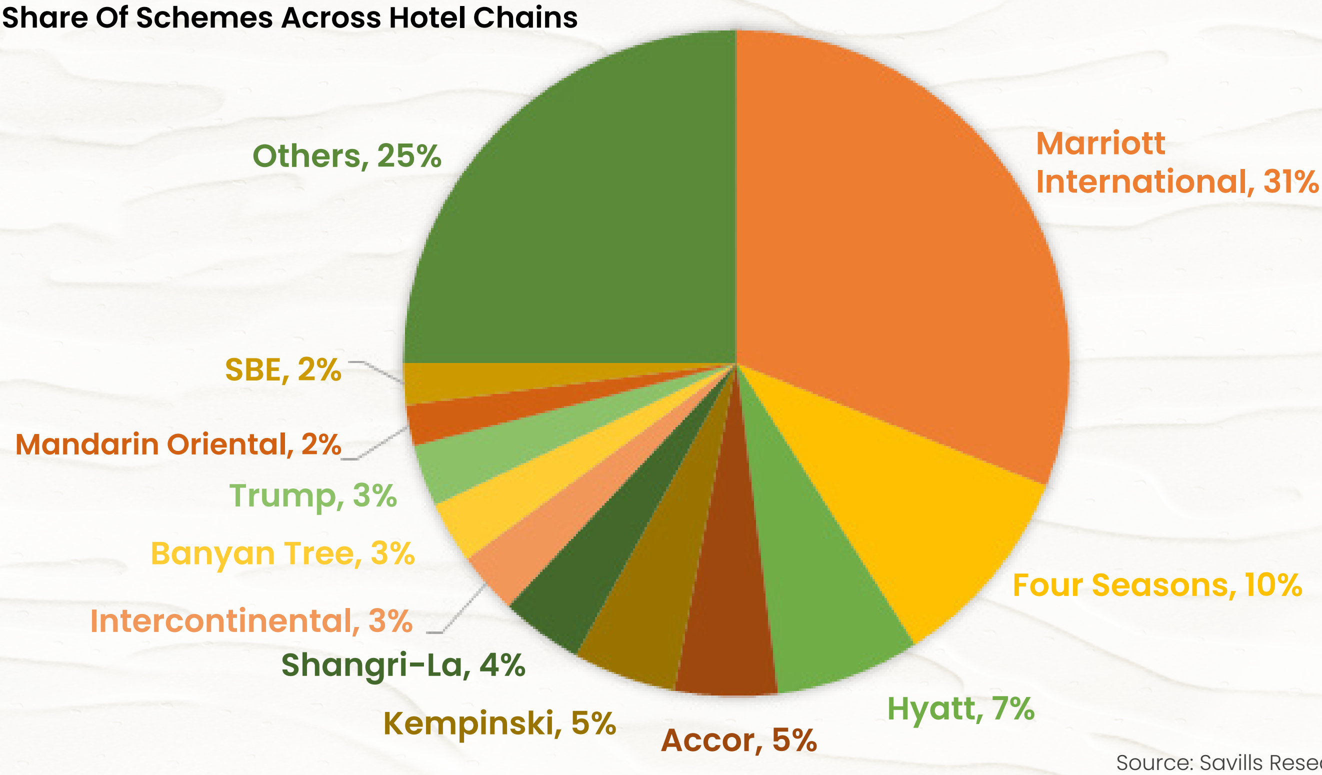
Hotel Vs. Non-Hotel Branded Residences



Source: Savills Research

There are 40 major hotel operators active, with 65 individual brands between them. Following its purchase of Starwood in 2016, Marriott International is by far the largest single player, with a market share of 31% among hoteliers by several schemes.

Share Of Schemes Across Hotel Chains

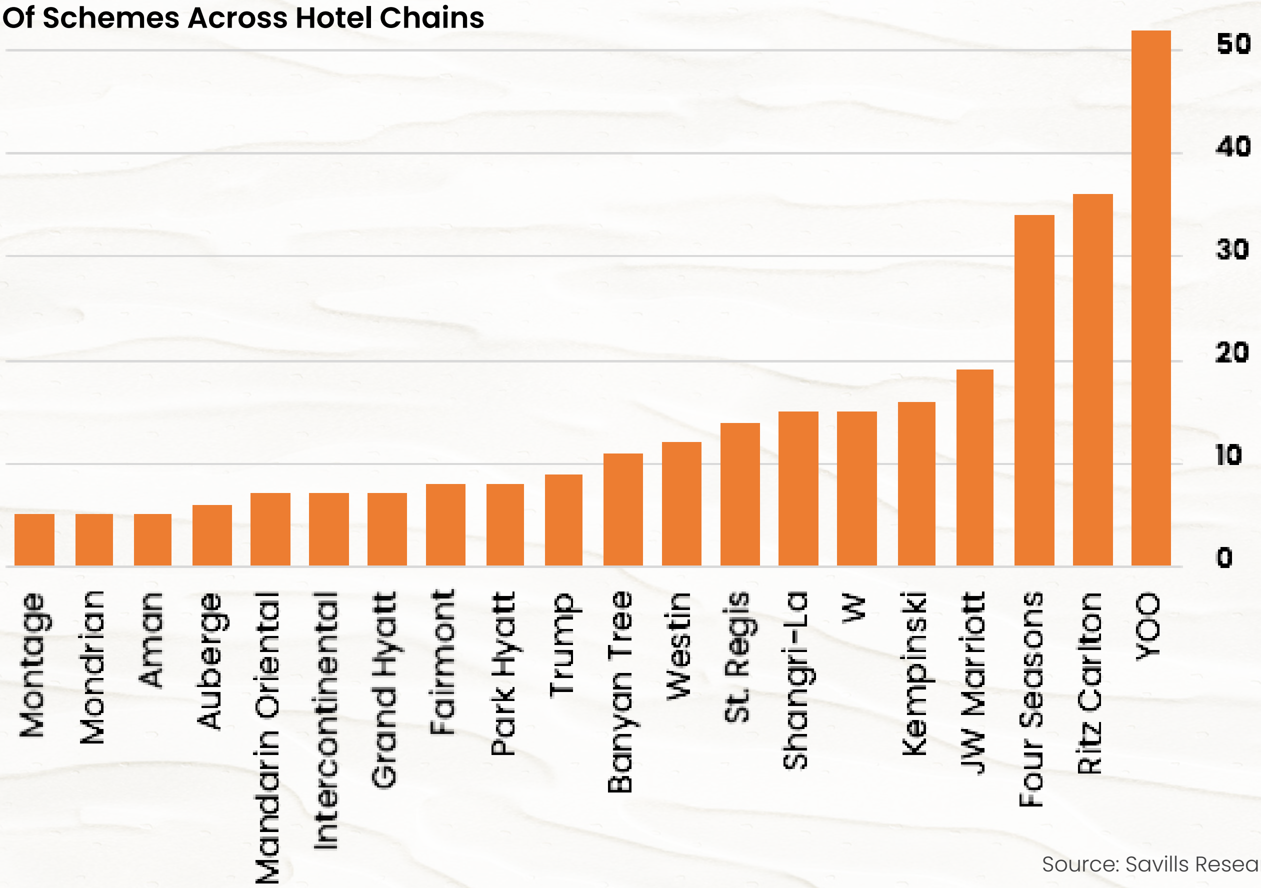


Source: Savills Research

The largest individual brand by a number of schemes is not a hotelier, but YOO, a brand built on design credentials. Marriott International's Ritz-Carlton is second, followed by Four Seasons. In terms of global distribution, the USA is the biggest single country market, home to 32% of schemes (130). The Asia Pacific hosts 30% of schemes (120), of which China is the single biggest market with 7% of schemes (30). Europe, just ahead of MENA, represents 13% of the market (51 schemes).

New York, Miami, Dubai, and Bangkok are the biggest city markets, all with at least 15 projects. Branded residences are commonly located in either urban cores or resorts (74% and 26% respectively), and in either environment, the development is usually situated in a prime location.

Share Of Schemes Across Hotel Chains

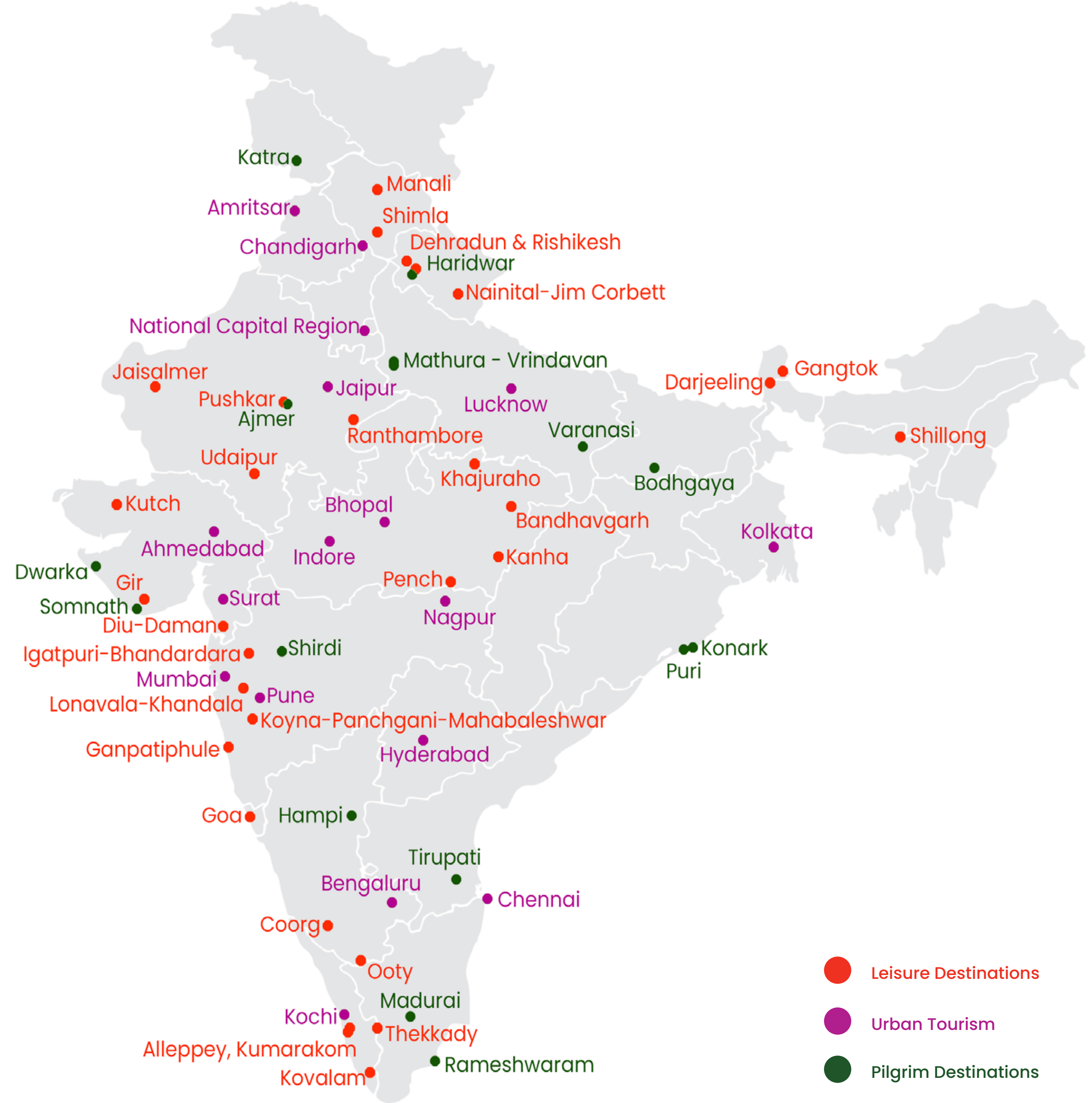


Source: Savills Research

In India, there is a potential of nearly 20,000 new rooms coming in the branded residential segment. The market is largely spread across the top leisure destinations across India. In the first wave of development top states such as Maharashtra, Gujarat, Karnataka, Madhya Pradesh, Tamil Nadu, Rajasthan, Goa, Kerala, Uttarakhand, and Himachal Pradesh will witness the tranche of development focused towards the strata sale-lease back model.

The majority of development under the SSLB business model will be divided into three phases. The first phase will be focused on top leisure destinations in India. The second wave will focus on urban tourism and the third phase of development will focus on the top pilgrim destinations in India.

India's Top Destinations for Branded Residences



Note: Urban tourism refers to destinations within 90-120 mins of driving from the mentioned cities

ITC Grand Bharat and Westin Sohna Road in NCR are classic examples of urban tourism around the NCR region.

- **With the varied tourism options within the country, India has huge potential to offer for these branded residences.**
- **India has the potential to cater to a 50% share in the world's Branded residences market in the next 5 years.**
- **The first phase of branded residences development will be focused on leisure destinations fol lowed by urban tourism and then the pilgrim destinations.**

Need of Strata Sale- Lease Back (SSLB) Model in Hospitality Industry

The hospitality sector in totality has INR 46,235 crore worth of debt as of June 2020 from the Scheduled Commercial Banks (SCBs) as per RBI's latest release. Debt extended by banks to the hospitality sector has just grown by 53% between Nov 2011 to June 2020 compared to the real estate sector (residential & commercial) which witnessed nearly 96.5% between the same period. As of June 2020, real estate debt by SCB's is INR 229,263 crore. For a hotel, a debt raised from a bank usually is for a period of up to 10 years. But the banks have become repulsive towards extending loans towards the hotel industry due to longer gestation periods of loans and the current impact due to the pandemic has added to the repulsion. Even with the real estate sector also has a longer gestation period, but the strata sales model allows the banks to lower down the risk of funds extended towards the developer. For hotels, the existing model doesn't allow banks to lower their risks towards the funds extended towards the sector. As the business model is purely dependent on tourism either business or leisure. However, in the current scenario with restricted demand, restricted international travel, and fear in guests of going out has significantly reduced the interest of financial institutions towards this industry.

Until March 2020, there have been 88 cases from the hospitality industry registered with the Insolvency & Bankruptcy Code of India of which nearly 42 cases are yet ongoing and 18 of them have gone for liquidation. Post COVID-19, with the industry undergoing a lockdown for more than 75 days and restricted demand, it is expected that 50% of the overall RBI's balance sheet towards the hotel industry is expected to go defunct. Even with the one-time restructuring allowed by RBI post 31st August 2020 will not be able to completely resolve the situation the industry is expected to go into due to restricted demand. With the limited availability of funds for the sector, hotels need to find a new way to raise funds.

The SSLB model allows developers to partially sell the inventory which allows the developer to self-fund the project and repay the short-term capital raised through financial institutions. As REITs have become a new fund-raising instrument for commercial assets, the SSLB model will allow an alternate fund-raising mechanism for the developers who want to expand their portfolio into the hospitality segment. Additionally, with the rise in work from home (WFH) culture, which is expected to continue for at least 24 more months post the normalization of the market scenario. This will create a need for a second home for many working-class people as WFH will create a need to travel and work from a different location. The second home will provide a much-needed change of environment that will fulfill the need of a vacation as well as provide a place to work. As we anticipate the work from home culture to continue for a longer period even post the pandemic, the consumer behavior of increased need for vacations, staycations will be on a rise. This will increase the demand at leisure locations and leisure-focused properties in the coming times.

- **The SSLB model will help the hotel industry to create an alternate fund-raising mechanism and decrease the dependence on financial institutions for their future expansion plans.**
- **Work from home has become the new normal but leisure from home is not a concept that can be created.**
- **This will create a need for a second home for many working-class people.**
- **Demand for leisure-focused properties is expected to increase in the coming times.**

Elements of Hybrid Business Model: Strata Sale-Lease back

Key elements which will make the sales-leaseback business model successful in India are:

1. Feasibility Study: The first step towards any successful project is a feasibility study. The majority of independent players fail to conduct this study and end up investing capital without the knowledge of the market. Investments made like this end up turning sour in the very early days of the project and ultimately creates bad debt in the books of financial institutions. The feasibility study helps to understand the market demand and market dynamics. It also helps understand the competition performance of the existing hotels in the vicinity, it is important to identify the performance of the existing hotels to understand the potential the property under-planning will hold. Additionally, it is important to understand if the type of demand that destination caters to like corporate getaways, wedding destinations, and MICE apart from the leisure business which caters to weekend getaways or vacation homes.

The study will help identify the average rates at which the market is selling currently vs. the projected rates to understand the financial viability of the planned project. This will help identify the minimum investment requirements for the project and also help to identify the type of shared accommodation that can be built i.e. if the development will be a mid-scale, upscale, luxury, or an ultra-luxury property at the destination.

2. Operator Search: Based on the market scenario, the operator search should be conducted. The condition for the operator should be comfortable with the strata sales model as the project will be partially sold to investors and the operator should be comfortable in having multiple owners within the property to manage. In this scenario, the operator not only has to manage the revenue generated from the property but also has to focus on managing the multiple stakeholders within the project.

3. Middle-Income Group Owning A Second Home: It provides the middle-income group of our society an opportunity to own a second home. The second home will allow them to spend their small vacations away from the city and allow them to rejuvenate themselves. Additionally, the model allows them to lease the property back to the developer which ensures an inflow of revenue from the property for a specific period under a condition that the owner can use the property for an agreed-upon period every year for free. In this case, the income generated will be dependent on the property's performance.

4. Appoint Consultants Who Understand Hospitality: Appoint architects, interior designers, kitchen consultants, etc. who understand the hospitality business. As the service apartment project will be used as a home away from home for investors and guests who are looking to spend some time away for business or leisure purposes. These experts will be able to provide the owners with experience due to their expertise in the subject matter.

5. Cost Assessment & Awarding Contract: After the entire design process is complete, the cost assessment of the project should be done to understand the financial viability of the project. Looking at the market demand and paying capacity of the guests in the region, the project should have a lucrative cost model so that it creates a win-win situation for all the stakeholders. It should then be either awarded to a contractor for execution or self-developed if the owner has the development capability.

6. Rera Registration: Since the project will be a real estate project with a different utility, the developer under the new norms needs to register the project with the Real Estate Regulatory Authority (RERA) to allow the investors to have confidence in the project. It will add transparency to the project's construction status and under the new guidelines, the investors/owners will also get additional security due to the regulator monitoring the project's progress.

7. Appoint A Sales Team And Investor Relationship Officer: For the development, it is important to appoint a sales team that can help in selling the project which is available for sale for investors. Additionally, there needs to be an investor relationship officer (IRO) appointed for the property to manage all the investors who have become the owners of the project. The IRO will be the one-stop for all the investors to approach whenever they want to make a booking for a stay at their property and the IRO will be responsible in securing the revenue from the AMC and circulate it amongst the various stakeholders based on the revenue share model they have signed up for.

Just like a hotel, the IRO is a part of the pre-opening formalities and should be hired at least 6 months before the opening of the hotel.

8. Appointment Of AMC: Since it is a hospitality project, it is important to have an Asset Management Company (AMC) to maintain the quality of the asset. Since it is a hospitality-focused asset, every corner of the entire project must be maintained as per brand standards throughout the life cycle of the project.

Benefits of Strata Sale-Lease Back model

The sale-leaseback model has different benefits for the developers as well as the investors. The business model is implemented in the right way will create a successful model for the hotel industry.

Sr. No.	For Developers	For Owners/Investors
1	It creates a self-sustaining property as a partial sales model helps the developer to raise funds from the project itself making it more attractive for banks also to provide initial funding for the project.	The dream of owning a second home becomes more realistic.
2	It allows developers to associate with a branded chain to provide quality service to its customers and guests.	The property is a revenue-generating asset as leasing it back to the developer ensures fixed revenue generation by the asset.
3	It reduces the break-even period of the project. Normally, a hotel project's break-even is between 7-9 years. However, in this case, the break-even can be reached within 2-3 years.	The owner gets to use the property for the holidays, weekend getaways, etc. as specified in the lease contract.
4	A developer without any experience in the hotel industry can also explore the asset class as the AMC and branded chain bring in enough experience to operate the property to its full scale.	In unusual circumstances like these, the owners can use the property for long stays as well and work from a different location.
5	Tie-up with a branded chain will increase the visibility of the property. Branded chains usually have central reservation systems and proper marketing channels which allows increased reach.	The project is loaded with amenities and minimal maintenance & supervision is required as the AMC will ensure the property is always up to the branded chains standards in terms of hygiene, safety, and upkeep.

The successful implementation of the business model depends purely on two factors:

- **The developer keeps a minority stake in the project with him/her.**
- **Tying up with a branded hotel chain which can provide expertise in the operations, marketing, rev enue management, etc.**

If the developer fails to do so, the success of this business model is unsure. Without expertise and economic interest, the investors/owners will loose on to their equity in the project and like previously, the model will fail to benefit the real estate sector.

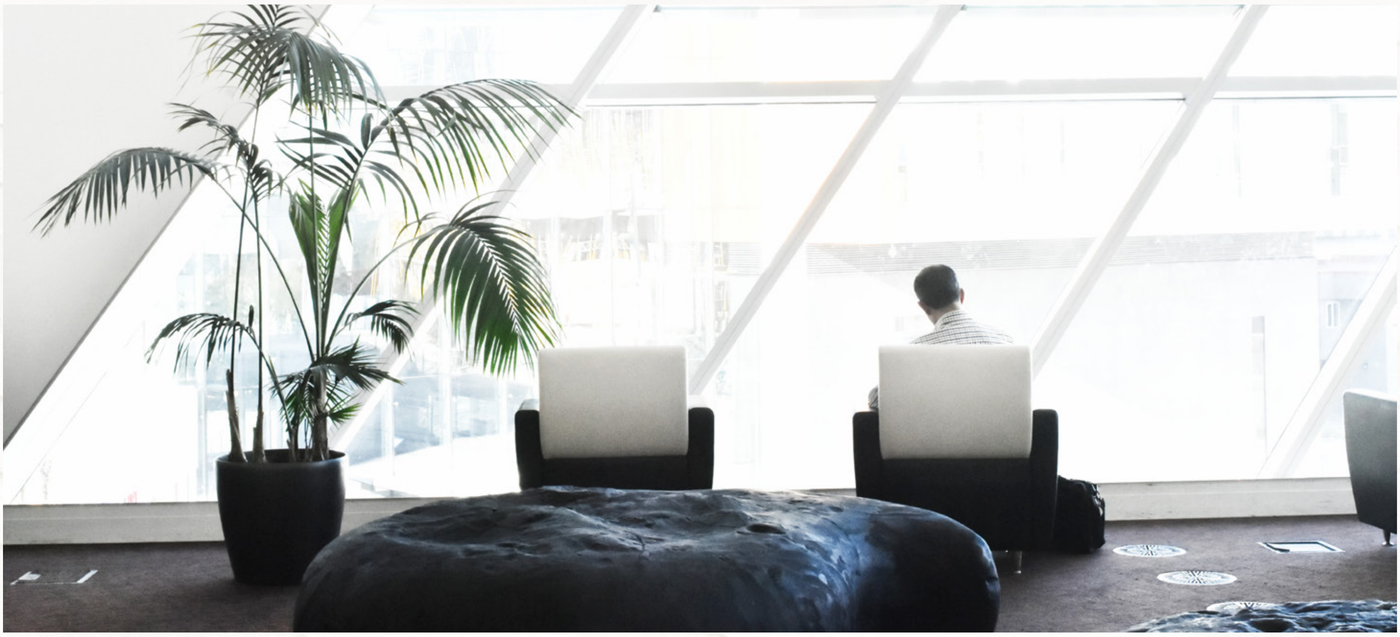
Case Study: The Canary Islands; A Possibility of Indian Success Story

As one of the leading markets for shared-holiday ownership in Europe, the Canary Islands offer more accommodation of this type than any other Spanish region. In total, 128 out of 302 resorts in Spain are located in the lush landscape o0f the Canary Islands, providing more than 14,000 units and 59,000 beds for European and global touris0ts. Each year, the shared-holiday ownership industry alone attracts 1.3 million visitors to the Canaories, with guests staying at a hotel or resort for an average of 11.6 nights. The Canary Islands are, without a doubt, favored holiday destinations among sun-seeking tourists, which is one of the reasons why residential leisure real estate and shared-holiday ownership has proven to be highly successful in this location. As a result of its strong customer magnetism, it is unsurprising that the travel and tourism industry has identified the infinite potential of shared-holiday ownership.

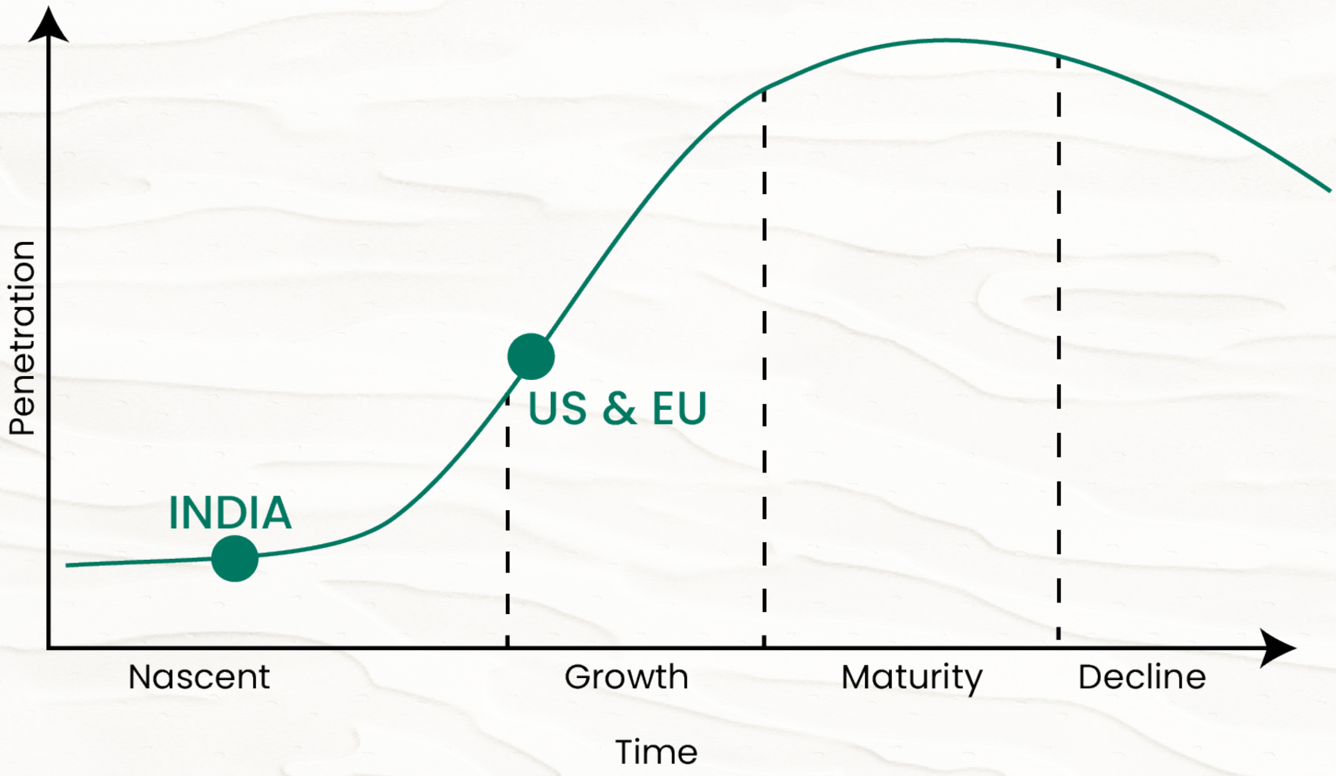
The hotel business recognizes the industry as a key economic driver for its capacity to retain customers and improve the profitability of hotels on a year-round basis. By bridging the profits' gap between high-and-low seasons, the shared-holiday ownership model brings more stability to the hotel business, as it is less prone to fluctuation during economic downturns. ASHOTEL, the Hotel and Apartment Association of Tenerife, La Palma, La Gomera, and El Hierro, has highlighted the strength of the industry and lends further credibility to the benefits of adopting this model.

During the past few years, Jorge Marichal, President of ASHOTEL, has joined forces with RDO Spain to promote the reliability of the industry and pave the way for future collaborations between hoteliers and shared-holiday ownership. Today, shared-holiday ownership is a favored model among many of the leading hoteliers in the Canary Islands, including Hilton, Marriott, Meliá, Hard Rock Hotel, and Diamond Resorts International. One of the main differences between shared holiday ownership and the hotel business, in the Canary Islands and on a global level, is the experience that the customer receives while on holiday. Shared-holiday ownership offers more personalized service, as customers can build relationships and familiarity with staff, and they are also offered more choice of on-site amenities and services to take advantage of during their stay.

Shared-holiday ownership is an extremely successful customer engagement tool, which is reflected in Diamond Resorts and Hotels' guest satisfaction rate of 90.8%. The average score of timeshare users on a global scale stands at 86.2 points, on a scale of one to 100. The satisfaction rate of those located in the Canary Islands is 4.4 points on a range from one to five on Trip Advisor, and on a range of one to ten on Booking.com, the satisfaction level is 8.4. Shared-holiday ownership is one of the fastest-growing segments in the travel and tourism industry. In the Canary Islands, the industry has generated 10,000 direct jobs and, on a global scale, 500,000 direct jobs have been established throughout the industry.



Penetration of strata sale-lease back model in India vs EU & US



The SSLB business model in India is still at a very nascent stage compared to the western counterparts where the business model is highly successful across both business and leisure destinations. In western countries like the EU & the US, the model is highly successful not only across the leisure destination but at business destinations as well. An opportunity to own a second home which will be an income-generating asset from the first day itself and minimal supervision, investors across the western countries have widely opted for this concept.

Though the business model is old in the market it is still under the growth quadrant if we have to place it on the product life-cycle graph. The model is highly successful with an average yield of 5.5-7.5% on the asset which is a much better side than a normal residential asset. In the UK, as per a research conducted on SSLB and Non-SSLB transactions, due to the assured rental incomes managed by an expert, the properties sold under the SSLB model have been sold at a 4-4.5% higher premiums and the average yield for the properties is between 4-6%.

In India, the model emerged initially at only leisure destinations which caught the eyes of many investors. It allows them to create a vacation home for themselves and also allow them to rent the property for short and medium stays for various purposes. As of now with limited penetration in the market, the yields which as estimated to have been generated by the model are around 4-4.5% which is much higher than a residential project. Though it is still in the nascent quadrant of the product life cycle and is only focused towards creating leisure assets, if it rightly implemented with an equal or slightly lesser economic interest from the developer and at both leisure and business destinations, the model has the potential to generate yields of 10 - 13% which are much higher than the current 4 - 4.5% levels. It will also create a self-financing asset that will be able to cover the portion of the funds on its making financial institutions also comfortable towards lending to the industry.

Sample Statements of Profit and Loss for the Strata Sales Lease Back Model

For this study, we have done a P&L analysis for a 100 room luxury property and have done 10-year forecasting for the revenues for the entire property and every stakeholder for the same period for every stakeholder to understand what kind of returns will the investors make out of this business model.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total Rooms	100									
OR (%)	50%	53%	55%	58%	61%	64%	72%	75%	75%	75%
ARR (INR/room/day)	6,050	6,350	6,670	7,000	7,350	7,700	8,100	8,500	8,950	9,400
Total Revenue (INR mn)	157	173	191	210	232	255	302	330	348	365
Room Revenue (INR mn)	*110*	*122*	*134*	*148*	*163*	*179*	*213*	*233*	*245*	*257*
F&B Revenue (INR mn)	*44*	*49*	*54*	*59*	*65*	*72*	*85*	*93*	*98*	*103*
Other Income (INR mn)	*2*	*2*	*3*	*3*	*3*	*4*	*4*	*5*	*5*	*5*
Total Expenses (INR mn)	116	126	139	151	167	183	216	235	247	259
Total Undistributed Expenses (INR mn)	34	38	42	46	51	56	66	73	77	80
Gross Operating Profit (INR mn)	82	88	97	105	116	127	149	162	171	179
Additional Expenses (INR mn)	11	11	13	13	15	17	19	21	22	24
Net Gross Profits (INR mn)	71	77	84	91	101	111	130	141	148	156
Cost of each room (INR)	*10,000,000*									
Profit Sharing Per Room (INR mn)	0.7	0.8	0.8	0.9	1.0	1.1	1.3	1.4	1.5	1.6
Rate of Return (ROR)	7.12	7.69	8.42	9.12	10.05	11.05	12.97	14.06	14.81	15.55

Note: Additional expense includes management fee, FF&E reserve and AMC & IRO fee.

Assumptions:

1. 1st full year occupancy at 50% followed by 5% growth every year in demand.
2. The average room rate is assumed to grow at 5% every year.

As per the P&L statement used for the property, during the 10-year period of lease of the inventory, every individual will cumulatively earn INR 11.1 million posts investing INR 10 million and also paying all maintenance and usage charges. However, additional income in the form of capital appreciation will also come in which will be in the form of 25-40% depending on different micro-market and/or city. Looking at the returns, the model is expected to high cashflows if it is executed in the right way with a branded operator.

Key points to consider in the sales agreement

1. Ownership & Usership:
It should be clearly mentioned in the sales agreement that the investor/buyer is the owner of the said room/apartment/villa but they don't have the possession rights for the mentioned period as agreed upon i.e. 5, 10, 15 years. However, during the same time period, the buyer/investor will be allowed to use the property for a specific amount of days in a year.

2. Lease Agreement:
It should mention clearly that the lease agreement is a variable lease and not a fixed lease rental. The revenue generation will purely depend on the performance of the property and a fixed lease rental promise should not be made with any of the buyers.

3. Amenities Revenue:
It should be clearly stated that all the revenue generated from the amenities such as banquet spaces, conference rooms, spa, swimming pool, restaurants, etc. will or will not be shared with the buyers/investors to ensure no dispute arises in the later stage.

4. Minority Stake Ownership:
It should be ensured that the minority stake (30-40%) in the project will be owned by the developer itself. In a case the developer decides to sell off the stake, the new owner should be a single investor/company/fund/brand who will take the ownership of the minority stake off-loaded by the developer.

5. Operator & Investor Relationship Officer Fee:
The contract should hold the details of the operator's fee as per the agreement signed between the developer and hotel operator and should also incorporate the sale agreement for the buyer/investor to know about the detailed expenses that will be a part of this agreement.

6. Maintenance And Contingency Fees:
The maintenance and contingency charges should be clearly mentioned in the schedule for the entire period the unit will be leased back from the buyer/investor. Unlike residential property, this being a hotel would need higher maintenance and repairs to keep the property as fresh and new as it was.

7. Sale Area:
It is important for the developer to clearly highlight the sales area and give details on the built-up and carpet area. It should clearly detail out the plan if the sales area also considers the amenities. It should be highlighted if the developer is keeping the amenities to the company or otherwise.

The sales agreement should be made with the above-stated points along with other legal points to ensure a smooth transition between all the stakeholders and make this business model workable and successful.

Top points to be considered by an investor

The investors who are looking to evaluate the strata sale-lease back model in the hospitality industry should focus on the key points before entering into any agreement/commitments:

1. Brand Value Of The Developer:
The investor should look at the brand value of the developer and look at some historic projects undertaken and completed by the developer in either the same or a different asset class.

2. The Commitment Of The Developer In The Project:
As previously mentioned, the business model failed in India due to the primary reason that developers showed no commitment towards the project and sold out the entire inventory to multiple buyers. The buyer should look at the share of equity the developer is looking to retain with them in order to make the business model successful.

3. Clear Land Titles And Other Licenses:
The investor should look at all the clearance certificates as well as licenses required to operate the property as a hotel before making any commitment to the project.

4. The Repute Of The Hotel Brand Who Will Be Operating The Property:
Before making a decision, the buyer should also look at the hotel brand who is tying up for the operations of the property. He/she should look at the brand portfolio which it has in India already and also have a clear idea about the agreement between the developer and the hotel brand in terms of fee and period of operations.

5. Market Scenario:
The buyers should also look at the various market report to understand the demand-supply dynamics and access the performance of the project will be before they plan to invest in the project. This will also help them identify the competition scenario and likely revenue generation expected from the project.

6. Commitment:
The buyer/investor should also access the commitment the project will need. Unlike a real estate asset such as residential, the project will require a longer commitment from the buyers to ensure the successful delivery of all the commitments made by the business model.

7. Ownership Clarity:
The buyer should understand before making the buying decisions that even though the ownership will be given to the buyer, the possession will not be provided to the owner till the entire period of leaseback is over. Until then the buyer will only be allowed to use the property based on the pre-agreed terms. It should not create a problem in the later stage as the agreement will be strict with no option to change till the contract time is over which in the case could be 5, 10, or even 15 years.

8. Re-Sale Rights:
The buyer should understand the re-sale rights that are there in the project before investing in it. He/she should take full details from the developers pertaining to the re-sale clause that will come along with the project investments. It may not necessarily mean that the developer will take a certain share in the capital gains but details on the permissions required before making any such choices.

The Way Forward

The hospitality industry has become the backbone of the Indian economy. The sector nearly contributes 9% to the overall economy of India. Though it is one of the most impacted industry due to the outbreak of COVID-19, the industry is expected to witness sharp growth in the medium to long term.

Demand for the industry in the short term will arise from the increasing work from home culture which is expected to continue for the next 24 months even after the lockdown is uplifted. Even in an unlocked situation, with the continued work from home, the demand for leisure is expected to significantly increase. The outbound tourism from India which clocked 26.2 million passengers in 2018 witnessed a growth of 9.8% over the year. Due to the current imposed restrictions, international travel is expected to remain restricted for another 12 months creating a huge demand for domestic tourism in the country.

With increasing demand and continued work from home culture implementation, the need for small staycations, weekend getaways will create the need for the new concept of branded residences which can work on the strata sale-lease back model. The opportunity to own a second home which will be self-sustaining and also allow the owner to use it for personal use will pick up pace in the short to medium term.

The new business model in the hospitality segment is also expected to provide relief to the real estate industry across the major cities in the long term once the implementation across leisure destinations is successfully done.

About The Company

Noesis Capital Advisors (www.noesis.co.in) India's leading Hotel Transaction advisory and consulting company provides end to end hospitality solutions across India and South Asia. Founded and headed by Mr. Nandivardhan Jain back in 2010, the company has already done more than 2000 assignments in the industry with USD 250 million worth fundraised, buy/sell transactions, debt raised, etc. The company specializes in buy-sell advisory, brand & operator search, contract negotiation, consulting, feasibility, valuations, capital raising, debt restructuring and turn around advisory for new & existing hospitality projects.

Ngage Hospitality as the name suggests is about engaging clients with industry experts/business leaders with the help of a structured methodology that has proven successful ever since inception. Under the leadership of Mr. Nandivardhan Jain and Mr. Ganesh Babu, the company has successfully created an AI-run interface that allows buyers, sellers, or even explorers to connect with industry experts 365 days a year. The services of the company go beyond events organized for the hotel industry to service the requirements and needs of existing and upcoming projects.

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