

NOESIS | Shaping Value
With Precision

THE ART & SCIENCE OF

BUYING AND SELLING HOTELS

Guiding Hotel Decisions from Market Insight to Lasting Value



Market
Intelligence



Capital
Discipline



Hotel
Ownership



Transaction
Strategy



Long-Term
Value





FOREWORD

**By Nandivardhan Jain, Managing Director & Chief Executive Officer, NOESIS
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India's hospitality sector is standing at an important point in its evolution. What was once viewed primarily as an operating business for hotel companies is now increasingly being recognised as a serious investment asset class for developers, family offices, institutional investors, lenders, landowners and first-generation hospitality owners.

This shift is being driven by several structural forces working together. Domestic travel has deepened across leisure, business, spiritual, medical, education and wedding-led segments. Infrastructure expansion has improved access to emerging destinations and demand corridors. Corporate mobility has extended beyond traditional metros into industrial, office and logistics clusters. At the same time, rising incomes and broader wealth creation are expanding both the consumer base for hospitality and the investor base capable of participating in hotel ownership.

Hotels sit at the intersection of these trends. They are not passive real estate assets. A hotel is a live operating business housed within a physical asset. Its value is shaped not only by land, location and construction quality, but by revenue productivity, operating efficiency, brand alignment, capital structure, market timing and management discipline. This is what makes hospitality both complex and rewarding. When planned correctly, a hotel can generate income, create long-term asset value, support regional growth and become a meaningful part of India's wider tourism and infrastructure story.

However, opportunity alone does not create successful investments. In our experience at NOESIS, the difference between a strong hotel asset and a stressed one is often determined long before opening, acquisition or financing. It begins with the quality of decision-making. The right feasibility, the right product definition, the right brand, the right capital structure and the right operating plan can protect value for years. Conversely, emotional planning, overbuilding, excessive leverage, weak diligence or misaligned operator terms can affect an asset for the next decade.





This report has been created to bring clarity to that decision-making process.

The Indian hospitality market today offers multiple routes of participation. An investor may acquire an existing hotel, build a new asset, finance a project, invest through a structured platform, reposition an underperforming property or prepare an asset for sale. Each route carries a different risk profile, capital requirement, execution challenge and return expectation. Yet the underlying principle remains the same: hospitality must be approached with discipline, data and a clear understanding of the business behind the building.

For those acquiring a hotel, the focus must go beyond the headline purchase price. Historical performance, occupancy, ADR, RevPAR, operating margins, competitive positioning, capex needs, legal structure, operator contracts and debt capacity must all be evaluated together. A low price per key does not automatically make an asset attractive, just as a premium valuation may be justified when the location, brand, cash flows and long-term potential are strong. The real question is whether the acquisition price is supported by sustainable earnings and future value creation.

For those building a hotel, feasibility must come before design ambition. A hotel should not be built around personal preference. It must be built around market demand. The number of rooms, size of banquet spaces, restaurant strategy, back-of-house planning, guest profile and brand positioning must all respond to the commercial realities of that micro-market. Every square foot should have a purpose. Every rupee of capex should have a return logic.

For those financing hospitality, the asset must be evaluated differently from conventional real estate. Hotels have operating volatility, seasonality, staffing intensity, maintenance obligations and reinvestment requirements. Debt must therefore be structured conservatively, with adequate DSCR comfort, realistic stabilisation timelines and sufficient equity buffers. Strong demand can still become a weak investment if the balance sheet is stretched beyond what the asset can support.

For those preparing to sell, transaction readiness is equally important. A hotel with clean documentation, stable performance, transparent financials, valid approvals, organised contracts and a clear data room inspires greater buyer confidence. Exit value is not created at the time of sale alone. It is built through years of operational discipline, compliance, reporting quality and asset management.



At NOESIS, we have spent more than 17 years working across feasibility, valuation, brand selection, operator search, capital raising, transaction advisory and strategic hospitality consulting. Across these assignments, one lesson has remained constant: hotels reward process more than instinct. They require patience, technical understanding and an ability to balance real estate thinking with operating business logic.

India's next phase of hospitality growth will not be limited to traditional metro markets. Airport-led nodes, highway corridors, industrial regions, pilgrimage destinations, education hubs, leisure circuits, wedding markets and mixed-use developments are all creating new demand opportunities. Mid-market and upper-midscale hotels, lifestyle-led formats, branded residences, resort-led destinations and conversion opportunities will continue to attract investor interest. But in every case, success will depend on aligning the product with the market and the capital structure with the cash flow.

This report is intended as a practical guide for stakeholders who want to enter, expand or transact in the hospitality sector with greater confidence. It brings together the key frameworks required to buy, build, invest, finance and sell hotels responsibly. It is not written only for seasoned hotel owners. It is also written for new investors, developers, lenders and landowners who see the opportunity in hospitality but need a structured way to evaluate it.

Our hope is that this report helps readers move from interest to informed action. Hospitality in India is entering a strong and exciting cycle. The opportunity is real, but it must be approached with clarity. With the right planning, disciplined capital and market-aligned execution, hotels can create long-term value not only for owners and investors, but also for destinations, employees, travellers and the wider economy.

Warm regards,



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THANKS TO OUR INDUSTRY EXPERTS



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A Consultant's Lens on Hotel Investment, Ownership and Value Creation



NANDIVARDHAN JAIN

Managing Director & Chief Executive Officer, NOESIS

For more than 17 years, NOESIS has worked closely with hotel owners, developers, investors, operators and lenders across India. Our journey began in 2009, not as a hospitality-only advisory platform, but through retail consulting, advisory and financing assignments in emerging markets such as Patna and Jamshedpur. Those early assignments gave us a ground-level understanding of how capital behaves in Tier II and Tier III India, how owners think, and how strongly smaller markets can respond when the right product is created for the right demand.

As we moved deeper into hospitality, especially economy and mid-market hotels, one reality became clear: many owners had capital and ambition, but not always the right feasibility, brand selection, capital structure or operating roadmap. In the early years, ADRs and occupancies were lower than what we see today, debt was more expensive, and the market was still maturing. But those years helped us understand the real mechanics of hotel cash flow, owner psychology, investor expectations and the mistakes that can affect an asset for the next 10 to 15 years.

From a consultant's perspective, the most important distinction is that a hotel is not conventional real estate. A residential or commercial asset may be valued through land, construction, approvals and rental or end-use value. A hotel is different. Its value is linked to profitability.



Its real worth depends on how much revenue it can generate, how efficiently that revenue converts into profit, and how much free cash flow finally reaches the owner. The building is important, but the business inside the building determines value.

This is also why hotels should be seen as part of national infrastructure. Just as airports support connectivity, hotels support mobility, tourism, conferences, corporate travel, weddings, education, healthcare and regional economic growth. If India wants to attract more travellers and support stronger domestic movement, it needs quality hotel rooms across markets. The opportunity is significant because India remains under-supplied in organised hospitality relative to the scale of its population, mobility and economic ambition.

However, opportunity alone does not create returns. Correct planning does. Before any owner commits capital, feasibility must come first. It should not be treated as a formality. A feasibility study explains what the market needs, what category should be built, how many rooms are viable, what facilities are justified, what ADR and occupancy can reasonably be achieved, and whether the project can generate the required return. Without this, owners often build from emotion rather than evidence.

This is one of the most common mistakes we see. Owners may want the largest lobby, the best rooms, a large banquet, multiple restaurants or a hotel that reflects personal aspiration. But a hotel should not be built for the owner's preference. It must be built for the market. Every square foot should justify itself through revenue, efficiency, guest experience or long-term asset value.

A recent South India assignment reinforced this very clearly. A promoter had developed a 140-room hotel in a good market and had signed with a reputed national brand. The hotel was nearly complete, and the promoter approached NOESIS to help raise capital for the balance construction. At first, it looked like a funding problem. But after detailed evaluation, we realised it was actually a planning and capital-structure problem. The hotel had been overbuilt for the market. The room inventory, F&B spaces, number of restaurants and overall area programming were higher than what the market could absorb. The debt-equity structure was also not sustainable.



In such cases, theory becomes a practical experience. If an asset is overbuilt, the market will not reward the extra cost simply because the owner has spent it. If the product requires a longer stabilisation period, the balance sheet must be strong enough to carry that period. If the debt is too heavy, even a decent operating hotel can become financially stressed. The most responsible advice in the given scenario was to exit and protect as much equity as possible. The promoter had invested around ₹110 crore, while the investor's underwriting supported a lower valuation. The transaction was eventually negotiated around ₹94 crore. The lesson is simple: a buyer will not pay for overbuilding or emotional decisions. A buyer will pay only for what the business model can justify.

This case also explains why feasibility, debt planning and product definition must happen before capital is committed. A hotel can be in a good market and still become a weak investment if the wrong product is built. The market may need a leaner hotel, fewer restaurants, better back-of-house



efficiency, a different room count or a more disciplined capital structure. In hospitality, the right answer is rarely the most impressive building. It is the most commercially efficient product for that specific demand base.

Brand selection is another critical area where theory and practice meet. A brand should not be chosen because the owner personally likes staying there. It should be chosen because it has the right market relevance, distribution strength, loyalty base, commercial fit and ability to maximise profitability in that location. The difference between the right and wrong brand can materially affect ADR, occupancy and long-term returns. Operator contracts must also be negotiated carefully because visible and invisible fees can influence the owner's P&L for decades.

The Jaipur resort example is a strong case of brand and positioning changing value. The asset was originally operating as a weekend getaway resort, but after studying the market, we realised it had stronger potential as a wedding-led destination. The recommendation was to reposition the asset and align it with IHCL SeleQtions. That changed the economics of the property. ARR improved, wedding demand strengthened, and the owner expanded the resort from around 70 rooms to 145 rooms. This shows that value creation is not always about adding more capital. Sometimes it is about identifying the right use case, the right customer and the right brand architecture.





Another example is Netrang, located about two hours from Surat and Vadodara. There was no established hotel market and limited historical data. A conventional approach would have struggled because the destination was not yet a recognised tourism circuit. Instead, NOESIS studied comparable markets and recommended Mahindra Holidays because its member base could create demand quickly. The model worked because the destination needed occupancy creation more than conventional brand visibility. This case proves an important point: in virgin or emerging markets, the operating model can be as important as the brand itself.

Capital structure remains one of the biggest determinants of success. Many hotel assets do not become stressed because operations are weak. They become stressed because the balance sheet is weak. A hotel may generate decent GOP, but if debt repayment absorbs too much of the operating surplus, maintenance, service quality and reinvestment begin to suffer. Over time, the asset deteriorates and performance weakens. The debt-equity ratio must therefore match the nature of the hotel, and owners must maintain reserve equity for uncertainty.

For first-time investors, the choice between buying, building or partnering should depend on risk appetite and capability. Buying an existing hotel provides operating history, visible cash flows and faster learning. Building a hotel offers greater control over design and positioning, but requires patience, approvals, development discipline and financing strength. Partnerships can work well when the investor wants exposure but needs operational or technical support.

At NOESIS, we advise owners to think through the full chain: feasibility, land, approvals, design, brand, financing, construction, pre-opening, operations, stabilisation and exit. Hotels are interlinked

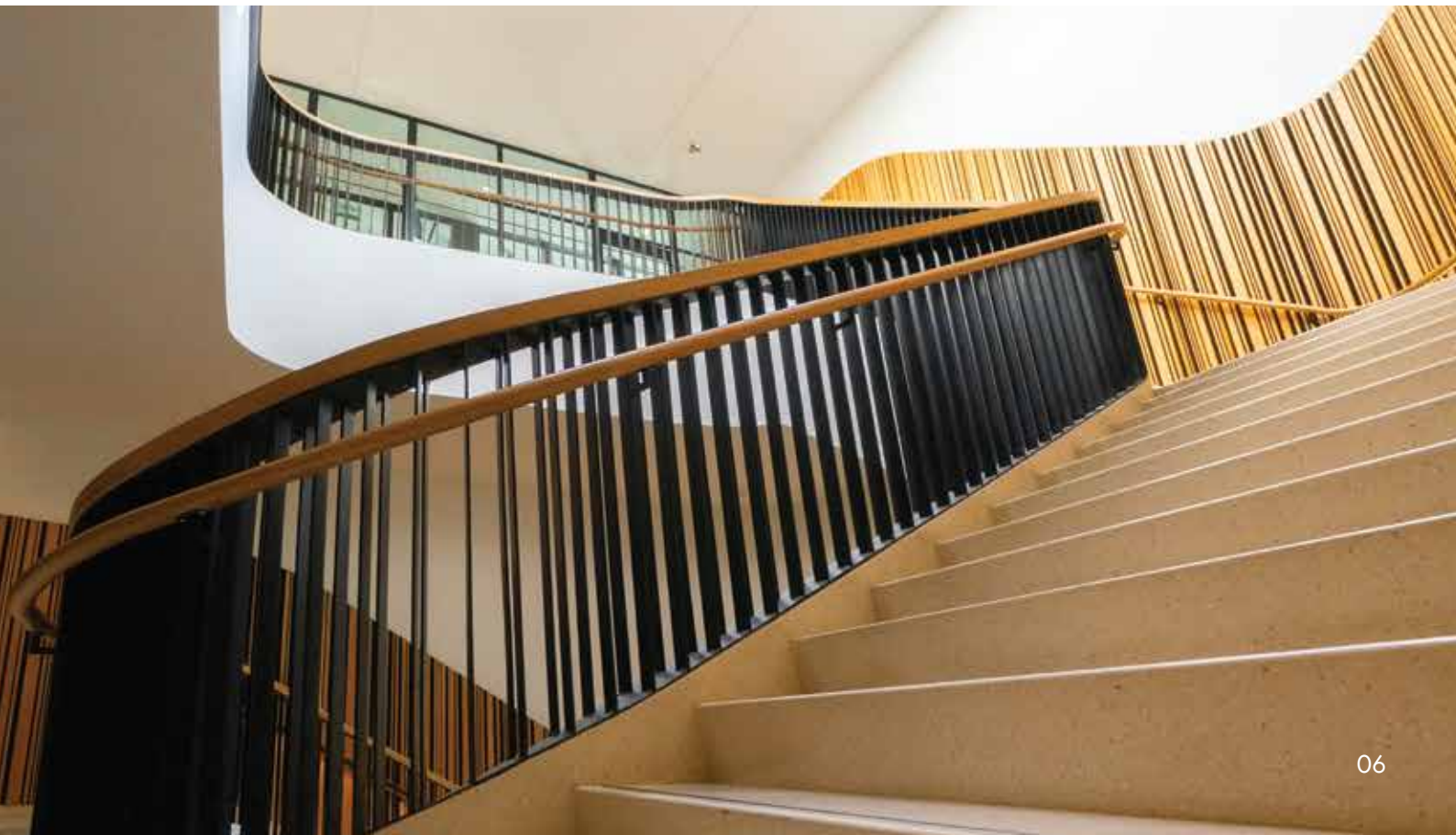


businesses. Profitability depends on operating efficiency. Operating efficiency depends on planning. Planning depends on facility design. Facility design depends on feasibility. If the early steps are wrong, the final returns will suffer.

Looking ahead, India's hospitality sector is entering a much stronger phase. Travel frequency has increased, spending propensity has improved, and demand is no longer limited to traditional corporate and metro-led markets. Leisure destinations, weekend getaways, wedding-led markets, airport locations, industrial corridors, education hubs, office clusters and high-connectivity nodes are all creating new hospitality demand. The next five to seven years will be important because smart investors need to read the market before the demand becomes obvious to everyone else.

This means the next phase of opportunity will not be limited to metros alone. Airport-led hospitality is already demonstrating the power of infrastructure-linked demand. Industrial markets are still underpenetrated in branded supply. Education-led markets can create consistent demand through visiting families, faculty, events and institutional movement. Weekend destinations and wedding-led markets have strengthened meaningfully after COVID. In each case, the opportunity exists, but the product must be designed around the exact demand source.

In high land-cost markets, mixed-use development can further improve project economics by combining hotels with residential, branded residences, retail or office components.





The Noida example reflects this clearly. Instead of treating the site as a single-use real estate play, the project was structured with multiple complementary asset classes, including a 150-room hotel and branded residences. The larger lesson is that the right product mix can unlock value that a standalone asset may not achieve.



The future opportunity will be especially strong in mid-market and upper-midscale hospitality, particularly when combined with lifestyle-led formats. The next generation of hotels cannot be built only around conventional templates. The starting question must be: who is the guest? A hotel for young travellers, corporate users, wedding demand, airport transit, young families or spiritual tourism cannot all look the same. Product, location, brand and guest profile must align.

For owners preparing to sell a hotel, timing and readiness matter equally. Unless there is financial urgency, a hotel should ideally be brought to market after stabilisation, often around the fourth year of operations, when occupancy, ADR, cost efficiency and positioning have matured. The asset must also be transaction-ready, with financial statements, tax filings, approvals, licenses, employee compliances, AMCs, contracts and the data room in order. A clean, well-documented hotel can transact faster and command greater buyer confidence.

My message to readers is that hospitality is a rewarding sector, but it rewards process more than instinct. It requires data, feasibility, brand discipline, capital discipline and patience. Do not build for personal preference. Do not overleverage. Do not assume that a beautiful building will automatically become a successful hotel. Build for the market, plan for profitability, protect the balance sheet and treat the hotel as a business from day one. That is how hospitality creates value: for owners, investors, employees, destinations and the country.



Scaling Midscale Hospitality Through Market Conviction, Cost Discipline and First-Mover Thinking



PATU KESWANI

Chairman & Managing Director, Lemon Tree Hotels

For investors looking at India's hospitality sector, the midscale and upper-midscale segments present one of the most compelling long-term opportunities. However, this opportunity must be evaluated differently from luxury or prime urban hospitality. In midscale hotels, the investment case is not built only on current occupancy or visible demand. It is built on identifying markets where a consuming class is forming and where branded hotel usage can grow meaningfully over time.

At Lemon Tree, we look beyond headline occupancy data. The indicators that matter most are structural: the depth of the micro-market, the presence of a functioning or future airport, highway connectivity, and evidence of repeat travel rather than one-off demand. In cities such as Indore, Coimbatore and Bhubaneswar, the opportunity was visible through early signs of consumers willing to pay for a quality branded hotel product. One signal I have always tracked closely is the growth in low-cost carrier seats into a city. When a low-cost carrier adds capacity, it often indicates that a broader travelling and consuming class is beginning to emerge. The question we ask is not only whether the market works today, but whether it can absorb a quality branded hotel ten years from now.



Our expansion model is guided by conviction and capital discipline. We own or lease assets where land economics are compelling, demand is deep, and we have confidence in long-term value appreciation. We use management contracts where we want to establish presence without taking balance sheet exposure. Through Carnation Hotels, our asset-light arm, we have been able to scale into markets that would otherwise have taken much longer to enter. Over the long term, our strategy is to have 70 percent of our room inventory managed and franchised. In simple terms, capital follows conviction. Where we believe deeply in a location or micro-market, we are willing to put our own skin in the game.

When acquiring or converting underperforming and unbranded hotels, the first priority is to understand the revenue mix. We study how much business is retail, how much is contracted corporate, and what rates the hotel is actually selling at. From there, the operating levers are clear: cost discipline and service consistency. These are often the fastest ways to stabilise occupancy, ADR and margins. Brand conversion can help, but a brand name alone does not create value. The guest experience must support the promise being made on the façade.

Capex decisions require particular caution in the midscale segment. Overcapitalisation is the silent killer in midscale hospitality. Every rupee invested must have a visible and time-bound return path, whether through rate uplift, cost saving or guest retention. Renovation should therefore be phased and focused on guest-facing improvements that directly influence review scores and repeat bookings. The midscale guest does not reward unnecessary excess. The guest rewards reliability.



My message to readers is that India's midscale hospitality story requires patience, discipline and first-mover conviction. The households actively using branded hotels in India could grow from around 5 million today to 30 million by 2030. That scale of expansion will reward investors who can identify demand early, choose the right operating model, control capex carefully and deliver a reliable branded experience. This is not a market to approach passively. It is a market where being early, disciplined and consistent can create significant long-term value.



A Message to New Investors Entering Hospitality



RITESH AGARWAL

Founder & Group Chief Executive Officer, PRISM Hotels & Homes

For anyone entering the hotel industry, the first principle is to understand that a hotel acquisition is not only about the purchase price. It is about the strength of the market, the quality of the asset, the ability to improve performance, and the discipline with which the transition is managed. At PRISM Hotels, we look at every acquisition or partnership through this lens.

Before we move into deeper diligence, we begin with three clear filters: market fundamentals, asset quality and repositionability, and alignment with the owner or partner on vision and governance. Market fundamentals include demand generators, competitive supply and long-term travel trends for that micro-market. Asset quality tells us whether the hotel can be improved or repositioned. Partner alignment ensures that the strategy can actually be executed. If any of these do not pass the initial screen, we do not proceed, irrespective of headline pricing.

When assessing an underperforming hotel, the core question is whether the underperformance is structural or managerial. A hotel in the wrong location or with outdated infrastructure is difficult to turn around. However, if the asset is in a healthy demand market but is suffering from depressed RevPAR, weak distribution strategy or technology gaps, those issues can be corrected. In such cases, the gap between current performance and competitive set benchmarks becomes an important indicator of recoverable value.



For investors, it is also important to look beyond occupancy. Occupancy alone can be misleading. A hotel may have high occupancy but weak ADR and poor profitability. At PRISM, we focus more on RevPAR index because it shows how the asset is competing against its relevant competitive set. We also track GOP margin, cost per occupied room and repeat guest ratios, as these reveal operational efficiency and brand stickiness.

Another important message for new investors is to understand the true cost of acquisition. The purchase price is only the starting point. Renovation capex, brand standardisation costs, technology stack upgrades, deferred maintenance provisions and working capital buffers must all be included in the calculation. In many cases, the all-in cost can be 20 to 40 percent higher than the headline price. Underestimating this is one of the most common errors in hotel acquisitions.

The first 100 days after acquisition are critical. Distribution reset comes first, ensuring that the hotel is properly listed, priced and positioned across OTA and direct channels. At the same time, the team must be assessed carefully to identify the people worth retaining and the gaps that need to be filled. Guest experience quick wins such as cleanliness, breakfast quality and check-in experience should be addressed immediately, because they begin showing up in reviews within weeks and directly affect forward bookings.

Capital structure must be handled conservatively. Hotels are operationally intensive and cash flows can be volatile. Therefore, acquisitions should be structured with debt coverage ratios that remain comfortable even in softer demand cycles. Growth capital should be directed towards assets where there is a clear path to improved cash generation within 18 to 24 months.



Between stable profitable hotels and underperforming hotels with upside, our preference is often the latter, provided there is a clear performance gap and an identifiable reason for it. Stable profitable hotels are usually priced efficiently, which means the upside is already reflected in the price. Underperforming hotels with strong fundamentals can offer asymmetric returns if the investor has the operational capability to close the gap.

My message to readers is that hotel investment rewards discipline more than enthusiasm. Capital is important, but it is not enough. The real value lies in identifying the right asset, understanding whether the underperformance is fixable, accounting for the true all-in cost, managing the first 100 days with urgency, and maintaining a capital structure that can withstand volatility. Turnarounds require hands-on management, not just capital.





Building Hospitality Value Through Location Discipline, Mixed-Use Thinking and Long-Term Ownership



SHWETANK SINGH

Managing Director & Chief Executive Officer, Chalet Hotels Ltd

For investors entering the hospitality industry, one of the most important lessons is that the quality of the market matters as much as the quality of the asset. At Chalet Hotels, location selection is not an asset-led decision. It is a demand-first decision. Before we evaluate any acquisition or development opportunity, we look closely at whether the micro-market has depth, durability and repeatability of demand. This may come from sustained corporate activity, proximity to infrastructure such as airports, or a strong mix of transient and MICE demand. The key question is whether this demand can remain resilient across cycles, rather than being dependent on short-term trends.

The second layer is supply. In hospitality, long-term pricing power is protected not only by strong demand but also by constrained supply. We prioritise markets where entry barriers are high, whether because of land constraints, regulatory complexity or the capital intensity required to develop quality assets. These factors help protect the market from sudden supply-led dilution, which is often one of the biggest risks for hotel owners.

For us, an asset also needs long-term optionality. We look at whether the property can be scaled, repositioned or integrated into a broader demand ecosystem over time. Hotels located within or near commercial clusters often offer greater demand visibility and resilience, particularly when they



are part of a mixed-use environment. This is where hospitality can move beyond being a standalone operating asset and become part of a larger value creation strategy.

When we evaluate acquisitions, we do not look at them only as hotel investments. We also assess the underlying land and its long-term development potential. However, embedded land value is meaningful only when there is a clear and executable path to monetisation. The core hospitality use case must be viable from day one. Land optionality can strengthen the investment case, but it cannot compensate for weak fundamentals.

Mixed-use potential is a significant value enhancer when it aligns with demand. The ability to integrate hospitality with commercial or retail components allows for better land utilisation and creates a more resilient demand ecosystem. In several cases, adjacency to office developments can support consistent occupancy through corporate demand while improving overall asset productivity. Site flexibility also matters. The ability to phase development, expand key count or add complementary formats over time allows capital to be deployed in a more calibrated manner as demand evolves.

For investors deciding between acquiring an operating hotel and developing a new asset, the decision should be seen as a capital allocation choice. Acquisitions are often more relevant where demand is already established and value can be unlocked through repositioning, brand alignment or operational improvement.



They offer a faster path to stabilisation. Development, on the other hand, is suited to markets where long-term demand conviction is strong but existing supply does not meet quality benchmarks. While development timelines in India can be longer and more complex, they provide greater control over design, positioning and integration with surrounding assets.



Return evaluation must also be disciplined. At Chalet, we look at returns through multiple lenses, including IRR, NPV and ROCE. We also consider minimum EBITDA thresholds for assets, because management bandwidth and asset management intervention must be justified by the scale of the opportunity. Another important consideration is whether the asset offers scope to deploy additional capex at higher returns. This is often where long-term value creation becomes possible.

Our approach to hospitality ownership is long-term. We select locations carefully and believe in holding quality hospitality assets over time. Capital recycling may be considered only where there is a compelling opportunity and where it aligns with broader capital allocation priorities. Hospitality assets in strong locations, supported by durable demand and active asset management, are not assets we look to exit casually.

My message to readers is that hospitality investment should not be approached as a short-term opportunity or a simple real estate play. The sector rewards patience, location discipline, capital allocation clarity and the ability to think beyond the hotel building itself. The strongest hospitality investments are those where demand, supply constraints, brand positioning, land optionality and long-term ownership strategy come together. When these elements are aligned, a hotel can become not only an operating business but a durable platform for value creation.



Market-First Growth, Contract Discipline and Active Asset Ownership



VARUN SARAF

Chief Executive Officer, Juniper Hotels Ltd

For investors entering hospitality, one of the most important principles is that the market must come before the brand. At Juniper Hotels, the starting point for evaluating any hotel acquisition is always the depth and sustainability of the market opportunity. We assess long-term business potential, travel demand drivers, connectivity, corporate activity, tourism growth and the overall resilience of the market before moving into any detailed asset-level assessment.

Once the market opportunity is validated, we evaluate the asset itself. This includes its size, scale, positioning potential, physical condition and financial viability. Only after this do we determine the most suitable brand fit. Even in cities where Hyatt already has an established presence, the focus is not on adding another brand for the sake of expansion. The focus is on identifying gaps in the market and avoiding overlap. Different brands cater to different customer segments and price points, so brand selection must be aligned with the specific demand profile and positioning opportunity of that asset.





At the initial screening stage, financial discipline is non-negotiable. One of the key filters we apply is land cost discipline. Ideally, land cost should remain within approximately 25 percent of the overall project cost, because excessive land cost can weaken the viability of the hotel even before operations begin. We also evaluate the project's stabilised return expectations and broadly target around a 15 percent return threshold before proceeding further. Alongside this, we assess expected ADR, occupancy potential, GOP margins and the overall yield profile of the asset. The objective is to first establish whether the opportunity is fundamentally viable from both a market and investment perspective. Only after these benchmarks are met do we proceed into brand fit, technical diligence and structuring discussions.

The advantage of working within a broad brand ecosystem is that it allows the owner to address different positioning levels, including luxury, upper upscale, upscale and mid-market formats. However, the decision to rebrand or reposition must be supported by the physical characteristics of the asset. Room inventory, public spaces, F&B potential, banqueting facilities, wellness areas and location dynamics all need to be studied before deciding how much commercial and operational upside can realistically be created. The real question is whether repositioning can materially improve stabilised NOI, asset valuation and long-term competitiveness.

Property Improvement Plans and renovation capex have a major influence on acquisition pricing. A hotel should not be evaluated only on the headline acquisition price. At Juniper Hotels, the focus is on the total effective acquisition cost. This includes the land and building value, along with the initial capex required to bring the hotel up to brand and operational standards. In many hospitality acquisitions, PIPs can materially change the investment thesis because upgrades may be needed across rooms, public areas, MEP systems, F&B facilities and wellness infrastructure.

For this reason, renovation capex is incorporated upfront into the overall project cost, and returns are reassessed on the fully loaded number. The key question is not simply, "What is the acquisition price?" The more important question is, "What is the total cost required to stabilise and reposition the asset successfully?" This approach protects investors from underestimating the capital required after acquisition and gives a more accurate view of real return potential.





Management and franchise agreements also play a critical role in protecting long-term asset value. When acquiring hotels under existing management or franchise structures, we closely evaluate the performance test structure, management fee alignment, tenure of the agreement and exit provisions. A key priority is to ensure that management fees are linked to actual hotel performance rather than only topline revenue. This is important because the owner's interest lies not only in revenue growth, but in profitability and asset value creation.

The tenure and exit provisions of the contract must also be reviewed carefully. A management contract should provide sufficient operational stability, but it should not restrict the owner's ability to respond to changing market dynamics. Flexibility is important, especially where the asset may need to be repositioned in the future. We also evaluate whether the hotel can be rebranded within the same operator ecosystem, or whether there is flexibility to exit and completely rebrand the hotel if required.

Beyond the contract itself, active asset management is essential. At Juniper Hotels, the preference is towards strong owner participation and a hands-on operating approach. Transparency between owner and operator, regular performance review, clear accountability and alignment on profitability are necessary to ensure that the hotel continues to create value over the long term. A brand or operator can bring distribution, systems and customer recognition, but ownership discipline is what protects the investment.

My message to readers is that hospitality investment in India requires market-first thinking, careful underwriting and active ownership. The strongest hotel investments are not created by choosing a brand first and forcing the asset to fit around it. They are created by validating demand, controlling land and capex exposure, selecting the right brand for the right customer segment, underwriting the full effective acquisition cost and negotiating contracts that protect long-term owner value. In a market as dynamic as India, where demand patterns are evolving across corporate cities, leisure destinations, airport-led markets and mixed-use locations, disciplined asset management and contractual flexibility are just as important as capital. A hotel creates lasting value only when market opportunity, brand positioning, capital discipline, operator alignment and owner participation work together.





INTRODUCTION

Hospitality at the Crossroads of Growth, Wealth, and Opportunity

Hospitality has always been more than an industry. It reflects aspiration, mobility, and the human pursuit of experience. It grows when mobility increases, when commerce deepens, and when people seek experiences beyond necessity. In recent years, India has entered a phase where all three forces have converged with unusual strength.

Building on the findings from our previous report *Unlocking Hidden Value – Edition 2*, it has become increasingly evident that the Indian hospitality sector is not merely recovering. It is expanding structurally. Domestic travel has strengthened, corporate mobility has intensified, spiritual and leisure tourism have broadened their geographic footprint, and infrastructure expansion has reduced the distance between cities and demand corridors.

Over the last several years, India's macroeconomic trajectory has reflected sustained expansion. Real GDP growth has remained robust in recent years, with estimates from international institutions generally placing annual growth in the range of approximately 7–7.5 percent, reinforcing India's position among the fastest growing major economies. Economic growth at this scale does not remain abstract. It translates directly into higher income levels, stronger consumption, and deeper capital formation.

GDP per capita, which measures economic output per person, provides a clearer lens on rising prosperity. India's GDP per capita has recently crossed approximately USD 2,700 according to international macroeconomic estimates, reflecting continued upward income mobility and expansion of the consuming middle class. Over a longer horizon, GDP per capita has demonstrated steady long-term growth across multiple economic cycles.

These figures indicate structural income expansion rather than incremental improvement. They indicate sustained upward income migration. As GDP per capita expands, households progressively transition into higher income brackets. Discretionary spending capacity rises. Travel frequency increases. Corporate mobility intensifies. Leisure spending becomes more structured and aspirational. Weddings, events, and lifestyle driven travel expand in scale and budget. Hospitality demand deepens not only in metropolitan cities but also across secondary and emerging markets.

Simultaneously, rising income levels expand the pool of individuals and families with investable surplus capital. As per capita income increases, savings accumulation strengthens, financial participation broadens, and wealth compounds. This growth does not merely create consumers of hospitality. It creates potential owners of hospitality assets. The same macroeconomic forces that drive room demand also increase the number of people with the financial capacity to participate in hotel ownership, either independently or through structured partnerships.

Hotels sit precisely at this intersection of demand growth and capital growth. They represent a hybrid asset class that combines real estate fundamentals with operating leverage. A hotel is not a passive asset. It is a cash-generating enterprise embedded within appreciating land. It offers income yield through operations and value appreciation through asset positioning and brand alignment. In an environment of rising wealth and expanding travel, this dual characteristic becomes particularly attractive.



Yet despite favourable macroeconomic conditions, participation in hospitality ownership remains limited by uncertainty rather than opportunity. Many potential investors perceive hotels as complex or operationally opaque. Others lack a structured framework to evaluate acquisition, financing, risk management, and exit strategy. The barrier is rarely capital alone. It is clarity.

This report has been designed to address that gap. It translates the macroeconomic momentum of rising incomes and expanding GDP per capita into practical frameworks for participation in hospitality. It explains how to enter the sector responsibly, how to analyse and acquire a hotel asset, how to structure capital efficiently, how to operate with discipline, and how to plan for eventual exit. India's economic growth is increasing both travel demand and the number of people with the capacity to invest. This creates a strong and lasting opportunity in hospitality.

What most investors need is not capital alone, but clarity. Depending on their capital base, operating capability, risk appetite and time horizon, investors may enter hospitality by acquiring an existing hotel, developing a new asset, investing through a structured platform, financing a project, or preparing an asset for eventual sale. This report provides a practical framework for each of these routes.



India's Hotel Transaction Market: What Past Deals Reveal About Ownership, Capital and Entry Strategy

India's hotel transaction market provides an important reference point for stakeholders looking to enter hospitality ownership. Hotels are not transacted merely as land and buildings. They are operating assets where location, brand affiliation, room inventory, trading performance, capital expenditure requirement, legal structure, debt position and repositioning potential all influence value.

A review of select disclosed hotel transactions in India shows that the ownership market has evolved from individual asset sales into a broader capital market involving institutional investors, hotel companies, developers, high net worth individuals, corporates and stressed-asset buyers. The transaction database reviewed for this report covers approximately **125 historical hotel transactions**, nearly **37,847 keys** and around **INR 36,564 crore** of reported transaction value. The implied average value across this historical dataset is approximately **INR 0.97 crore** per key, although this varies materially depending on segment, location, brand status, physical condition, deal structure and income profile.

More recent transaction activity from 2019 onwards shows that hotel investment in India is no longer limited to straightforward operating hotel purchases. The market has included **100 percent stake sales, portfolio acquisitions, NCLT-led resolutions, under-construction assets, brownfield developments, land-linked hotel transactions and partial stake acquisitions**. This is important for new entrants because the route into hotel ownership is now wider. Investors may enter by buying an operating hotel, acquiring a distressed asset, participating in a partially completed project, investing in a hotel platform, acquiring a minority or majority stake, or underwriting a land-linked hospitality development opportunity.





CONSOLIDATED TRANSACTION SNAPSHOT

Indicator	Market Reading
Historical transactions reviewed	Approx. 125
Historical keys transacted	Approx. 37,847
Historical reported transaction value	Approx. INR 36,564 crore
Implied average value per key	Approx. INR 0.97 crore
Post-2019 transaction formats observed	Operating hotel sales, portfolios, NCLT deals, brownfield assets, land-linked deals and partial stakes
Largest value concentration	Luxury assets, pan-India portfolios and prime urban markets
Most visible buyer groups	Institutional investors, hotel companies, developers, HNIs and corporates

Source: NOESIS Internal Data base

The transaction data shows that hotel value in India is concentrated around three broad themes. The first is **luxury and upper-end hospitality**, where scarcity, brand strength, location quality and long-term asset value drive pricing. The second is **portfolio and platform-led ownership**, where investors acquire scale instead of a single asset. The third is **repositioning-led investment**, where buyers look for assets that can be improved through renovation, brand conversion, stronger management, refinancing, completion of stalled development or better asset management.



SEGMENT-LEVEL TRANSACTION BEHAVIOUR

Segment	No. of Transactions	Keys Transacted	Reported Value	Implied Value per Key
Luxury	29	13,155	INR 22,033 crore	INR 1.68 crore
Upper Upscale	8	1,548	INR 1,474 crore	INR 0.95 crore
Upscale	28	6,216	INR 5,348 crore	INR 0.86 crore
Midscale	8	1,519	INR 785 crore	INR 0.52 crore
Budget	48	14,903	INR 5,639 crore	INR 0.38 crore

Note: The segment-level table excludes four transactions where segment classification was not available.

The luxury segment accounts for the highest reported transaction value despite having fewer transactions than the midscale segment. This reflects the premium attached to prime locations, scarcity of institutional-grade assets, established brand positioning and long-term ownership value. Midscale hotels, on the other hand, account for a larger number of transactions and a higher number of keys, indicating their relevance for scale-led investors, value-focused buyers and branded conversion strategies.

For new investors, this distinction matters. Luxury hotels may offer prestige, scarcity and long-term capital value, but they usually require higher acquisition capital and deeper asset management capability. Midscale and upscale hotels may offer broader acquisition opportunity, stronger scalability and better relevance for platform-led growth, especially in markets supported by corporate, industrial, airport, pilgrimage, highway or leisure demand.





BUYER UNIVERSE AND CAPITAL BEHAVIOUR

Buyer Type	No. of Transactions	Keys Transacted	Reported Value
Institutional investors	24	20,618	INR 21,812 crore
Hotel operators / hotel companies	47	8,380	INR 6,631 crore
Developers / property companies	32	5,095	INR 3,979 crore
High net worth individuals	12	1,914	INR 2,061 crore
Corporates	7	1,434	INR 1,547 crore

Note: The segment-level table excludes three transactions where segment classification was not available

The buyer profile confirms that hotel ownership is no longer restricted to traditional hotel-owning families or operating companies. Institutional investors have been active in large-value and portfolio transactions. Hotel companies have used acquisitions to expand market presence and operating platforms. Developers and real estate groups have entered hospitality through land-linked opportunities, distressed assets, mixed-use developments and brownfield projects. HNIs and corporates have remained active in asset-specific opportunities where location, land value or turnaround potential is visible.

This means that the same hotel may appeal to different buyers for different reasons. An institutional investor may value scale, governance and exit visibility. A hotel company may value brand presence and market access. A developer may value land, FSI, mixed-use potential and repositioning. An HNI may value asset ownership, income yield and long-term appreciation. Therefore, hotel valuation cannot be understood only through price per key. It must be understood through the strategic intent of the buyer.



MARKET CONCENTRATION AND LOCATION SIGNALS

Market / Region	No. of Transactions	Keys Transacted	Reported Value
Pan-India portfolios	10	17,259	INR 15,095 crore
Bengaluru	14	2,878	INR 3,722 crore
NCR	16	3,217	INR 3,506 crore
Mumbai	11	3,427	INR 3,223 crore
Chennai	9	2,068	INR 2,750 crore
Goa	6	1,003	INR 2,011 crore

Note: This table reflects selected high-concentration markets and does not represent the full transaction universe.

Transaction concentration is strongest in large commercial hubs, high-value leisure destinations and multi-city portfolios. Bengaluru, NCR, Mumbai and Chennai reflect the importance of corporate demand, aviation access, commercial activity and branded room-night consumption. Goa reflects the value of leisure positioning, destination scarcity and higher guest willingness to pay. Pan-India portfolios account for the largest value concentration, showing that scale itself can become an investible proposition.

Recent transaction activity reinforces this pattern. Large portfolio transactions such as the Leela portfolio, Keys Hotels and the Duet portfolio demonstrate investor appetite for scale. NCLT-linked transactions involving assets such as Trident Hyderabad, Renaissance Bengaluru Race Course Hotel, The Chedi Mumbai and Viceroy Hotels Hyderabad show that stressed ownership situations can bring sizeable hotel assets into the market. Under-construction and brownfield transactions across Delhi, Mumbai, Goa, Noida, Gujarat, Nashik and Jaipur show that investors are also entering through development-stage and repositioning opportunities.



HOTEL ENTRY ROUTES AND INVESTOR FOCUS

Entry Route	What It Means	Key Investor Focus
Operating hotel acquisition	Purchase of an existing running hotel	Trading performance, contracts, brand status, capex and income visibility
Portfolio acquisition	Purchase of multiple hotels or a hotel platform	Scale, diversification, governance, operating platform and exit potential
NCLT / distressed acquisition	Acquisition through insolvency or lender-led process	Legal title, claims, liabilities, restart risk and price discipline
Brownfield / under-construction acquisition	Purchase of an incomplete or repositionable hotel asset	Completion cost, approvals, capex, timeline and stabilisation risk
Partial stake transaction	Acquisition of minority, majority or JV interest	Governance, control rights, funding obligations and exit rights
Land-linked hotel transaction	Acquisition linked to future hotel development potential	Feasibility, residual land value, approvals and development economics

This variety of transaction routes is a critical learning for stakeholders. Buying a hotel does not always mean acquiring a fully operational and stabilised asset. Some investors enter through operating hotels with visible cash flow. Others enter through distressed assets where pricing may be attractive but legal and operational risks are higher. Some enter through under-construction or brownfield assets where development discipline becomes more important than historical operating performance. Others enter through partial stakes where governance and control become as important as valuation.



What the Transaction Data Teaches New Investors

The first lesson is that **price per key is useful, but not sufficient**. A low value per key does not automatically mean that the asset is attractive. The buyer must examine renovation requirements, brand compliance obligations, debt position, operating performance, title clarity and future capex. Similarly, a high value per key may be justified if the asset has a superior location, strong brand, stable income, land value or repositioning potential.

The second lesson is that **segment strategy determines capital requirement and risk profile**. Luxury hotels command higher values because they combine brand strength, scarcity and long-term asset value. Midscale and upscale assets may offer stronger scalability where demand is deep and the asset can be improved through brand conversion, operational discipline or revenue management.

The third lesson is that **portfolio scale attracts institutional capital**. Large-value hotel transactions are often linked to platforms rather than individual assets. Investors are willing to pay for scale when it provides diversified market exposure, professional governance, operating systems, brand alignment and clearer exit potential.

The fourth lesson is that **distress creates opportunity only for prepared buyers**. NCLT and lender-led transactions may offer attractive entry points, but they require deeper diligence. Buyers must evaluate title, pending claims, statutory dues, employee liabilities, brand continuity, physical condition, restart cost and litigation risk before committing capital.

The fifth lesson is that **under-construction and brownfield deals require development discipline**. In such cases, the investor is not only buying a hotel asset, but also assuming completion





risk, approval risk, cost escalation risk and opening risk. The relevant questions are different from those in an operating hotel acquisition. The buyer must assess whether the remaining cost to complete, opening timeline and future stabilised performance justify the entry price.

The sixth lesson is that **partial stake transactions are about control as much as valuation**. Minority or joint ownership positions require clarity on voting rights, reserved matters, future funding obligations, exit mechanisms, related-party arrangements and dilution protection. Without governance clarity, a financially attractive stake can become difficult to manage.

The seventh lesson is that **brand affiliation and repositioning can materially influence value**. Several hotel acquisitions are not only about acquiring an existing building. They are about upgrading the asset, changing the brand, improving distribution, introducing stronger operating systems and increasing revenue productivity.

The eighth lesson is that **financing discipline is central to investment success**. A hotel may have strong demand and operating potential, but if the acquisition price, debt cost or capex assumptions are misaligned with sustainable cash flow, the investment can become stressed. This makes conservative underwriting essential before capital is committed.

For stakeholders entering hospitality, transaction data should be treated as a decision-support tool, not as a valuation shortcut. It helps investors understand market behaviour, buyer appetite, segment premiums, capital movement and deal structures. However, every hotel must still be evaluated individually through its income, market position, physical condition, contractual obligations, legal status, capex requirement and financing capacity.

This is where the acquisition process begins. Once an investor understands how hotels have been bought, sold, restructured, financed and repositioned in the Indian market, the next step is to examine how an individual hotel should be evaluated before acquisition. Chapter 1 therefore sets out a structured framework for acquiring an existing hotel, beginning with the acquisition mandate, return expectations and investment discipline required before any asset is seriously pursued. The transition aligns with the report's existing purpose of giving stakeholders practical clarity on how to enter hospitality responsibly.



CHAPTER 1

Acquiring an Existing Hotel:
A Structured Step by Step
Analytical Framework



Acquiring an existing hotel is one of the most practical routes into hospitality ownership. The investor enters a live operating business with established revenue streams, historical financial records, trained staff, supplier relationships, and a defined market position. The asset is already trading, which allows performance to be measured through real data rather than projections alone. This immediate visibility into operations provides a strong analytical foundation for decision making.

However, an operating hotel remains a complex asset. The investor is purchasing a business that generates revenue daily through occupancy and pricing decisions, while simultaneously managing fixed costs, labour intensity, maintenance requirements, and contractual commitments. The acquisition therefore requires careful evaluation across financial performance, market positioning, capital expenditure needs, legal structure, and financing feasibility.

Historical performance forms the starting point of analysis. Past occupancy trends, ADR levels, RevPAR movement, and revenue mix provide insight into demand strength and pricing discipline. Multi-year profit and loss statements reveal cost control patterns, departmental margins, and overall operating efficiency. These records help determine whether performance reflects stable demand or temporary conditions.

Market context must be examined alongside internal financials. Competitive supply, pipeline developments, demand drivers, infrastructure growth, and seasonality patterns influence the sustainability of income. A hotel operating at strong occupancy in a constrained supply market may demonstrate durable earnings. A hotel performing well in an oversupplied market may face future pricing pressure.

Physical condition directly affects acquisition economics too, due to factors such as building systems, guest room quality, back of house infrastructure, and brand compliance requirements. These factors determine whether immediate capital expenditure is necessary and whether renovation obligations must be incorporated into effective acquisition cost to preserve financial accuracy.

Contractual structure also shapes long term economics. Existing management agreements, franchise contracts, lease arrangements, and employee liabilities transfer to the new owner unless renegotiated. Fee structures, termination rights, performance tests, and capital expenditure mandates influence future profitability.



Financing structure influences both return and risk exposure. Debt capacity depends on Net Operating Income stability and lender coverage requirements. Leverage amplifies equity returns but increases vulnerability to occupancy or rate fluctuations. Sensitivity analysis is required to test how changes in ADR or occupancy affect debt service coverage and investor yield.

A structured acquisition framework organises these evaluations into sequential stages. It begins with defining return criteria, proceeds through asset screening and operating analysis, advances into valuation modelling and capital planning, and concludes with detailed due diligence and stress testing. Each stage addresses a specific risk category and builds toward a defensible investment decision.

The objective of this framework is clarity. When acquisition is approached through measurable financial logic and disciplined review, the decision becomes grounded in earning capacity, capital efficiency, and risk management rather than intuition or market enthusiasm.





STEP 1:

Define the Acquisition Mandate and Required Return

The acquisition process must begin with a clearly defined mandate. This mandate establishes the boundaries within which all subsequent decisions are made and ensures that asset evaluation remains disciplined and consistent. At this stage, the investor defines the geographic focus, preferred hotel category, indicative room count range, expected holding period, and the intended level of involvement in operations.

Equally important at this stage is the establishment of financial return expectations. These expectations must be articulated before reviewing individual assets so that pricing, leverage, and risk assessment remain objective rather than deal driven.

For investors seeking annual income generation, the primary reference metric is **Yield**. Yield measures the relationship between the income produced by the hotel and the price paid to acquire it. It is calculated as:

$$\text{Yield} = \text{Net Operating Income} \div \text{Purchase Price}$$

Yield expresses the return generated annually by the asset on an unlevered basis. Higher yields indicate higher income relative to price, but often reflect higher perceived risk, weaker market positioning, or operational volatility. Lower yields typically correspond to assets in stronger locations with more stable income profiles. In practice, stabilized hotels in strong urban markets often trade at lower yields, while assets in secondary markets or with higher operational risk require higher yields to attract investor interest. The investor must define a minimum acceptable yield threshold at this stage, as it directly governs acquisition pricing discipline.





Net Operating Income, commonly referred to as NOI, represents the annual operating profit generated by the hotel after deducting operating expenses and fixed ownership costs, but before accounting for financing costs and taxes. NOI reflects the stabilized earning capacity of the hotel's operations before financing structure and tax treatment are applied, and forms the basis for valuation, debt capacity assessment, and income analysis.

NOI = Total Operating Revenue – Operating Expenses (before financing costs, taxes, depreciation, and amortization)

Where the investment objective extends beyond income generation to include long term value creation, the investor must evaluate performance through **Internal Rate of Return (IRR)**. IRR measures the compounded annual return generated over the full holding period of the investment, incorporating both periodic operating cash flows and exit value at sale. It captures not only how much cash is generated, but also when it is generated.

IRR is derived from the Net Present Value equation:

NPV = Σ [Cash Flow in Year t \div (1 + r)^t] – Initial Investment



Where r represents the discount rate. The IRR is the value of r at which NPV equals zero. A higher IRR indicates stronger overall return performance, but it may also imply higher execution risk, reliance on future improvements, or sensitivity to exit assumptions. Investors typically establish a target IRR range that reflects their risk tolerance and capital cost, using this benchmark to determine whether an acquisition compensates adequately for uncertainty.

When leverage is contemplated, two additional financial measures become relevant to the acquisition mandate. **Cash on Cash** Return measures the annual cash flow available to equity investors after servicing debt, relative to the equity invested. It reflects near-term income efficiency of equity capital and is calculated as:

$$\text{Cash on Cash Return} = \frac{\text{Cash Flow After Debt Service}}{\text{Equity Invested}}$$

This metric is particularly important for income-oriented investors and provides a practical comparison with alternative income producing assets.

The second measure is the **Debt Service Coverage Ratio (DSCR)**, which evaluates the safety of the capital structure. DSCR is calculated as:

$$\text{DSCR} = \frac{\text{NOI}}{\text{Annual Debt Service}}$$

DSCR indicates how comfortably the hotel's operating income covers its loan obligations. Higher DSCR levels imply greater resilience to fluctuations in occupancy or pricing. Investors typically establish a minimum DSCR threshold at this stage to ensure that leverage does not compromise financial stability.

By the conclusion of Step 1, the acquisition mandate should clearly define acceptable yield levels, target IRR range, minimum cash on cash return, leverage tolerance, and minimum DSCR comfort level. These benchmarks form the analytical framework against which every potential acquisition is assessed and ensure that subsequent decisions remain aligned with the investor's strategic and financial objectives.

STEP 2:**Source Opportunities and Assemble the Acquisition Team**

With mandate clarity established, opportunity sourcing begins. Hotels are typically identified through brokerage networks, direct owner outreach, structured mandates, asset managers, and industry consultants. These advisors assist with business transfer, contractual obligations, regulatory compliance, and capital structure design. The quality of the advisory team directly influences risk containment and pricing discipline.

The following specialists are typically required and serve distinct functions:**Hotel
Investment Broker**

Required for sourcing off-market and marketed opportunities, facilitating negotiations, providing transaction comparables, guiding pricing expectations, and managing seller communication. Brokers also assist in aligning buyer positioning with seller motivation.

**Market and
Feasibility Consultant**

Required to analyse demand drivers, supply pipeline, competitive set positioning, RevPAR trends, and long-term market sustainability. This advisor validates whether projected occupancy and ADR growth assumptions are realistic within the broader market context.

**Financial Advisor /
Hospitality Analyst**

Required to build financial models, normalize earnings, stress test assumptions, calculate IRR and yield sensitivity, and evaluate capital expenditure integration. This role ensures valuation discipline and protects against overpayment.



**Chartered Accountant /
Tax Advisor**

Required to examine historical financial statements, identify tax exposures, evaluate working capital adjustments, structure acquisition tax efficiently, and assess accounting treatments that may distort stabilized NOI.



**Hotel-Specialized
Legal Counsel**

Required to review title documentation, management agreements, franchise contracts, employee obligations, regulatory licenses, zoning compliance, and contractual transferability. Hotel legal structuring differs materially from conventional property transactions due to operating business components.



**Engineering Consultant /
Technical Auditor**

Required to inspect structural systems, HVAC, plumbing, elevators, fire compliance, and deferred maintenance exposure. This specialist quantifies capital expenditure obligations and validates renovation cost assumptions.



**Environmental
Consultant**

Required to conduct environmental assessments, including Phase I evaluation where necessary, to identify contamination risk, hazardous materials exposure, and regulatory liabilities that may transfer with ownership.

**Debt Advisor /
Banking Partner**

Required to assess debt capacity, structure leverage, negotiate loan terms, evaluate covenant risk, and confirm DSCR sustainability under conservative performance scenarios.

**Asset Management
Advisor (where applicable)**

Required to evaluate management performance, contract flexibility, operator alignment, and post-acquisition value enhancement strategy.

Once the acquisition team has been assembled and roles clearly defined, the process advances into structured preliminary screening. At this stage, the objective is to determine whether the asset merits deeper financial and technical analysis. Screening must be disciplined, consistent, and aligned with the acquisition mandate defined in Step 1.

The first analytical lens remains location quality and demand durability. The investor must assess whether the hotel is positioned within a market supported by recurring demand drivers such as corporate activity, industrial concentration, tourism corridors, transport infrastructure, or institutional presence. Demand should demonstrate depth and continuity rather than dependence on sporadic events. Location strength forms the structural foundation upon which all future performance depends.

The second screening metric is Price per Key.

$$\text{Price per Key} = \text{Purchase Price} \div \text{Number of Rooms}$$



Price per Key enables rapid comparison with similar assets within the same market and category. If the pricing materially exceeds prevailing market benchmarks, the premium must be supported by corresponding strength in positioning, scale, or brand association. If pricing appears materially below market norms, the differential may indicate physical obsolescence, operating underperformance, or asset-specific constraints. While Price per Key is not a valuation tool, it serves as an efficient comparative indicator during early-stage filtering.

At this stage, the investor should review summary historical financial statements covering multiple years to confirm revenue scale and margin stability. The objective is to verify that the asset operates at a level broadly consistent with its category and market positioning. Significant irregularities or structural inconsistencies at this level warrant caution before proceeding.

Screening should also confirm that the asset aligns with the defined room count range, category preference, and geographic strategy established in Step 1. Assets falling materially outside mandate parameters introduce strategic drift and increase analytical inefficiency.



**STEP 3:****Detailed Operating Performance Analysis**

Once an asset has passed preliminary screening, the acquisition process advances into structured operating analysis. At this stage, the investor must evaluate how the hotel generates revenue, how efficiently that revenue converts into profit, and whether earnings are sustainable across business cycles.

The analysis begins with review of multi-year financial statements, typically covering at least three to five years. The objective is to identify trends rather than isolated performance. Revenue should be examined across its principal components, namely Rooms Revenue, Food and Beverage Revenue, and Other Operating Income. A balanced revenue mix generally indicates diversified demand exposure, while heavy dependence on a single segment increases volatility risk.

The first operating metric to evaluate is Occupancy.

$$\text{Occupancy} = \text{Rooms Sold} \div \text{Rooms Available}$$

Occupancy measures demand absorption. A consistently high occupancy level suggests strong demand relative to available supply. However, high occupancy achieved through discounting may mask weak pricing power. A declining occupancy trend may indicate increasing competition or weakening demand fundamentals. Therefore, occupancy must always be interpreted alongside rate performance.

Average Daily Rate measures realized pricing.

$$\text{ADR} = \text{Rooms Revenue} \div \text{Rooms Sold}$$

ADR reflects the hotel's ability to command price within its market. Rising ADR indicates pricing discipline and brand positioning strength. Stagnant or declining ADR, particularly in a stable or growing market, suggests competitive pressure or weak revenue management execution.



Revenue per Available Room integrates both occupancy and pricing.

$$\text{RevPAR} = \text{Occupancy} \times \text{ADR}$$

or

$$\text{RevPAR} = \text{Rooms Revenue} \div \text{Rooms Available}$$

RevPAR reflects the hotel's overall revenue productivity and indicates how effectively occupancy and pricing are converted into room revenue. Sustained RevPAR growth demonstrates effective demand capture and pricing optimization. If RevPAR growth materially lags market averages, the asset may be losing competitive share.

Operating efficiency must then be evaluated through Gross Operating Profit.

$$\text{GOP} = \text{Total Revenue} - \text{Departmental and Undistributed Operating Expenses}$$

$$\text{GOP Margin} = \text{GOP} \div \text{Total Revenue}$$

GOP Margin measures cost control discipline. A stable or improving margin indicates efficient expense management relative to revenue growth. Margin compression, even in stable revenue conditions, may signal labour inefficiency or procurement challenges.

Operating income must then be normalized to remove non-recurring items and reflect sustainable earning capacity. The resulting Stabilized NOI becomes the foundation for valuation modelling in subsequent stages.



Performance Driver	Formula	Key Investor Focus
Occupancy	$\text{Rooms Sold} \div \text{Rooms Available}$	Demand absorption
Average Daily Rate (ADR)	$\text{Rooms Revenue} \div \text{Rooms Sold}$	Pricing power
Revenue per Available Room (RevPAR)	$\text{ADR} \times \text{Occupancy}$	Revenue productivity
Gross Operating Profit (GOP)	$\text{Total Revenue} - \text{Operating Expenses}$	Operating efficiency
Net Operating Income (NOI)	$\text{GOP} - \text{Fixed Costs}$	Asset earning capacity



STEP 4:

Competitive Positioning and Market Benchmarking

Once internal operating performance has been validated, the investor must evaluate the hotel within its external competitive environment.

The first task is to define the competitive set which consists of comparable hotels in the same geographic area and similar category positioning. This comparison enables objective performance benchmarking.

Three primary index metrics must be analysed.

OCCUPANCY INDEX

$$\text{Occupancy Index} = \text{Hotel Occupancy} \div \text{Market Occupancy}$$

This index measures the hotel's ability to capture demand relative to its fair share. An index above 1.00 indicates that the property is outperforming the market in demand capture. An index below 1.00 suggests underperformance or competitive displacement.





REVPAR INDEX OR MARKET PENETRATION INDEX

$$\text{RevPAR Index} = \text{Hotel RevPAR} \div \text{Market RevPAR}$$

This is the most comprehensive measure of competitive performance. Sustained outperformance above 1.00 suggests strategic positioning strength. Persistent underperformance requires deeper investigation into management quality, brand alignment, or physical condition.

In addition to benchmarking, the investor must analyse supply pipeline data. The introduction of new hotel inventory increases available room supply and may dilute occupancy levels across the market. Markets with high supply growth relative to demand growth face pricing pressure and margin compression.

Demand drivers must also be examined. Corporate hubs, industrial corridors, tourism infrastructure, airport expansion, religious circuits, and convention centers all influence future demand depth. Durable demand drivers support long-term stability. Event-based or episodic demand introduces volatility.

By the end of this stage, the investor should be able to determine whether the hotel's performance is driven by internal excellence or temporary market advantage.

**STEP 5:**

Evaluate Capital Expenditure Requirements and Physical Asset Integrity

Once competitive positioning and market strength have been validated, the acquisition process must turn to the physical reality of the asset. Now, the investor must move beyond income statements and examine the building itself. The purpose of this step is to determine whether the hotel's current earnings are supported by a sound physical asset, or whether deferred maintenance and upcoming renovation obligations will materially alter acquisition economics.

The first requirement is a structured engineering and technical review. The investor must commission inspections that evaluate structural condition, mechanical systems, plumbing, electrical infrastructure, elevators, fire and life safety compliance, roofing, waterproofing, and back-of-house facilities.

Capital expenditure, commonly referred to as Capex, represents the funds required to maintain or improve the physical asset. Capex must be categorized clearly to preserve financial accuracy.

Routine Replacement Capex refers to recurring expenditures required to maintain operating standards. This includes furniture, fixtures, equipment, soft furnishings, carpets, mattresses, and in-room technology upgrades. These items deteriorate through regular guest usage and must be replaced on defined cycles.

Major Systems Capex refers to large-scale infrastructure replacements such as chillers, boilers, elevators, generators, electrical panels, and roofing systems. These components have longer life cycles but carry significant replacement cost when due.

Repositioning Capex refers to investment undertaken to improve market positioning. This may include room redesign, lobby renovation, restaurant reconfiguration, spa upgrades, façade improvement, or amenity expansion.



The investor must also account for brand-driven capital obligations where applicable. If the hotel operates under a franchise or management agreement, a Property Improvement Plan may be mandated to maintain brand compliance. A PIP is not discretionary, it is often required upon acquisition or renewal of a franchise agreement. The costs associated with a PIP must be quantified in advance and incorporated into effective acquisition cost rather than treated as future discretionary spending.

The concept of Effective Acquisition Cost becomes critical at this stage. If deferred maintenance or mandatory renovations are required shortly after closing, the investor must reduce the offer price accordingly to preserve yield and IRR discipline.

Effective Acquisition Cost = Purchase Price + Immediate Capex Obligations

In addition to immediate capital obligations, ongoing capital provisioning must be incorporated into forward projections. Hotels typically maintain a Reserve for Replacement to account for recurring asset reinvestment.

Reserve for Replacement = Percentage of Total Revenue

This percentage generally ranges between 3 percent and 5 percent depending on asset category and positioning. Failure to account for this reserve artificially inflates projected Net Operating Income and compresses realistic return expectations.

The investor must also evaluate timing. Capital expenditure scheduled during the early holding period affects cash flow stability and may temporarily reduce DSCR if leverage is present. Capex scheduling therefore directly interacts with financing strategy.



STEP 6:

Valuation Modelling and Determination of the Maximum Defensible Purchase Price

The purpose of this step is to determine the maximum purchase price that preserves return thresholds, protects downside risk, and reflects the true earning capacity of the asset.

Valuation in hotel acquisition must always be forward looking. Historical performance provides context, but the investor is purchasing future cash flows. Therefore, pricing discipline must be anchored in projected stabilized income rather than past peak years.

The primary valuation framework at this stage is the Discounted Cash Flow method.

Under a DCF approach, the investor prepares a multi-year projection, typically over a ten-year holding period. The model incorporates projected revenue growth, operating margins, capital expenditure schedules, reserve for replacement allocations, debt service assumptions if applicable, and a terminal exit value at the end of the holding period.

The projected annual cash flows are then discounted to present value using the target Internal Rate of Return established in Step 1.





The governing equation is:

$$\text{NPV} = \sum [\text{Cash Flow in Year } t \div (1 + r)^t] - \text{Initial Investment}$$

Where r represents the required rate of return. The Internal Rate of Return is the value of r at which Net Present Value equals zero.

The maximum defensible purchase price is the amount at which projected cash flows generate the target IRR. If the seller's asking price results in an IRR below the investor's required threshold, the transaction does not satisfy the acquisition mandate.

In addition to DCF modelling, investors frequently reference the Capitalisation Rate method for cross-verification.

$$\text{Capitalisation Rate} = \text{Stabilized NOI} \div \text{Purchase Price}$$

Rearranged:

$$\text{Value} = \text{Stabilized NOI} \div \text{Cap Rate}$$

The capitalisation rate reflects market risk perception. Lower cap rates are typically associated with prime urban assets in stable markets. Higher cap rates reflect secondary markets, higher volatility, or weaker positioning.

However, cap rate valuation must be applied cautiously. It assumes stabilized income and does not capture growth variability or capital expenditure timing. For this reason, cap rate analysis serves as a secondary validation tool rather than a primary decision framework.

At this stage, the investor must ensure that valuation modelling incorporates all previously identified adjustments, immediate renovation requirements, property Improvement Plan obligations, transaction costs, stamp duties, financing fees, and working capital injections must be deducted from available equity. Failure to incorporate these items leads to overstated IRR and mispriced offers.

Sensitivity analysis must also be integrated into valuation. The investor should test scenarios involving moderate ADR decline, occupancy compression, slower revenue growth, or increased operating costs. If minor performance deviations materially reduce IRR below acceptable levels, the acquisition pricing lacks adequate margin of safety.

The concept of Margin of Safety becomes central in Step 6. The purchase price must allow sufficient buffer so that moderate downside scenarios do not erode target returns or compromise debt coverage.

By the end of this stage, the investor should have clarity on three fundamental conclusions: First, the precise maximum price that preserves yield, IRR, and DSCR discipline under base case assumptions.





Second, the extent to which returns remain acceptable under conservative stress scenarios.

Third, whether the asset offers value creation potential through repositioning, operational improvement, or revenue optimization that justifies the risk profile.

Step 6 represents the financial gatekeeper of the acquisition process. It transforms performance analysis into capital allocation discipline. A hotel should only advance beyond this stage if its price is supported by sustainable earnings, realistic growth assumptions, and conservative risk modelling.

Method	Formula	Use Case
Discounted Cash Flow	Present value of projected cash flows	Primary valuation framework
Capitalisation Rate	Value = Stabilized NOI ÷ Cap Rate	Market benchmarking
Price per Key	Purchase Price ÷ Number of Rooms	Early-stage comparison
Replacement Cost	Development cost per room	Downside valuation reference



STEP 7:

Structure the Transaction and Formalize Commercial Terms

Once the maximum defensible purchase price has been determined and validated through sensitivity analysis, the acquisition process transitions from financial modelling to transaction structuring. At this stage, the investor must translate valuation discipline into legally enforceable commercial terms.

The first formal step is submission of a Letter of Intent. The LOI outlines the proposed purchase price, indicative financing structure, due diligence period, deposit terms, and major conditions precedent to closing. Although typically non-binding, the LOI establishes negotiation boundaries and prevents misalignment as definitive agreements are drafted.

Following acceptance of the LOI, the investor must focus on structuring the transaction correctly. A hotel acquisition can be structured either as an asset purchase or as a share purchase.

In an asset purchase, the investor acquires the property and defined operating assets while excluding historical liabilities not expressly assumed. This structure offers greater protection from legacy risk but may require transfer or reissuance of licenses and contracts.

In a share purchase, the investor acquires ownership of the legal entity that owns the hotel. This preserves continuity of contracts, permits, and operational relationships, but may also transfer historical liabilities embedded in the entity. The choice between structures must consider tax efficiency, regulatory implications, lender requirements, and risk exposure.





At this stage, several core commercial provisions must be negotiated and clearly defined such as purchase price adjustments, which must account for working capital, prepaid expenses, deposits, and inventory levels at closing. The investor must ensure that sufficient operating cash remains within the business to sustain uninterrupted operations.

Financing contingencies must be included if debt is required to complete the transaction. The agreement should provide termination rights if acceptable financing cannot be secured within the agreed timeframe. Representations and warranties form a critical protective layer. The seller must represent the accuracy of financial statements, absence of undisclosed liabilities, validity of licenses, compliance with regulations, and absence of material litigation. These representations provide recourse if post-closing discoveries contradict disclosed information.

Indemnification provisions define how losses arising from pre-closing events will be compensated. Escrow arrangements may be negotiated to secure potential claims. If the hotel operates under a management or franchise agreement, the treatment of these contracts must be explicitly addressed. The agreement should clarify whether contracts are assigned, terminated, renegotiated, or extended. The investor must confirm termination rights, notice periods, and potential break costs before committing to closing.



“No shop” provisions may be included to prevent the seller from negotiating with alternative buyers during the exclusivity period. This protects the investor’s time, advisory costs, and due diligence expenditure.

Proration clauses allocate revenues and expenses between buyer and seller as of the closing date. Items such as room revenue, payroll, utilities, property taxes, and advance bookings must be apportioned accurately to avoid post-closing disputes.

In addition, the agreement must define precisely what is included in the sale. A hotel asset typically consists not only of land and building, but also of furniture, fixtures, equipment, operating inventories, licenses, permits, guest reservations, security deposits, intellectual property rights where applicable, and other business assets necessary for uninterrupted operations.



At this stage, clarity of scope becomes as important as clarity of price. An acquisition that fails to capture essential operating components may result in operational disruption immediately after closing.

The purpose of Step 7 is alignment. The financial conclusions reached in valuation must now be reflected in contractual language. Risk must be allocated consciously rather than assumed implicitly. Economic intent must be enforceable through legal structure.

STEP 8:**Conduct Comprehensive Due Diligence and Risk Verification**

Once the commercial framework has been agreed in principle and the transaction structure has been defined, the acquisition process enters its most investigative phase. Due diligence is the structured verification exercise through which the investor tests every financial, legal, operational, and physical assumption that underpins the investment case.

The first component is Financial Due Diligence:

The investor must conduct a forensic review of historical profit and loss statements, balance sheets, tax returns, payroll records, and capital expenditure schedules covering at least three to five years. The purpose is to validate revenue integrity, confirm expense accuracy, and identify any accounting treatments that may distort stabilized Net Operating Income.

Revenue testing involves verifying that reported Rooms Revenue, Food and Beverage Revenue, and ancillary income correspond to actual booking data and bank receipts. Expense testing requires detailed examination of payroll allocation, management fees, procurement contracts, marketing contributions, and utility costs. Any inconsistencies between reported earnings and underlying operational data must be investigated.





Working capital must also be verified. Current assets such as accounts receivable, prepaid expenses, and operating inventories must be reviewed for quality and collectability. At the same time, outstanding payables, accrued liabilities, statutory dues, and vendor balances must be reconciled. A hotel with hidden payables or pending tax obligations may materially reduce effective acquisition value.

The second component is Legal Due Diligence.

The investor must confirm clear and marketable title to land and building. Encumbrances, mortgages, easements, boundary disputes, or third-party claims must be identified and resolved prior to closing. Zoning compliance, land use permissions, occupancy certificates, and environmental approvals must be valid and transferable.

Operational licenses, including food and beverage permits, liquor licenses, fire safety certifications, and local regulatory approvals, must be verified. These approvals are essential for uninterrupted operation and revenue continuity.

All material contracts must be reviewed carefully. This includes Hotel Management Agreements, Franchise Agreements, lease arrangements, vendor contracts, and employee agreements. Fee structures, termination clauses, performance tests, renewal rights, and change-of-control provisions directly influence long-term profitability and exit flexibility. A restrictive long-term management agreement with limited termination rights can reduce asset liquidity and compress exit valuation.

The third component is Physical and Environmental Due Diligence.

An engineering inspection must confirm the physical condition assumptions made during Step 5. Structural integrity, mechanical systems, elevators, HVAC, plumbing, electrical infrastructure, roofing, and back-of-house facilities must be evaluated in detail. Deferred maintenance not previously identified must be quantified and translated into capital cost implications.

Environmental review, often conducted through a Phase I Environmental Assessment, identifies contamination risks, hazardous materials exposure, and regulatory compliance issues. Environmental liabilities can extend beyond current ownership and therefore require careful examination.



The fourth component is Operational Due Diligence.

The investor must examine booking pace reports, group contracts, corporate agreements, distribution channel mix, and revenue management systems. Forward booking data provides insight into near-term revenue visibility. Guest satisfaction scores, online reputation metrics, and staff turnover rates offer additional qualitative indicators of operational health.

At this stage, the investor must also confirm the continuity of key personnel and management depth. Hotels are people-intensive businesses, and sudden leadership disruption can impact revenue momentum.

The outcome of Step 8 must be a quantified risk profile. Each identified issue should result in one of four actions:

- Price adjustment
- Escrow or holdback
- Contractual indemnity
- Transaction termination

Due diligence is designed to ensure that all risks are understood, priced appropriately, and legally protected before capital is deployed.

Risk Type	Typical Issue	Resolution Method
Financial	Misstated income or expenses	Price adjustment
Legal	Title defect or regulatory gap	Contractual indemnity
Operational	Weak management or declining performance	Escrow holdback
Environmental	Contamination or regulatory exposure	Transaction termination



STEP 9:

Finalise Financing Structure and Secure Capital

Once due diligence has confirmed the asset's financial integrity, legal standing, and physical condition, the acquisition process advances into capital structuring. At this stage, the investor must convert the validated investment case into an executable financing framework.

The first step is to determine the appropriate leverage level.

Loan to Value Ratio measures the proportion of debt relative to asset value.

Loan to Value = Loan Amount ÷ Asset Value

Higher Loan to Value increases equity return potential because less equity capital is deployed. However, higher leverage reduces financial flexibility and increases vulnerability during revenue softening. The investor must balance return enhancement with downside protection.

Lenders primarily evaluate the stability of Net Operating Income when assessing debt capacity. The key safety metric is the Debt Service Coverage Ratio.

DSCR indicates how comfortably the hotel's operating income covers its loan obligations. A DSCR above lender minimum thresholds reflects resilience. A thin DSCR indicates exposure to covenant breach if occupancy declines or ADR compresses.

The investor must ensure that DSCR remains adequate not only under base case projections but also under conservative stress scenarios. Sensitivity testing should evaluate moderate declines in occupancy, pricing, or increases in operating costs. If minor performance fluctuations materially reduce coverage, the capital structure lacks sufficient buffer.

Interest rate structure is another critical variable. Fixed-rate debt provides predictability in debt service obligations and protects against rate volatility. Floating-rate debt may initially reduce borrowing cost but introduces exposure to interest rate fluctuations. The investor must align interest rate strategy with macroeconomic outlook and risk tolerance.



Amortization schedules influence both annual cash flow and exit flexibility. Faster amortization reduces refinancing risk and strengthens balance sheet positioning over time. Slower amortization improves short-term cash flow but leaves higher outstanding principal at exit.

Covenants must be examined carefully. Financial covenants tied to DSCR, minimum liquidity, or leverage ratios can restrict operational flexibility if performance softens. Prepayment penalties and lock-in clauses affect refinancing or early exit strategy. The investor must evaluate how these terms align with the intended holding period.

In addition to senior debt, the investor may evaluate alternative capital structures such as mezzanine financing, preferred equity, or joint venture equity participation. Each structure carries different cost implications and return allocation dynamics. Equity partners typically expect defined return thresholds before profit sharing, and these arrangements must be modeled carefully to ensure alignment with the overall return mandate defined in Step 1.

At this stage, transaction costs associated with financing must also be incorporated. These include arrangement fees, legal costs, appraisal fees, underwriting fees, commitment charges, and potential hedging costs. These expenses directly impact effective equity deployment and IRR calculations.

The ultimate objective of Step 9 is structural alignment. The capital stack must support the asset's volatility profile, preserve covenant comfort, and maintain flexibility for refinancing or exit. Financing should act as a disciplined accelerator of returns, not as a substitute for prudent pricing.



STEP 10:

Closing, Operational Transition, and Post-Acquisition Asset Management

Once financing has been secured and all conditions precedent have been satisfied, the acquisition advances to closing. The closing process involves the formal transfer of title, assignment of contracts, release of funds, and activation of financing arrangements. Purchase price adjustments for working capital, inventories, prepaid expenses, deposits, and prorated revenues and costs must be calculated accurately to prevent post-closing disputes. Room revenue collected prior to closing but relating to future stays must be accounted for carefully, as must accrued expenses and other obligations agreed under the transaction documents.

Immediately upon transfer, operational continuity becomes the primary focus. Hotels operate continuously, and any disruption in staffing, vendor relationships, distribution channels, licensing, systems access, or guest commitments can directly affect revenue flow. The buyer must therefore ensure that the hotel remains functional from the first day of ownership.

Employee continuity and statutory obligations should be confirmed at closing, with the detailed transfer process documented in the transaction agreements. Where the hotel operates under a management or franchise agreement, the change in ownership must be formally acknowledged so that operating responsibilities, reporting lines and brand expectations remain uninterrupted.

Vendor contracts must be reviewed and either reaffirmed or renegotiated where appropriate. Key service agreements such as utilities, waste management, laundry, food supply, IT support, housekeeping supplies, maintenance services and security arrangements must remain uninterrupted. Insurance policies must also be activated at closing to ensure continuous coverage from the date of transfer.





At this stage, the investor must activate the asset management framework that will govern performance during the holding period. Ownership responsibility does not end with acquisition. It requires structured monitoring, disciplined reporting and periodic strategic review. The operating metrics defined earlier, particularly RevPAR, GOP Margin, NOI and DSCR, should now be monitored against the underwriting assumptions used during acquisition. Any sustained deviation should trigger a review of pricing strategy, cost control, distribution mix, capital expenditure timing or lender covenant compliance.

Capital expenditure schedules established during the acquisition analysis must now be implemented according to plan. Renovation timing should be aligned with cash flow projections and market seasonality to minimise revenue disruption. Planned improvements should not be delayed indefinitely, because deferred capex can weaken brand positioning, reduce guest satisfaction and erode long-term pricing power.

If leverage has been introduced, periodic review of debt service coverage and covenant compliance becomes critical. Financial reporting to lenders must be accurate and timely. Proactive communication with financing partners reduces refinancing risk and preserves lender confidence, particularly if performance temporarily deviates from the base case.

Strategic alignment with the operator must also be maintained. Operators often focus on revenue growth, guest experience and brand delivery, while ownership must also protect profitability, capital efficiency and asset value. Regular performance reviews, budget approvals, capex discussions and accountability mechanisms help ensure that the operator's priorities remain aligned with the investor's objectives.

During the holding period, ownership must continue evaluating value enhancement opportunities. Selective renovation, amenity upgrades, brand realignment, revenue management improvement, cost restructuring or management changes can unlock incremental value where market conditions support such action. The post-acquisition phase therefore converts the investment thesis into operating discipline, ensuring that the asset performs not only at closing, but throughout the ownership period.



SAMHI Hotels Limited: A Hotel Acquisition Case Study

The following case study applies the acquisition framework discussed above. It demonstrates how market selection, brand conversion, capital structure, operating improvement and eventual balance sheet restructuring can shape the creation of a hotel platform.

This case study based on publicly available information for the report period.

The principles covered in this chapter are not theoretical. Every framework discussed, from market selection and asset evaluation to brand strategy and capital structuring, has been applied in practice by operators who built meaningful businesses out of undervalued hotel assets. What follows is one such story. SAMHI Hotels was founded in 2010 with INR 2 crore of seed capital and grew, through disciplined acquisition and brand execution, into a publicly listed company owning 32 hotels and 4,939 rooms across India's primary corporate markets. The company never built from scratch in its early years. It bought, rebranded, renovated, and operated. This case study traces exactly how it was done.



SECTION 1

Company Formation and Capital Structure

Ashish Jakhanwala founded SAMHI with a single, precise observation: India's midscale and upper-midscale hotel segment had a structural supply gap. Cities like Bengaluru, Hyderabad, Pune, and Chennai had strong and growing corporate travel demand, but the hotels serving that demand were largely unbranded, family-run assets running materially below their potential RevPAR. The opportunity was to acquire those assets, attach a Marriott, Hyatt, or IHG flag, improve operations, and let the brand pull RevPAR upward.

The company was backed early by GTI Capital Group and Equity International, providing the institutional foundation to start acquiring. What followed was a series of equity rounds that tracked the value being created in the portfolio as hotels were rebranded and performance improved.



Equity Raising Timeline

Period	Source	Price / Size	What It Reflects
2010	Jakhanwala & Thadani	INR 2 Cr seed	Founders in with own capital first
Oct 2011	GTI Samhi, Blue Chandra Pte.	INR 970 / share	First institutional round; PE validates thesis
Mar-Oct 2012	Blue Chandra, GTI, Shree Naman	INR 970-1,370 / share	Active portfolio build; 41% step-up on price
Jun-Sep 2013	Blue Chandra, GTI Alpha, Ray Ltd., Thadani Hospitality	INR 1,100-7,426 / share	5.4x share price step-up over 2 years; material value created
Dec 2015	GTI Alpha, Blue Chandra, Founders, Ray Ltd.	INR 1,154 + bonus shares	Consolidation and expansion round
Sep 2019	Goldman Sachs Investment Holdings, Savara Investment Fund, ACIC Mauritius	Strategic entry	Pre-IPO institutional confidence; balance sheet backing ahead of listing
Sep 2023	Public Markets (IPO)	INR 119 / share; INR 1,370 Cr total	5.3x oversubscribed; INR 900 Cr deployed to debt repayment



Market Selection and Geographic Concentration

17 out of 32 hotels are concentrated in South India spread across cities such as Bengaluru, Hyderabad, and Chennai. This strategic placement was decided to match the highest corporate travel density in India relative to branded supply in the mid-scale tier. There was recurring and predictable room night demand generated because of the IT and manufacturing sectors. Clustering assets in the same city also created real operational efficiency: procurement, management oversight, and senior staff shared across 4 to 8 hotels in the same market.

Region	Hotels	Key Cities
South India	17 (53.1%)	Bengaluru, Hyderabad, Chennai, Coimbatore, Vizag
West India	11 (34.4%)	Pune, Ahmedabad, Nashik, Jaipur, Goa
North India	4(12.5%)	New Delhi, Gurugram, Greater Noida





SECTION 2

Acquisition and Portfolio Construction

SAMHI's acquisition approach was structured around a consistent set of criteria applied to every deal. The company was not buying opportunistically; each property was filtered against market demand depth, RevPAR upside through rebranding, renovation cost relative to return, and whether a global flag could be secured. The result was a portfolio with clear internal logic across its 32 hotels.



Asset Selection Criteria

Criterion	What Was Evaluated
Market demand	Air passenger traffic, commercial office density, MNC concentration in target city
Branded supply gap	Markets where Marriott, Hyatt, or IHG had limited or no mid-scale presence
RevPAR upside	Gap between existing unbranded RevPAR and branded competitive set; 30-50% uplift targeted post-rebranding
Renovation cost	Capital required to meet brand compliance standards; built into effective acquisition cost at underwriting
Competitive positioning	No major new branded supply expected within 3 years of acquisition
Financial viability	IRR modelled under base, downside, and upside occupancy and ADR assumptions
Regulatory compliance	Zoning, permits, NOC, F&B licenses, fire safety approvals all confirmed before close





Brand Affiliation Strategy

Most hotels in SAMHI's portfolio carries a globally recognised flag. Corporate travel managers at Indian IT and manufacturing companies book from approved lists that are dominated by Marriott Bonvoy, World of Hyatt, and IHG One Rewards affiliated properties. The rate premium a branded hotel commands over an unbranded equivalent in the same city and segment runs 15 to 30 percent. SAMHI retains 70 to 80 percent of hotel revenue after management and franchise fees, and critically retained authority over all major capex and repositioning decisions across every contract.





Brand Group	Hotels	Agreement Type	Fee Structure
Marriott International	17	Management + Franchise	Base 2-4% of revenue + incentive 4-6% of profit + royalty 3-5%
IHG (Holiday Inn Express)	11	Franchise	Royalty on rooms revenue; SAMHI operates directly
Hyatt Hotels Corporation	2	Management Contract	Fixed management fees + performance-linked incentive fees
Independent / Other Brands	2	Owned / Operated	Asset-specific structure; includes non-Marriott, non-IHG and non-Hyatt assets such as Trinity and Caspia

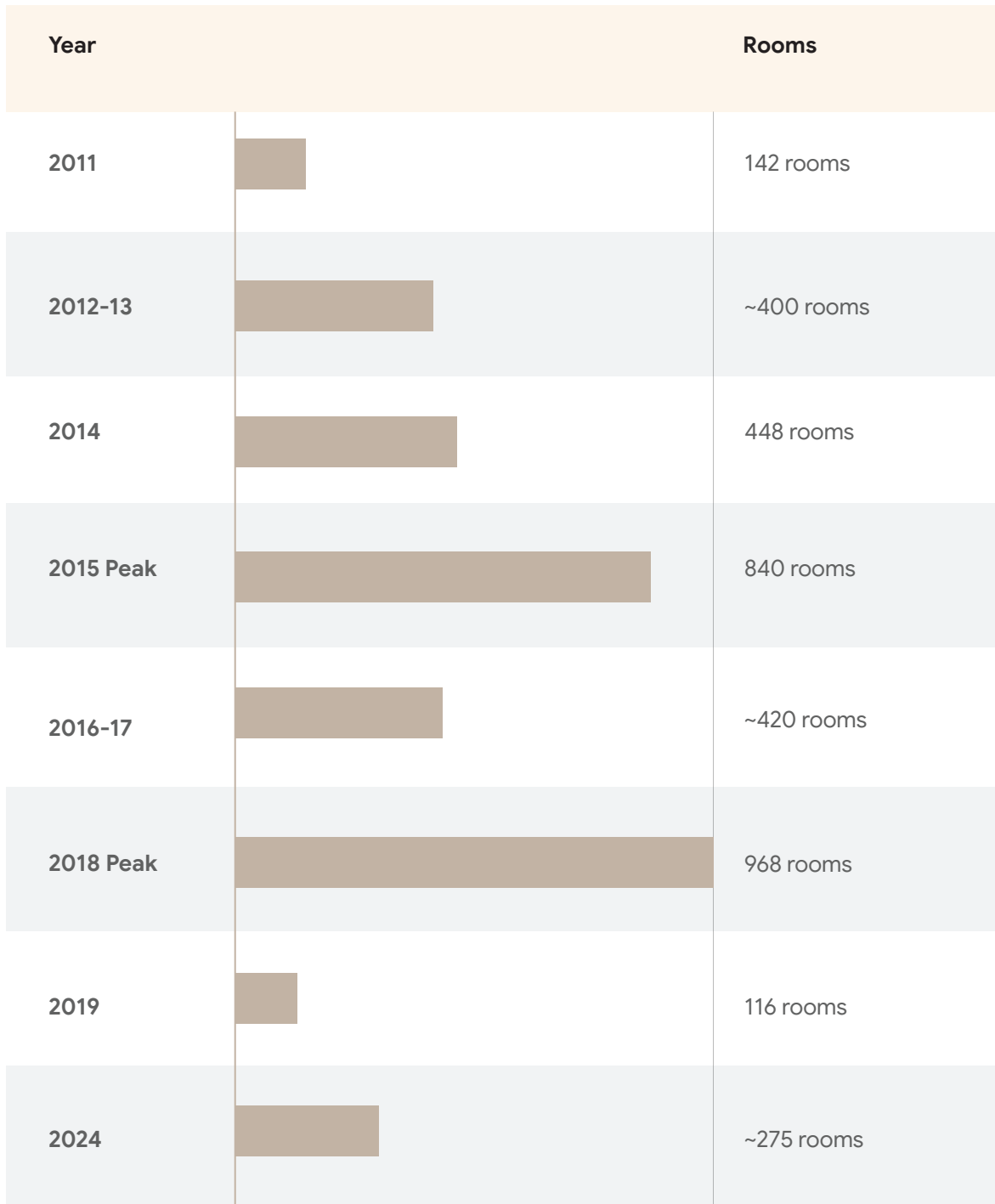
Portfolio Build-Up and Deployment Timeline

Between 2011 and 2024 SAMHI added 32 hotels. Two years are the most significant: 2015 (840 rooms added) and 2018 (968 rooms added). Both peaks followed equity raises 18 to 24 months earlier, consistent with the standard lag between capital deployment and a hotel reaching operational status after acquisition, renovation, and brand affiliation.





Selected Rooms added by Year



Note: Portfolio count and room inventory are based on publicly available sources referenced during the report period



Complete Portfolio Inventory - 32 Hotels, 4,939 Rooms

Hotel	City / Area	Region	Segment	Hotel Opening Year	Rooms
Caspia Hotel	New Delhi (Shalimar Bagh)	North	Upper Midscale	2011	142
Holiday Inn Express	Gurugram (Sector 50)	North	Midscale	2014	205
Holiday Inn Express	Greater Noida (Knowledge Park)	North	Midscale	2024	133
Hyatt Place	Gurugram (Udyog Vihar)	North	Upper Upscale & Upscale	2014	176
Trinity	Bengaluru (Whitefield)	South	Upper Midscale	2007*	142
Fairfield by Marriott	Bengaluru (Whitefield)	South	Upper Midscale	2013	104
Fairfield by Marriott	Bengaluru (Rajajinagar)	South	Upper Midscale	2013	148
Fairfield by Marriott	Bengaluru (Outer Ring Road)	South	Upper Midscale	2015	166
Courtyard by Marriott	Bengaluru (Outer Ring Road)	South	Upper Upscale & Upscale	2015	170
Holiday Inn Express	Bengaluru (Yeshwanthpur)	South	Midscale	2018	115
Holiday Inn Express	Bengaluru (ITPL)	South	Midscale	2018	161



Fairfield by Marriott	Hyderabad (Gachibowli)	South	Upper Midscale	2015	232
Sheraton	Hyderabad (Gachibowli)	South	Upper Upscale & Upscale	2015	272
Holiday Inn Express	Hyderabad (Banjara Hills)	South	Midscale	2017	170
Holiday Inn Express	Hyderabad (HITEC City)	South	Midscale	2018	150
Fairfield by Marriott	Chennai (MWC)	South	Upper Midscale	2018	136
Fairfield by Marriott	Chennai (Sriperumbudur)	South	Upper Midscale	2018	153
Holiday Inn Express	Chennai (OMR)	South	Midscale	2018	149
Four Points by Sheraton	Chennai (OMR)	South	Upper Midscale	2019	116
Fairfield by Marriott	Coimbatore (Airport Road)	South	Upper Midscale	2017	126
Four Points by Sheraton	Vishakhapatnam	South	Upper Midscale	2009*	123
Fairfield by Marriott	Goa (Anjuna Beach)	West	Upper Midscale	2016	130
Hyatt Regency	Pune (Viman Nagar)	West	Upper Upscale & Upscale	2010*	301



Four Points by Sheraton	Pune (Nagar Road)	West	Upper Midscale	2011	217
Fairfield by Marriott	Pune (Kharadi)	West	Upper Midscale	2013	109
Holiday Inn Express	Pune (Hinjewadi)	West	Midscale	2018	104
Holiday Inn Express	Pune (Pimpri)	West	Midscale	2014	142
Four Points by Sheraton	Jaipur (City Square)	West	Upper Midscale	2009*	114
Renaissance Hotel	Ahmedabad (Sarkhej)	West	Upper Upscale & Upscale	2017	155
Fairfield by Marriott	Ahmedabad (Ashram Road)	West	Upper Midscale	2012	147
Holiday Inn Express	Ahmedabad (Prahlad Nagar)	West	Midscale	2012	130
Holiday Inn Express	Nashik (Indira Nagar)	West	Midscale	2014	101

*Inception year predates SAMHI's acquisition in some cases. Trinity Bengaluru was acquired October 2024.

*Based on SAMHI's Q3 FY25 investor presentation dated 29 January 2025.



SECTION 3

Financial Performance and Outcomes

Consolidated Revenue and Operating Margins

Revenue grew from INR 471 Cr in FY19 to INR 957 Cr in FY24, a compound growth rate of roughly 15 percent despite COVID eliminating nearly all revenue in FY21. The operating story is straightforward: the hotels ran well. By Q3 FY25, EBITDA margin had reached 34 percent. The problem was never operational. It was the cost of the capital structure used to build the portfolio at speed.



Consolidated P&L (INR Crore)

	FY19	FY20	FY21	FY22	FY23	FY24
Revenue (INR Cr)	471	606	170	323	739	957
Revenue Growth	--	+29%	-72%	+90%	+129%	+30%
EBITDA	79	150	-69	11	238	267
EBITDA Margin %	17%	25%	-41%	4%	32%	28%
Interest Cost	220	252	309	347	522	345
Net Profit/(Loss)	(305)	(344)	(478)	(444)	(339)	(235)





Revenue Trajectory (INR Crore)

Year		INR Cr
FY19		471 Cr
FY20		606 Cr
FY21 (COVID)		170 Cr
FY22		323 Cr
FY23		739 Cr
FY24		957 Cr

Property-Level P&L Analysis

At the individual hotel level the picture is clarifying. Most hotels were EBITDA positive. The losses on the net profit line were almost entirely explained by the finance cost sitting within each subsidiary entity. The hotels were generating cash at the operating level. The capital structure was what was underwater.



Hotel	EBITDA	Finance Cost	Net P/(L)	Reading
Courtyard by Marriott Bengaluru (Outer Ring Road)	424	(953)	(604)	Finance cost 2.2x EBITDA
Sheraton Hyderabad (Gachibowli) + Commercial Block	475	(508)	(184)	Finance cost exceeds EBITDA
Holiday Inn Express Portfolio, 11 hotels	499	(1,187)	(856)	Finance cost 2.4x EBITDA
Hyatt Regency Pune	302	(616)	(492)	Finance cost 2x EBITDA
Fairfield by Marriott Bengaluru (Outer Ring Road)	174	(408)	(266)	Finance cost 2.3x EBITDA
Hyatt Place Gurugram (Udyog Vihar)	174	(148)	(23)	Near break-even; improving
Fairfield by Marriott Chennai (Sriperumbudur)	118	(102)	(18)	Near break-even
Fairfield by Marriott Goa (Anjuna Beach)	110	(65)	10	Net profitable
Fairfield by Marriott Bengaluru, City Centre / Rajajinagar	99	(107)	(37)	Small gap; manageable
Fairfield by Marriott (Coimbatore)	63	(85)	(53)	Finance cost as drag
Fairfield by Marriott Bengaluru (Whitefield)	74	(52)	(13)	Operationally strong
Four Points by Sheraton Visakhapatnam	60	(78)	(43)	Stable; finance drag



Fairfield by Marriott (Kharadi)	60	(52)	(12)	Near break-even
Fairfield by Marriott (OMR Chennai)	17	(52)	(12)	Ramp-up phase
Four Points by Sheraton, Ahmedabad	44	(67)	172	One-time item in FY23*
Renaissance Ahmedabad (Sarkhej / SG Highway)	78	(123)	(90)	Finance cost as drag
Holiday Inn Express Greater Noida, formerly Caspia Pro Greater Noida	23	(6)	16	Net profitable
Caspia Hotel New Delhi (Shalimar Bagh)	10	(0)	(1)	Breakeven; renovation in FY25

*Four Points Ahmedabad's INR 172 Mn net profit in FY23 reflects a one-time restructuring item at the SPV level. Grand total EBITDA across all hotels: INR 2,805 Mn. Grand total finance cost: INR (4,609 Mn). The gap explains the consolidated net loss.

*Fairfield by Marriott OMR Chennai was a historical FY23/sold asset and is not part of the current portfolio inventory.'

Debt Structure and Financing Overview

SAMHI financed its portfolio build almost entirely through debt, including high-cost mezzanine instruments alongside conventional bank facilities. As of March 2023 total consolidated debt stood at INR 29,277 million (INR 2,928 Cr). The most expensive instruments were NCDs issued to Mercer (35.7%), IFC (35.7%), and GTI (26.3%). These were bridge instruments used to fund acquisitions faster than equity rounds alone could support.





Debt by Subsidiary Entity (INR Millions, Pre-IPO)

Entity	Debt (INR Mn)	Key Instruments and Rates
SAMHI Parent	~8,864	Mercer NCD 35.7%, IFC NCD 35.7%, GTI NCD 26.3%; IndusInd TL 7.9%; Piramal TL 15.75%; STCI TL 12.75%
SAMHI JV	~4,316	Citibank TL 10.5%, Citicorp TL 10.4%, ABFL TL 10.4%
Barque Hotels	~3,128	Citibank TL 10.5%, ABFL TL 10.4% -- Holiday Inn Express portfolio
Caspia Hotels	~3,796	HDFC TL 10.2%, Standard Chartered TL 11.7%, SBI TL 12.85%; ECLGS tranches
SAMHI Ahmedabad	~3,284	Piramal Facility 1 & 2 at 14.55%
Ascent Hotels	~3,114	HDFC TL 15.75%, Piramal Facilities 14.55%; ECLGS tranches
SAMHI Gurgaon	~1,452	IndusInd Bank TL 7.9%; ECLGS tranches 9.25%
Argon Hotels	~1,299	Citibank TL 10.5%, ABFL TL 10.4%

Total consolidated debt March 2023: INR 29,277 Mn. Interest paid in FY23: INR 522 Cr. EBITDA in FY23: INR 238 Cr.



Public Listing and Balance Sheet Restructuring

By September 2023 the operating business had fully recovered. RevPAR was at multi-year highs, EBITDA was the strongest in company history, and occupancy was tracking at par with luxury competitors. SAMHI listed on the public markets, raising INR 1,370 Cr total, of which INR 900 Cr went directly to debt repayment. The IPO was oversubscribed 5.3 times. The market looked past the historical net losses and priced the equity on operating cash generation and deleveraging trajectory. In FY25 SAMHI reported its first positive net profit.

IPO Metric	Value
Issue Date	September 2023
Fresh Issue	INR 1,200 Cr
Offer for Sale	INR 170 Cr
Issue Price	INR 119 per share
Oversubscription	5.3x
Proceeds to Debt Repayment	INR 900 Cr (75% of fresh issue)
Total Debt Pre-IPO (Mar 2023)	INR 2,928 Cr
Borrowings Post-IPO (FY24)	INR 2,123 Cr
First Positive Net Profit	FY25
Current Market Cap	~INR 3,867 Cr
Current D/E Ratio	2.07x
EV/EBITDA	14.9x



Industry Benchmarking

Placing SAMHI against listed peers shows the strength of the operating model and where structural improvement is underway. The occupancy comparison is the most instructive: SAMHI runs at 71.7 percent, statistically identical to Indian Hotels (Taj) and EIH (Oberoi), both of which charge approximately three times the room rate. SAMHI captures the same room nights with an ARR of INR 5,069 versus Taj's INR 13,736. The hotels are full. The value gap is in rate, not in demand. That is exactly why the growth plan moves upmarket.

Metric	SAMHI Hotels	Chalet Hotels	Lemon Tree	Indian Hotels	EIH
Avg. Room Rate / ARR (INR)	5,069	9,169	5,114	13,736	14,973
Occupancy	71.7%	72.0%	69.9%	72.0%	72.0%
Total Revenue (INR Mn)	9,644	11,780	8,786	59,488	20,964
ROCE	6.8%	10.1%	11.4%	15.1%	23.6%
Debt / Equity	2.07x	1.74x	1.53x	Net Cash	Net Cash
P/E Ratio	74.8x	161x	61.4x	72.1x	35.3x



FY19-FY24: EBITDA vs Interest Cost (INR Crore)

		INR Cr
FY19 EBITDA		79 Cr
FY19 Interest		220 Cr
FY20 EBITDA		150 Cr
FY20 Interest		252 Cr
FY23 EBITDA		238 Cr
FY23 Interest		522 Cr
FY24 EBITDA		267 Cr
FY24 Interest		345 Cr



Forward Growth Strategy

With the balance sheet now in better shape, the growth plan is focused on moving upmarket. The logic is simple: upper-upscale rooms generate nearly three times the revenue per room of midscale rooms, and most of the capital infrastructure in the conversion assets already exists. The brand upgrade is the value unlock.

Segment	Current Rooms	Target Rooms	Key Actions
Upper Upscale / Upscale	1,074	2,013	W Hotel Hyderabad; Westin Bengaluru Whitefield; convert FPS Pune and Jaipur to Courtyard and Tribute Portfolio; expand Sheraton Hyderabad and Hyatt Regency Pune; Trinity Bengaluru to Tribute Portfolio
Upper Midscale	2,163	1,918	Add rooms at Fairfield by Marriott Chennai (Sriperumbudur); net reduction as 2 upper-midscale hotels convert to upscale segment
Midscale	1,564	1,727	Open Holiday Inn Express Greater Noida (operational), Kolkata; add rooms in existing Bengaluru properties
Under Development	--	+350	Navi Mumbai land parcel
ACIC Acquisition	--	+962	6 hotels under the ACIC deal; integration underway

SAMHI converted INR 2 crore of seed capital in 2010 into a publicly listed company with 32 hotels, 4,939 rooms, and a market cap of approximately INR 3,867 crore by 2024. The operating model worked throughout: the hotels ran at occupancy levels matching India's finest luxury brands, EBITDA margins reached 34 percent, and RevPAR improved materially across the portfolio post-rebranding. The balance sheet stumbled under the weight of high-cost debt and was corrected through the IPO. The lesson is not that SAMHI was perfect. The lesson is that a clear acquisition thesis, disciplined property selection, and strong brand execution can build a substantial hotel business out of assets that others undervalued.



CHAPTER 2

Building a Hotel: The Development Lifecycle



Building a hotel is a development exercise and an operating business strategy executed in parallel. The developer does not merely construct a physical asset. The developer creates a revenue-generating platform whose performance depends on land economics, market positioning, design efficiency, capital structure, brand alignment, and operational readiness from the first day of trading.

Unlike the acquisition of an existing hotel, new-build development does not benefit from historical operating data. The developer therefore relies on underwriting, design discipline, market evidence, and phased decision-making to convert a concept into a viable hospitality asset. Each error committed in the early stages compounds through the life cycle of the project. A weak site selection decision distorts access and visibility. A flawed product mix reduces pricing power. An inefficient building program inflates capital cost. A poorly negotiated brand or operator structure compresses future profit. Development discipline therefore begins long before construction starts.

A structured framework reduces these risks. It allows the developer to test feasibility before land is locked, shape the product before drawings advance, align capital before cost escalation begins, and establish operating systems before the hotel opens. The purpose of this chapter is to organise hotel development into a sequential analytical process so that capital deployment remains grounded in demand, return expectations, and execution logic rather than optimism.





Development Stage	Key Decision	Primary Objective
Market Thesis	Identify demand drivers	Confirm development rationale
Feasibility Analysis	Test financial viability	Validate return expectations
Program Design	Define room mix and facilities	Align product with demand
Business Planning	Establish operational model	Secure financing confidence
Development Budget	Categorize project costs	Control capital deployment
Brand and Operator Strategy	Select operating structure	Align product and management
Construction Execution	Manage procurement and build	Deliver project on schedule
Pre-Opening Preparation	Install systems and hire staff	Ensure operational readiness



STEP 1:

Define the Development Thesis and Market Position

Hotel development must begin with a clear **development thesis**, which is the central investment logic explaining why the hotel should exist in a particular location, for a specific customer, at a particular price point and scale. The thesis links market demand to product design and capital allocation. Without this foundation, the project becomes a construction exercise without commercial direction.

The first task is to define the proposed hotel category. A **hotel category** is the market positioning of the asset based on service level, design standard, room size, amenity depth, and pricing ambition. A luxury hotel typically requires premium materials, extensive public areas, a high staff-to-room ratio, and elevated wellness, dining, and event infrastructure. A budget hotel typically emphasizes standardized rooms, lean staffing, efficient circulation, and limited ancillary facilities. A boutique hotel typically relies on smaller scale, strong design identity, and personalized service to command rate premiums. A family-oriented hotel generally requires larger room typologies, recreational amenities, and adjacency to leisure demand generators.

The second task is to define the **guest persona**, which is the specific customer profile the hotel intends to serve. The guest persona includes demographic characteristics, income profile, travel purpose, booking behaviour, average length of stay, spending preferences, and service expectations. A corporate transient guest values speed, location, workspace functionality, and loyalty integration. A leisure guest values experience, ambience, recreation, and destination access. A pilgrim or event-led guest may prioritise convenience, room count availability, and affordability. The physical product must reflect the dominant persona with precision.

The third task is to conduct **market segmentation**, which is the analytical process of dividing demand into identifiable customer groups. In hotel development, segmentation usually includes corporate, leisure, social events, religious travel, government movement, crew business, group business, and extended stay demand. This segmentation helps the developer estimate demand depth, seasonality, room mix, and amenity relevance. A hotel designed without reference to segmentation often carries facilities that do not convert into usable revenue.



The fourth task is to perform a **competitive set analysis**, which is the structured study of directly comparable hotels within the same market and positioning band. The competitive set reveals current room supply, pricing patterns, brand presence, product gaps, service norms, and future market pressure. It also helps determine whether the proposed hotel fills a genuine unmet need or simply adds undifferentiated supply.

The fifth task is to prepare a **SWOT analysis**, which is a framework that evaluates strengths, weaknesses, opportunities, and threats. In development, strengths may include location quality, access, frontage, brand potential, or land parcel size. Weaknesses may include limited visibility, poor approach roads, irregular parcel geometry, or high development cost. Opportunities may include infrastructure expansion, low branded supply, or demand growth in the catchment. Threats may include oversupply, regulatory delays, labour constraints, or demand concentration in a single segment.

By the end of Step 1, the developer must be able to state clearly what hotel is being built, for whom it is being built, why that demand exists, and why the proposed product can outperform alternatives.





STEP 2:

Test Feasibility and Residual Site Economics

Once the concept is defined, the project must be tested through feasibility analysis. As explained in the acquisition chapter, hotel performance depends on the relationship between occupancy, ADR, RevPAR, operating margins and eventual stabilised income. In a development context, these metrics must be treated as forward-looking assumptions rather than historical evidence.

The first requirement is a demand forecast. This estimates how much room demand the market can support and how much of that demand the proposed hotel can realistically capture once operational. The forecast must consider seasonality, access, competitive supply, demand generators, market growth and the positioning of the proposed asset.

ADR assumptions should be tested against the intended category, brand strength, competitive set, location quality and expected guest mix. Occupancy assumptions should reflect the ramp-up period, market depth and future supply pressure. The purpose is not merely to project revenue, but to test whether the proposed hotel can reach a stabilised level of trading that supports the development cost and required return.

Residual land analysis should then be used to determine how much the project can afford to pay for land after accounting for construction cost, soft cost, FF&E, financing cost, contingency, working capital and required investor return. This is more reliable than using generalised land value assumptions because it connects the land price directly to the earning capacity of the future hotel. At the end of this stage, the developer should know whether the site can support the intended hotel, whether the land cost is defensible and whether projected returns justify moving into detailed design and capital commitment.



STEP 3:

Establish the Program, Room Mix, and Space Planning Logic

Once the site passes feasibility screening, the project must move into program definition. The **program** is the complete functional schedule of the hotel, including guest rooms, food and beverage venues, banquet areas, lobby, wellness facilities, back-of-house operations, parking, recreation, and service infrastructure. The program converts market demand into built form.

The first planning decision is the **room mix**, which is the distribution of room types across the inventory. Room mix may include standard rooms, superior rooms, suites, interconnecting rooms, accessible rooms, family rooms, or serviced extended-stay units depending on market need. A sound room mix improves yield by matching product variety to customer demand without creating operational inefficiency.

The number of keys remains the primary economic unit for planning cost, staffing intensity, revenue potential and long-term value.

The third planning concept is **area program efficiency**, which measures how effectively the hotel converts built area into revenue-supporting use. A hotel with poor area efficiency allocates too much built space to non-revenue circulation or oversized support functions, which inflates cost without increasing earnings.

The fourth planning concept is **Floor Space Index**, or **FSI**, which is the ratio of permissible built-up area to land area under local planning regulations. FSI determines how much construction the site can legally support. A site with weak FSI may restrict room count viability. A site with strong FSI can improve scale economics, provided height, setback, access, and parking norms also align.





The fifth planning concept is **back of house**, which refers to the non-guest operational areas required to run the hotel. Back of house includes kitchens, staff areas, engineering rooms, laundry, stores, receiving, waste handling, housekeeping support, and administrative offices. These areas do not generate direct revenue, but they support service delivery and operating efficiency. Under-sizing them creates long-term functional stress. Over-sizing them depresses development efficiency.

The sixth planning concept is **stacking**, which is the vertical arrangement of hotel functions across floors. Strong stacking improves service movement, guest convenience, fire safety logic, engineering integration, and structural efficiency. Weak stacking increases shaft runs, service travel time, and construction complexity.

The seventh planning concept is **adjacency planning**, which is the deliberate placement of related functions next to each other. Banquet kitchens should sit close to event spaces. Laundry flows should connect logically to housekeeping. Guest arrivals should remain separate from service movement where possible. Good adjacency reduces operating friction and supports higher service standards.

This stage should culminate in a disciplined design brief that tells the architect exactly what the hotel needs to contain, at what scale, and for what commercial purpose.



STEP 4:

Prepare the Detailed Business Plan and Development Schedule

A hotel development requires a formal **business plan**, which is the integrated document that explains the commercial rationale, operating model, capital requirement, financial projections, implementation timeline, and value creation pathway of the project. Lenders, equity partners, and internal decision-makers rely on the business plan to judge whether the development can move from concept to execution without strategic drift.

The first component is the **operating plan**, which sets out how the hotel will function after opening. It identifies positioning, pricing logic, distribution channels, sales structure, procurement strategy, staffing philosophy, and service level. A strong operating plan prevents the development from producing an attractive building that cannot convert into sustainable operating profit.

The second component is the **milestone schedule**, which is the sequenced timeline of major actions from land acquisition to opening. Typical milestones include concept approval, consultant appointment, schematic design, statutory submissions, financing closure, contractor appointment, groundbreaking, topping out, systems installation, mock-up room approval, recruitment, pre-opening sales activation, and opening. A milestone schedule creates accountability and helps track delay risk.

The third component is the **critical path**, which is the chain of activities that directly determines project completion time. Any delay on the critical path delays the entire project. Hotel development often places approvals, structural works, MEP installation, façade completion, room fit-outs, and technology integration on the critical path. Developers must monitor these activities closely because delayed opening reduces projected IRR and increases carrying cost.

The fourth component is the **ramp-up period**, which is the initial operating phase during which the hotel grows from opening performance to stabilized trading performance. New hotels rarely open at mature occupancy and rate levels. Ramp-up planning therefore matters significantly in cash flow forecasting. Developers who assume immediate stabilisation often understate working capital needs.



The fifth component is the **stabilisation period**, which is the point at which the hotel reaches a sustainable trading profile. Stabilised performance supports valuation, refinancing and institutional capital discussions. Development underwriting should therefore distinguish clearly between opening-year performance and stabilised-year performance.

The business plan should conclude with a clear explanation of development risks, mitigation strategies, return expectations, and the actions required to preserve schedule and budget discipline.





STEP 5:

Build the Development Budget and Structure the Capital Stack

Hotel development requires a fully categorized budget because misclassification obscures true project economics. The first category is hard cost, which includes direct physical construction expenditure such as civil works, structural works, façades, interior fit-outs, site development, and engineering installation. Hard cost forms the visible core of the project, but it is only one part of total capital deployment.

The second category is Furniture, Fixtures, and Equipment, commonly called FF&E, which includes movable items necessary for hotel operation. Beds, case goods, chairs, lighting, televisions, kitchen equipment, restaurant furniture, and guest room accessories fall under FF&E. Hotels cannot open with building shell alone. FF&E therefore requires distinct budgeting and procurement planning.

The third category is soft cost, which includes design fees, engineering fees, legal expenses, project management fees, approvals, taxes during construction, insurance, financing charges, and development management fees. Soft cost often expands materially over the life of the project, especially if approvals delay or design changes occur.

The fourth category is pre-opening expense, which includes all expenditure incurred to prepare the hotel for launch before revenue begins. Pre-opening expense covers recruitment, training, trial operations, sales activation, launch marketing, uniforms, consumables, systems setup, and dry-run activity. Developers frequently underbudget this category, which creates stress during the final project stage.

The fifth category is working capital, which is the liquid cash required to support day-to-day operations once the hotel opens. Working capital funds payroll, utilities, opening inventory, guest supplies, operating float, and early-stage losses during ramp-up. A hotel may be physically complete and still fail operationally if it opens with inadequate working capital.

The sixth category is operating reserve, which is the additional liquidity buffer set aside to protect the hotel during the early months of underperformance or delayed stabilisation. Operating reserve is especially important when the hotel enters a competitive market or opens ahead of full demand recovery.



The seventh concept is the capital stack, which is the hierarchy of funding sources used to finance the project. The capital stack typically consists of sponsor equity, partner or institutional equity, senior construction debt, and in certain cases mezzanine financing or preferred equity layers. Senior debt carries first claim on project cash flow and asset security. Equity absorbs first loss but benefits from upside after debt obligations are met. The structure of the capital stack shapes project risk, return distribution, and flexibility.

The eighth concept is loan-to-cost ratio, often abbreviated as LTC, which measures the share of total development cost funded by debt. Lenders frequently assess hotel development on an LTC basis rather than only on completed asset value because construction risk remains active. A high LTC may improve equity efficiency but reduce resilience if cost overruns emerge.

The ninth concept is cost per key, which is total development cost divided by the number of rooms. Cost per key allows developers to benchmark whether the project budget aligns with market norms for the city, category, and product positioning. A budget materially above comparable cost per key must be justified by superior pricing power, brand premium, or destination-specific build complexity.

A disciplined budget should not simply aggregate numbers. It should identify contingency, timing, funding source, payment sequence, and exposure points where escalation can occur.

Cost Category	Examples	Typical Share of Total Cost
Hard Costs	Structure, façade, interiors, site works	55–65%
FF&E	Beds, furniture, lighting, equipment	10–15%
Soft Costs	Design fees, approvals, financing costs	10–15%
Pre-Opening Expenses	Recruitment, marketing, training	3–5%
Working Capital & Reserve	Opening liquidity buffer	5–8%



STEP 6:

Select the Brand and Integrate the Operating Model Early

Brand and operator decisions must begin during the design development stage rather than after construction has started. In hospitality development, the operating structure directly influences the physical design of the hotel. Brand affiliation determines room specifications, public space requirements, service infrastructure, and technology integration. If these requirements are not incorporated into the architectural design early in the development process, developers may face costly redesign and construction delays.

At the strategic level, the developer must first determine the **operating structure** under which the hotel will function. Hotels typically operate under one of three models: a branded franchise, a branded management agreement, or an independent operating structure. Each model involves a different allocation of operational responsibility, financial risk, and strategic control.

Hotel Operating Structure Framework:

Operating Model	Definition	Owner Responsibilities	Operator Responsibilities	Strategic Considerations
Franchise Model	A franchise arrangement allows the owner to operate the hotel under an established brand name while maintaining operational control of the property. The owner gains access to the brand's reservation systems, loyalty program, and operating standards.	The owner hires the management team, oversees daily operations, and ensures compliance with brand standards.	The franchisor provides brand standards, distribution platforms, reservation systems, and marketing support.	Offers strong brand recognition and distribution reach but requires the owner to possess operational expertise.
Management Contract Model	Under a Hotel Management Agreement (HMA), a professional hospitality operator manages the hotel on behalf of the owner.	The owner retains ownership of the asset and provides capital expenditure funding.	The operator manages day-to-day operations, staffing, and revenue management.	Provides professional management but reduces direct operational control for the owner.
Independent Hotel Model	The hotel operates without affiliation to a global brand.	The owner assumes full responsibility for operations, marketing, and distribution strategy.	Independent operators or internal teams manage the hotel.	Offers maximum flexibility but lacks the distribution power and brand recognition of international chains.



Once the operating structure is defined, the developer must evaluate the **contractual and financial framework** associated with brand affiliation and operator engagement.

Contract Element	Definition	Commercial Implication	What Developers Must Evaluate
Brand Standards	The mandatory design, service, safety, and operational specifications established by the brand.	Influences room sizes, public areas, service infrastructure, and technology systems.	The franchisor provides brand standards, distribution platforms, reservation systems, and marketing support.
Royalty Fee	A recurring fee paid to the franchisor for the right to operate under the brand name and access its systems.	Typically calculated as a percentage of room revenue.	Impact on long-term profitability and operating margins.
Marketing Contribution	A mandatory contribution to the brand's global or regional marketing programs.	Funds centralized advertising campaigns and brand promotion.	Ongoing operating cost that must be included in financial projections.
Loyalty Program Assessment	Fee associated with participation in the brand's customer loyalty program.	Loyalty programs often drive occupancy through repeat customers.	Balance between increased occupancy and incremental program costs.
Base Management Fee	Fixed fee paid to the operator for managing the hotel's daily operations.	Typically calculated as a percentage of total revenue.	Whether the fee structure aligns with expected operational complexity.
Incentive Fee	Performance-based fee paid to the operator when profitability thresholds are achieved.	Encourages operators to maximize operational performance.	Ensuring incentives align with owner profitability rather than only revenue growth.
Performance Test	A contractual benchmark that evaluates operator performance against predefined standards.	Often measured using RevPAR index and profit targets.	Provides owners with termination rights if the operator underperforms.
Approval Rights	Rights retained by the owner to approve major decisions.	Covers annual budgets, capital expenditure plans, and key management appointments.	Ensures the owner maintains strategic control of the asset.
Termination Clauses	Conditions under which the owner can terminate the operator agreement.	Protects the owner if the operator fails to meet contractual obligations.	Must be negotiated carefully to avoid excessive termination penalties.



Before selecting an operator, developers typically conduct a **Request for Proposal (RFP)** process. An RFP is a structured evaluation in which shortlisted operators submit proposals outlining their management terms, financial projections, staffing structures, and strategic operating plans. This process allows the owner to compare operators on consistent criteria rather than negotiating with a single brand without competitive benchmarks.

By the conclusion of this stage, the developer should have a clear understanding of the hotel's operating structure, contractual obligations, and long-term cost implications. The architectural design, operational infrastructure, and financial projections should already reflect the chosen brand and management structure. Decisions made at this stage will influence the hotel's profitability and operational flexibility for decades after opening.





STEP 7:

Assemble the Full Development Team and Lock Technical Coordination

A hotel development requires specialized advisors because hospitality buildings operate differently from office, retail, or residential assets.

The first participant is the **architect**, who converts the program into buildable design. In hotel development, the architect must balance guest experience, structural logic, operating efficiency, and brand standards rather than only visual appeal.

The second participant is the **MEP engineer**, who designs the mechanical, electrical, and plumbing systems of the hotel. MEP design governs air conditioning, water supply, drainage, ventilation, lighting loads, emergency power, and service reliability. Hotels have intensive and highly variable utility demands because rooms, kitchens, laundries, banquet areas, and public spaces operate simultaneously.

The third participant is the **structural engineer**, who designs the load-bearing system of the building. Structural efficiency affects room planning flexibility, speed of construction, service routing, and cost.

The fourth participant is the **project management consultant**, often called the **PMC**, who monitors schedule, cost, quality, contractor performance, and reporting across the execution period. The PMC acts as the owner's implementation control layer and helps reduce coordination breakdown between designers and contractors.

The fifth participant is the **quantity surveyor**, who measures project quantities and validates cost estimates, tender comparison, and variation claims. A quantity surveyor helps prevent scope drift from becoming hidden cost inflation.

The sixth participant is the **general contractor**, who executes the construction works and coordinates site-level delivery. Early contractor input often improves buildability, sequencing, and cost realism.



The seventh participant is **hospitality legal counsel**, who handles land documentation, approval strategy, contract drafting, franchise negotiations, HMA negotiations, and development risk allocation. Hotel legal work differs materially from ordinary real estate documentation because the asset combines property rights with a complex operating framework.

The eighth participant is the **interior designer**, who shapes guest perception, brand expression, and room usability. In hotel development, interior design is not a cosmetic layer. It directly affects ADR potential, guest reviews, maintenance burden, and replacement cycles.

The ninth participant is the **specialist consultant**, which may include kitchen planners, laundry planners, acoustics consultants, façade experts, lighting designers, sustainability advisors, security consultants, and technology consultants depending on the complexity of the hotel.

The developer must coordinate these participants through a disciplined design review process. Weak coordination causes clashes between architecture, services, interiors, and operations, which later emerge as cost escalation and delay.

STEP 8:**Secure Approvals, Manage Procurement, and Control Construction Risk**

Once architectural design, engineering coordination, and brand alignment have been finalised, the project moves into the execution phase. At this stage, the focus shifts from planning to regulatory approvals, procurement strategy, and construction risk management. Developers must ensure that statutory compliance, contractor engagement, and cost control processes are carefully structured, as delays during construction can significantly affect the financial performance of the project.

The first requirement is securing **entitlements**, which represent the legal permissions required to construct and operate the hotel. Entitlements typically include zoning approval, building plan sanction, environmental clearances, fire safety approvals, and utility connections. The entitlement process varies across jurisdictions, but delays in regulatory approvals are one of the most common causes of project schedule overruns.

Following regulatory clearance, developers must determine the **procurement strategy**. Procurement refers to the method through which construction services, materials, and specialized systems are purchased for the project. Procurement structures vary depending on project size and developer capability.





Construction Procurement Structures

Procurement Model	Description	Advantages	Considerations
General Contractor Model	A single contractor manages all construction works	Simplifies coordination and accountability	May reduce price transparency
Trade Package Model	Multiple contractors handle specific trades such as electrical or HVAC	Greater cost control and specialization	Requires strong project management
Design-Build Model	Contractor manages both design and construction	Faster execution and integrated delivery	Reduced design control for developer

Once the procurement approach is selected, developers initiate the **tendering process**. Tendering is the formal process of inviting contractors to submit bids for construction works. Competitive tendering ensures price transparency and allows developers to compare contractor capabilities, cost structures, and project timelines.

A key document used during tendering is the **Bill of Quantities (BOQ)**. The BOQ is a detailed schedule of construction materials, labour requirements, and measurable quantities used to price the project. Accurate BOQ preparation is essential because it forms the basis for contractor pricing and future cost control.

During construction, developers must also maintain financial safeguards. One such safeguard is **contingency allowance**, which is a portion of the development budget reserved for unforeseen expenses. Contingency is not surplus capital but a risk management provision designed to absorb unexpected cost variations.



Another important practice is **value engineering**, which refers to the process of optimizing construction costs without compromising functionality or brand standards. Value engineering may involve selecting alternative materials, adjusting design elements, or simplifying structural components.

Developers must also manage **change orders**, which are modifications to the original construction scope after contracts have been signed. Frequent change orders often indicate inadequate design coordination and can lead to cost escalation and project delays.

Construction Risk Monitoring Framework

Risk Category	Description	Management Approach
Cost Escalation	Increase in material or labour costs during construction	Early procurement and fixed-price contracts
Design Changes	Modifications required during construction	Strong design freeze before tender
Schedule Delay	Construction timeline overruns	Detailed project monitoring and milestones
Contractor Default	Contractor fails to meet obligations	Performance guarantees and liquidated damages

Developers typically include **liquidated damages clauses** in construction contracts. Liquidated damages represent financial penalties payable by the contractor if the project is not completed within the agreed timeline.

The final milestone of the construction phase is **practical completion**, which occurs when the hotel building is substantially complete and ready for operational handover. At this stage, minor defects may remain, but the property is functional and ready for system testing and pre-opening preparation.



STEP 9:

Install Technology, Revenue Infrastructure, and Pre-Opening Systems

As construction approaches completion, the hotel must begin transitioning from development mode to operational readiness. Modern hotels rely heavily on technology systems to manage reservations, pricing, distribution, and guest services.

The central operational platform is the **Property Management System (PMS)**. The PMS is the primary software used to manage reservations, room assignments, guest profiles, billing, and front-desk operations. It acts as the operational backbone of the hotel.

Hotels must also implement a **channel manager**, which distributes room inventory and pricing across multiple booking platforms in real time. This ensures that availability remains synchronized across all distribution channels.

Another key component is the **booking engine**, which enables guests to make reservations directly through the hotel's website. Direct booking channels are important because they reduce reliance on third-party platforms that charge commission.

Third-party platforms known as **Online Travel Agencies (OTAs)**: such as Booking.com or Expedia; provide global distribution reach and marketing visibility. While OTAs can drive early occupancy during a hotel's ramp-up period, they also involve commission costs. Effective distribution strategy therefore balances OTA exposure with direct bookings.

Hotels also deploy **Revenue Management Systems (RMS)**. An RMS analyzes booking trends, competitor pricing, and demand patterns to recommend optimal room pricing.





Hotel Technology Systems

System	Function	Importance
PMS	Manages reservations, billing, and room inventory	Core operational system
Channel Manager	Synchronizes room availability across platforms	Prevents booking conflicts
Booking Engine	Enables direct reservations on hotel website	Reduces commission costs
RMS	Optimizes room pricing based on demand	Maximizes revenue performance

Pricing strategies during the opening phase are particularly important. Some hotels use **penetration pricing**, which involves offering lower introductory rates to build occupancy quickly. Others adopt **value-added pricing**, where additional services such as meals or airport transfers are bundled with room bookings.

Developers must also analyse **distribution mix**, which measures the proportion of bookings generated from different channels such as corporate contracts, online travel agencies, direct bookings, and travel agents. Monitoring distribution mix helps ensure that the hotel maintains a balanced and cost-efficient booking portfolio.





STEP 10:

Recruit Leadership, Train Teams, and Prepare the Opening

Although construction and technology systems are essential, the ultimate success of a hotel depends on its people. Staffing and operational preparation must therefore begin several months before the official opening.

The first step is establishing the **organizational structure**, which defines the hierarchy of roles and reporting relationships within the hotel. The organizational chart typically includes departments such as front office, housekeeping, food and beverage, engineering, sales and marketing, finance, and human resources.

The most critical leadership position is the **General Manager (GM)**. The GM serves as the senior executive responsible for overall hotel performance. This role involves overseeing operations, managing revenue performance, coordinating departments, and representing the hotel to owners and stakeholders.

Developers must also design a **departmental staffing model**, which determines the number of employees required in each operational department. Staffing levels must be aligned with the hotel's service level and expected occupancy patterns.





Typical Hotel Department Structure

Department	Key Responsibilities
Front Office	Guest check-in, reservations, concierge services
Housekeeping	Room cleaning, laundry operations
Food & Beverage	Restaurants, banquets, catering
Engineering	Maintenance and utilities management
Sales & Marketing	Corporate contracts and distribution
Finance	Accounting and financial reporting

New employees undergo **onboarding programs**, which introduce them to brand standards, service procedures, and operational systems. Hotels also develop **Standard Operating Procedures (SOPs)** that define how tasks should be performed across departments.

Before the official opening, many hotels conduct **mock operations**, which simulate real guest scenarios. Mock operations test front-desk processes, housekeeping efficiency, kitchen coordination, and emergency procedures.

Hotels typically open in two stages. The **soft opening** allows the property to operate at limited capacity while staff refine operational processes. Once the hotel is fully prepared, management organises a **grand opening event** to introduce the property to the market and generate publicity.



STEP 11:

Launch, Stabilize, and Protect Post-Opening Performance

After opening, the hotel enters its **ramp-up phase**, during which occupancy and revenue gradually increase as the property builds market recognition.

Several key financial metrics are used to evaluate performance during this period. One of the most widely used indicators is **Revenue per Available Room (RevPAR)**, which measures the hotel's ability to convert room inventory into revenue. RevPAR combines occupancy and average daily rate into a single performance metric.

Another important measure is **Gross Operating Profit (GOP)**, which represents the operating profit generated after departmental expenses. GOP indicates how efficiently revenue is converted into operating earnings.

Core Hotel Performance Metrics

Metric	Definition	Purpose
ADR	Average room rate achieved	Pricing performance
RevPAR	Revenue per available room	Overall revenue productivity
GOP	Operating profit after expenses	Operational efficiency
NOI	Net income after operating costs	Investment return indicator



Hotels also track **Gross Operating Profit Margin**, which expresses operating profit as a percentage of total revenue. This metric helps evaluate cost control during the early stages of operation.

Developers must monitor **market penetration**, which measures the hotel's ability to capture demand relative to its competitive set. A hotel that achieves strong market penetration typically demonstrates effective marketing and pricing strategies.

Another increasingly important metric is **guest reputation index**, which measures guest satisfaction using online reviews and service ratings. In today's digital environment, reputation scores directly influence booking decisions.

Owners typically engage in **asset management**, which involves overseeing operator performance, approving capital expenditure plans, and ensuring that the property meets financial targets.

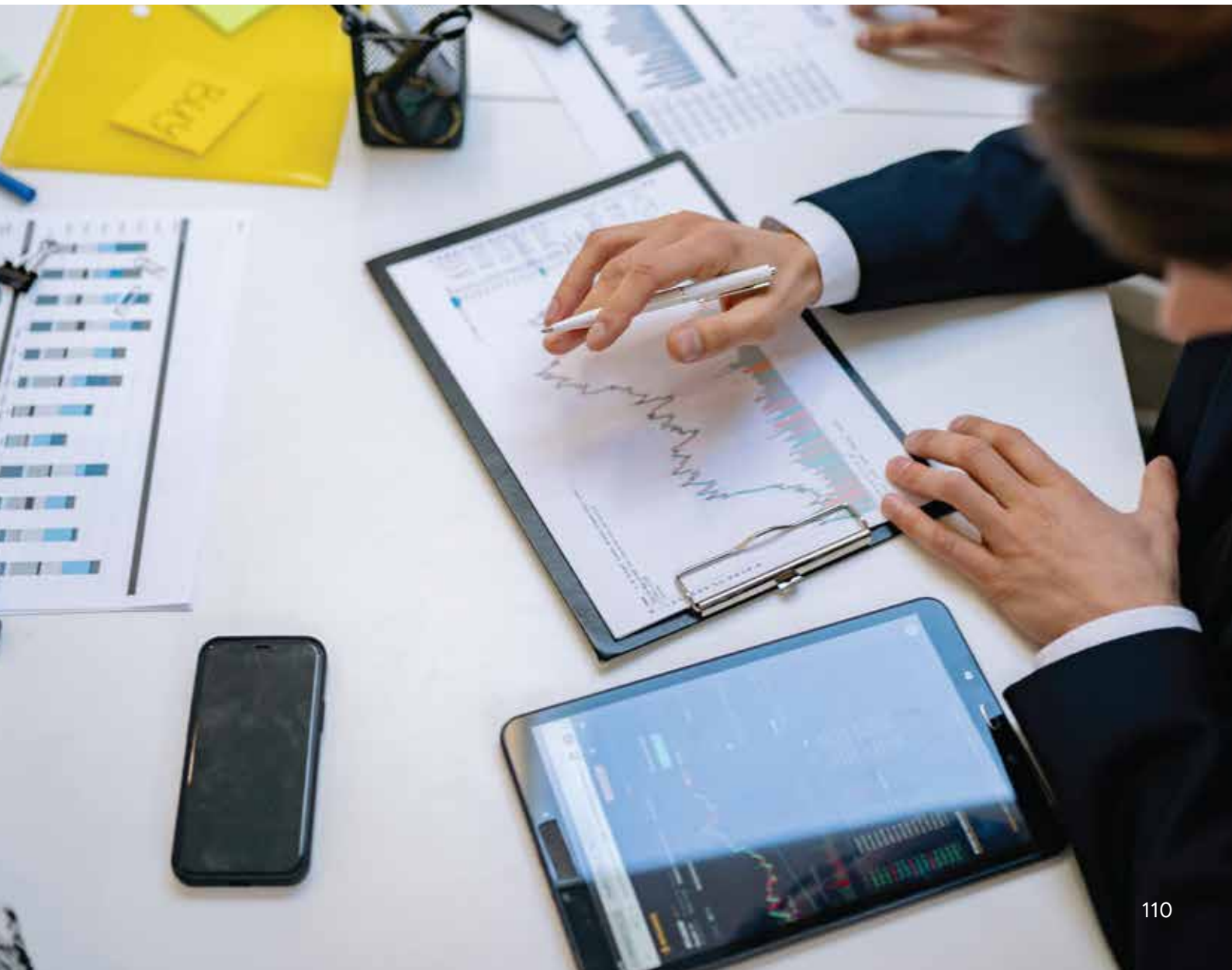
Hotels maintain capital reserves to support periodic asset renewal and maintain brand standards over the long term. This reserve ensures that the hotel maintains quality standards throughout its lifecycle.



STEP 12:

Plan the Exit Before the Asset Matures

For a developer, exit planning should focus on what happens after opening and stabilisation. The options may include holding the asset for recurring income, refinancing after stabilised trading, selling to an income-focused buyer, introducing an institutional partner, or converting the asset into a platform for future developments. The detailed mechanics of selling an operating hotel are addressed in the Selling chapter.





CHAPTER 3

Investing in a Hotel: A
Structured Framework for
Capital Participation,
Downside Protection, and
Value Realisation



Investing in a hotel differs from both buying an operating asset outright and building a hotel from the ground up. In an investment structure, the investor is not always the sole owner, the direct operator, or the development lead. Capital may instead participate through a joint venture, a preferred position, a structured partnership, or a managed investment platform. The core question therefore is not only whether the hotel is attractive, but how the investor enters the opportunity, where the capital sits in the structure, what rights attach to that position, and how value will ultimately be realized.

This distinction is important because two hotel opportunities with similar physical assets and similar operating performance can produce materially different investor outcomes depending on structuring. A well-positioned hotel can still generate poor investor results if the capital sits behind excessive leverage, if governance rights are weak, if distribution mechanics are misaligned, or if the exit pathway is unclear. Hotel investment must therefore be approached as a capital allocation exercise governed by structure, priority, accountability, and timing.

This chapter focuses on the investment-specific considerations that shape investor returns. As discussed in the sections above, detailed calculations relating to NOI, IRR, NPV, DSCR, cap rate, and core operating performance indicators should be referred to in those segments and applied here where relevant.





Investment Stages

Investment Stage	Key Decision	Primary Objective
Investment Route	Choose the form of participation	Align control, liquidity, and risk
Investment Thesis	Define the source of return	Establish a credible capital case
Sponsor and Platform Review	Evaluate execution capability	Reduce partner risk
Capital Position	Determine place in the stack	Protect economic priority
Distribution Structure	Understand return sharing	Preserve actual investor economics
Governance Framework	Define rights and reporting	Maintain control without day-to-day management
Performance Monitoring	Track return delivery	Compare results against underwriting
Exit and Monetization	Define realisation pathway	Convert paper value into actual return





STEP 1:

Select the Investment Route and Define the Role of Capital

The first task is to determine how capital will participate in the hotel opportunity. This is the most important structural decision in the investment process because it influences control, downside exposure, income priority, reporting visibility, and exit flexibility.

The most direct route is common equity participation, where the investor takes a residual ownership position and participates fully in upside after all senior obligations are satisfied. This route offers the highest upside participation, but it also carries the greatest exposure to operating volatility, delayed monetization, refinancing pressure, and loss absorption if performance weakens.

A second route is co-investment or joint venture participation. Under this structure, the investor deploys capital alongside a developer, owner, family office, operator, or institutional sponsor. This route can improve access to larger opportunities and allow execution responsibility to be shared, but it also increases the need for clarity around approval rights, capital calls, voting thresholds, and exit alignment.

A third route is preferred capital participation. In this structure, the investor generally ranks ahead of ordinary equity in the distribution sequence and may be entitled to a defined return before common equity participates further. This can improve downside protection relative to pure common equity, although upside is often more limited.

A fourth route is pooled participation through a professionally managed investment vehicle. This may provide diversification and professional execution, but it also reduces direct control over asset-level decisions and usually makes the investor more dependent on fund-level governance and transparency.

At the end of this stage, the investor must be clear on five questions. Is the objective direct control or passive participation. Is return expected primarily from current distributions or terminal value creation. Is liquidity required during the holding period. Is the investor comfortable funding follow-on capital if needed. And does the investor want full upside participation or stronger downside priority.



Participation Routes for Investment

Participation Route	Control Level	Downside Protection	Upside Participation	Primary Objective
Common Equity	High to moderate	Lowest	Highest	Investors seeking full ownership upside
Joint Venture Equity	Moderate	Moderate	High	Investors partnering for scale or local execution
Preferred Capital	Limited	Higher than common equity	Moderate	Investors seeking priority economics
Fund or Platform Participation	Low	Structure-dependent	Structure-dependent	Investors seeking diversification and managed exposure





STEP 2:

Build the Investment Thesis Around the Actual Source of Return

Once the route of participation has been selected, the investor must define the precise source of value creation. Broad optimism about travel growth or sector recovery is not enough. The thesis must identify how this specific capital position will create return.

In hotel investment, return may be driven by stable operating cash flow, repositioning of an underperforming asset, improvement in management quality, stronger pricing through brand or product alignment, recapitalisation, entry at a discount to stabilized value, or monetization after value enhancement. The source of return must therefore be linked not only to the hotel's operating potential, but also to the investor's structural position within the deal.

At this stage, the investment thesis should distinguish clearly between four broad approaches. Income-led investing prioritises regular distributions and capital preservation. Value-add investing seeks earnings expansion and future re-rating. Opportunistic investing relies more heavily on timing, restructuring, or dislocation. Structured capital investing focuses on earning a defined return with stronger priority rather than taking full residual risk.

A good thesis must state what is expected to change, why it should change, who is responsible for delivering that change, and how that change converts into investor return. If the answer depends on vague market optimism rather than a visible path to better income, stronger value, or more efficient structuring, the thesis is not yet investable.





Investment Orientation	Primary Objective	Return Driver	Main Vulnerability
Income-Led	Stable periodic cash flow	Recurring distributable earnings	Operating softness
Value-Add	Earnings growth and re-rating	Margin improvement and repositioning	Execution slippage
Opportunistic	Capital appreciation	Entry discount and future monetization	Timing risk
Structured Capital	Defined priority return	Contractual economics	Limited upside participation



**STEP 3:****Evaluate the Sponsor, Operating Partner, and Execution Platform**

In many hotel investments, the quality of the investment depends as much on the people controlling it as on the hotel itself. The investor may be exposed to a sponsor, owner, developer, operator, or platform manager. The capability and alignment of that party directly influence how the thesis gets executed.

The first concept at this stage is sponsor alignment. Sponsor alignment refers to whether the controlling party has meaningful economic exposure, realistic underwriting assumptions, transparent reporting behavior, and incentives that move in the same direction as investor return. A sponsor with little capital at risk and full control over spending, timing, and distributions creates structural imbalance.

The second concept is execution credibility. A sponsor may have market access and strong relationships, but still lack the ability to deliver budget discipline, timely refinancing, management oversight, or commercial repositioning. Hotel investments often fail not because the thesis was conceptually wrong, but because execution quality was weaker than assumed.

The third concept is operator suitability. Where a hotel is externally managed or brand-affiliated, the investor must assess whether the operator is appropriate for the asset category, market depth, and commercial objective. A premium operator may not always be suitable for a yield-driven asset, and an operator optimized for revenue growth may not be best aligned with owner-level cash flow preservation.

At this stage, the investor should review the sponsor's comparable track record, capital-at-risk contribution, reporting standards, treatment of prior partners, and performance in delayed or stressed situations. Hotel investing is too relationship-dependent to ignore partner quality.



STEP 4:

Determine Capital Position and Economic Priority

Once the investment route and counterparties are clear, the investor must confirm where the capital sits in the stack and what that position means in practice.

As discussed in the sections above, the detailed mechanics of debt, leverage, DSCR, and capital-stack calculations have already been addressed. In this chapter, the focus is on the economic implications of position and the effect that ranking has on investor outcome.

The investor's capital may sit in senior debt, subordinate debt, preferred capital, or common equity. The higher the capital sits in priority, the stronger its claim on cash flow and recovery, but the lower its participation in residual upside. The lower it sits, the more exposed it becomes to performance volatility, but the greater the potential for wealth creation if the hotel outperforms.

This stage is not only about ranking. It is also about practical control. A lower-priority investor may still have a strong position if governance rights are robust, leverage is conservative, and partner alignment is strong. Conversely, a nominally senior economic position may still be weak if documentation, oversight rights, or enforcement mechanisms are poor.

Capital Position	Priority in Distributions	Relative Risk	Typical Economic Character
Senior Capital	First	Lowest	Contracted return with strongest protection
Subordinate Capital	After senior capital	Moderate to high	Higher fixed or structured return
Preferred Capital	Ahead of common equity	Moderate	Priority return with selective upside
Common Equity	Last	Highest	Residual upside with first-loss exposure



STEP 5:

Understand Distribution Logic, Waterfall Design, and Actual Investor Economics

Many hotel investments underperform not because the asset fails, but because investors focus on headline returns rather than actual distribution mechanics. In a structured deal, the investor's realized outcome depends on how cash is allocated, not merely on the total value created at asset level.

The first concept is return of capital. This determines how and when initial invested capital is repaid. The second is preferred return or hurdle return. This determines whether one class of investor receives a minimum return before others participate further. The third is catch-up or upside sharing. This determines how incremental profits are split once priority returns have been satisfied.

This stage matters because two deals with identical asset performance can produce very different outcomes if one structure prioritises sponsor catch-up aggressively while the other preserves investor economics for longer. The investor must therefore review not only expected profits, but the sequence in which those profits are distributed and the conditions under which that sequence changes.

The investment chapter should therefore include metrics that are directly relevant to investor-level economics.





Investor Return Metric	Formula	What It Measures
MOIC	Total Cash Returned ÷ Total Capital Invested	Total value created over the life of the investment
Payback Period	Initial Equity Invested ÷ Average Annual Cash Distribution	Approximate time required to recover invested equity
Distribution Coverage	Cash Available for Distribution ÷ Priority Distribution Obligation	Ability of the structure to service preferred or priority returns
Equity Value Accretion	Current Equity Value – Initial Equity Invested	Growth in investor value before exit

MOIC is useful because it captures the scale of total value created. Payback period is useful because investors often care not only about how much return is generated, but how soon capital begins to come back. Distribution coverage is particularly important in structured or preferred capital investments because it shows whether operating cash flow is sufficient to support the promised economic priority. Equity value accretion indicates whether value is being built even before final sale or recapitalisation.





STEP 6:

Establish Governance Rights, Reporting Standards, and Intervention Triggers

Where the investor does not control day-to-day operations, governance becomes the main mechanism for protecting capital. A hotel investment should not proceed on economics alone if oversight rights are weak.

The first governance requirement is information visibility. The investor should receive periodic financial statements, budget comparisons, capital expenditure reporting, debt compliance updates, and operating performance summaries. Without timely reporting, deterioration is often recognized too late.

The second requirement is reserved matters protection. Certain decisions should require investor approval rather than unilateral sponsor action. These usually include additional borrowing, major capital expenditure outside approved plans, changes to operator or brand, sale of material assets, related-party transactions, or material deviation from the business plan.

The third requirement is intervention clarity. If the business materially underperforms or if covenants, reporting standards, or contractual obligations are breached, the investor should know in advance what escalation rights, cure rights, or replacement mechanisms are available.





Governance Area	Purpose	What Must Be Confirmed
Reporting Rights	Preserve visibility into performance	Frequency, depth, and reliability of reporting
Budget Approval	Control capital deployment	Ability to review and approve annual budgets
Reserved Matters	Prevent unilateral strategic drift	Approval rights over major value-impacting decisions
Performance Review Triggers	Detect underperformance early	Clear thresholds for review and escalation
Exit Rights	Preserve monetization flexibility	Transfer, buyout, refinance, or sale mechanisms

A good investment structure does not depend on trust alone. It defines rights clearly enough that performance can be monitored and corrected before value is impaired.



STEP 7:

Monitor the Investment Through Investor-Specific Performance Indicators

Once capital has been deployed, the investment process does not end. Hotel investment requires active performance monitoring, particularly where return depends on operating improvement, disciplined cash flow management, refinancing, or future sale.

The operating indicators defined in the acquisition chapter, including occupancy, ADR, RevPAR, GOP margin and stabilised NOI, remain relevant for monitoring the hotel. However, an investor must go one level further and assess whether asset performance is translating into distributions, value growth, covenant discipline and monetisation readiness.

The investor must assess whether actual distributions match the expected profile, whether value enhancement milestones are being achieved, whether leverage remains manageable, whether the sponsor is performing to plan, and whether the investment is moving closer to monetization readiness.

Monitoring Lens	Purpose	What Must Be Confirmed
Distribution Performance	Is cash being returned as underwritten	Tests whether the structure is delivering real income
Value Growth	Is the equity position strengthening	Indicates progress toward exit value creation
Capital Discipline	Is additional capital being required unexpectedly	Tests structure resilience
Sponsor Delivery	Is execution aligned with the thesis	Reveals whether underperformance is structural or temporary
Exit Readiness	Could the position be monetized today if needed	Tests practical liquidity rather than theoretical value

A good investment structure does not depend on trust alone. It defines rights clearly enough that performance can be monitored and corrected before value is impaired.



STEP 8:

Plan Liquidity, Exit Optionality, and Final Monetization

An investment should never begin without a realistic path to monetization. In hotel investing, the quality of the exit pathway is as important as the quality of the entry thesis.

The first concept is exit optionality. This refers to whether the structure allows more than one route to value realisation. A position that can only be monetized through a full asset sale is less flexible than one that can also be refinanced, partially sold, recapitalized, or bought out by an existing partner.

The second concept is transferability. The investor must know whether the position can actually be sold or assigned, whether partner consent is needed, whether pre-emption rights apply, and whether lock-in provisions limit flexibility.

The third concept is net realisation. Gross value at exit is not the same as investor proceeds. Actual monetization depends on debt repayment, transaction costs, tax treatment, waterfall mechanics, and any contractual priority layers ahead of the investor.

The most important practical question at this stage is simple: if the investment thesis succeeds, how does the investor get paid. If that answer is vague, the structure is incomplete.





Exit Route	Typical Use Case	Key Investor Consideration
Asset Sale	Full monetization of hotel value	Buyer appetite and valuation multiple
Stake Sale	Sale of investor position	Transfer rights and partner consent
Refinancing	Partial return of capital while retaining exposure	Debt market conditions and income stability
Recapitalisation	Introduction of new capital partner	Re-pricing of value and governance reset
Buyout by Existing Stakeholder	Simplified partner exit	Pre-agreed valuation method and timing clarity

A disciplined hotel investment process therefore does not end with identifying an attractive asset or a strong market. It must also confirm that the investor's position within the structure is commercially sound, that return-sharing mechanisms are aligned, that governance remains clear through the holding period, and that the pathway to monetization is both practical and visible from the outset.



CHAPTER 4

Selling a Hotel: A Structured
Framework for Exit Readiness,
Transaction Control and Value
Realisation



Selling a hotel is not a passive disposal of real estate. It is the transfer of a living operating business whose value depends on continuity, confidence and future income visibility. Unlike a leased commercial building, where rent is often secured through long-term tenant agreements, a hotel must recreate its revenue every day through rooms, food and beverage, events, brand perception, service quality and distribution strength.

This makes the sale process more sensitive than a conventional property transaction. A buyer is not only evaluating land, building and location. The buyer is assessing whether the business can continue to perform after ownership changes. Any uncertainty around records, licenses, contracts, employees, reputation or operating systems can weaken confidence and reduce pricing.

A successful hotel exit therefore begins before the asset is formally marketed. The seller must prepare the hotel as an investible operating platform, not merely as a property available for sale. This requires clean documentation, clear positioning, controlled buyer access, resolved encumbrances, stable operating continuity and a well-managed transaction process.

The objective is not simply to find a buyer. The objective is to create enough confidence for qualified buyers to compete, underwrite the asset seriously and complete the transaction without excessive discounts, delays or protective conditions.



STEP 1:

Define the Exit Purpose and Sale Strategy

The sale process must begin with clarity on why the hotel is being sold. The reason for exit determines how the asset should be positioned, which buyers should be approached and how much time should be allowed before launching the process.

A hotel owner may sell because a fund life is ending, a lender repayment is approaching, partners wish to separate, capital must be recycled into another project, succession planning requires liquidity, or the asset has reached maturity under current ownership. In other cases, the owner may not want a complete exit but may seek a partial stake sale, joint venture, refinancing or strategic partner.

Each situation requires a different sale strategy. A seller under time pressure may prioritise certainty and speed. A seller with a longer window can prepare the hotel, correct weaknesses, improve presentation and run a more competitive process. A seller seeking a strategic partner may focus less on immediate price and more on future value creation, governance and capital support.

At this stage, the seller must define the intended outcome clearly.

Exit Question	Why It Matters
Why is the hotel being sold now?	Establishes the commercial logic for the transaction
Is the priority speed, certainty or maximum value?	Determines process design and buyer selection
Is the seller exiting fully or partially?	Shapes transaction structure
What is the minimum acceptable net realisation?	Prevents negotiation based only on headline price
How much preparation time is available?	Determines whether the asset should be improved before launch

This step prevents the sale process from becoming reactive. A clearly defined exit purpose gives the seller control over timing, messaging, buyer selection and negotiation strategy.



STEP 2:

Prepare the Hotel Before Taking It to Market

A hotel should not be introduced to buyers until it is ready to be examined. Buyer confidence is created when information is organised, current and consistent. If the seller appears unprepared, buyers assume there may be hidden risks and begin discounting the asset before commercial negotiations even begin.

The seller should prepare a structured transaction data room before launching the process. This should include ownership documents, licenses, permits, financial statements, tax records, employee details, vendor contracts, insurance documents, maintenance records, brand or operator agreements, renovation history, inventory records, guest review summaries, future bookings and major corporate or event contracts.

This preparation is not administrative. It is strategic. A clean data room reduces buyer hesitation, shortens due diligence timelines and prevents avoidable renegotiation. It also signals that the hotel has been professionally owned and managed.

The seller should also prepare a record of improvements made during the holding period. Renovated rooms, upgraded kitchens, new equipment, technology improvements, fire safety upgrades, additional revenue streams, improved guest ratings, stronger corporate accounts and brand compliance works should be documented. Buyers are more willing to pay for improvements when there is clear evidence of what has been completed and what risk has already been reduced. The seller should prepare a structured data room containing the documents a buyer will require, without waiting for diligence requests to expose gaps in record keeping.



STEP 3:**Identify and Resolve Sale Friction Before Buyer Review**

Every hotel carries certain issues that may affect buyer confidence. These may not always be serious enough to stop a transaction, but if they are discovered late, they can become negotiation tools for the buyer. The seller should therefore identify, resolve or clearly explain these issues before formal due diligence begins.

The most common value-reducing issues include expired licenses, incomplete statutory records, pending employee claims, unresolved vendor disputes, weak maintenance logs, unclear inventory records, unpaid dues, inconsistent accounting records, negative guest review patterns and restrictive operating contracts.

One of the most important seller-side reviews relates to the Hotel Management Agreement or franchise arrangement. A brand or operator may add value if it supports revenue, reputation and market confidence. However, a restrictive agreement can reduce flexibility for the next owner. Buyers may want the ability to renegotiate commercial terms, change the operator, reposition the hotel, renovate the product or integrate the hotel into an existing platform.

The seller must therefore evaluate whether the existing agreement is a value enhancer or a value constraint. This requires review of remaining tenure, termination rights, fee structure, performance tests, owner approval rights, area restrictions, change-of-control provisions and any mandatory property improvement obligations.





Potential Friction	Seller-Side Action
Restrictive HMA or franchise agreement	Review flexibility, termination rights and buyer impact
Expired or weak licenses	Renew or clarify transfer process before launch
Pending employee liabilities	Quantify and settle or disclose clearly
Poor guest reviews	Correct recurring issues before buyer inspections
Incomplete maintenance records	Prepare asset condition history
Vendor or statutory dues	Reconcile and settle before due diligence
Unclear inventory ownership	Prepare detailed inventory schedules

The objective is not to create a perfect hotel. The objective is to ensure that all material issues are known, controlled and explained before the buyer uses them to reduce price.



STEP 4:

Build a Strong Sale Narrative

A hotel does not sell only through numbers. It sells through a credible investment narrative supported by evidence. The seller must be able to explain why the hotel matters, why it has performed, why the timing of sale is attractive and what the next owner can do with it.

This narrative should not sound promotional. It must be practical, specific and grounded in the asset’s actual strengths. A strong hotel sale narrative usually combines five elements: location relevance, demand depth, operating stability, asset quality and future upside. The Information Memorandum should therefore present the hotel as a business opportunity, not only as a physical asset. It should explain the catchment, demand generators, guest segments, revenue sources, brand positioning, competitive advantages, recent improvements, operating systems, guest reputation and transition readiness.

The strongest sale packages answer the buyer’s key questions clearly:

Buyer Question	Seller’s Narrative Must Explain
Why is this hotel relevant in its market?	Demand drivers, location and competitive context
Why has the hotel performed?	Brand, management, guest mix and operating discipline
What risks have already been addressed?	Renovations, licenses, systems and compliance
What can the next owner improve?	Upside through repositioning, expansion or better management
Why is now the right time to buy?	Market cycle, asset maturity and future growth potential

The seller should avoid vague language such as “high potential” or “excellent opportunity” unless it is supported by evidence. Buyers respond better to specific statements: improved guest ratings, renovated inventory, corporate accounts, banquet demand, underused land, brand conversion potential, cost efficiencies or operational upside.

A well-built narrative makes the buyer see not only what the hotel is today, but what it can become under the next ownership cycle.

STEP 5:

Decide the Right Sale Structure

The seller should not assume that a full sale is the only route. The structure of the transaction can materially affect buyer interest, pricing, tax outcome, control and future participation.

A full sale is appropriate when the seller wants complete exit and capital realisation. A partial sale may be better when the owner wants to retain upside while bringing in capital or expertise. A joint venture may be suitable where the asset has development or repositioning potential but needs fresh capital. A recapitalisation may be appropriate where the hotel is performing but the current capital structure requires realignment. In some cases, the seller may sell the real estate but retain management or operating rights, if the seller has a proven operating platform.

Structure	When It Works Best	Key Seller Consideration
Full Sale	Complete exit and capital release	Clean transfer and certainty of closing
Partial Sale	Seller wants liquidity but retains upside	Governance and future exit rights
Joint Venture	Asset needs capital or repositioning	Control, decision rights and profit sharing
Recapitalisation	Asset is strong but capital structure needs change	Debt, equity and partner alignment
Sale with Retained Management	Seller has operating expertise	Management fees and performance obligations

The right structure should be selected based on the seller's objective, not simply the highest headline offer. A lower headline price with clean closing, faster payment and fewer conditions may sometimes be superior to a higher offer with financing uncertainty, complex approvals or aggressive indemnity demands.



STEP 6:

Identify the Most Suitable Buyer Universe

Different buyers value hotels differently. A successful sale process depends on approaching buyers whose investment logic matches the asset.

Existing hotel owners may value operational synergies, brand fit, staff efficiencies and portfolio expansion. Institutional investors may focus on governance, reporting quality, income stability and exit visibility. Family offices and HNIs may value long-term ownership, location strength, capital preservation and brand association. Strategic operators may value market entry, operating control or brand expansion. First-time hospitality entrants may value ownership aspiration and business potential, but may require more guidance through the process.

The seller should not circulate the asset widely without strategy. Poorly targeted marketing can reduce confidentiality and weaken positioning. A selective buyer process helps protect information, preserve competitive tension and improve the quality of offers.

Buyer Category	Likely Motivation	Seller's Positioning Angle
Existing hotel owners	Portfolio growth and operating synergy	Platform fit and efficiency upside
Institutional investors	Stable cash flow and governance	Reporting quality and asset control
Family offices / HNIs	Long-term ownership and wealth preservation	Location, brand and legacy value
Strategic operators	Market access and operating control	Brand potential and operational leverage
First-time hospitality entrants	Ownership aspiration and lifestyle appeal	Simplicity, support and transition readiness

Buyer selection is not only about who can pay. It is about who can close, who understands the asset and who is least likely to retrade aggressively after due diligence.



STEP 7:

Appoint a Specialist Hotel Transaction Team

A hotel sale should be managed by advisors who understand hospitality. General property brokers may focus mainly on land, building and price per square foot, but hotel transactions require understanding of operating business transfer, brand contracts, employee transition, guest continuity and hotel-specific closing mechanics.

The seller's core team should include a hotel investment advisor, hotel transaction lawyer, tax advisor, internal finance lead and, where required, a technical consultant. Each has a distinct role.

Advisor	Role in Sale Process
Hotel investment advisor	Positions the asset, identifies buyers, manages process and negotiates offers
Hotel transaction lawyer	Drafts and negotiates sale documents, indemnities and transfer obligations
Tax advisor	Evaluates tax impact and net proceeds
Internal finance lead	Manages data room, financial responses and buyer queries
Technical consultant	Supports asset condition disclosures and reduces physical inspection uncertainty

A specialist hotel advisor is especially important because the asset must be marketed as both real estate and an operating business. The advisor should help create competitive tension, qualify serious buyers, manage confidentiality, compare offers and protect the seller from unnecessary price erosion.



STEP 8:

Control Confidentiality and Information Release

Confidentiality is critical in a hotel sale. If news of a sale spreads too early, it may unsettle employees, concern vendors, alert competitors, disturb corporate accounts or create uncertainty among brand partners. This can weaken the operating environment at exactly the time when the seller needs stability.

Information should therefore be released in stages. Initial discussions should be based on a teaser or short opportunity note. Detailed information should be shared only after the buyer signs a non-disclosure agreement and demonstrates seriousness. Highly sensitive information, such as employee records, detailed contracts, tax records and customer-level data, should be shared only with shortlisted buyers at an advanced stage.

Site visits must also be controlled. Buyers will want to inspect guest rooms, public areas, kitchens, back-of-house, plant rooms and service areas. These visits should be discreet, pre-planned and conducted without disrupting guest experience or alarming staff.

Information Stage	Material Shared
Initial stage	Anonymous teaser or high-level opportunity note
Qualified buyer stage	Information memorandum after NDA
Serious buyer stage	Data room access and management discussion
Final bidder stage	Detailed contracts, employee records and closing information

The seller must balance transparency with control. Buyers need enough information to make credible offers, but uncontrolled disclosure can damage the business during the process.



STEP 9:

Negotiate the Letter of Intent Without Weakening Seller Leverage

At sale stage, the LOI should be treated as a control document. It should preserve momentum, define buyer commitment and prevent the seller from losing leverage too early in the process.

The LOI should define the proposed price, transaction structure, deposit, due diligence period, exclusivity period, financing assumptions, conditions to closing and target completion timeline. It should also clarify what is included in the sale, whether employees are transferring, how licenses will be handled and whether any brand or operator approvals are required.

The seller should be careful before granting exclusivity. Once exclusivity is given, other buyer discussions usually stop. This shifts leverage towards the selected buyer. Exclusivity should therefore be granted only when the buyer has demonstrated financial capability, seriousness and alignment on major commercial terms.

The seller should also avoid vague LOIs. If key issues are left unresolved, the buyer may reopen them later during due diligence or documentation. A strong LOI reduces the chance of retrading.

LOI Term	Seller's Focus
Price	Ensure clarity on gross price and adjustment mechanism
Deposit	Confirm seriousness and buyer commitment
Due diligence period	Keep timeline disciplined
Exclusivity	Grant only to a credible and aligned buyer
Financing condition	Understand whether buyer funding is certain
Closing conditions	Avoid open-ended buyer exit rights
Asset scope	Define what is included and excluded

The LOI should protect momentum. It should not become a document that gives the buyer control without sufficient commitment.



STEP 10:

Prepare for Buyer Review and Prevent Avoidable Retrading

Once a buyer enters the review stage, the seller's priority is not to repeat the buyer's analysis but to manage the process with discipline. At this stage, the buyer will test the information shared during the sale process. The seller must therefore ensure that every document, explanation and response remains consistent with the sale narrative presented earlier.

A common risk in hotel sale transactions is retrading, where the buyer attempts to reduce the agreed price after reviewing documents, contracts or operating information. Some retrading may arise from genuine findings, but much of it results from unclear information, delayed responses, inconsistent records or issues that should have been disclosed earlier. The seller can reduce this risk by preparing a clean data room, maintaining a query tracker and ensuring that all responses are reviewed before being shared.

The seller should appoint one internal point of contact to coordinate all buyer questions. This avoids contradictory answers from different departments and keeps communication controlled. Responses should be factual, concise and supported by documents wherever possible. If an issue exists, it should be explained clearly along with its commercial impact, current status and proposed resolution.

The seller should also maintain a record of all information shared with the buyer. This protects the seller during documentation and reduces the possibility of later disputes. Where sensitive information is involved, access should be staged and limited to serious buyers who have signed appropriate confidentiality undertakings.

At this stage, the seller's role is to preserve buyer confidence without surrendering negotiation control. A well-managed review process keeps momentum intact, prevents unnecessary price erosion and allows only genuine issues to influence the final commercial terms.



STEP 11:

Finalise the Sale Agreement and Closing Mechanics

The definitive sale agreement must convert commercial understanding into enforceable obligations. In a hotel sale, this agreement must be more detailed than a standard property sale agreement because the transaction involves both an asset and an operating business.

The agreement should clearly define the assets being transferred. This may include land, building, furniture, fixtures, equipment, operating supplies, inventories, guest deposits, advance bookings, websites, domain names, software access, vendor contracts, intellectual property rights where applicable and business records.

It must also define what is excluded from the sale. This avoids disputes around items in storage, personal assets of the owner, leased equipment, brand-owned materials, third-party systems or assets not intended to transfer.

Closing adjustments require particular care. Since the hotel continues operating until the date of transfer, revenues and expenses must be apportioned accurately. Room revenue, restaurant revenue, banquet deposits, prepaid bookings, utilities, payroll, vendor payments, taxes, inventories and guest advances must be allocated between buyer and seller based on an agreed cut-off date and mechanism.





Closing Item	Why It Must Be Addressed
Guest deposits	Prevents double counting or future disputes
Inventory	Ensures accurate value transfer
Payroll and employee dues	Allocates liabilities up to closing
Vendor payments	Prevents inherited unpaid obligations
Utilities and taxes	Requires date-wise apportionment
Software and system access	Ensures operating continuity

The agreement should also cover indemnities, escrow or holdback provisions, default remedies, casualty risk, licence transfer responsibility and post-closing cooperation.



STEP 12:

Plan Employee Transition and Business Handover

Employee transition is one of the most sensitive parts of a hotel sale. Hotels depend heavily on people, service rhythm and institutional memory. A poorly managed transition can affect morale, guest experience and revenue continuity.

The seller should prepare a detailed employee schedule before closing. This should include designation, department, tenure, salary, benefits, leave balance, statutory dues, pending claims and reporting structure. The sale agreement should clearly state whether employees will transfer, be settled by the seller, or be rehired by the buyer under new employment terms.

The communication strategy is equally important. Employees should not learn about the sale through rumours. At the appropriate stage, the seller and buyer should jointly communicate the transition in a manner that protects morale and service continuity.

The handover should also cover key operating relationships. The seller should introduce the buyer to department heads, major vendors, corporate accounts, event clients and, where appropriate, brand or operator representatives. Pending events, guest commitments, maintenance schedules, service contracts and local relationships should be transferred clearly.

Handover Area	Seller Responsibility
Employees	Clarify continuity, dues and communication
Vendors	Introduce buyer and transfer service relationships
Corporate accounts	Protect revenue continuity
Event commitments	Ensure booked functions are honoured
Operating systems	Transfer access, manuals and process knowledge
Local relationships	Support continuity with authorities and service providers

A good handover protects the value that the buyer has paid for. It also protects the seller's reputation in the hospitality market.



STEP 13:

Evaluate the Exit Outcome

After completion, the seller should evaluate whether the exit achieved its original objective. This review should go beyond headline sale price. The true success of a hotel sale lies in net realisation, transaction certainty, speed of closure, reduced disputes and preservation of reputation.

The seller should assess whether the selected buyer was the right buyer, whether the process created sufficient competitive tension, whether avoidable discounts were prevented and whether the final structure matched the original exit purpose.

Exit Review Area	Question to Ask
Price	Was the sale value aligned with expectations?
Net proceeds	Did the seller realise the intended capital outcome?
Timeline	Was the process completed within the desired window?
Certainty	Did the buyer close without excessive retrading?
Process quality	Were documents, advisors and negotiations well managed?
Reputation	Was the transition handled professionally?

The sale process is complete only when the asset, business records, operating responsibilities and stakeholder relationships have been transferred without disruption. At this stage, the seller's role moves from negotiation to orderly completion. Final documentation must be archived, post-closing obligations must be tracked, and any agreed transitional support must be delivered within the timelines recorded in the sale agreement.



APPENDIX:
Hotel Acquisition Due
Diligence Closing Checklist



A Practical Closing Guide for Buyers

Due diligence should not be treated as a separate theoretical exercise at the end of a hotel acquisition. It is the final verification stage through which the buyer confirms whether the asset that has been analysed, valued, negotiated, and financed can actually be transferred and operated without material disruption.

At this stage, the objective is not to repeat the investment thesis or rework the valuation model. The objective is to confirm facts. Every document reviewed, every inspection completed, and every representation tested should answer one central question: does the hotel being acquired match the asset that was underwritten?

The following checklist is designed as a practical reference for buyers before closing. It focuses only on matters that must be verified before the transaction is completed.





1. Financial Records and Revenue Verification

The buyer should confirm that the financial records provided by the seller are complete, consistent, and supported by underlying operating data. The focus should be on verification rather than interpretation, since performance analysis would already have been completed earlier in the acquisition process.

The buyer should review annual audited financial statements for the last three to five years, current year-to-date financial statements, management accounts, tax filings, and supporting schedules. These should be checked against property-level records such as PMS reports, POS records, bank statements, invoices, and statutory filings.

Special attention should be given to whether reported revenue has actually been received, whether receivables are collectible, and whether any income is non-recurring or related-party in nature. Food and beverage revenue, banquet revenue, advance deposits, and group bookings should be reconciled with operational records.

The buyer should verify:

- Annual audited financial statements for the last three to five years
- Year-to-date profit and loss statements and management accounts
- PMS, POS, bank receipt, and invoice records supporting reported revenue
- Accounts receivable ageing and collectability
- Accounts payable, accrued expenses, and vendor balances
- Inventory statements and prepaid expense schedules
- Tax returns and statutory payment records
- Details of any related-party income, one-time income, or extraordinary adjustments

The purpose of this review is to ensure that the financial base used for decision-making is supported by actual records and not merely by management representations.

2. Ownership, Authority, and Transferability

The buyer must confirm that the seller has the legal authority to sell the hotel and that there are no ownership restrictions that could delay or prevent closing. This review becomes especially important where the asset is held through a company, partnership, family office, trust, special purpose vehicle, or layered group structure.

The buyer should examine the ownership structure, constitutional documents, board approvals, shareholder approvals, and any agreements that restrict transfer. Where shares are being acquired instead of only the asset, the buyer should also check whether historical liabilities remain within the entity.

The documents to verify include:

- Certificate of incorporation and constitutional documents
- Current shareholding pattern or ownership records
- Board resolutions and shareholder approvals authorising the sale
- Rights of first refusal, voting arrangements, transfer restrictions, or shareholder consent requirements
- Board and shareholder meeting minutes for the last five years
- Related-party agreements or intra-group arrangements affecting the hotel

The objective is to ensure that the transaction is being executed by the rightful owner and that no third party can later challenge the transfer.





3. Title, Land, and Building Approvals

The buyer should verify that the property has clear and marketable title, valid land use permissions, and all major building approvals required for hotel operations. This review must establish whether the land, building, access, and permitted use are legally aligned with the hotel's current operations. The title review should cover sale deeds, conveyance deeds, lease deeds, mutation entries, title search reports, encumbrance certificates, surveys, land records, and boundary confirmations. Any mortgage, lien, charge, easement, right of way, claim, or boundary dispute should be identified before closing.

The buyer should also verify that the property is approved for hotel use. This includes zoning permissions, land conversion approvals, sanctioned plans, commencement certificates, completion certificates, occupancy certificates, and other local authority approvals.

The following should be confirmed:

- Clear title or valid leasehold rights
- Absence of unresolved encumbrances, liens, claims, or disputes
- Approved land use for hotel operations
- Valid sanctioned plans and building approvals
- Completion certificate and occupancy certificate, where applicable
- Legal access to the site, including road access and utility access
- Consistency between approved plans and the hotel as built

If any gap is identified, it should either be resolved before closing or reflected through a condition precedent, indemnity, escrow, or price adjustment.



4. Physical Asset and Technical Condition

The buyer should confirm that the hotel's physical condition is consistent with the assumptions made during underwriting. This review should not duplicate the broader capital expenditure discussion already covered earlier in the report. Instead, it should focus on whether any undisclosed physical defects or maintenance liabilities exist before closing.

A technical review should cover the structural condition of the building, mechanical systems, electrical systems, plumbing, HVAC, elevators, fire systems, façade, roof, waterproofing, kitchens, laundry areas, back-of-house spaces, and guest-facing areas.

The buyer should verify:

- Structural audit or engineering inspection report
- Condition of HVAC, electrical, plumbing, elevators, generators, and fire systems
- Roofing, waterproofing, façade, drainage, and service areas
- Back-of-house infrastructure, kitchen facilities, laundry, stores, and engineering areas
- Preventive maintenance records and annual maintenance contracts
- List of immediate repairs required before or after closing
- Any known defects disclosed by the seller

The outcome should be a clear list of technical issues, estimated cost implications, and responsibility for resolution.





5. Environmental and Safety Compliance

Environmental and safety due diligence should confirm whether the hotel carries any regulatory or contamination risk that could transfer to the buyer. This is particularly important where the property has fuel storage, generators, boilers, chemical storage, waste handling systems, older building materials, or prior industrial land use.

The buyer should review environmental assessments, pollution control approvals, waste disposal permissions, hazardous material records, asbestos surveys where relevant, and documentation relating to underground storage tanks or contamination events.

The review should include:

- Phase I or Phase II environmental assessment, where applicable
- Pollution control approvals and renewal status
- Waste disposal contracts and compliance records
- Records of hazardous material storage or release
- Asbestos or similar material surveys, where relevant
- Underground storage tank records, where applicable
- Fire and life safety inspection records

Any serious environmental issue should be treated as a high-risk matter and should not be carried into closing without specialist advice and contractual protection.



6. Operating licenses and Permits

A hotel cannot operate smoothly unless its critical licenses are valid, renewable, and transferable where required. The buyer should confirm that all operating approvals are in place and that there is no risk of business interruption immediately after closing.

The review should include the hotel operating licence, trade licence, tourism registration, fire NOC, health approvals, food and beverage permissions, FSSAI licence, liquor licence, occupancy certificate, pollution control approvals, signage approvals, music licenses where applicable, and any local municipal permissions required for operations.

Particular attention should be given to licenses that are revenue-sensitive or difficult to transfer, especially the liquor licence, food and beverage approvals, fire safety approvals, and occupancy certificate.

The buyer should verify:

- Validity and renewal status of all operating licenses
- Whether each licence is transferable, assignable, or requires fresh application
- Pending notices, penalties, or inspection observations
- Conditions attached to the liquor licence and F&B permits
- Fire, health, hygiene, and occupancy compliance
- Any regulatory approval required because of change in ownership or control

The buyer should not assume that licenses automatically transfer with the property. This must be confirmed before closing.





7. Material Contracts and Continuing Obligations

The buyer should review all agreements that will continue after closing or affect the hotel's future operations. This includes hotel management agreements, franchise or licence agreements, vendor contracts, equipment leases, corporate contracts, event bookings, distribution agreements, insurance policies, and financing-related documents.

The objective is to identify obligations that bind the buyer, restrict flexibility, or require third-party consent before transfer. The buyer should also confirm whether any contracts contain change-of-control provisions, termination penalties, automatic renewals, exclusivity clauses, or minimum payment obligations.

The review should cover:

- Hotel Management Agreement and amendments
- Franchise, brand, or licence agreements
- Property Improvement Plan or brand compliance obligations
- Vendor and service contracts
- Equipment leases and rental agreements
- Corporate accounts, group contracts, event commitments, and advance bookings
- OTA, travel agent, and distribution agreements
- Loan agreements, guarantees, mortgages, and indemnity contracts
- Insurance policies and claims history
- Intellectual property, trade names, domains, and licensing arrangements

Any contract that cannot be assigned or transferred should be addressed before closing to avoid operational disruption.



8. Employees, Labour Matters, and Statutory Dues

Employee due diligence should confirm the cost, continuity, and liability position of the hotel's workforce. The buyer should not only examine salary records but also statutory payments, accrued benefits, disputes, and transition obligations.

The review should begin with a complete employee roster showing department, designation, tenure, compensation, employment type, and benefits. Employment contracts, appointment letters, payroll records, leave balances, bonus obligations, gratuity exposure, provident fund records, ESIC records, and professional tax filings should be reviewed.

The buyer should verify:

- Complete employee roster with compensation and tenure details
- Employment contracts, appointment letters, and consulting agreements
- Payroll records and statutory deduction records
- PF, ESIC, gratuity, bonus, leave encashment, and other statutory dues
- Labour disputes, employee complaints, or pending claims
- Union agreements or collective bargaining arrangements, if applicable
- Severance obligations and employee transition requirements
- Employee handbook, HR policies, and workplace safety records

Where the seller is expected to settle employee liabilities before closing, this should be documented clearly in the transaction agreement.



9. Litigation, Claims, and Government Proceedings

The buyer should confirm whether the hotel, owner entity, directors, promoters, or property are involved in any pending or threatened legal proceedings. Legal claims may not always appear in financial statements, but they can materially affect the transaction after closing.

The review should include civil litigation, criminal complaints, consumer disputes, labour claims, tax proceedings, arbitration matters, lender notices, municipal notices, environmental notices, regulatory proceedings, consent orders, injunctions, and penalties.

The buyer should review:

- List of all pending, threatened, or settled litigation
- Arbitration proceedings and settlement agreements
- Consumer complaints and service-related claims
- Labour and employee disputes
- Tax assessments, appeals, notices, and penalties
- Government or municipal notices
- Consent decrees, injunctions, or regulatory restrictions
- Legal opinions on material claims

Each legal matter should be assigned a risk value and resolved through withdrawal, settlement, indemnity, escrow, or closing condition.



10. Closing Verification and Handover

The final stage of due diligence is closing verification. This ensures that all agreed conditions have been satisfied before funds are released and ownership changes hands.

The buyer should prepare a closing checklist that confirms title documents, approvals, contract assignments, licence transfers, employee settlements, inventory handover, working capital adjustment, insurance activation, system access, bank controls, and physical possession.

The buyer should confirm:

- Final purchase price adjustment
- Working capital, inventory, deposits, and prepaid expense calculation
- Proration of revenue, payroll, utilities, taxes, and operating expenses
- Assignment or transfer of material contracts
- Transfer or renewal process for operating licenses
- Employee transition and settlement of prior liabilities
- Activation of new insurance policies from closing date
- Handover of keys, access cards, passwords, system credentials, and operating records
- Opening balance sheet confirmation
- Post-closing list of pending actions and responsible parties

This stage is important because a hotel must continue operating without interruption. A weak handover can affect guest experience, staff morale, revenue collection, and vendor continuity immediately after acquisition.





Due Diligence Action Framework

The purpose of due diligence is not only to identify issues. Each issue must be converted into a commercial decision before closing.

Due Diligence Finding	Appropriate Buyer Response
Incomplete financial records	Seek supporting documents or adjust reliance on reported earnings
Misstated income or expenses	Reduce purchase price or revise closing terms
Undisclosed liability	Seek seller indemnity or escrow holdback
Title defect	Make resolution a condition precedent
Expired or non-transferable licence	Require renewal or fresh approval before closing
Major technical defect	Adjust price or require seller rectification
Pending litigation	Seek indemnity, escrow, settlement, or withdrawal right
Employee dues unpaid	Require seller settlement before closing
Contract cannot be assigned	Renegotiate or treat as a closing condition
Environmental risk identified	Obtain specialist review before proceeding



Closing Principle

A hotel acquisition should proceed only when the buyer has verified that the asset can be legally transferred, physically operated, financially supported, and commercially continued without material undisclosed risk.

The earlier stages of the acquisition process help determine whether the hotel is worth pursuing. Due diligence determines whether the hotel is still worth acquiring after every fact has been tested. Its purpose is not to reopen the investment thesis, but to confirm whether the transaction remains valid when the assumptions are replaced by evidence.



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1

BRAND SEARCH AND CONTRACT NEGOTIATION

We assist owners and developers in identifying the right hotel brand or operator for their asset and support them through the commercial negotiation process.

1. Shortlist suitable domestic and international hotel brands/operators.
2. Prepare and present the project opportunity to relevant brands.
3. Evaluate brand interest, market fit and commercial proposals.
4. Compare key terms including management fees, franchise fees, technical services fees and pre-opening support.
5. Support negotiations on tenure, performance clauses, termination rights and owner obligations.
6. Coordinate between the owner, brand, legal and technical teams.
7. Secure the right brand partnership to enhance asset value and marketability.



2

BRANDED RESIDENCES ADVISORY

We advise developers, landowners and investors on the planning and transaction strategy for branded residences and mixed-use hospitality-led developments.

1. Assess feasibility, market potential and price discovery.
2. Identify suitable hospitality, lifestyle or luxury brands.
3. Define product positioning, buyer profile and pricing strategy.
4. Evaluate expected sales velocity, amenities, common areas and service standards.
5. Structure the commercial model between developer, brand and operator.
6. Support brand/operator outreach, proposal evaluation and contract negotiations.
7. Assist in transaction strategy, investor discussions and deal structuring.



3

CONSULTING

We provide strategic consulting services to hotel owners, developers, investors and operators across the hospitality lifecycle.

1. Conduct market assessment and demand-supply analysis.
2. Advise on asset positioning, product mix and development strategy.
3. Evaluate project feasibility, business potential and investment viability.
4. Identify growth, repositioning and revenue improvement opportunities.
5. Provide inputs for hotel development, expansion and operational planning.
6. Support market entry, portfolio strategy and asset planning.
7. Deliver customized research and advisory based on client objectives.



4

CORPORATE FINANCE ADVISORY

We advise hospitality businesses, developers and investors on capital raising, funding strategy and financial structuring.

1. Assess capital requirements and funding objectives.
2. Advise on debt, equity and structured financing options.
3. Support capital raising for acquisitions, developments and expansions.
4. Prepare financial models, investor decks and funding proposals.
5. Identify suitable lenders, investors, family offices and financial partners.
6. Assist in financial structuring, deal evaluation and commercial negotiations.
7. Support refinancing, restructuring and investment planning for existing assets.
8. Improve bankability, investment readiness and transaction outcomes.



5

FEASIBILITY

We conduct feasibility studies for hotels, resorts, mixed-use developments and hospitality-led projects to assess commercial viability.

1. Assess site location, accessibility, demand drivers and market potential.
2. Conduct supply-demand analysis, target audience profiling and competitor benchmarking.
3. Identify highest and best use, asset type, positioning and project scale.
4. Recommend project mix, room inventory, facilities, amenities and common areas.
5. Advise on phasing strategy, placemaking and concept planning.
6. Estimate occupancy, ADR, revenue potential and profitability.
7. Prepare CAPEX/OPEX estimates, cash flow projections and return analysis.
8. Evaluate ROI, IRR, key risks and value enhancement opportunities.



6

STRATEGIC ADVISORY & BESPOKE RESEARCH

We provide customized strategic advisory and research support for travel, tourism, real estate and hospitality businesses.

1. Conduct customized market research based on client objectives.
2. Analyse demand drivers, competitive landscape, pricing trends and growth potential.
3. Support market entry, expansion, repositioning and portfolio strategy.
4. Prepare location studies, concept notes, opportunity assessments and business plans.
5. Provide insights on travel, tourism, real estate and hospitality trends.
6. Support data-backed strategic decision-making.



7

TRANSACTION ADVISORY

We support owners, investors and developers across hospitality transactions, including acquisitions, divestments, funding and strategic partnerships.

1. Identify and evaluate suitable hotel and hospitality assets for buyers.
2. Position and market hospitality assets to the right buyers for sellers.
3. Support debt advisory for acquisitions, developments, refinancing and expansion.
4. Support equity advisory by connecting clients with investors, family offices, funds and strategic partners.
5. Advise on M&A, joint ventures and strategic partnerships.
6. Prepare transaction collaterals, financial analysis and investor-facing documents.
7. Support due diligence, negotiations and deal closure coordination.



8

VALUATION

We provide valuation advisory for hotels, resorts, mixed-use developments, land parcels and hospitality-led assets.

1. Assess fair market value of hotels, resorts and hospitality assets.
2. Evaluate location, market demand, competitive positioning and asset quality.
3. Review historical and projected financial performance.
4. Analyse occupancy, ADR, RevPAR and profitability.
5. Support valuations for transactions, JVs/JDs, equity participation, pre-IPO, funding rounds, financing and strategic decision-making.
6. Advise on value enhancement through repositioning, branding or operational improvements.
7. Provide independent, market-backed valuation reports.



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