

Hotel Industry

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The Hospitality industry primarily provides lodging services to customers along with a variety of other supplementary services such as transportation, dining & event management, as per the customer's requirements. More often than not these services are bundled into unique packages and subsequently cross sold to clients.

Demand for this sector is primarily interlinked to the growth observed in the tourism sector, as travelers generally require accommodation during their leisure trips. Hence, growth in the tourism sector and government tourism related policies are considered critical to the hospitality industry. During 2015, the number of international visitors traveling globally surged to 1.18b (2014: 1.13b), depicting a growth rate of 4.6%¹. Share of visitors from emerging economies have observed sizeable growth since the turn of the century and going forward it is expected that this trajectory is likely to continue being a positive impetus to the global hotel industry.

Moreover, general growth in Gross Domestic Product (GDP) of an economy also facilitates demand of the hotel industry; growth in this indicator is usually accompanied by higher disposable income of individuals and subsequent spending on travel and leisure activities.

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Global Industry

The global hotel industry generated USD 457b revenue in 2011 and the same is forecasted to be around USD 550b in 2016². In 2014, Europe and Asia Pacific regions depicted the highest occupancy rates while hotels in Middle-East and Africa were considered most expensive in view of average daily room rates in the region.

Table 1: Region-wise occupancy and daily room rates		
<i>based on 2014 figures</i>	Occupancy	Daily Room Rates
Europe	68.8%	\$140.0
Asia Pacific	68.6%	\$115.7
United States	64.5%	\$121.4
Middle East & Africa	63.3%	\$166.0

Despite several adverse occurrences globally, the industry witnessed healthy growth in 2015 backed by increase in number of international travelers. During 2015, occupancy rates in Korea witnessed a decline of 8.4%³ on account of outbreak of MERS (Middle East Respiratory Syndrome) virus, while reduction in the value of Japanese Yen helped hotels to attract higher number of visitors. Growth in Japan's hotel occupancy compensated for decrease in revenues

¹ <http://www2.unwto.org/content/why-tourism>

² <http://www.hospitalitynet.org/news/4073336.html>

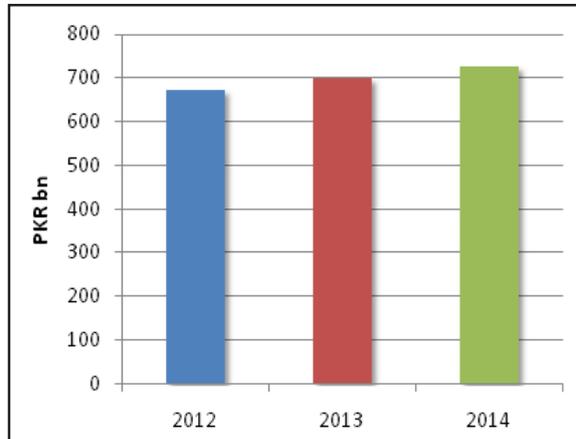
³ *Global hospitality industry overview - Scotiabank*

from Korea. Geopolitical issues in Ukraine, EU's sanctions on Russia, Eurozone crisis in Greece and terrorists attacks in France and Belgium also affected European hotels' performance during the same year. With the world's GDP forecasted to grow by approximately 3%⁴ during the current year, global travel volumes are expected to be aided.

Local Market

Hospitality sector in Pakistan comprises a wide array of businesses from transport services to cafés that cater to needs of tourists. Subsequently, hotels are also considered a key revenue generating segment of the sector in Pakistan. According to a report published by World Travel and Tourism Council (WTTC), direct⁵ contribution of travel and tourism sector (including hotels) represented 2.9% (amounting to Rs. 726.8b) of Pakistan's total GDP in 2014. Figure 1 below depicts composition of revenue generated from travel and tourism industry in Pakistan:

Figure 1: Historical contribution of travel & tourism sector



Demand for hotels in Pakistan is primarily generated by business related and leisure bound customers. Of these travelers, domestic visitors account for majority of demand. On the contrary, foreign spending represented only 8.1% (amounting to Rs. 1.7b) of total travel and tourism's contribution (direct, indirect and induced) to GDP, at end-2014. Since the Province of Punjab has the highest number of tourist attractions, it also generates majority of the tourism revenue for the country. As a result, demand for hotels is highest in Punjab followed by Khyber Pakhtunkhwa and Sindh. According to an online hotel booking platform, Lahore has the highest number of rooms available. Table 2 below represents the total number of rooms available at popular tourist destinations in Pakistan at end-2014.

Cities	Hotel Rooms
Lahore	3,645
Islamabad	2,325
Murree	2,311
Rawalpindi	1,867
Kaghan Valley	1,860
Karachi	1,740

⁴ Global hospitality industry overview - Scotiabank

⁵ The direct contribution of Travel & Tourism to GDP reflects the 'internal' spending on Travel & Tourism (total spending within a particular country on Travel & Tourism by residents and non-residents for business and leisure purposes) as well as government 'individual' spending - spending by government on Travel & Tourism services directly linked to visitors, such as cultural (e.g. museums) or recreational (e.g. national parks).

Hotel industry in Pakistan is dominated by few major players, namely:

- Hashoo Group – Owners of Pearl Continental Hotels (PC), Hotel One and Marriott Hotels
- Avari Family – Owners of Avari Hotels and Beach Luxury Hotels
- Aga Khan Fund for Economic Development - Major stakeholder in Serena Hotels
- Movenpick Hotels

In terms of total number of rooms available, PC hotels enjoy the largest market share while Avari Towers and Avari Lahore following in second position. In addition, the Avari Group operates Avari Xpress chain in order to cater to the requirements of middle to lower tier customers offering lower average daily room rents. Hashoo Group operates Hotel One chain, which operates in the same sector and is considered a competitor of Avari Xpress.

During 2015, average occupancy rate across the industry was low at around 35% on account of poor law and order situation in the country. However, with significant improvement witnessed during the ongoing period, average occupancy rate have surged to 80% by end-August 2016. This improvement can be attributed to improving law and order situation in the country and enhancement in business related travel, especially since initiation of China Pakistan Economic Corridor (CPEC). According to industry sources, the ratio of foreign to local visitors has also improved from 30-70 in 2015 to 50-50 in HY16.

Key Risks

- **Macroeconomic situation:** Since the growth in hotel industry is closely linked to growth in GDP and business related activity, any adverse movement in the same could hurt industry profitability and revenue indicators significantly.
- **Tourism and Business development:** Demand for hotels is directly proportional to growth in tourism. Hence, tourism plays a key growth driver for hotel industry which in turn is driven by the law and order situation as well as number of tourist attractions. Increase in overall business activity also attracts travelers/ businessmen for extended periods of stay.
- **Regulatory environment:** Government policies could also play an important role in determining future direction of this industry. Any adverse measures similar to the ones introduced in 2015, whereby tax rate on property income was increased, could restrain progress of this industry.

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