Hotel chains are betting on the luxury-budget sweet spot

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Upscale hotels offer higher room rates than midscale properties, but at lower operating costs than luxury hotels.

Top hotel chains are discovering a profitable middle ground between opulent palaces and budget stays, where rising consumer spend meets higher room rates. The strategy is taking shape across the industry as listed chains add hotels in the upscale and upper-upscale categories, with companies like Oberoi parent EIH Ltd and Lemon Tree Hotels saying that Trident and Aurika brands in these categories are doing the heavy lifting in leaner periods.

In October last year, ITC Hotels launched its upscale Epiq Collection of hotels as part of a premiumization strategy. Indian Hotels Co. Ltd (IHCL) on the other hand, has said it is expanding its portfolio across categories, while IHG Hotels & Resorts and Wyndham Hotels & Resorts, too, are also expanding in this segment. While luxury is at top end, upper-upscale sits below luxury and includes brands such as Trident, Hyatt and Marriott. Upscale is generally a full-service hotel and is positioned above midscale or mid market and economy hotels.

Hotel chains are expanding into upscale segments to tap premium demand without luxury-level overheads

Vikramjit Singh Oberoi, managing director and chief executive of EIH said in the June quarter earnings call that its Trident brand outpaced both industry peers as well as its own luxury brand Oberoi in terms of revenue per available room or RevPAR. While Trident grew 13.8% in RevPAR, the industry average in the upper-upscale segment was 9.2%, while Oberoi luxury brand, which is reliant on international travellers, grew at 8.2%.

For hotel companies, the appeal of upscale hotels is partly economic too. Ashish Jakhanwala, chief executive officer of Samhi Hotels, said that upscale properties can command higher room rates than midscale hotels because they offer a "fuller product", including larger rooms, restaurants, bars, gyms and pools. At the same time, their operating costs are generally lower than those of luxury hotels.

"An upscale hotel can, therefore, raise rates substantially when demand in a city is strong," Jakhanwala said. It is also better suited for domestic demand. In April, Samhi announced an agreement with Ikea's Ingka Centres to develop a 162-room upscale hotel in Noida's Sector 51. About 45% of its revenue currently comes from upscale properties, with the remaining 55% from midscale hotels, Jakhanwala said. As new properties open, the company expects the revenue mix to move to about 60-65% upscale and 40-35% midscale.

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