

Hotel Price Index

By Dripto Mukhopadhyay

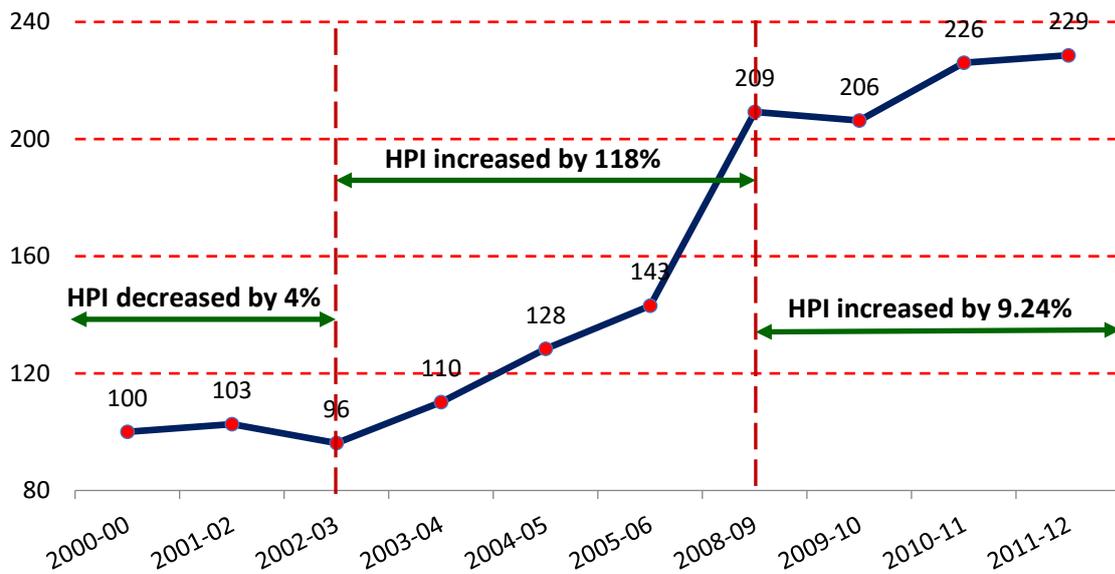
Whenever someone wants to work on estimating tourism demand or look into issues related price impact on tourism, price of accommodation is a crucial one to incorporate in analysis. In India lack of any time series on accommodation prices was a serious bottleneck for researchers who wanted to look into these relationships. Measuring price sensitivity is crucial for predicting tourism behaviour, be it domestic or international or for any specific country per say. This article tries to bridge that gap in a systematic manner through constructing a Hotel Price Index (HPI) for India. This HPI has taken care of different categories of accommodation also. In general, hospitality service providers are categorized into following by ministry of tourism as well as well accepted among the industry players:

- Five star deluxe
- Five star
- Four star
- Three star
- Two star
- One star
- Heritage
- Others

Heritage hotels have become popular during last decade or so. Whereas several other accommodation services are available currently, that cannot be categorized under anyone under star categories or heritage category such as service apartments, paying guest accommodations etc, which are clubbed under the category of others. An HPI at India level should represent all these categories and also should cover different corners of the country to be considered as a representative Index for hotel prices in India. The HPI presented in this article has used HVS data sets. Though HVS data is a robust one in terms of coverage, however, it captures information from 40 odd cities in India. Therefore, to some extent this HPI may be considered as slightly over-estimated one. The reason being hotels in remote areas, especially that are not well known tourist destinations, might have lower rates than that captured from the cities covered under the said survey.

The HPI is a weighted index that considers all categories of hotels as cited above. The base year considered for this index is 2000. The HPI is computed till the year 2011-12. Two specific years, 2006-07 and 2007-08 are missing in the computation since those are not available in public domain. Following is the pattern how HPI at the country level behaved between 2000-01 and 2011-12.

Figure 1: All India Hotel Price Index (HPI)

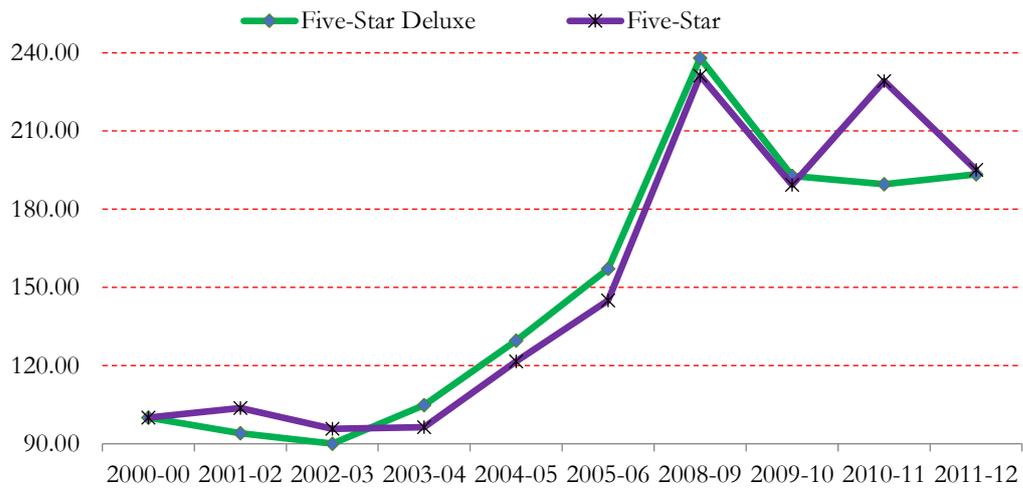


Source: Constructed by author from HVS data

As presented in Figure 1 above, the hotel prices in India has gone up by 2.29 times during last 11 years. However, a close look at the HPI suggests that the period between 2002-03 and 2008-09 has recorded major increase in the hotel rates in the country. During this span of 7 years, HPI has increased by 118%, where as in next 4 years it has increased by a meager 9.24%. Interesting point to note is the period between 2002-03 and 2008-09 marks the period of initiation of “Incredible India” campaign and global economic recession. That was the boom period for Indian tourism and apparently it seems that the hospitality sector changes its services substantially during that period. Several new entrants, both international and domestic, became part of the Indian hospitality sector during this phase. Though the global recession apparently has seen recovery around 2010, the economic situation in most of the countries including the developed ones, are still volatile. Income of India in terms of Gross Domestic Product (GDP) has seen significant dip after 2010. The volatility still continues and perhaps the changes observed HPI is a reflection of that unstable economic scenario both with as well as external to the countries.

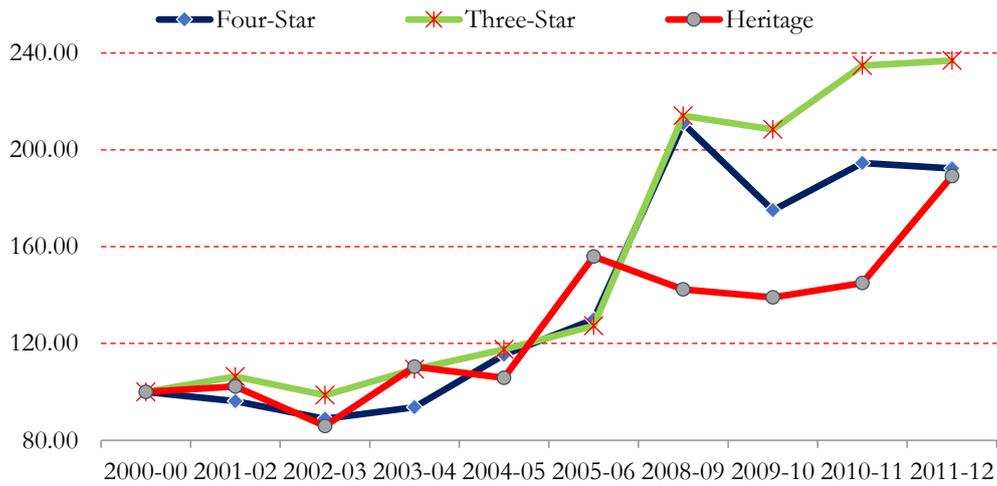
However, as it has been already mentioned earlier, HPI has been constructed with the help of tariffs of different categories of hotels, it is wise to have a look at the pattern of changes in HPI by individual categories. Trends in HPI of different hotel segments are given as Figure 2, 3 and 4 so that comparison across similar categories also becomes easier. As was observed in case of All India general HPI, the time span between 2003-04 and 2008-09 remains important for all segments but in different degrees. Top end hotels have shown steepest increase during this time period. Mid segments hotels also shown significant increase, but lees compared to top end during the same period. The hotels under 1 star and 2 star have shown minimum increase during this booming period. Another important point worth mentioning here is almost continuous upward trend in rates of 3 star hotels in India, even after the period of global economic crisis in 2008-09.

Figure 2: Trend in HPI - Top Segment Hotels



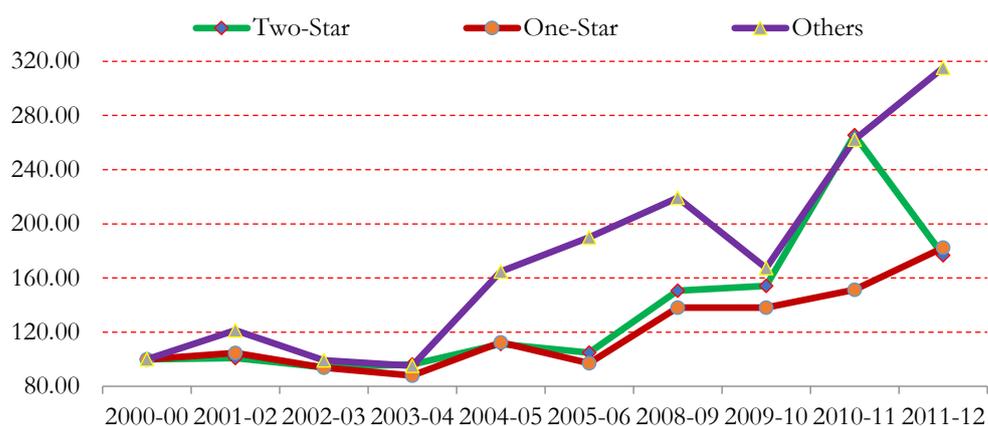
Source: Constructed by author from HVS data

Figure 3: Trend in HPI - Mid Segment Hotels



Source: Constructed by author from HVS data

Figure 4: Trend in HPI - Low Segment Hotels



Source: Constructed by author from HVS data

The discussion presented above provides the direction of price trends for hotel industry in general as well as for different categories separately. However, it does not provide a chance of understanding the actual rates and their changes over time. The following table presents the actual representative rates of overall hotel sector as well as for different categories of hotels for the initial and terminal years so that the magnitude of changes can also be comprehended by the readers.

Table 1: Rate per Room

Year	2000-00	2011-12
Five-Star Deluxe	4242	8206
Five-Star	2844	5549
Four-Star	2216	4261
Three-Star	1182	2800
Two-Star	824	1457
One-Star	572	1043
Heritage	2246	4248
Others	676	2131
Hotel sector	1233	2819