

European Tourist Hostel Report

Autumn 2013



SUMMARY

■ New 'boutique' branded operators are looking beyond the traditional backpacker market.

■ Hostels are appealing to a wider variety of guest segments than currently open to the hotel sector.

■ Supply continues to be dominated by independent operators. Further consolidation of the sector means that branded supply is set to expand, similar to that seen in the hotel sector.

■ London and Paris offer the greatest opportunities for expansion based

on current supply in relation to their 'youth' tourist markets.

■ The ceiling in bed rates requires operators to have large sites in order to obtain the critical mass to deliver optimum returns.

■ Future expansion over the short term will continue to be driven by private equity attracted by the current low penetration of branded supply, low operational costs and ability to drive revenues through F&B and other add on services.

.....
 "The hostel sector is where hotels were 15 years ago - its increasing acceptance as a hotel alternative with the entrance of new operators means that branded supply is set to expand."
 Tim Stoyle,
 Savills Hotels

→ Growth in youth travel

■ The traditional image of a hostel is providing low cost accommodation in shared dorms to young backpackers on a tight budget. And on the whole this remains to be the case.

■ But the new 'boutique' branded operators are looking beyond the backpackers by offering a concept that appeals to young city-breakers, families and groups looking for a more cost effective and potentially more social alternative to hotels.

■ Despite the increasing appeal of hostels to a wider demographic the core market remains 'young' travellers (16-34). Globally, the growth in international 'youth' trips has tended to outstrip the wider market, being more pronounced over the last three years suggesting it is a segment more resistant to economic downturns (see Graph 1).

■ The expansion of budget airlines and improving levels of disposable income in emerging economies with large young populations will help to further increase numbers. For example, Staywyse and UNWTO forecast that international 'youth' trips will grow from 190m to 290m by 2020.

Independents continue to dominate, but for how long?

■ Across the six key gateway cities examined, Berlin leads the way with an estimated 16,200 beds, followed by London with just over 16,000. The remaining cities have between 3,000 and 6,000 beds (Graph 2).

■ Berlin's reputation as a young, affordable city with a popular nightlife has attracted increasing numbers of young international tourists and in turn helped to fuel the growth in hostel supply. The extensive redevelopment in East Berlin has also meant that large scale purpose built development has been more prevalent than seen in other European cities. As a result almost 60% of bed supply is provided by branded international and/or national operators.

■ In the other key European cities supply remains highly fragmented. Branded international/national operators account for 31% of total bed supply on average with London leading with 40%. Compared to the London hotel market, branded supply accounts for 80% of stock (based on rooms). With the increasing establishment of hostels as an accepted alternative to hotels, we expect to see similar levels of branded supply across key European cities.

■ In order to assess current supply relative to potential demand we have examined bed supply per 1,000 overseas visitors aged between 16 and 34 years - the typical hostel guest demographic.

■ In line with total supply, Berlin leads with 13.1 beds suggesting that the market is relatively well supplied. In contrast Amsterdam, Dublin and Barcelona, who have similar numbers of 'young' visitors, have between 2.4 to 4.6 beds.

■ London and Paris would appear to

be the most relatively undersupplied with 2.8 and 0.9 beds respectively. This would suggest, particularly in light of their large visitor markets, that both cities offer significant expansion opportunities. Generator have already capitalised on this announcing the opening of a 940 bed Paris Hostel in 2014.

■ However, considering the strong competition for sites and capital values in both these cities the real skill will be the ability to secure sites at a level which maintains commercial viability ahead of alternative uses.

Hostels grow up

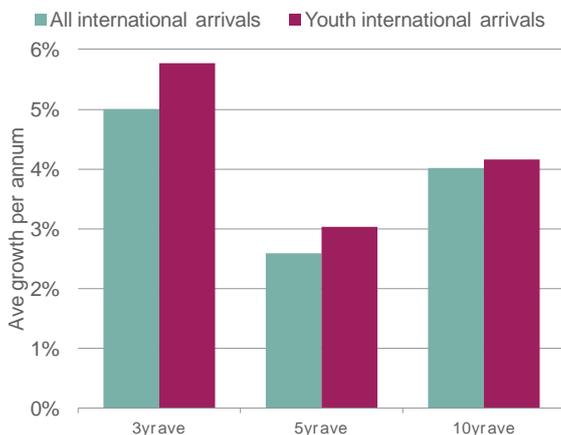
■ The growth of boutique operators has coincided with the increase in private rooms as part of the hostel offer. While dorm beds continue to account for the bulk of bed supply, operators are including an ever increasing number of single, double and family rooms in order to attract a wider clientele.

■ The absence of age restrictions by some of these new branded operators is also helping to broaden appeal putting hostels in direct competition with the budget hotel sector.

■ For example, Meininger state that their target markets are groups, families, individuals and business travellers. This is demonstrated in their 'hotel' branding. A&O also have a similar strategy with a dual hostel/hotel branding across single properties.

■ A design-led offer aimed at the 'urban' traveller has also become

GRAPH 1
Global youth travel volumes



Graph source: UNWTO; Staywyse; Savills

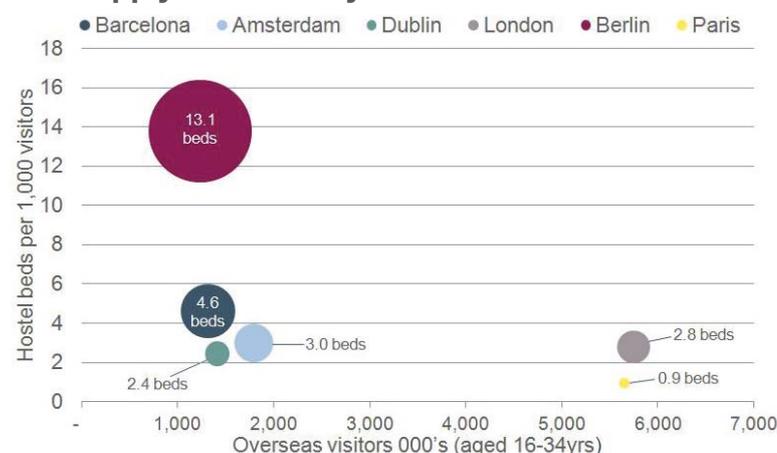
GRAPH 2
Bed supply in key European cities



Graph source: Savills; AMPM

GRAPH 3

Bed supply relative to 'youth' visitor numbers



Graph source: ONS; Amsterdam; Barcelona Tourist Office; Fáilteireland; Statistik-berlin; Le Tourisme a Paris
 Note*: Overseas visitors numbers based on 3 year average

more prevalent. This has included offering additional amenities and social activities such as bars and yoga classes on-site.

■ Both these trends have assisted hostel operators in appealing to a wider variety of market segments through the course of the year, something that is not necessarily available to the budget hotel sector.

■ Unlike budget hotels however, hostels have more specific market and location criteria with a preference for gateway tourist destinations.

■ While some operators have focused expansion within their domestic market, others have been far more international by expanding into key international tourist cities. The typically high hotel rates associated with these key cities also means that hostel operators may prove more successful at accessing hotel demand as they

have the potential to offer a more attractive and cost effective alternative.

■ However, the ability of operators to do this requires them to have large sites in order to obtain the critical mass to maintain rates and to deliver the target returns required by private equity investors as the larger bed count helps to lower costs on a per bed basis.

■ Hostels are well suited to the conversion of existing buildings, such as secondary offices, requiring lower capital investment and therefore reduced development risk.

■ However, planning policy regarding hostels can vary and specialist advice should be sought.

■ Typical requirements by the branded operators range from 20,000 to 80,000 sq ft allowing for between 250 to 1,000 beds. As a

result operators tend to be in direct competition with other users, not just hotels, for development opportunities.

■ This competition is exacerbated by their preference for city centre/ edge of city centre locations, close to public transport links - a preference which does not dictate budget hotel locations to the same extent.

■ Hostel operators non 'cookie cutter' approach can also create difficulties when it comes to competing for sites. The mix of room types can be largely location driven, which can have a significant bearing on an operators ability to maintain viability in a competitive situation.

■ However, the willingness and preference for hostel brands to locate in vibrant and 'emerging' locations has improved the scale of expansion opportunities available. Their openness to take on conversion opportunities of all types and having no special requirements regarding street level visibility has also helped.

Looking ahead

■ Over the short term expansion will continue to be driven by private equity attracted by the current low penetration of branded supply, low operational costs and ability to drive revenues through F&B and other add on services.

■ Future major openings include Meininger's Barcelona hostel in 2014 and Generator's Paris and Rome hostels, also planned for 2014.

■ While there continues to be a focus on the key European tourist cities

TABLE 1

European operator overview (as of end 2012)

	Countries	No. sites	Total beds	Annual turnover (€m)	Turnover per bed
A&O	Germany, Austria, Czech Republic	22	15,000	€53.5	€3,500
Meininger	Germany, Austria, Netherlands, Belgium, UK	16	7,000	€53.0	€7,500
Generator	Germany, Spain, Denmark, Ireland, Italy, UK	8	5,200	NA	NA
St Christopher's Inns	Germany, Netherlands, Spain, France, Belgium, Czech Republic, UK	18	3,200*	€18.3*	€5,600*

Graph source: Company websites

Note*: Bed supply is an estimate and revenue includes pub business

we suspect that some operators will start to look outside the traditional backpacker cities. For example, Generator, who already have a presence in Venice and next year in Rome, have stated that further Italian operations are likely.

■ The US is also clearly on the agenda for some with it reported that both St Christopher's Inn and Generator are seeking sites. This is being buoyed by plans to legalise youth hostels in New York City, currently banned under legislation introduced in 2010.

■ From a valuation perspective, the greater efficiencies offered by hostels in terms of number of beds/guests as opposed to hotels and lower operational costs, should have positive implications although this will be mitigated by lower average rates compared to the budget hotel market.

■ The potential valuation benefit and increasing establishment of the sector through the expansion of branded operations could mean a move away from an owner-operator structure, which currently dominates. In future, as happened with hotels, we may see operators adopt an op-co/prop-co model in order to realise the value of their freehold estate. It will be at this point where we may see institutional investment. ■

Savills Hotels

Savills remain one of the most experienced agents and valuers in the industry. Annually we handle some €5bn worth of hotel, serviced apartment and hostel asset transactions and valuations across the UK and Europe.

Sales include trading hotels at both corporate and private levels, from tourist class to five star luxury hotels and development sites.

Based throughout the UK, Europe, North America and Asia Pacific we provide the complete package from acquisition and development advice, through to lease, management contract or turn-key negotiations, valuation, financing, asset management and sales.

Savills Research

The Savills Research team has gained a reputation for an innovative and pro-active approach, which comes from a clear philosophy of market dynamics and an understanding of our clients needs.

The team is unique in providing advice and analysis to clients across all sectors of the property market: from rural property to offices; residential to retail and leisure; in both the UK and globally.

Our established research team, with some 20 years experience, has a strong reputation for producing accurate, well informed and above all else, independent analysis and commentary.

Please contact us for further information



Tim Stoyle
Head of Hotel
Valuations
+44 (0)20 7409 8842
tstoyle@savills.com



Ross Connelly
Hotel Valuations,
Associate
+44 (0)20 7409 9921
rconnelly@savills.com



Robert Seabrook
Head of Hotel
Transactions
+44 (0)20 7409 8106
rseabrook@savills.com



Michelle Webb
Hotel Transactions,
Director
+44 (0)20 7409 9919
mdwebb@savills.com



Sarah Round
Planning, Associate
Director
+44 (0)20 7420 6372
sround@savills.com



Marie Hickey
Research, Associate
Director
+44 (0)20 3320 8288
mlhickey@savills.com

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 500 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.