

European Tourist Hostel Report

2016

Brand expansion but supply still constrained

■ Expansion of the branded hostel sector in Europe has continued since our last report in 2013. However, relative to overseas 'youth' traveller numbers, supply remains constrained.

■ In order to assess supply relative to potential demand we examine bed stock per 1,000 overseas visitors aged between 16 and 34 years - the typical hostel guest demographic - across 10 European cities.

■ Berlin continues to lead with 11.2 beds suggesting the market remains relatively well supplied. It also reflects the greater level of maturity in the German hostel market. For example, two of the largest branded operators in Europe are German, A&O and Meininger.

■ Despite leading in supply terms Berlin's relative bed supply is down on the 13.1 beds that we reported in 2013

as stock expansion has been outpaced by the growth in overseas arrivals.

■ Barcelona and Dublin, both of which welcome similar numbers of overseas visitors, have 5.3 and 2.2 beds per 1,000 'youth' overseas visitors pointing to more constrained levels of supply.

■ London and Paris continue to stand out from a growth perspective. Both cities have very low bed supply per 1,000 visitors at 2.8 and 1.4 respectively. This is exacerbated by the fact that both cities attract large numbers of overseas tourists.

■ This relative undersupply is further highlighted when compared to hotels. In the case of London there are 7.6 hotel rooms per 1,000 overseas visitors. With hotel occupancy averaging 82%, a higher bed supply ratio for hostels would appear to be supportable.

■ Rome, Copenhagen and Stockholm also look suitable for further growth

Summary

Hostels - appealing to the Airbnb generation

■ Supply, relative to potential demand, remains constrained across European gateway cities pointing to expansion opportunities. Albeit restricted to those cities that attract significant numbers of overseas visitors.

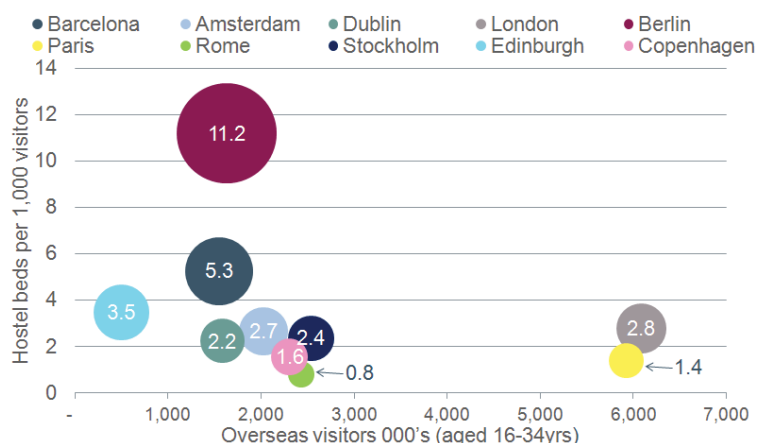
■ Some cities have seen stock expansion outpaced by the growth in overseas tourist arrivals.

■ While 'value' has been a key differentiator of the sector, appealing to the Airbnb generation goes beyond this. The shared and local experience that can be offered by hostels will also be key to its growing appeal.

■ The growth in branded hostels is part of the evolution of the wider hospitality sector where the distinctions between the various subsectors continue to blur.

GRAPH 1

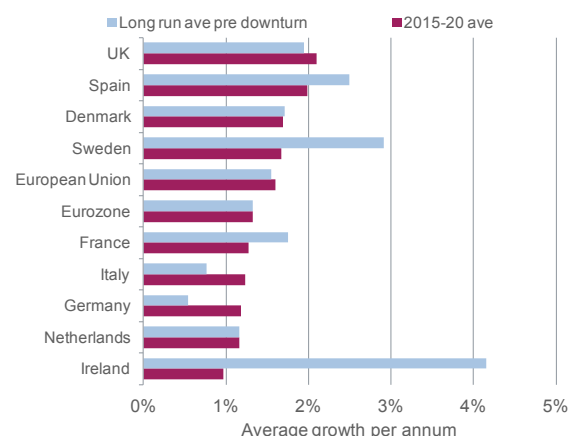
Bed supply relative to 'youth' visitor numbers



Graph source: Savills Research; AMPM; National & Local statistical offices;
Note: Overseas visitors numbers based on 3 year average

GRAPH 2

Household disposable income growth to return but remains muted



Graph source: Oxford Economics

with bed supply under 2.4 per 1,000 overseas 'youth' visitors (see Graph 1).

■ At this point it is difficult to fully ascertain whether the constrained supply identified at a city level is translating into strong operational performance across the board as the majority of operators do not make this information publicly available. However, considering the continued expansion into new markets by operators, this would appear to be the case.

■ For example, in Safestay's 2014 Annual report Revenue Per Available Bed (RevPAB) increased 21.6% at their London site at Elephant & Castle. This was driven by increases in both occupancy and average rates, which outperformed the London hotel average.

Appealing to the Airbnb generation

■ The 'cost' appeal of hostels has been one of the key drivers of its expansion in the wake of the 2007/8 financial crisis. Indeed the continued uncertainties surrounding the strength of the European and Global economies continues to determine travel budgets particularly in the youth segment where unemployment across the European Union remains at historically high levels.

■ The appeal of 'value' looks set to continue. While disposable household income growth across the European Union is forecast to move back into

positive territory over the next five years, the level of growth should maintain a focus on 'value'. Growth across the Eurozone is forecast to be on a par with that seen prior to the downturn (1.3% per annum), however, a number of countries are expected to underperform (see Graph 2).

■ Yet, the entrenchment of 'value' in travel behaviour is unlikely to be significantly altered by the improvement in disposable incomes for certain travellers and types of trips, maintaining the appeal of hostels.

■ But it is not just about cost. Travellers are increasingly looking for something different and more 'local' than that which can be offered by traditional branded hotels. This has been driven by the growing appeal of Airbnb where the 'local' experience forms a key part of the brand.

■ The evolution of branded hostels is another expression of this trend where the Airbnb generation see the shared travel experience offered by hostels as increasingly attractive. Several hostel brands are already tapping into this by ensuring sites reflect the 'local' experience offered by the city both in terms of design and F&B offer. Other operators have taken it a step further by using Airbnb to sell beds.

■ Airbnb was previously seen as a major threat to hostels with its lower price point suggesting its impact would be magnified within the budget traveller segment. However, the

rising booking fees charged by OTAs (online travel agents) is leading some operators to advertise beds on the site at a far lower commission rate. The mutual reviews offered by Airbnb has been an added attraction as it helps operators to avoid potentially problematic guests.

■ This shift towards the 'local' has also gone hand in hand with the boutique-isation of the sector. Some brands have a very boutique feel, which largely translates through the communal areas and F&B offer, very similar to that of budget boutique hotel brands that are also emerging. The only difference being the provision of dorm rooms in the former.

Restricted to gateway cities

■ The growth in branded hostels is part of the evolution of the wider hospitality sector where the distinctions between the various subsectors continue to blur. Despite this cross over with hotels, hostel expansion is better suited to those European cities that attract significant numbers of overseas visitors.

■ Despite this, the opportunity to increase stock in gateway cities remains significant due to the apparent supply constraints identified. With this likely to continue over the next five years, particularly in light of growing overseas 'youth' travel, operational performance should remain positive. ■

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