CHRISTIE & CO

Hostel Market Snapshot

Europe's Golden Triangle: Vienna, Prague and Budapest

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Introduction

The hostel concept first appeared during the German Youth Movement in the 1890s, but its commercial potential has only been recognized recently. Although the European hostel market is still fragmented, it is fast evolving and expected to follow some of the best practices of the budget hotel sector. Recent trends suggest that travellers increasingly seek more authentic, social experiences , while travelling for a longer period of time. Hence, they look for alternatives to traditional hotel accommodation, since such travellers are more price sensitive.

Vienna, Prague and Budapest form what is called Europe's Golden Triangle, and were selected for comparison due to similarities in history, culture, city size and tourism volume. Overall, the hostel sector shows healthy growth in these 3 destinations and, despite the similarities, each city follows its own particular path. The hostel markets in Vienna, Prague and Budapest demonstrate a stable performance over the analysed 5 year period (2013-2017).

Definition

Traditionally, hostels are a type of budget accommodation with dormitories, shared bathrooms and other facilities. However, rising expectations, the changing demographic profile of the guests and higher spending power have encouraged substantial upgrading of facilities in the sector. Consequently, hostels are now appealing to a more mature and affluent guest which has let to the introduction of new hostel concepts and emerging brands, competing with conventional hotels.

Business Model

- Hostel operators typically focus on driving room revenue through volume while the contribution of F&B sales towards turnover tends to be relatively low and can vary considerably, depending on the location, facilities, market mix and type of hostel.
- Compared to hotels, where the occupancy is measured by rooms, hostel occupancy is measured by beds.
- Nevertheless, hostels are able to achieve similar revenue levels to budget hotels through high bed occupancy and yield management.
- The revenue mix in the hostel sector has shifted slightly more towards F&B sales due to the introduction of additional F&B outlets, such as licensed bars, nightclubs, restaurants, etc.
- The hostel model achieves greater efficiencies within the rooms operation compared to hotels due to communal bathrooms, limited in-room amenities, lower energy consumption, economies of scale, and reduced wage costs.

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Source: Christie & Co Research

Key Characteristics of a Hostel

Social Aspect

Large public areas, which encourage mingling and guest interaction

Community Feel

Organize local tours and stage events to enhance local experiences for the hostel guests

Price

Value-for-money accommodation compared to conventional hotels, rate structure is on a per bed and per room basis

Privacy

Shared facilities, affording the traveler with less privacy than in a hotel; however en-suite facilities and private bathrooms are increasingly available

Other Facilities

Range from communal kitchens, meeting rooms to, more recently, licensed bars, nightclubs, game rooms and other leisure facilities

Accommodation

Ranges from dormitories of up to 35 beds with shared shower facilities to private single and double rooms with en-suite bathrooms; separate female and male dormitories are often provided

Atmosphere

More casual and social atmosphere than hotels

Target Markets

Historically, the hostel model was more suited for teenagers and young adults, whereas some of the newer hostel concepts increasingly appeal to older and more affluent age groups including families and corporates

Source: Christie & Co Research

Evolution of the Hostel Concept

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FROM BACKPACKING	TO FLASHPACKING
Traditional Hostel	**New Generation: Hybrid Hostel**

> *Establishment which provides inexpensive food and lodging for a specific group of people, such as students, workers, or travelers.*

- Multi-bed dorms with shared showers/toilets in the hallways
- Shared kitchen facilities
- Functional, basic design
- Targeting young travellers, backpackers and students
- Owner-operator hostel groups with mainly local presence
- Limited target market interaction
- Price-sensitive guests

> *Establishment with traditional hostel features such as shared dormitories paired with hotellike facilities such as private rooms, en-suite bathrooms, F&B outlets etc.*

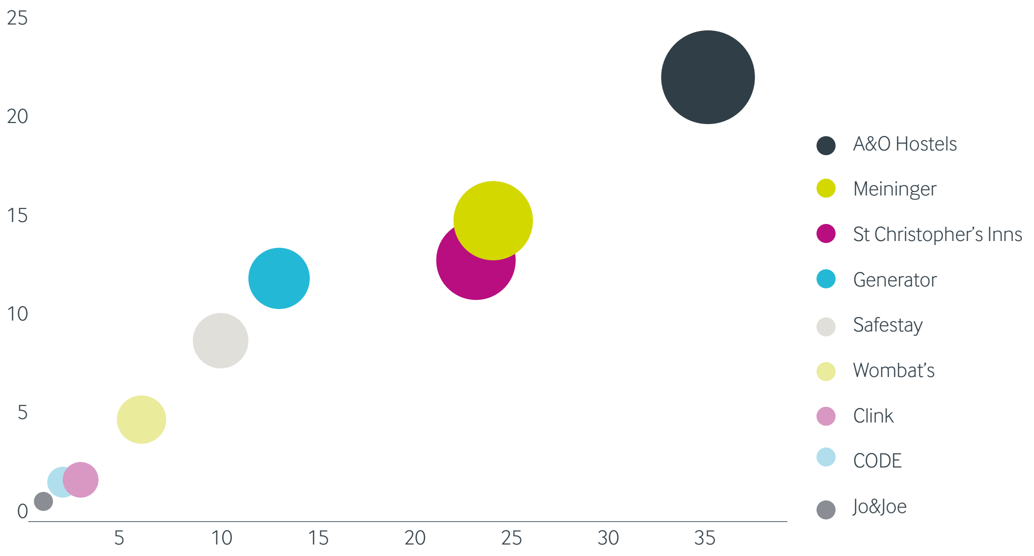
- Moving upmarket with increasing proportion of dorms with en-suite bathroom and private bedrooms
- Restaurants and bars with limited or no shared kitchen facilities
- Functional and aesthetic design
- Welcoming communal area where guests mingle
- Targeting youth groups as well as the growing family, couple and business markets
- Growing consolidation and branding of hostel groups leading to international growth
- Increasing importance of online distribution
- Interaction with target markets on a daily basis through social media
- Increasingly competing with budget hotels (particularly design-led) and private accommodation

Source: Christie & Co Research

The European Hostel Market

Brands	Launch Year	Properties Supply	Owners
A&O Hostels	2000	Current: 35 Pipeline: NA	TPG Real Estate as of 2017
Meininger	1999	Current: 24 Pipeline: 12	Cox & Kings (via Holidaybreak) as of 2013
St Christopher's Inns	1995	Current: 23 Pipeline: NA	Beds & Bars
Generator	1995	Current: 13 Pipeline: 2	Queensgate Investment as of 2017
Safestay	2012	Current: 10 Pipeline: 3	Listed
Wombat's	1998	Current: 6 Pipeline: 2	Marcus Praschinger & Sascha Dimitriewicz
Clink	1999	Current: 3 Pipeline: 2	Anne Dolan & Shelly Dolan
CODE	2015	Current: 2 Pipeline: 1	Andrew Landsburgh & Partner with Patron Capital in 2017
Jo&Joe	2017	Current: 1 Pipeline: 4	Listed, Accor hotels

Key European Brands Mix



This section portraits the major hostel chains operating in Europe, ranging from the largest hostel brand, A&O Hostels, operating 35 properties to the smallest one - Jo&Joe, which, at the moment, operates only 1 property. A&O Hostels, Meininger and Generator operate hybrid products between hostels and hotels. Whereas CODE, Safestay and St Christopher's Inns hostels are closer to the traditional hostels with bigger dormitories and less private rooms.

Europe is the most developed geographic market for hostels given the diversity of cultures, historic heritage, landscapes and good transport infrastructure.

Whilst there are existing hostel brands in other continents, these have not achieved the same size, brand awareness and consistency compared to the main brands in Europe.

Surprisingly, when compared to the hotel industry, the hostel sector has a very low brand penetration.

Recent trends suggest that the budget segment and, thus, the hostel market will continue to grow and develop as one of the most prominent lodging sectors worldwide.

Source: Brands Websites, Hostelworld.com, Christie & Co Research and Analysis

The Hostel Market: Vienna, Prague and Budapest

KEY CHARACTERISTICS

Vienna, Prague and Budapest form Europe's Golden Triangle and were selected for comparison due to similarities in history, culture, city size and volume of tourism.

To shed light on the development of the hostel sector in Vienna, Prague and Budapest, the structure of supply and its evolution, as well as the evolution of demand are analysed.

This section compares the population & GDP per capita as well as the industry specific KPIs, i.e. bed occupancy, ABR and RevPAB.

Prague

Population 1.26m

GDP per capita 34.7k

Number of Hostels (2018) 46

Vienna

Population 1.84m

GDP per capita 49.2k

Number of Hostels (2018) 15

Budapest

Population 1.75m

GDP per capita 39.8k

Number of Hostels (2018) 77

Source: Eurostat, CEIC Data, Statistical Offices of Hungary/Czech Republic, Vienna Tourism Office, hostelworld
**Note: Occupancy rate for Prague is calculated on the basis of available beds & overnights.*

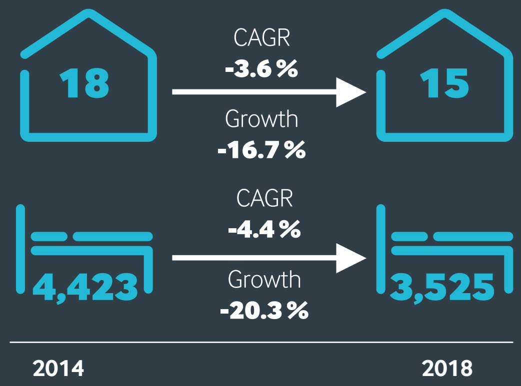
Hostel Market: Vienna

EVOLUTION OF SUPPLY

Representing in a negative CAGR of -3.6% over the 5 years, between 2014 and 2018, the hostel supply in Vienna decreased from 18 to 15 hostels. The number of beds decreased by 4.4% on average and by 20.3% in total. In 2014 an average hostel consisted of approx. 250 beds, while in 2018 it decreased to 235 beds per property.

Nevertheless, the industry experts state that the Viennese market is not satisfied and there is definitely more demand for this type of accommodation than the provided supply can offer. Currently, about 1,000 hostel rooms are under construction or being planned to launch in 2020. The upcoming openings will increase the bed supply in Vienna significantly.

SUPPLY

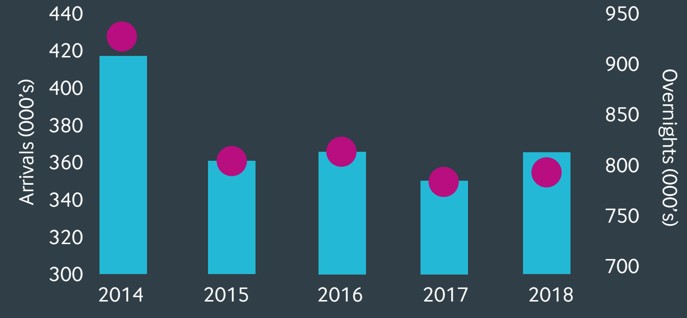


EVOLUTION OF DEMAND

In 2014, Vienna showed the highest demand compared to Prague and Budapest, with 416,000 arrivals and 923,000 overnight stays. In the following years, Vienna experienced a decrease of roughly 13% for both arrivals and overnight stays. However, in 2018 the Viennese hostel market still shows a strong demand in total figures and among the cities: Vienna is still leading with 364,000 arrivals and 803,000 overnight stays. Hence, the length of stay in Vienna is lower than the one in Budapest and equals to approx. 2.2 days.

It can be concluded that Vienna's demand is still stable but shows the negative compound annual growth rate of aprrox. 2.6% both in arrivals and in overnight stays. The demand for the hostel segment represents 4.8% of total overnights and 4.6% of total arrivals in Vienna.

DEMAND



BRANDED HOSTEL SUPPLY

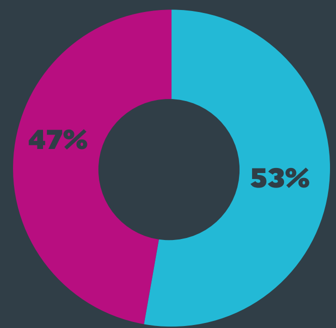
Among the 3 analysed cities, Vienna has the largest proportion of branded supply. Almost half of all hostels (i.e. 46.7% in 2018) belong to a branded chain. Most of these accommodations operate under the Meininger brand (3 hostels), followed by A&O with 2 hostels and Wombat's, also with 2 hostels. Even though, Wombat's first property was opened in Vienna, it managed to develop from a local hostel into an international chain and, for the purpose of this paper, cannot be considered as a local brand anymore.

Although the unbranded supply in Vienna prevails, it is rather limited in comparison to Budapest and Prague due to the strict Austrian laws with regards to the required size of the room per person.

In addition, 2 new openings are planned for 2020 in Vienna: the launch of Superbude and the Student Hostel will increase the bed supply in the hostel segment by 50%.

** The Safestay branded hotel was recently opened in Vienna, but it operates as a 4-star hotel and not a hostel.*

BRANDED HOSTEL SUPPLY



Branded*
A&O Hostels: 2
Meininger Hotels: 3
Wombats: 2
Sum: 7

Unbranded: 8

Sources: Vienna Tourism Office, National Statistical Offices

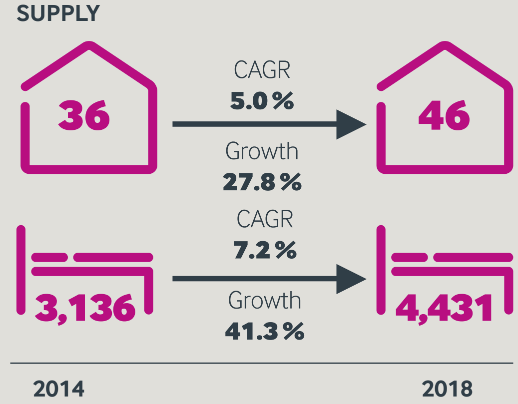
Hostel Market: Prague

EVOLUTION OF SUPPLY

The supply for Prague has developed significantly over the 5 years between 2014 and 2018. With a CAGR of 5% over the indicated 5 years, Prague counted 46 hostels in 2018.

The number of beds rose at a faster pace than the number of hostels, leading to an increasing average amount of beds per property. Therefore the average number of beds per property has grown by more than 10%, resulting in approx. 96 beds per hostel.

Moreover, the amount of beds increased on average by 7.2% p.a. to 4,431 in 2018.



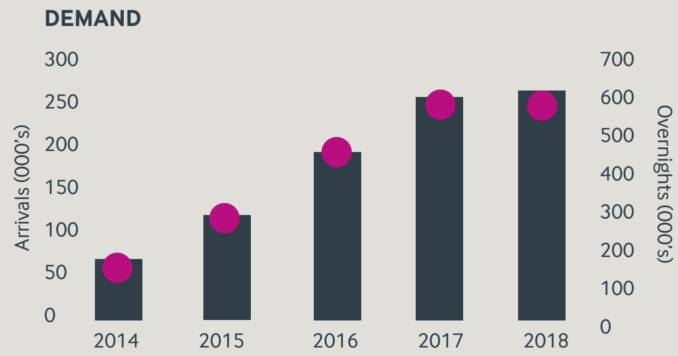
EVOLUTION OF DEMAND

Compared to Vienna and Budapest, Prague shows the most significant growth in the 5 years from 2014 to 2018.

The number of overnight stays has significantly increased from 180,000 to 614,000 overnights, representing a strong CAGR of 27.7%. The arrivals have also increased dramatically from 73,000 to 274,000, which is roughly 375% and represents a compound annual growth rate of over 30%.

The hostels' share of total market of overnight stays is 3.3% and 3.4% of total arrivals in Prague. The average length of stay is similar to Vienna and equals to 2.2 days.

Even though the markets for Vienna and Budapest are better performing than Prague in terms of arrivals and overnights, it can be concluded that Prague shows the strongest growth in those 5 years.



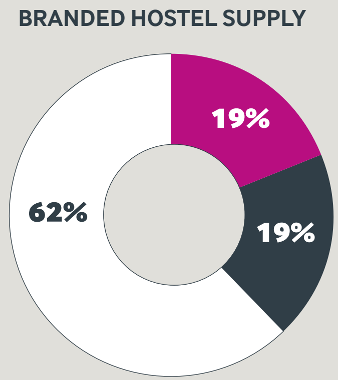
Arrivals Overnights

BRANDED HOSTEL SUPPLY

Prague ranks second in terms of branded supply among the 3 analysed cities. Around 18.8% of city's total hostel supply is branded, totalling to just over 750 beds.

Nevertheless, in contrast to Vienna and Budapest, Prague has the largest portfolio of international brands as well as an impressive proportion of local brands. However, as the low occupancy rate indicates, the sector is suffering from oversupply. The Hostel One brand operates the most hostels with 3 properties, followed by A&O Hostels with 2 properties.

The branded supply is also represented by chains like St Christopher's Inns, Equity Point, Safestay and Dream Hostels. Moreover, the proportion of local brands representatives is equal to branded supply (18.8%). The largest local hostel chain is Prague Central Hostels which runs 4 hostels in the city.



Local Branded Unbranded

Branded

Hostel One: 3
A&O Hostels: 2
St Christopher's Inns: 1
Dream Hostels : 1
Equity Point: 1
Safestay: 1

Sum: 9

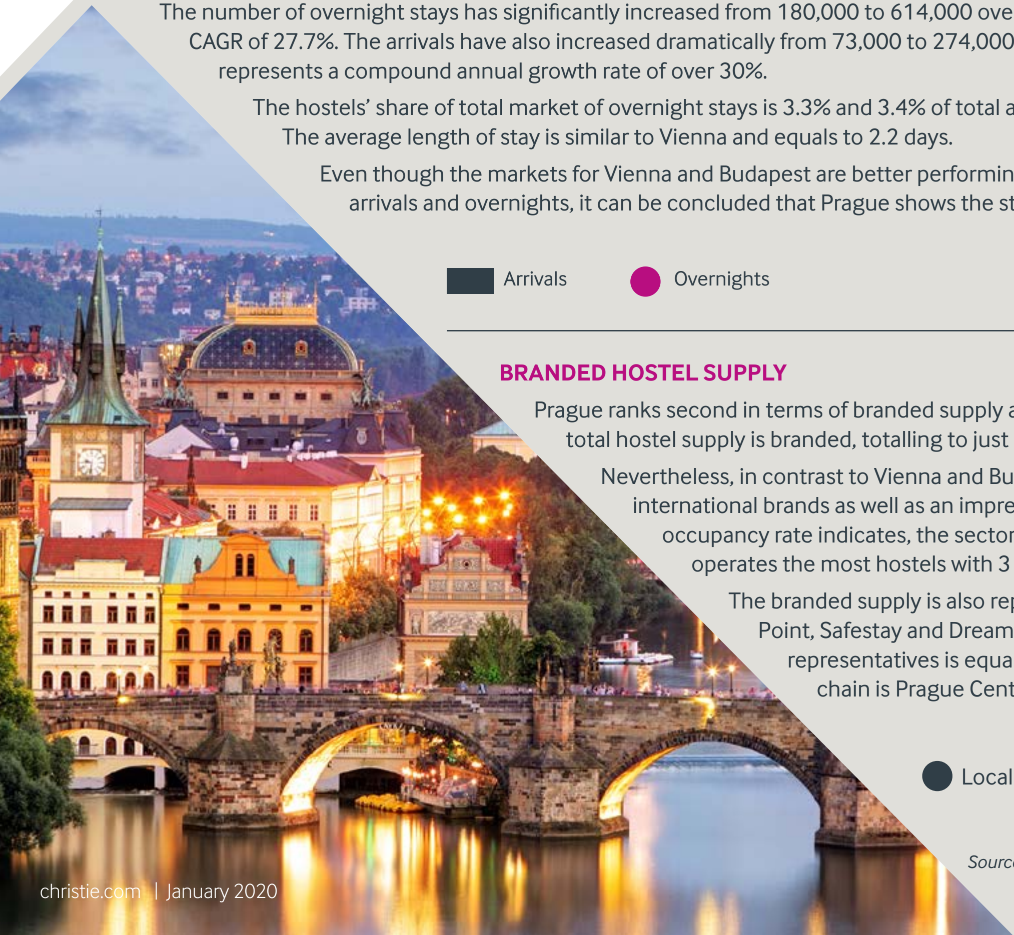
Local Brands

Prague Central: 4
Bohemian Hostels: 3
JSC Travel: 2

Sum: 9

Unbranded: 30

Source: National Statistical Offices



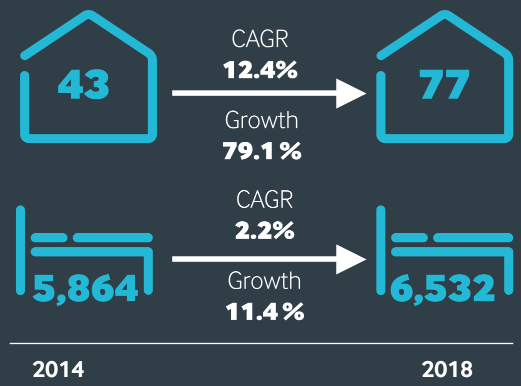
Hostel Market: Budapest

EVOLUTION OF SUPPLY

Budapest is Hungary's biggest market, capital and political centre. Compared to Vienna and Prague, Budapest is the market with the most significant increase in terms of numbers of hostels. With an annual increase of approx. 12.4 %, Budapest's hostel supply grew from 43 hostel establishments to 77 in 2018.

The bed supply has also increased by 11.4%, but at the same time, the average number of beds per hostel decreased by approx. 60% from 136 beds per hostel to 85 beds, representing a trend to smaller hostels.

SUPPLY



EVOLUTION OF DEMAND

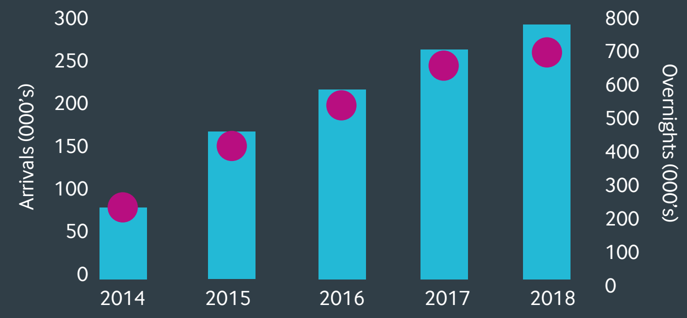
Over the 5 years from 2014 to 2018, an increase of roughly 230% in the number of arrivals could be observed in Budapest, representing a compound annual growth rate of 18.3% and reaching about 285,662 arrivals in 2018. The number of overnight stays grew significantly by approx. 225% to c. 683,000 within the indicated period, representing a strong CAGR of 17.6%.

The demand for the hostel segment represents 8.2% of total overnights and 7.6% of total arrivals in Budapest. The average length of stay has also increased to 2.4 days.

Overall, Budapest shows a very strong growth over the years and an upward trend for future arrivals and overnights.

Arrivals Overnights

DEMAND



BRANDED HOSTEL SUPPLY

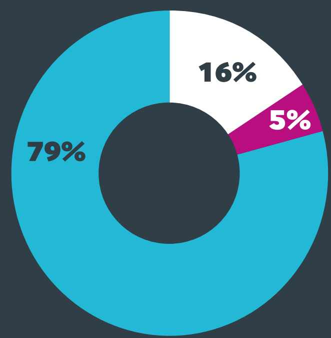
Within in the hotel market in Budapest there are several local brands and a few international operators. Compared to Prague and Vienna, Budapest shows the lowest proportion of branded supply with c. 20%. With only 5% also the supply of international hostel brands is lower than in the other cities across the Golden Triangle.

Nevertheless, Budapest is experiencing a rising volume of youth-orientated accommodations, including hostels. Due to the fact that there are only 2 international brands operating in the city, Budapest becomes an attractive opportunity for international hostel operators to enter the market.

Budapest shows also the largest amount of unbranded hostels, with about 80%.

Local Branded Unbranded

BRANDED HOTEL SUPPLY

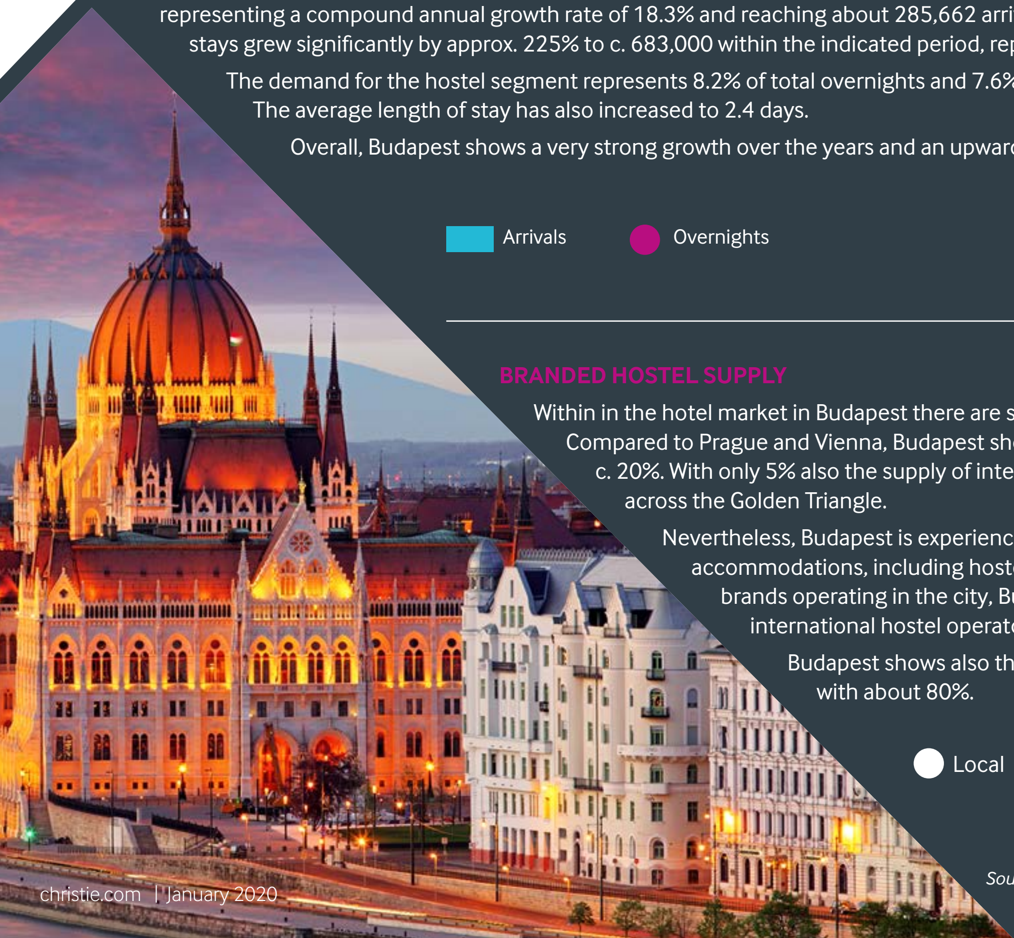


Branded
Wombats: 1
Hostel One: 2
Sum: 3

Local Brands
Walking Bed: 3
Adagio Hostels: 2
Budapest Party Hostels: 5
Moverick: 1
Sum: 11

Unbranded: 53

Source: Statistical Office of Hungary



Outlook

Strong performance and high development potential

Overall, the hostel market in Vienna, Prague and Budapest demonstrated a healthy growth in Europe's Golden Triangle.

Since 2013, Vienna has recorded a healthy evolution of its hostel sector with minor fluctuations, reporting a slightly decreasing demand and supply. Nevertheless, Vienna is still leading among the 3 analysed cities, in terms of arrivals. The industry experts state that the Viennese market is not satisfied and there is definitely more demand for this type of accommodation than the provided supply can offer. The low number of officially registered hostels in unbranded segment can be explained by strict regulations and, thus, the high barriers to enter the market. Vienna still has room for new properties in the hostel sector: this can be achieved either via adjustments in legislation in favour of the 3 hostels developments or via attraction of international brands to the market.

In recent years, Prague has shown a significant increase with respect to arrivals and overnight stays. Although, the demand for hostels in Prague is the lowest among 3 analysed markets, Prague reports the strongest growth over the analysed 5-year period. Moreover, the number of beds rose at a faster pace than the number of hostels and, therefore, the average number of beds per property has almost doubled, representing a trend to larger hostels. In addition, Prague has the largest portfolio of international brands in the market, as well as an impressive proportion of local brands. However, the low occupancy rate indicates that the sector is suffering from oversupply. In order to catch the attention of potential guests, the existing hostels should offer more value for money, adapt faster and strive to gain the competitive advantage.

Last but not least, Budapest has made tremendous progress in its hostel sector, reporting upward trends in overnight stays and improved hostel performance, backed by increasing demand. Moreover, compared to Vienna and Prague, it shows the highest share of arrivals and overnights in hostels out of total inbound tourism (approx. 8%). Budapest ranks first in terms of the hostel supply, however, it shows a decrease in average number of beds per property, indicating a trend to smaller hostels. Interestingly, Budapest shows a large proportion of local brands in the market: the majority of these hostels are dedicated to a younger market with bars and a party scene. Finally, the brand penetration in Budapest hostel market is extremely low: only 4.5% of all beds are branded. Therefore, Budapest has the opportunity to increase the quality of supply by stronger brand penetration.

Overall, the hostel product is evolving and in order for the market to continue to grow and succeed in the future existing hostels should review and if necessary, transform their strategy, and adapt to the changing needs of today's travellers.

Why Christie & Co

Christie & Co unique selling points

- Fully-owned offices in locations across Europe, providing comprehensive local market knowledge and staffed by hospitality and real estate specialists
- Strong connections to market leaders in the fields of hospitality, including national and international hotel brands and operators as well as the real estate industry, including national and international developers, banks and investors are built on regular presence at industry events
- Active member and/or preferred partner of national and international hospitality and real estate associations
- Christie & Co is connected to global and national databases including amongst others performance benchmark – and other databases
- Weekly news updates from a wide range of national and international industry related sources are put together in our extensive internal database related to the hospitality and tourism sector
- Bespoke solutions to create, retain and recover value – we are the one-stop solution throughout the project lifecycle, our Advisory work is fully integrated with our Valuations, Agency and Investment services to build a strong foundation for your business case

Globally connected

Extensive Database

Active industry member & Preferred Partner

Locally implemented

Up-to-date Market Experts

Why Christie & Co

We are the leading hotel and leisure advisers in Europe

Business Built Around You

Established by 3 partners in London's West End in 1935

First international offices opened in Paris in 1998 and in Frankfurt in 1999

Corporate functions added to areas of expertise

From the London Stock Exchange in 1988 to the AIM (Alternative Investment Market) in 2005

Specialists across 8 sectors

Leading valuers, consultants and brokers

Pan-European multi-lingual team

Launch of the Asia Desk in 2015

15 offices in the UK and 14 international offices across Europe

80
years growth

29
European offices

280
professionals

500
yearly hotel valuations

400
current sales instructions

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