



# THE HOSTEL MARKET

Iberian Peninsula



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## GLOSSARY & DISCLAIMER

### **ABR**

Average Bed Rate. Defined as the total bed income for the period divided by the total number of beds occupied during the mentioned period

### **Budget Hostels**

Hostels with simple facilities, with limited decoration and a limited offer of F&B facilities and other services

### **c.**

Circa

### **C&Co**

Christie & Co

### **Design Hostels**

Hostels with modern facilities, furniture and decorative elements of higher quality and design. They usually offer larger leisure and F&B facilities

### **F&B**

Food & Beverage

### **FF&E**

Furniture, Fixtures & Equipment

### **GOP**

Gross Operating Profit

### **k**

Thousand

### **KPI**

Key Performance Indicator

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**This report has been conducted and coordinated by Joan Bagó, Market Analyst in Christie & Co for Spain and Portugal.**

### **m**

Million

### **Occ**

Occupancy. Proportion of occupied beds over the total number of rooms available in a given period

### **OTAs**

Online Travel Agency

### **Propco/Opco**

Owner company/Operator Company

### **RevPAB**

Revenue per Available Bed. Defined as bed occupancy multiplied by the average bed rate or bed revenue divided by the number of available beds

### **Theme Hostels**

Unique Hostels that cover very specific needs and market niches and focus on specific activities, such as sports, art and nightlife

### **var**

Variation

### **YoY**

Year-on-year

### **vs**

Versus



## INTRODUCTION



The tourism sector agrees that the growing interest shown towards hostels from clients, investors and hotel operators highlight the potential of this accommodation typology. But is this interest justified? Are these products profitable and attractive to investors? Do they have a solid guest base or is it a matter of a “millennial trend” that could make the product obsolete in a few years?

Christie & Co publishes for the first time a report about the hostel market in Spain and Portugal to answer these questions which could affect both future investment in this segment and the development of hotel chains within this sector.

The hostel market remains opaque as it is relatively new and data availability is limited. For this reason, the information used by Christie & Co for this report has been obtained through our own sources, including interviews with key representatives of the hostel sector and quantitative market research, incorporating a sample of more than 350 hostels in the analysed markets in Spain and Portugal. We note that the KPIs analysis is based on a sample of over 70% of the studied properties.

This report analyses the hostel market in 10 cities of the Iberian Peninsula (in Spain and organised by alphabetical order: Barcelona, Bilbao, Madrid, Malaga, Palma, San Sebastian, Seville and Valencia; and in Portugal: Lisbon and Porto), introducing the concept of hostels, defining its demand, existing typologies and analysing the key characteristics of this business model. Furthermore, it also analyses the current and future supply in the different selected cities, as well as their performance levels, the hostel investment market and the outlook of this sector.



## KEY OBSERVATIONS

1

### CONSTANT EVOLUTION

Hostels have evolved from a budget product focused on bed sales in shared rooms, to a more complex product that also offers private rooms in most of the existing supply.

2

### MILLENNIALS AS THE MAIN TARGET

People born between 1981 and 1999 (currently, between 21 and 39 years old) are hostels' main guests and they give special importance to value for money and the experience.

3

### BARCELONA AS THE MAIN DESTINATION

Within the Iberian Peninsula, Barcelona is positioned as the city with the largest volume of hostel beds (c. 8,200 beds) and the highest RevPAB, followed by Lisbon and Madrid.

4

### SUPPLY QUALITATIVE IMPROVEMENTS

Currently, most hostels are Design Hostels and offer both dorms with shared services and private rooms, as well as modern facilities.

5

### HIGHLY PROFITABLE BUSINESS MODEL

The optimization of the available space allows hostels to achieve gross operating margins up to 50%.

6

### THE IMPORTANCE OF LEISURE AND INDIVIDUAL GUESTS

Hostels are clearly focused on the leisure segment and individual travellers are their main users, followed by groups (school, sports, etc.), couples, families and small groups of friends.

7

### INCREASING INTEREST FROM INSTITUTIONAL INVESTORS

Attracted by the success of this business model, large investors are showing growing interest for this segment as it offers profitability levels higher than the traditional hotel product.

# WHAT IS A HOSTEL?

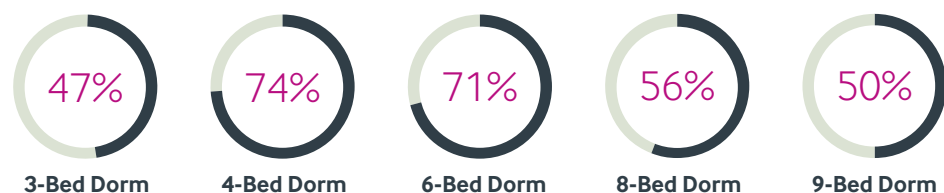
Hostels, as an accommodation concept, have evolved from the traditional youth hostels (offering beds in shared dorms with common services and mainly focused on school groups), to the modern product that we know today, making it one of the best examples of how the hospitality sector has adapted to the changing needs of travellers, which we will analyse later in this report.

Due to the discrepancies and differences that exists in tourism regulation within this sector for each territory (province, region or country), this report only differentiates hostels from a conceptual point of view using our own hostel typology categorization.

Hostels offer single beds in shared dormitories, with shared bathrooms, as well as private en suite rooms and other facilities and common areas. This type of accommodation is mainly focused on young travellers between 21 and 39 years old, also known as millennials. Their preferences when choosing accommodation are based on location, value for money and the availability of common spaces and activities to socialise with other guests and locals, who also can be attracted by the hostel concept.

In terms of capacity, hostel dorms usually include between four and eight beds, which are distributed by bunk beds. However, depending on the hostel typology, the same dorm can accommodate up to ten or more beds. According to a report produced by Phocuswright Inc (a tourism data provider company) in 2016, more than 70% of hostels globally offer four and six-bed dorms, and only slightly more than half offer eight-bed dormitories. Currently, there is an emerging trend of replacing bunk beds with "pods" (open cubicles that offer more privacy than a bunk bed and, usually, have a panel of plugs inside the space and a curtain that separates the pod space with the rest of the dorm) and "capsules" (a product from the Japanese hotel market offering guests the highest level of privacy after the double room within a shared dorm).

## Percentage of Hostels with Dorm Rooms by Number of Beds

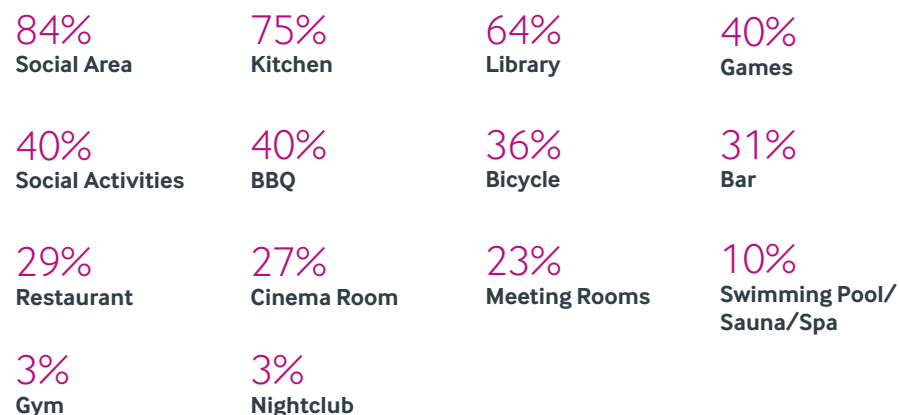


Source: Phocuswright's The Global Hostel Marketplace Second Edition

On the other hand, private rooms (those not shared with unknown people) in hostels deserve special consideration due to the significant appeal that they have generated for more mature clients. In many cases, despite being regular hostels users, many guests are now above 30, have a higher purchasing power, usually travel with somebody else and look for more privacy and safety. As the hostel model has evolved and the success of its formula has expanded, the number of properties offering private rooms is increasing significantly. These rooms can be single, double or family rooms (triple and quadruple), and are equipped with single beds, double beds and/or bunk beds. The distribution of beds per room varies according to the properties' target (families, youth groups, etc.), and the available space. While the availability of a bathroom in private rooms is valued very positively by the guests, it is not always necessary.

Additionally, another element that differentiates hostels are the common areas. In most, hostel guests can use a shared kitchen, a leisure area and, to a lesser extent and depending on the typology, they can also find workspace, which allow co-working among guests, or laundry facilities. Due to the importance of socialisation and living local experiences for their guests, many hostels organise additional leisure activities both in the properties (theme parties or weekend night events) and outdoors, such as free walking tours and pub crawls, among other activities.

## Percentage of Amenities Offered in Hostels



Source: Phocuswright's Global Hostel Marketplace, 2014 – 2018

Finally, in terms of the services offered by hostels, we note that their gastronomic offer is often limited. In most cases, affordable breakfast and vending machines are the main food and beverage (F&B) revenue generators. However, according to our analysis, more and more hostels also offer a bar and other F&B facilities. The new hostel typologies, such as Design Hostels (which we will describe later), have incorporated more F&B outlets into their facility mix, as they do not only promote socialisation among guests, but also represent a differentiating factor over their competitors and generate significant additional revenues.



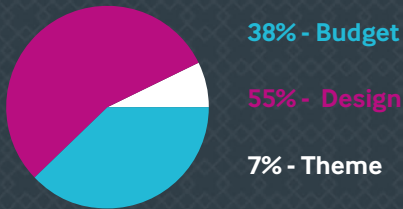


# TYOLOGIES

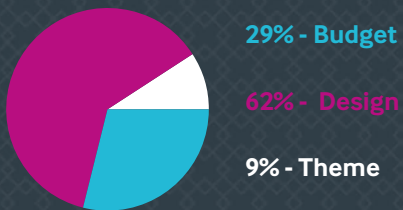
Hostels are one of the accommodation products that have evolved the most in the recent years. They started exclusively selling beds at low prices and now offer more traditional hotel products, such as double rooms and F&B facilities. On the other hand, a number of new hostels have also introduced hybrid models between student residences, apartments and long-term stay accommodation. Due to the variety of products, it is becoming more difficult to differentiate between a hostel and other types of accommodation.

Therefore, we have defined three main hostel typologies based on our analysis of the hostel market in the main cities of Spain and Portugal:

### Percentage of Hostel Typology by Number of Hostels



### Percentage of Hostel Typology by Number of Beds

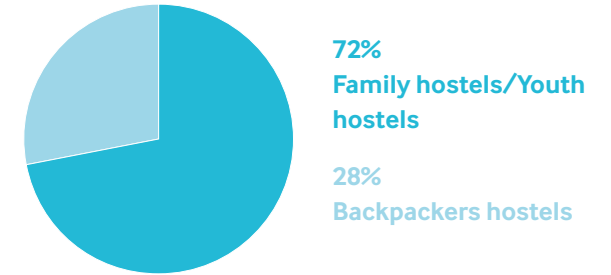


Source: Christie & Co

### Budget Hostels

Present simple facilities, with limited decoration, limited F&B and additional services offer. These hostels are managed mainly by independent operators and have an average capacity of 80 beds. The average price per bed or ABR (Average Bed Rate) is usually between 10 Euros and 20 Euros and can reach an average annual occupancy of 72% – 74%. Within this segment we differentiate between hostels that only offer beds in shared dormitories (Backpacker Hostels), and hostels that offer both dormitories and private rooms (Youth hostels or Family hostels).

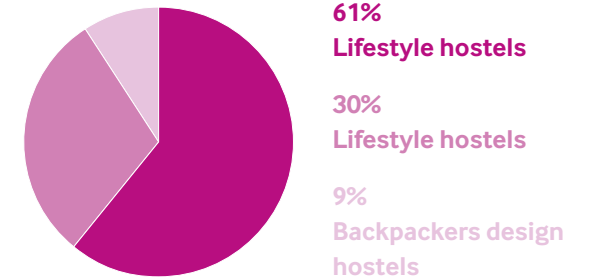
### Percentage of Budget Hostels



### Design Hostels

Provide modern facilities, with furniture and decorative elements of higher quality and design and offering larger leisure and F&B facilities. About 60% are managed by hostel operators and have an average capacity of over 100 beds. They register an ABR of 20 Euros to 30 Euros and an average annual occupancy between 75% and 80%. Within this typology we differentiate the hostels that only offer beds in shared dormitories (Design Backpackers), those that offer both shared dormitories and private rooms (Lifestyle Hostels) and the high-end hostels (Poshtels), which can offer capsules, apartments and double rooms similar to those of high-quality hotels.

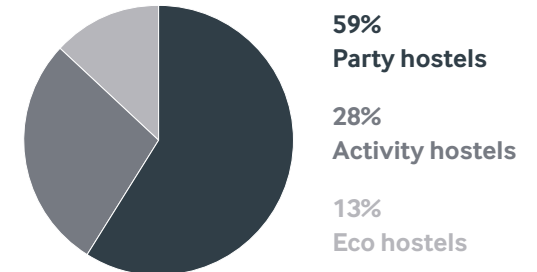
### Percentage of Design Hostels



### Theme Hostels

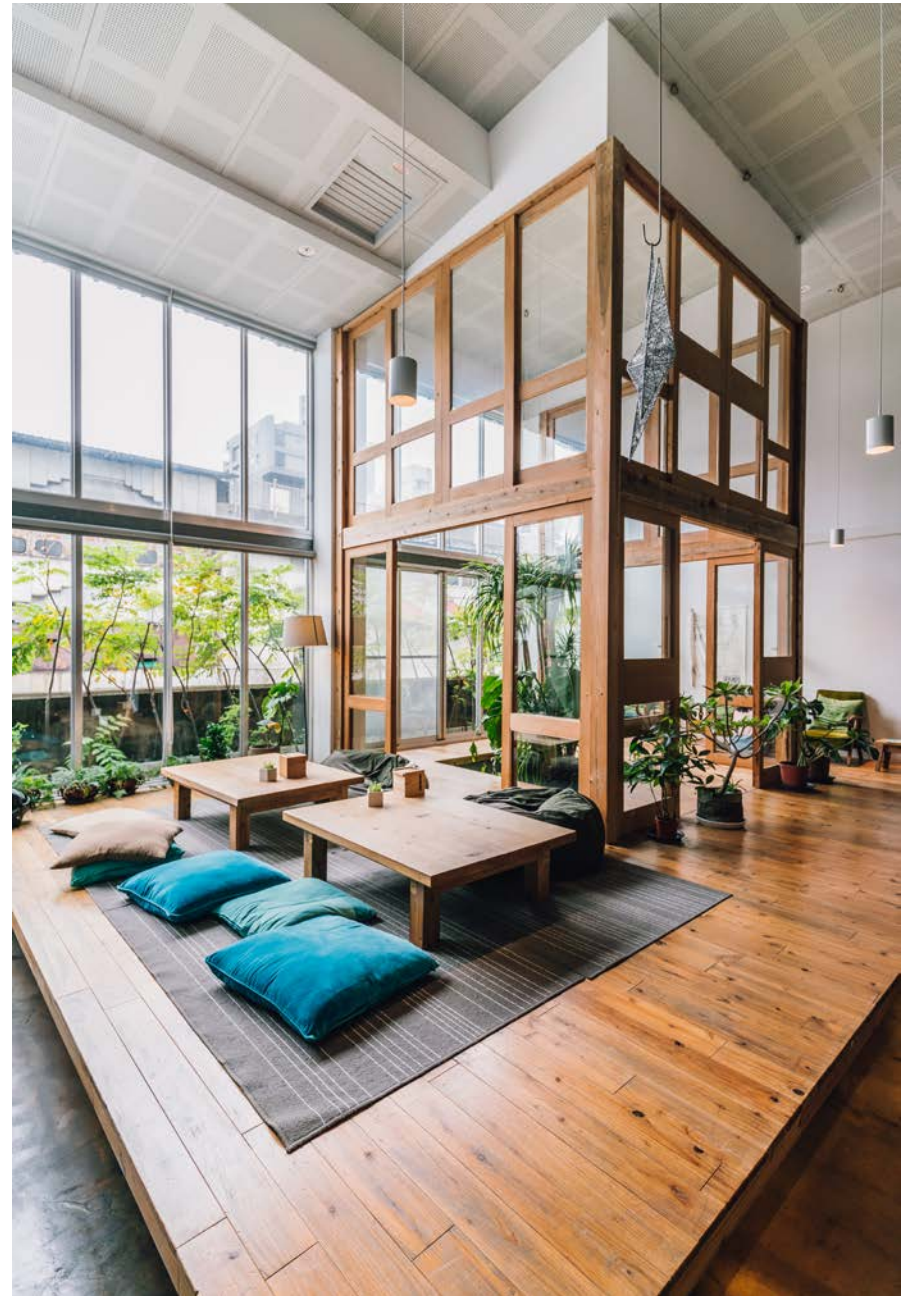
Unique properties that cover very specific needs and market niches. This segment is the smallest in the market and the hostels in this typology have differences in terms of size, business model and profitability, which prevent indicating the average capacity. Within this group, we identify hostels that focus on specific activities, such as sports (for example, Surf Hostel), art (Art Hostel) or nightlife (Party Hostels). It also includes Eco-Hostels, which are focused on reducing their impact on the environment.

### Percentage of Theme Hostels



Source: Christie & Co





# GUESTS' PROFILE

According to Hostelworld, one of the largest Online Travel Agencies (OTAs) specialized in hostels worldwide, 82% of guests are under 40 years old, which means that the largest demand segment for this type of accommodation are millennials.

## Percentage of Hostel Guests by Age



Source: Hostelworld

Millennials are a tech savvy market (87% use social networks to choose their destination) and are often described as Digital Nomads, who base their experience on access and use of technology and social networks, not only for leisure purposes, but also for professional reasons. It is for this reason that hostels should update their facilities constantly to avoid obsolescence, as well as to keep their technological offer up to date. In fact, more properties use apps to substitute the use of guest room keys, offer faster check-in processes, connect with guests and create channels for guests to interact and communicate between them.

Millennials are also characterised by their passion for travelling, living new experiences and learning from other cultures (80% choose international destinations). More flexible working hours and technological improvements allow them to be able to work remotely, which is why they travel more during the year and for shorter periods than any other segment (62% of millennials travel between two and five times a year). Furthermore, they usually take advantage of business trips to extend their stay and turn them into a leisure trip, a trend that is also known as Bleisure Trips (according to Expedia, approximately 60% of business trips are extended for leisure reasons).

Besides the experience that hostels offer, other reasons why guests stay there are their location, often in the city centre, and accessibility, as they do not use their own car to travel.

Additionally, in comparison with most hotel guests, hostel customers look for affordable prices. While it can be because their purchasing power is lower than most hotel guests, another reason may be that they would rather prefer to spend part of their budget on other experiences and activities. Millennials will most likely choose the best value-for-money option that allows them to travel more frequently during the year. Nevertheless, even though hostel rates are generally below hotel rates, we do not consider them as a budget product, as they often offer a wide variety of products and prices, adapting to the needs of different guest profiles and budget.

The possibility of booking a single bed at an affordable price and being able to socialise with other guests makes Solo Travellers the main target for hostels (c. 40% of hostel arrivals), followed by large groups (c. 30%), couples (c. 20%) and small groups of friends (c. 10%). Driven by the qualitative

improvement of the current supply, family trips and groups of friends are the segments that have grown the most in the last years. Moreover, the more mature travellers (tourists over 50 years old, mainly from the United States, and who usually take a sabbatical year to travel around the world) are a new growing segment within the hostel sector. Nevertheless, their market representation is still smaller than other demand segments.

## Percentage of Way to Travel by Hostel Guest Type



Source: Christie & Co

On the other hand, in terms of gender, women have also become the main hostel users. In 2017, women represented 60% of the total reservations at Hostelworld. As a result, and driven by safety issues, one of the main growing trends in the hostel sector are female-only dorms.

Finally, we note that 90% of hostel guests travel for leisure, indicating that it is a predominantly leisure-driven product.

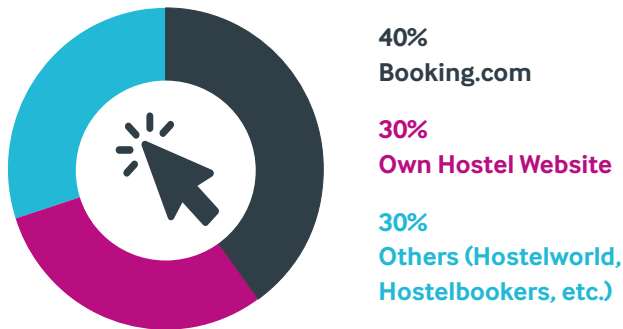
Millennials are also characterised by their passion for travelling, living new experiences and learning from other cultures (80% choose international destinations). More flexible working hours and technological improvements allow them to be able to work remotely, which is why they travel more during the year and for shorter periods.



## DISTRIBUTION CHANNELS

Online sales are the main hostel distribution channel, representing more than 60% of their revenues. Booking.com is positioned as the main online channel (c. 30% – 40% of total reservations), followed by direct channels (up to 30% of total reservations). Online travel agencies (OTAs) specialised in hostels such as Hostelworld, Hostelbookers, Hostel.com or Hostelsclub, represent between 20% and 30% of bookings.

### Percentage of Online Channels by Number of Bookings



Source: Christie & Co

In most cases, hostel reservations are on a room-only basis (in shared dorms of 4, 6, 8 beds, mix dorm or female only dorm) or double/individual room, etc. However, guests can book additional services, such as breakfast, towels, personal hygiene products, lockers, laundry, luggage rack, etc.

Conversely, private rooms usually include towels and other amenities. Nevertheless, many properties have started to include additional services that enhance guest interaction, such as guided tours, night parties, yoga classes, film night, etc.

Online sales are the main hostel distribution channel, representing more than 60% of their revenues.

## BUSINESS MODEL

Hostels are considered as one of the most profitable products in the regulated accommodation market, their main strength being the space optimisation resulting from the larger number of beds per room. Even though the average revenue per available bed (RevPAB) is lower than in other hotel products, the higher number of beds per square meter drives operational profit (GOP) up to c. 50%.

### Percentage of Departmental Revenue

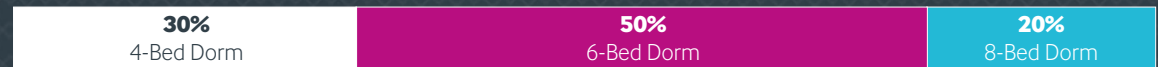


In order to better understand the business model, we have used Design Hostels as an example as they are the main hostel category:

### Bed and room revenues:

Usually represent between 70% and 90% of total revenues. If we consider the available space, the most profitable type of dorm is usually the four-bed dorm, which has an average price per bed above the other dorms. This type of dorm has become very popular for families and small groups of friends. On the other hand, we note that offering private rooms with higher rates helps hostels to increase their average price for the rest of shared beds, as well as to increase the F&B revenues.

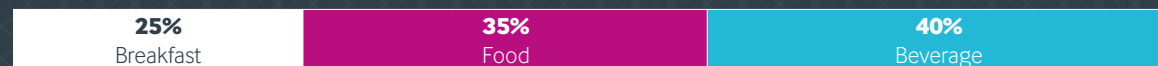
### Percentage of Dorm Revenue Distribution



### F&B revenues:

Usually represent between 10% and 20% of total revenues, but they can go up to 30% (mainly Party Hostels). Breakfast generally accounts for 25% – 30% of the F&B revenues, with a price per person going from 3 Euros to 5 Euros. The price of breakfast tends to be in line with the bed rates offered by each hostel, going up to 10 Euros per bed. Furthermore, in large properties (over 400 beds) with capacity to host large groups, approximately 20% of the F&B revenues are generated through breakfast sales, with the remaining 80% typically divided equally between Food and Beverage sales. Additionally, when hostels have a bar, approximately 60% of their F&B revenues are usually generated by beverage sales. However, when hostels offer a restaurant, food sales tend to represent a higher proportion of total F&B revenues, usually 60%. We note that in Party Hostels, beverage sales can be very significant, accounting for up to 70% – 80% of the total F&B turnover. Comparatively, vending machines normally represent a marginal proportion of the F&B revenues and are considered as a complementary service for guests rather than a significant revenue generator.

### Percentage of F&B Revenue Distribution



### Other revenues:

Usually represent between 3% and 5% of total revenues. They include services and amenities such as towels (around 2 Euros), laundry, tour sales commissions, bicycle rentals, restaurant reservations, etc.

Source: Christie & Co

## OPERATORS AND AGREEMENTS

Even though hostels are a relatively recent product, we note that most of the analysed properties in Spain and Portugal are managed by specialised operators, both national and international.

The two main international chains by bed volume in the Iberian Peninsula are Generator Hostels (located in Madrid and Barcelona with 1,200 beds) and Safestay Hostels (located in Barcelona, Madrid and Lisbon with 990 beds). The three main Spanish Hostel groups are Room007 (with three hostels in Madrid with more than 700 beds and a pipeline of six properties in Barcelona, London, Malaga, Seville, Porto and Lisbon), Toc Hostels & Suites (located in Barcelona, Madrid and Seville, with 600 beds and a pipeline of three hostels in Malaga, Valencia and Granada) and Urbany Hostels (located in Barcelona with more than 600 beds and one project in Milan).

Whilst 71% of the total beds are operated by hostel chains under lease agreements, 28% of the beds are owner operated, and the rest are operated under management agreements. Alternative models such as franchise agreements are still not common in the hostel market in the Iberian Peninsula. Whilst there is limited information on the preferred operating model for hostels in Portugal, we estimate similar percentages.

### Operators' Representation in the Analysed Markets

Hostel Operator Group	Hostels	Beds	Locations
Generator	2	1,188	Barcelona, Madrid and Lisbon
Safestay	5	986	Barcelona and Madrid
Room007	4	770	Madrid
Bluesock Hostels	3	747	Madrid, Lisbon and Porto
Urbany Hostels	2	683	Barcelona
Toc Hostels	3	688	Barcelona, Madrid and Seville
Feetup Point	6	629	Barcelona and Valencia
Cats Hostels	3	503	Madrid and Porto
Selina	2	466	Lisbon and Porto
St. Christopher's Inn	1	416	Barcelona
Sant Jordi Hostels	5	415	Barcelona and Lisbon
Be Hostels	4	450	Barcelona and Lisbon
Oasis Hostels	4	380	Lisbon, Seville and Malaga
Feel Hostels	2	370	Malaga

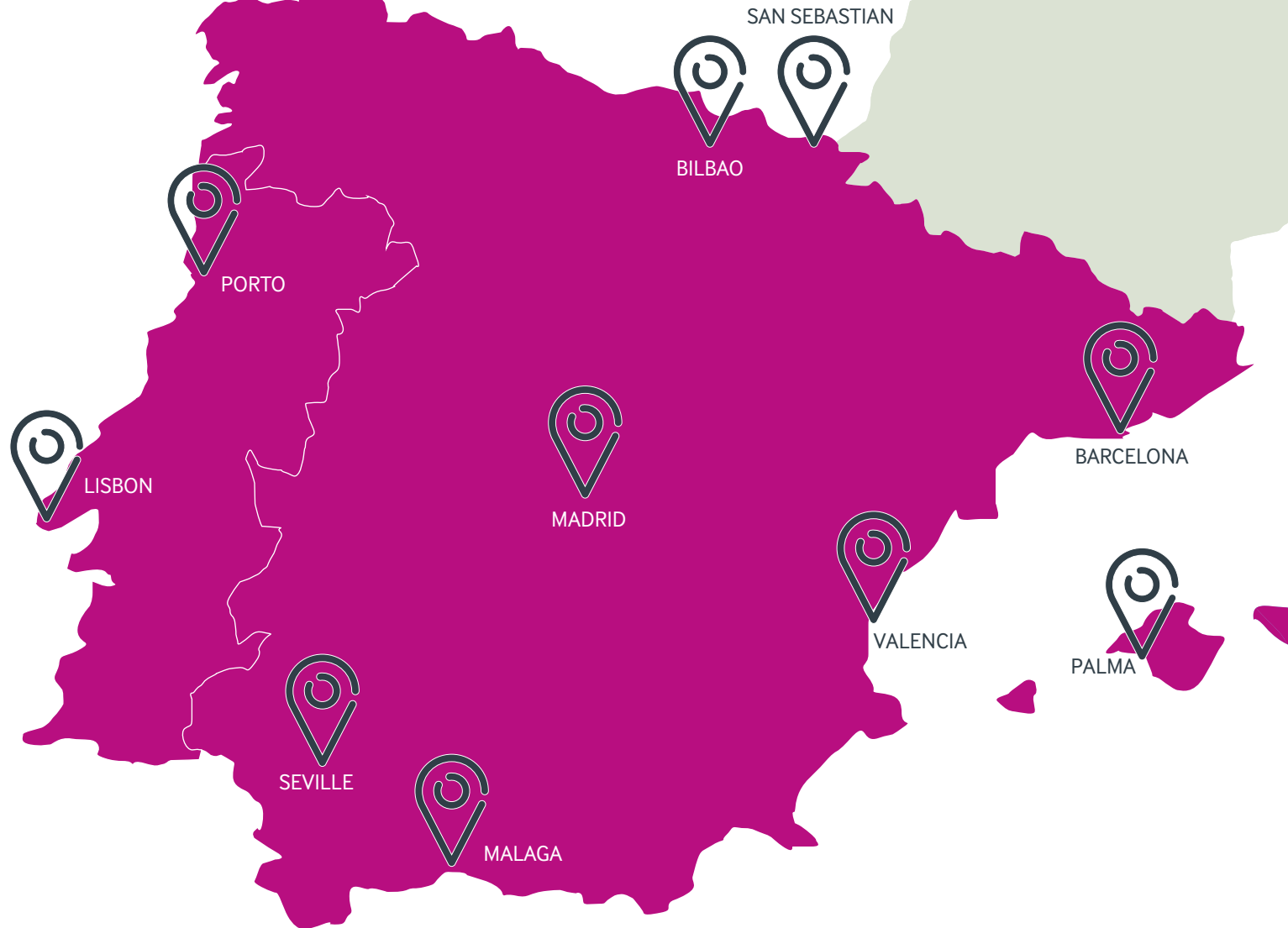
Source: Christie & Co

Whilst 71% of the total beds are operated by hostel chains under lease agreements, 28% of the beds are owner operated, and the rest are operated under management agreements.



# KEY MARKET FIGURES


## ANALYSED CITIES










## KEY MARKET FIGURES



We have analysed the main hostel destinations in Spain and Portugal: Barcelona, Madrid, Malaga, Palma, San Sebastian, Seville, Lisbon and Porto, ranked according to their volume of beds (from largest to smallest).



 48  5,614	MADRID		
	Occ (%)	ABR (€)	RevPAB (€)
	Range		
	71	20	15
	-	-	-
	76	25	20



 19  1,196	VALENCIA		
	Occ (%)	ABR (€)	RevPAB (€)
	Range		
	71	15	11
	-	-	-
	76	20	16



 7  708	SAN SEBASTIAN		
	Occ (%)	ABR (€)	RevPAB (€)
	Range		
	64	21	13
	-	-	-
	69	26	18



 81  8,283	BARCELONA		
	Occ (%)	ABR (€)	RevPAB (€)
	Range		
	76	21	16
	-	-	-
	81	26	21



 36  2,048	PORTO		
	Occ (%)	ABR (€)	RevPAB (€)
	Range		
	70	18	12
	-	-	-
	75	23	17

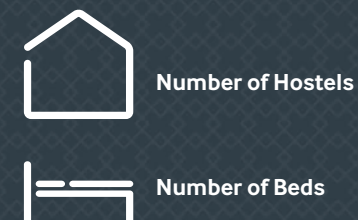
 15  1,182	BILBAO		
	Occ (%)	ABR (€)	RevPAB (€)
	Range		
	65	15	9
	-	-	-
	70	20	14

 7  346	PALMA		
	Occ (%)	ABR (€)	RevPAB (€)
	Range		
	72	20	14
	-	-	-
	77	25	19

 93  5,900	LISBON		
	Occ (%)	ABR (€)	RevPAB (€)
	Range		
	73	17	12
	-	-	-
	78	22	17

 25  1,680	SEVILLE		
	Occ (%)	ABR (€)	RevPAB (€)
	Range		
	75	18	13
	-	-	-
	80	23	18

 18  1,041	MALAGA		
	Occ (%)	ABR (€)	RevPAB (€)
	Range		
	78	17	13
	-	-	-
	83	22	18



Source: Christie & Co



## KEY MARKET FIGURES

In this section we present the current and the future supply in each city, as well as some of their main performance indicators.

### BARCELONA

With 82 hostels and more than 8,200 beds, Barcelona is the city with the largest bed supply in the Iberian Peninsula. With an average size of 101 beds per hostel, most properties are between 10 and 15 years old. Most hostels in the city are within the Design Hostels typology, which represents 62% of the total beds in the city.

Driven by the significant international demand, the city was among the first ones in the Peninsula to attract international hostel operators such as Generator, Safestay and St Christopher's Inn. Currently, 64% of beds are managed by hostel chains. The hotel group Rosa dels Vents, with its brand Urbany Hostels, is the main player in the market, followed by the previously-mentioned international groups and the local chain Sant Jordi Hostels. For the next year Room007 and Amistat Hostels are expected to open new Hostels in the city.

Barcelona is the city with the highest performance levels in the Peninsula, with RevPAB levels up to 20 Euros. With ABR levels ranging between 21 Euros – 26 Euros, the city records the second highest occupancy levels (between 76% and 81%) after Malaga.

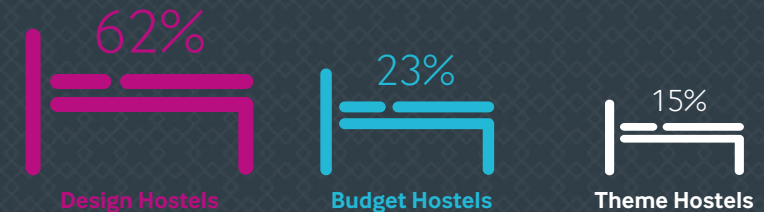
### LISBON

Lisbon is the second largest market by volume of beds (approximately 6,000) in the Iberian Peninsula and the first city based on the number of hostels with more than 90 properties. Overall, the properties are smaller, with an average of 60 to 70 beds, and more than 70% are Design Hostels. We note that the hostel supply in Lisbon is relatively recent, as most properties have been open for five to six years.

The proportion of properties managed by hostel chains is similar, with the local operator HUB Hostels being the main operator. Nevertheless, it is worth mentioning that driven by the growing interest generated by Lisbon over the last three years, most new openings have been carried out by international operators such as Selina Hostels and Spanish operators such as Be Hostels, Bluesock Hostels, Rodamon Hostels and Sant Jordi Hostels. Furthermore, it is expected that Room007 and Selina Hostels will open two properties in the next years.

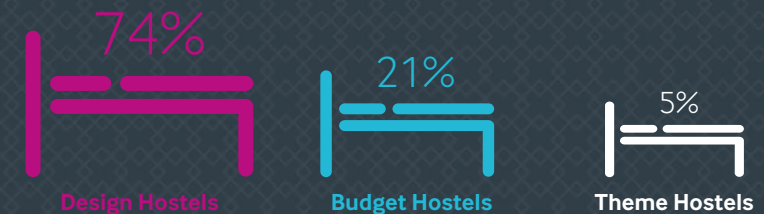
In terms of performance, the city currently registers a RevPAB between 12 Euros and 17 Euros, with occupancy levels of 73% – 78% for and ABR of 17 Euros – 22 Euros.

#### Hostel Typology in Barcelona by Number of Beds



Source: Christie & Co

#### Hostel Typology in Lisbon by Number of Beds



Source: Christie & Co



## KEY MARKET FIGURES

### MADRID

With 46 properties, Madrid is the third city with the largest volume of beds (5,600) in the Iberian Peninsula and registers the highest bed average (117 beds). With a relatively more recent supply than Barcelona (between five and ten years), 56% of the properties are Design Hostels. We note that the larger size of the current supply is linked to the entrance of new investors looking for higher profitability levels.

The main players in the market are Room007 and Cats Hostels, both of which opened their first properties in Madrid and have expanded at a national and international level. It is worth noting that the city registered nine hostel openings during the last two years, with Generator and Bastardo as the largest properties. In November 2019, Bluesock Hostels, part of the Carrís Hoteles hotel group, opened a new hostel, adding about 200 beds into the market. Four new hostels are expected to open in the near future, operated by Room007, Hatch Hostels, Amistat Hostels and The Central House (THC).

Madrid registers the second highest hostel performance, with a RevPAB ranging between 14 Euros and 19 Euros, occupancy levels of 73% – 78% and an ABR of 17 Euros – 22 Euros.

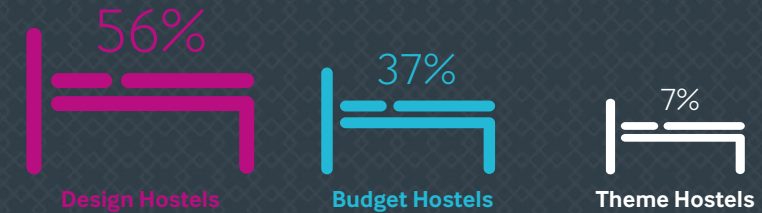
### PORTO

Porto follows similar trends to Lisbon and is positioned as the fourth largest market in the Iberian Peninsula by number of beds. The city has 36 hostels, with more than 2,000 beds. Overall, they present a smaller average capacity (between 45 and 50 beds) and most of them have been open for approximately five years. With c. 83% of the total bed supply, the majority of the hostels in Porto are Design, making it the city with the largest proportion of Design Hostels among the analysed markets.

Like Lisbon, Porto has experienced the entry of international operators such as Bluesock Hostels, Selina Hostels and Cats Hostels, which provide a higher bed capacity and are the main actors in the market.

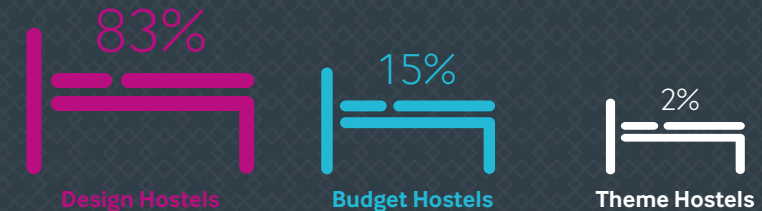
Even though the hostel supply is smaller than Lisbon, Porto achieves similar profitability levels per available bed (12 Euros – 17 Euros), with slightly lower occupancy levels 70% – 75% and a higher ABR 18 Euros – 23 Euros.

### Hostel Typology in Madrid by Number of Beds



Source: Christie & Co

### Hostel Typology in Porto by Number of Beds



Source: Christie & Co



## KEY MARKET FIGURES

### SEVILLE - VALENCIA - BILBAO - MALAGA

Seville is the third largest Spanish market in terms of bed volume and number of hostels (1,500 beds and 25 properties), and the fifth in the Iberian Peninsula, followed by Valencia, Bilbao and Malaga (with approximately 1,000 beds in each city). Hostels in these cities register an average size of 60 to 75 beds.

Most properties in these markets are independently operated and present a low presence of hostel chains. However, we note that Bilbao has experienced the most significant increase of hostel groups during the last three years (B Cool Hostels and Bossh! Hostels), followed by Seville (Hostel One and Kois! Hostels) and Valencia (Feetup Point). In terms of pipeline, Malaga expects the opening of three new hostels, which will be operated by Toc Hostels and Room007. Additionally, Room007 also has expansion plans in Seville and Valencia and Casual Hotels will open two new hostels in Valencia. The hostel brand Amistat Hostels will open a new property in Seville.

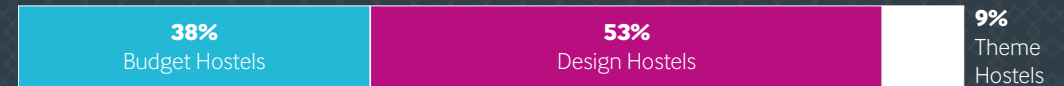
From a performance point of view, Seville presents a higher ABR than Malaga (18 Euros – 23 Euros vs. 16 Euros – 21 Euros), and a slightly lower occupancy (75% – 80% vs. 78% – 83%, thus registering a similar RevPAB (13 Euros and 18 Euros). Valencia is positioned slightly below with a RevPAB of 11 Euros – 16 Euros, an occupancy of 71% - 76% and an ABR of 15 Euros – 20 Euros, followed by Bilbao, which registers a RevPAB of 9 Euros – 14 Euros, an occupancy of 65% – 70% and an ABR of 15 Euros – 20 Euros.

### SAN SEBASTIAN - PALMA

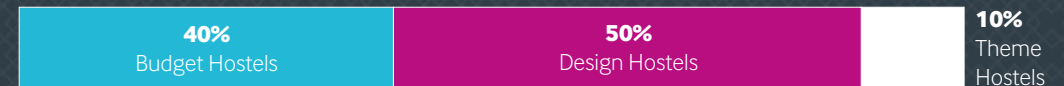
San Sebastian (nine hostels and about 700 beds) and Palma (seven hostels and c. 300 beds) are the smallest hostel markets among the analysed cities. In both cities, most properties are independently operated. However, proportionally, San Sebastian has more Design Hostels than Palma (64% San Sebastian vs. 50%), where the supply is mostly positioned in the Budget segment.

Considering the limited size of its hostels supply, San Sebastian registers the second highest ABR in Spain, just below Barcelona, with an average of 21 Euros – 26 Euros. Nevertheless, it records an occupancy of 64% – 69%, positioning the city's RevPAB between 13 Euros and 18 Euros, in line with Seville and Malaga. In terms of profitability, Palma records the third highest RevPAB among the studied cities (14 Euros – 19 Euros) driven by a high occupancy (72% – 74%) and an ABR of 20 Euros – 25 Euros.

#### Hostel Typology in Seville by Number of Beds



#### Hostel Typology in Valencia by Number of Beds



#### Hostel Typology in Bilbao by Number of Beds

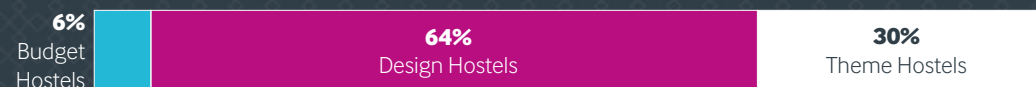


#### Hostel Typology in Malaga by Number of Beds

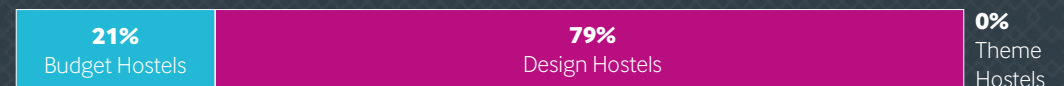


Source: Christie & Co

#### Hostel Typology in San Sebastian by Number of Beds



#### Hostel Typology in Palma by Number of Beds



Source: Christie & Co



## KEY MARKET FIGURES

Percentage of hostel operators representation per number of beds

### BARCELONA

Independent	38%
Urbany Hostels	8%
Generator	8%
Safestay	7%
St. Christopher's Inn	5%
Sant Jordi Hostels	5%
Be Hostels	4%
Toc Hostels	3%
The Streets Apartments	3%
Twentytú	3%
The Hipstel	3%
Amistat Hostels	2%
Feetup Point	2%
360 Hostels	2%
Hostel One	1%
Pars Hostels	1%
No Limit Hostels	1%
Black Swan	1%
Rodamon Hostels	1%
Explorer Hostels	1%
Others	1%

### LISBON

Independent	46%
Hub Hostels	9%
Bluesock Hostels	8%
Pousadas De Juventude	7%
Selina	5%
Destinanton Hostels	5%
Safestay	4%
Yes Hostels	4%
Hans Brinker Hostels	3%
Be Hostels	3%
The Independente Hostel & Suites	2%
Oasis Hostels	1%
No Limit Hostels	1%
Sant Jordi Hostels	1%
Rodamon Hostels	1%

### MADRID

Independent	46%
Room007	14%
Generator	10%
Cats Hostels	6%
Toc Hostels	5%
Safestay	4%
Far Homes	4%
Motion Hostels	4%
Bluesock Hostels	3%
Meetingpoint Hostels	2%
Era Hostels	1%
One Hostels	1%
Others	1%

## KEY MARKET FIGURES

Percentage of hostel operators representation per number of beds

### PORTO

Independent	42%
Selina	13%
Bluesock Hostels	11%
Nice Way Hostels	8%
Cats Hostels	8%
Hostelling International	7%
ACS	3%
Okay Hostels	3%
Independent Collective	3%
Hostel One	2%

### SEVILLE

Independent	54%
Oasis Hostels	16%
Hostel One	8%
Grupo Zenit Hoteles	7%
Toc Hostels	6%
Koisi Hostel	5%
Inn Hostels	2%
Arc House Servicios Turisticos	1%

### VALENCIA

Independent	69%
Feetup Point	31%

### BILBAO

Independent	72%
Bossh! Hotels	12%
Bcool Hostels	10%
Pil Pil Hostel	5%

### MALAGA

Independent	56%
Feel Hostels	36%
Oasis Hostels	5%
The Lights Apartments & Hostels	4%

### SAN SEBASTIAN

Independent	55%
Nest Hostels	28%
Koisi Hostel	18%

### PALMA

Independent	92%
Eurotels	8%

Source: Christie & Co



## INVESTMENT IN HOSTELS

In terms of investment, the hostel market is still relatively young and it is not as developed as the hotels one. Therefore, the market is not as liquid and the number of transactions is limited. However, driven by high returns, more and more institutional investors are interested in acquiring these types of assets, whether they are buildings to convert or operating hostels.

The most common formula used by investors is the creation of joint ventures with existing hostel operators, allowing them to accelerate their expansion strategies while operators can offer investors their expertise. Examples of this type of investment structures are KKR/ Excm Real Estate and Cats Hostels, BlackRock Real Assets and Amistat Hostels, A&O and TPG funds or Azora with its new hostel brand, among others.

Most transacted assets are located in the prime areas of cities such as Barcelona, Madrid, Lisbon, Malaga or Seville. Generally, they are large assets, with an average of 300 – 400 beds with an average price per bed ranging between 30,000 Euros and 40,000 Euros. We note that the increasing interest towards hostels from investors has driven higher transaction prices in other European cities (above 80,000 Euros per bed). We note that due to the high number of conversion projects within the hostel sector, investors find the price per square meter a more relevant metric to assess development opportunities, given the fact that they can also allocate more beds per square meter in comparison with the hotel development. In general terms, we have identified an approximate price per square meter of 4,000 Euros.

As for yields, it depends on both the destination and each asset's micro location. In general, returns vary between 6% and 7%, above those a hotel could generate in a similar location (between 5% and 6%).

Construction costs can vary according to the asset's typology (a plot or a building for conversion purposes, such as schools, offices, industrial buildings or hotels), capacity, state of conservation and location. For a hostel with dormitories between four and eight beds, double rooms and limited common areas, construction costs could range between 700 Euros and 800 Euros per square meter, with an additional equipment (FF&E) cost of approximately 20%, leading to a final cost of 1,000 Euros – 1,200 Euros per square meter. However, we have also identified projects going up to 1,800 Euros per square meter.



## Considering the previous points, we conclude that:

The existing hostel operators in the market have demonstrated that the product works, has a growing number of clients, is widely accepted and is a profitable model from an operations point of view, which is why we draw the following two conclusions:

### 1. The entry of new brands into the market, attracted by the positive results in Spain and Portugal:

international operators who are still not present in those markets, or have a limited presence, will try to increase their presence in order to satisfy existing demand and generate synergies and economies of scale at country level.

**2. A more professionalized product:** the continued growth of brands and professional operators, as well as growing interest from investors will increase the competition in the market. Maintaining the interest in hostels will require properties to offer high-quality products, constantly adapting and evolving to meet demand changes (new concepts and services), as well as higher management efficiencies. This will most likely lead to a decrease of independent operators or the creation of alliances with consolidated operators.

Hostels are not just an efficient operating product, they are also highly profitable. In the current macro-economic setting, investors look for opportunities that generate larger returns, assuming bigger risks, such as repositioning or conversion projects (value-add investments). Taking this into account, hostels are attracting significant capital, which is why over the next years we might encounter the following situations:

### 1. Further development of hostel investment vehicles by institutional investors:

investment groups will develop or strengthen existing hostel platforms, creating propco/opco structures, where both parties will join to develop extensive hostel portfolios. Some of the most recent cases are the Spanish hostel operator Amistat Hostels with BlackRock Real Assets, A&O with TPG or Cats Hostels with Excm/KKR.

### 2. The increase of international investors will attract hostel brands from other markets:

hostel operators from more consolidated markets, such as Amsterdam or London, will develop new concepts and products, such as capsules, resort hostels or mixed products between hostels and apartments (co-living), student residences and camping sites, accelerating the development of this accommodation typology in the Iberian Peninsula.

### 3. The evolution of real estate markets will be key to determine if profitability levels will grow or will decrease:

without any doubt, in areas such as Madrid, Barcelona, Malaga, Porto or Lisbon, the lower offer of suitable assets for the development of hostels, as well as investors' increasing interest to enter these markets, will increase prices per square meter and, consequently, yields will most likely compress. At this point, secondary markets such as Granada, Cordoba and Pamplona will become more popular among investors as offer higher returns and more investment opportunities. We noticed that the main driver for hostel development is not so much the KPI levels of a destination, but the tourism potential of each market, the quality of the products, the location and the availability of competitive rates.

There is a lack of regulatory standards within the hostel sector. The current growth of the sector drives the need for specific regulations for hostels, as well as stricter controls on the minimum standards regarding spaces and services. We expect that in the future, a similar categorisation to the hotel sector will be introduced for hostels, which will require a more specific legislation, different from the one in place, and which should benefit the entry of new operators.

Finally, to conclude our report, we believe that the biggest challenge that hostels will face in the coming years is the following: Is demand for hostels solid enough, or is it a temporary trend? The current hostel demand has proven to be more volatile, less loyal to brands and rather focused on looking for experiences and specific concepts. Based on this, hostels should continuously reinvent themselves in order to avoid obsolescence and continue satisfying not only millennials, but also future generations. As a result, further investment in this sector is required to ensure fast adaptation.

Is the existing supply prepared to accommodate those guests that stayed in hostels when they were 25 and are now 40 or above? Or will they rather switch to a traditional hotel product? Is the industry preparing to accommodate the clients of the future? The answer to these questions will be the key for the future success of the sector.



# **MARKET FEEDBACK**



**BlackRock**

**XAVIER BATLLE**

*Director Investment  
and Development  
at Amistat Hostels /  
BlackRock Real Assets*

Amistat Hostels is a brand with assets under management in Barcelona, Ibiza and Dublin. In 2019, it entered into a joint venture with BlackRock Real Assets to expand across Europe. Amistat Hostels has an active pipeline of properties in markets such as Madrid, Seville, Barcelona, London and other European cities.

**WHICH FACTORS DO YOU CONSIDER WHEN LOOKING FOR NEW LOCATIONS TO EXPAND? WHAT ARE THE MAIN LIMITATIONS THAT YOU FIND IN THE PENINSULA FOR THE DEVELOPMENT OF NEW HOSTELS?**

When selecting target markets for expansion, we seek Western European destinations with strong fundamentals, paired with a good balance between supply and demand, both at present and in the future, and with a good brand recognition among our target market. From a micro location perspective, we are looking for prime or emerging areas, in proximity to attractive demand generators for our guest profile and with excellent accessibility.

In terms of barriers to enter the Iberian Peninsula we find the planning environment to be challenging, including obtaining licenses and the lack of transparency regarding the relevant administrative processes. Additionally, price expectations are currently high for assets suitable for conversion, which limits our entry options, as well as limited stock available of hostels with more than 300 beds. The political instability in Spain also adds additional pressure and complicates the due diligence process when analysing opportunities.



**EXCEM**  
REAL ESTATE

**NATALIA ZANG**

*Deputy CEO at  
Excem Real Estate*

Excem Real Estate is a REIT dedicated to the hostel investment that has recently created a joint venture with KKR, to create a pan-European hostels platform with an initial portfolio composed of five properties in Spain and Portugal with more than 1,000 beds and a 3-year business plan to reach 25 assets and 8,000 beds. Currently all their hostels are managed under the CATS Hostels brand and owned by Excem Real Estate.

**WHAT ROLE DOES THE F&B PLAY IN YOUR ESTABLISHMENTS? DO YOU SEE AN OPPORTUNITY TO ENHANCE THIS DEPARTMENT? TO WHAT EXTENT DOES THE F&B OFFERING HELP POSITION A HOSTEL ABOVE THE OTHERS?**

The role of the F&B at CATS has always been very relevant, since by definition all our Hostels have and/ or will have a bar (and sometimes more than one, with a terrace bar) and other common areas where food and drinks can be enjoyed. Until now, we have mainly developed our Beverage offering, predominantly due to space limitations. But of course, there is an opportunity in the Food segment and we work towards strengthening it through two actions: (1) identify available spaces in future acquisitions to increase the offer, (2) and more importantly: attract the local public, that does not stay at our hostels to enjoy our F&B proposal and interact with our guests.

At CATS we also offer activities and tours to our guests and local residents.

A good F&B provision is not only a relevant source of income, but also helps to position the brand, because it allows to build an environment, enhance socialisation among guests and finally, build customer loyalty. We are completing a redesign process of our Hostels that aims to offer comfortable, functional and beautiful rooms for instance. We want our guests to enjoy our range of services such as the bar, terrace and other common areas, as well as the city through our tours and activities.



The logo for Room007, featuring the text 'room007' in a stylized, lowercase font with a double outline effect.

**IGNACIO REQUENA**

*CEO at Room007*

Room007 is one of the largest Spanish hostel chains with three assets in Madrid and six additional properties in the pipeline in Spain and Portugal.

### **DO YOU THINK HOSTELS CURRENTLY COMPETE WITH HOTELS?**

We do not consider hostels and hotels to be direct competitors considering that both their markets and demand needs are different. Nowadays, guests are democratising luxury, and value more the stay, not really from a tangible point of view, but as an intangible, investing in less material elements and more in experiences. In this sense, hostels offer a range of experiences that, in many cases, can be hotel competitors.

Generally, a traditional hotel is a cold product oriented towards a more mature public, who prefers services such as gym, spa, room service, etc. that are not conducive to socialisation. Besides, hostel guests look for interaction with others, regardless of their profile. Thanks to the qualitative improvements seen recently in Hostels, they receive even more guests that traditionally went to hotels, such as couples and families.

With a long history as an accommodation product and wide range of sub typologies and segments, hotel is the main product in the tourism/accommodation sector. Comparatively, the hostel product is a relatively new introduction to the hospitality sector, which has emerged over the past decade. For this reason, no matter how much hostels grow in Europe, they will not exceed the hotel volume and can coexist.

The customer profile has evolved over time and therefore has different needs according to different periods. The priority is not to compete with hotels to see who performs better, but to change the Hostel's perception, notably of poor quality and oriented towards a low purchasing power, which we do not consider to be true anymore. Guests decide when, where and how they spend their money, and it is for this reason that Hostels, touristic apartments and other accommodation types will continue growing and evolving in the future.



**PEDRO PÉREZ DE SEVILLA**

*Director of Tourism -  
Hotel Business at  
Banc Sabadell*

Banc Sabadell is a bank specialised in financing hotel assets, and particularly hostels. During the last years this entity has studied and signed different projects in Spain and Portugal, analysing many opportunities to help investors carry out new projects within hostels, a young and profitable sector.

### **LEASE AGREEMENT VS. MANAGEMENT AGREEMENT. FROM A FINANCING POINT OF VIEW WHAT ARE THE RISKS AND OPPORTUNITIES FOR HOSTELS?**

For hostels, from a financing perspective, rather than talking about the difference between contract types, we focus on the difference between the quality and experience of the operator and the location of the asset, in addition to the repayment capacity of the project through operating cashflows of the hostel itself.

There is always a manager taking responsibility for the compliance of the Business Plan and for the success of the asset's operation. The bank feels comfortable with a contract that offers a Minimum Guaranteed Income, intended for the payment of the debt and a sponsor with strong financial covenant. Nevertheless, the most important aspect is that the operator generates the maximum profit for the asset, regardless of the contract type (lease agreement, management agreement or mix). Therefore, all stakeholders feel comfortable: the bank financing projects, and the manager and/or the sponsor in each case, meeting their obligations to the owner of the asset, its parent company, or its investors.



**HENRI WILMES**  
*Chief Investment  
Officer at A&O*

A&O is a leading hostel chain in Europe, with 39 properties in 22 cities and 7 countries, and future openings planned in Copenhagen, Warsaw, Budapest and other Spanish cities.

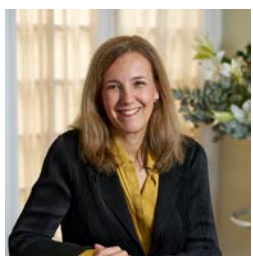
### **COULD YOU TELL US THE MAIN ELEMENTS THAT YOU KEEP IN MIND WHEN YOU ASSESS CONVERSION OPPORTUNITIES AND WHICH ARE THE RED FLAGS?**

When we analyse asset opportunities for conversions, apart from the usual criteria (location, public transport connections, acquisition costs or repositioning costs, etc.), we first focus on the possible numbers of rooms and beds that we can fit in the building, with the objective to develop our Business Plan. This analysis is influenced by a range of factors, such as the local planning environment and the specific features of each building.

The planning regulations of an asset and the local constraints to operating a hostel may vary according to the legislation of each country, region and city. As such, we often face the situation where the hostel, as we understand it today, is not subject to a special normative. This has a direct effect to the forecasted costs and timing for the licence processing. An example is Venice, where we currently operate two assets. It was A&O, who facilitated the introduction of specific legislation for hostels in the Veneto region to develop our projects in the city.

Then, we analyse the building quality and its conservation state through a technical due diligence. For example, we analyse the building structure through testing to ensure that the structure is “healthy” and allow the development of this specific accommodation product. Other key factors are: the asset maintenance and facilities, that will impact directly the projected costs for its conversion, other related aspects such architectural protection and other environmental factors like pollution that always appear in buildings, depending on their age and previous use.

Lastly, for A&O, the easiest option is always the conversion of simple structure buildings. Therefore, office conversions are often the optimal investment, because floorplates are flat and square, and deliver a better efficiency of the available space whilst offering the possibility to increase the number of rooms/beds. On the contrary, when we receive an opportunity including an historic building, we have to adapt to the space. Nevertheless, the hostel product (different types of rooms, which includes doubles and dorms, with less standards than for the hotel product) facilitates the adaptation of this type of buildings. I like to compare this fitting exercise to the Tetris game.



**MÓNICA GARAY**  
*Partner at Azora*

Azora is an investment fund manager, who has recently entered the hostel segment launching its own operating company in 2020 with the intention to manage its own assets. However, in the future, Azora is planning to operate properties owned by third parties. Its expansion plans include assets located in the main European cities, starting with Bilbao, Brussels and Lisbon.

### **WHAT DO HOSTELS OFFER AS AN INVESTMENT OPPORTUNITY OVER HOTELS?**

Hostels are a complementary investment to hotels, but with some interesting advantages. Hostels are a more resilient investment during crisis periods, as they are a more competitive and flexible product. Buildings located in the city centre, but with more complex layouts and smaller sizes, are generally more suitable for hostels than for hotels. Furthermore, the possibility to increase the number of beds in the same room drives higher levels of RevPAR than its 3-star counterparts.



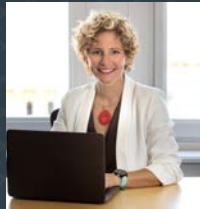
## OUR TEAM



**Inmaculada Ranera MRICS**  
Managing Director Spain & Portugal  
T +34 93 343 61 62  
M +34 627 410 671  
E Inma.Ranera@christie.com



**Coré Martín**  
Head of Investment Spain & Portugal  
T +34 91 794 26 40  
M +34 683 286 334  
E Core.Martin@christie.com



**Beatriz Menéndez – Valdés**  
Head of Consultancy Spain & Portugal  
T +34 91 794 27 19  
M +34 670 823 315  
E Beatriz.Menendezvaldes@christie.com



**Íñigo Cumella de Montserrat**  
Investment Associate Director  
T +34 93 343 61 65  
M +34 628 420 197  
E Inigo.Cumella@christie.com



**Alejandro Scholtz**  
Investment Consultant  
T +34 91 794 26 40  
M +34 669 959 249  
E Alejandro.Scholtz@christie.com



**Guillemette Briard**  
Consultancy Associate Director  
T +34 93 343 61 72  
M +34 679 355 693  
E Guillemette.Briard@christie.com



**Laura Vidal Kränzlin**  
Investment Consultant  
T +34 93 343 61 75  
M +34 679 503 140  
E Laura.Vidal@christie.com



**Borja Nieto**  
Investment Consultant  
T +34 91 794 26 41  
M +34 650 950 316  
E Borja.Nieto@christie.com



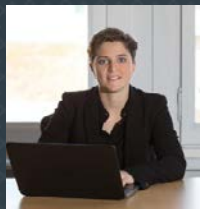
**Pol Fabregat**  
Senior Hotel Consultant  
T +34 93 343 61 73  
M +34 680 366 763  
E Pol.Fabregat@christie.com



**Ariadna Planella**  
Hotel Consultant  
T +34 93 343 61 69  
M: +34 659 761 941  
E Ariadna.Planella@christie.com



**Joan Bagó**  
Market Analyst  
T +34 93 343 61 71  
E Joan.Bago@christie.com



**Roser Sors**  
Analyst Intern  
T +34 93 343 61 67  
E Roser.Sors@christie.com





**Barcelona**

Paseo de Gracia 11  
Esc B, 4º 3ª  
08007 Barcelona, Spain  
E: [barcelona@christie.com](mailto:barcelona@christie.com)

**Madrid**

Paseo de la Castellana 45,  
Bajo, 28046  
Madrid, Spain  
E: [madrid@christie.com](mailto:madrid@christie.com)



In 2020 we're turning 20!