

## What is a hostel?

A hostel is a budget-friendly type of accommodation focused on shared social experience. Hostels generally have a combination of dorm rooms (where the guest rents a bed in a room with other guests) and private rooms (akin to a traditional hotel, but generally much smaller and with an emphasis on the social attributes of a hostel). A boutique hostel is a new breed of hostel that combines the shared accommodation and focus on communal areas of a traditional hostel with the design and guest experience most often associated with boutique hotels.

### Hostels are social

Hostels emphasize shared spaces and address a need for social interaction that is not met elsewhere in hospitality. From the café to the co-working space and the guest kitchen, a hostel is designed to facilitate connection between travelers. The best hostels use events like organized dinners, exercise classes, and city tours to further enhance interaction.



*Clink Noord (Amsterdam, Netherlands)*

### Hostels are local

Hostels also build connections between travelers and the local community. Great hostels have cafés, bars, a rooftop lounge, or other spaces that draw in locals and make travelers feel resident in the neighborhood, if only temporarily.

Hostels can thrive on a much smaller floorplate than a hotel because hostel guests don't mind a small private room or a shared space. Hostels can be built unintrusively in neighborhoods that would spurn a massive chain hotel.

Great hostels use events to showcase the local community and further build foot traffic. These are varied and can include live music, art exhibitions, pop-up markets, a visiting local bartender or restaurateur, or any number of unique local activities.



*Wombats (Berlin, Germany)*

### Hostels are affordable

Hostels provide everything travelers want and nothing they don't. Hostels ditch the amenities many guests don't want to pay for (room service, gym, ugly decor), centralize those they use infrequently (phone, ironing board, desk), and enhance those they love (café, blazing fast wifi, workout classes).

The average rate for a dorm bed in a major American or European city ranges from \$30-50, significantly cheaper than typical hotel or Airbnb options for solo travelers. Through relentless focus on the guest and the experience they demand, well-run hostels can keep operating expenses 30% lower than those of an equivalent mid-range hotel.

### **The hostel market is undergoing a revolution**

From this...



...to this



*Kex Hostel (Reykjavik, Iceland)*

Hostels have changed dramatically over the past decade, particularly in Western Europe. What were once backpacker crash pads with a reputation for filth and theft are now upscale boutiques with James Beard Award-nominated bars and clean, modern dorms.

The European market is becoming increasingly professionalized and chains are beginning to emerge in what remains a fragmented industry. Institutional investors are starting to put capital into the European market. Queensgate Capital (which purchased Generator Hostels \$480 million) and TPG (which purchased A&O Hostels for an undisclosed sum) both entered the market for the first time in 2017.

### **And the revolution has a long way to go**

The global hostel market will experience 7-8% revenue growth per year through 2018, when the total hostel market will reach nearly \$7B.<sup>1</sup> We expect even higher revenue growth post-2018 as the trends driving growth in the industry accelerate further.

The hostel business model presents an attractive growth and yield proposition, with strong margins driven by low costs. The model is disruptive to the hotel business and more adaptable. Hostels sell beds, hotels sell rooms. *Hotel Management* recently called the hostel sector one of the most dangerous nascent threats to traditional hotel chains.<sup>2</sup>

The sector is still fragmented with very low brand penetration. Most existing hostels are independently-owned or small groups in individual cities. Just 8% of hostels in the U.S.

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<sup>1</sup> Phocuswright Global Hostel Marketplace 2014-2018

<sup>2</sup> *Hotel Management*, April 2017

belong to a chain (compared to 70% of hotels) and 70% of properties report less than \$200,000 in annual revenue. Upscale hostels have only just begun to expand beyond Western Europe and the market is ripe for development and consolidation.

## The new breed of shared accommodation

### Dorms



St. Christopher's (Barcelona, Spain)



Away (Lyon, France)



Home (Lisbon, Portugal)



Die Wohngemeinschaft (Koln, Germany)



Old Plovdiv House (Plovdiv, Bulgaria)



Boxpackers (Bangkok, Thailand)

## Private Rooms



Freehand (Chicago, IL)



Star (Taipei, Taiwan)



Generator (Venice, Italy)



Meander (Taipei, Taiwan)



Boutique Hostel Forum (Zadar, Croatia)



Lisbon Calling (Lisbon, Portugal)

## Bars/Restaurants



Meininger (Brussels, Belgium)



Wake Up (Sydney, Australia)



The Hat (Madrid, Spain)



Generator (Paris, France)



Once Again (Bangkok, Thailand)



Kex (Reykjavik, Iceland)

## Communal Spaces



The Native (Austin, TX)



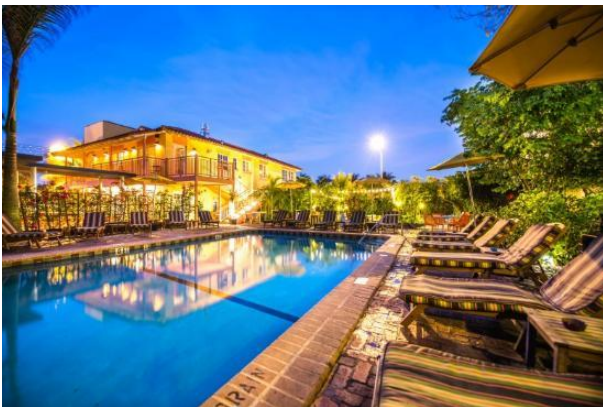
King Kong (Amsterdam, Netherlands)



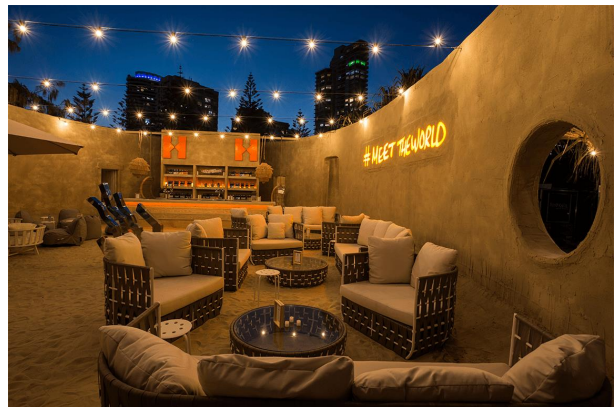
Onederz (Siem Reap, Cambodia)



Casa Gracia (Barcelona, Spain)



Freehand (Miami Beach, FL)



Sand (Gold Coast, Australia)

## Guest Kitchens



Soul Kitchen (St. Petersburg, Russia)



Wombats (London, UK)



Saint Jordi (Barcelona, Spain)



Yeah (Barcelona, Spain)



The B.I.G. (Cape Town, South Africa)



City Circus (Athens, Greece)