

Opinions

Love, hate and hostels

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Budget hospitality is reinventing itself across Asia in the post-hipster, selfie era.



By Bill Barnett

Hate is a strong word, but anyone who has ever sat on an airplane aisle seat and suffered a backpack in the face as a seemingly innocent passenger searches for their seat number knows exactly what I mean. All too often, my imaginative mind turns to a head-butt, but perhaps that is harsh judgment, and there might be no Wi-Fi in jail.

Backpacks are back, but this time they ‘posh up’

It’s 2018, and yes, backpacks are back, as is a brave new retro-age of authentic, experiential travelers. There goes my entire arsenal of travel buzzwords, and we have not even yet broached on the dreaded “millennial” term yet. Still, Asia continues to have one of the highest travel growth trajectories in the world, and there is no end in sight.

But let’s take a moment and travel back to 1975 when the true global travel scene in the region began with Lonely Planet’s tome “Southeast Asia on a Shoestring.” It was the beginning of an unparalleled cycle of hotel development that started at the budget level of beach bungalows on warm tropical beaches and seedy city properties with rusted fans, sagging beds and worn-out travelers.

We all know where this is going, as with the backpackers came flocks of others along with gap year Northern American students and Europeans taking a long journey to nowhere, which eventually evolved into European snowbirds, Kangaroo route visitors from down under and an entire new cast of characters. Hotels were built and evolved from midscale into luxury offerings as the economies of Asia grew and, in a nutshell, today the East is the new West, where anything is possible.

Low-cost airlines become the agent of change

Taking a look at the budget travel market in Asia today, the catch-all, buzzed-out term of millennial mania is perhaps the most overused and incorrect term in the marketplace. The landscape started to change between 2000 and 2005 when Asia’s low-cost airline carriers began to grow at breakneck speed.

What is changing entry-level travel is a rising Asian consumer class that values the experience of visiting new destinations. Nowhere is this more evident than Mainland China, where less than 9% of a population over 1.4 billion even has passport. In 2017, more than 130 million traveled overseas. So looking at the upside, it’s not endless, but the metrics are staggering.

Hostels tap into a growth trend of getting out of the box

Globally, airlift has grown at such an incredible pace that the once-common concept of limited overseas travel has changed dynamically. Cost have come down, and we are again entering a new phase of budget travel not dissimilar to the 1970s.

Hostels have become more prevalent and even polished up a bit with the more glammed-up bumper poshtels. Socialization, co-working, co-living and interaction have recreated Asia’s travel scene from the more austere “getting away from it all” destination, to a more chaotic reflection of today’s crowded house.

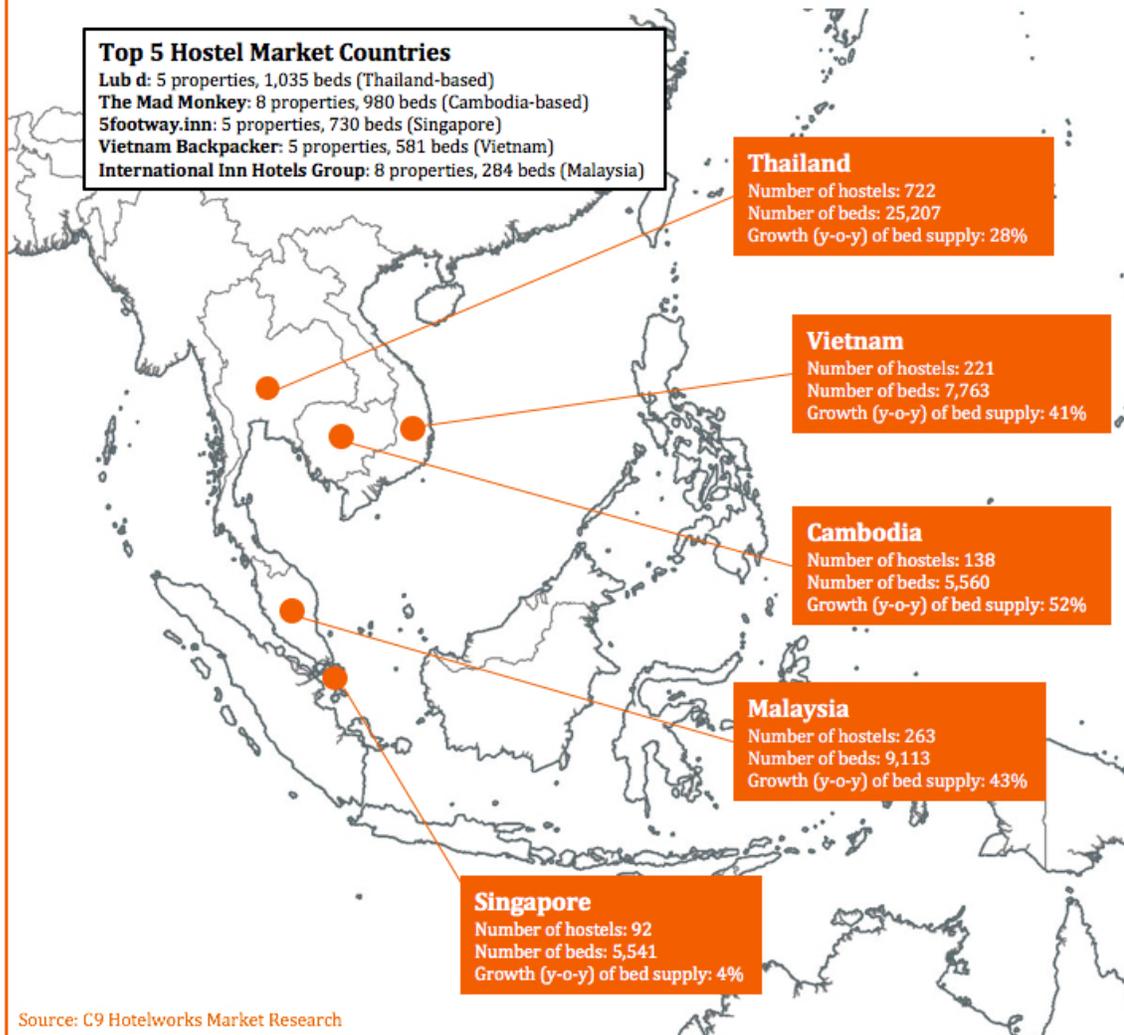
According to our group’s research into the region, the number of international-level hostel properties grew to 1,766, with more than 60,000 beds, by the end of 2017. Based on inventory, the big three players are Thailand, Indonesia and Vietnam, which represent over 50% of total inventory. Year-on-year growth in 2017 soared to 30% for the sector.

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Southeast Asia Top 5 Hostel Market Leaders



(Source: C9 Hotelworks Market Research)

Economics of the asset class are aligned to real estate yields

Unlike the United States where budget motels benefit from low land cost, the reality in Southeast Asia is that CBD properties have high land values, so often long-term leases are used and the asset class is one that leverages on cash flow. From an efficiency or yield, unlike hotels that value on average room rates or revenue per available room, hostels work on a revenue-per-bed metric that in our research often results in a better return per square meter versus traditional budget or economy hotels.

Zooming in on the latest trend, we see hybrid properties that offer both shared and private accommodation. There is demand at both levels for travelers who still value the social areas of a hostel yet have different travel budgets. Another key is rooms with multiple beds for friends and family, or groups.

Size matters, as does scale

In addition to popularity among travelers, hostel companies are seeing success in their ability to tap into private equity and create an institutionalized model. What is challenging, though, is the ability to scale.

Where we do see traction in the future is the ability to retrofit existing buildings into hostels, by converting poorly performing legacy economy and midscale hotels. Whatever the path is going ahead, the space is certainly one of the most exciting in the world given the massive metrics of Asia's surging consumer class.

[Click here](#) to download and read C9 Hotelworks report on South East Asia's hostels.

Bill Barnett is a globally recognized hospitality, tourism and real estate advisor. He is the founder and managing director of Asia-based C9 Hotelworks. In addition to being a leading consultant, he is a frequent speaker at industry events and conferences. With over 30 years' experience in the Asia Pacific region, he has an extensive background in hotel operations, development and asset management. His past employment highlights include Senior Corporate roles at international hotel chains and publically listed companies. Barnett is considered to be one of the foremost industry experts in the hotel residences sector.

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