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GOLD COAST BACKPACKER MARKET REVIEW

NOVEMBER 2024

This Research Report analyses the current state of the Backpackers and Hostels market on the Gold Coast. Research shows that the market is undersupplied, with a lack of budget price backpacker hostels compared to the demand from that part of the travel market. However, while the industry has relatively low barriers to entry there are some key challenges facing the sector.

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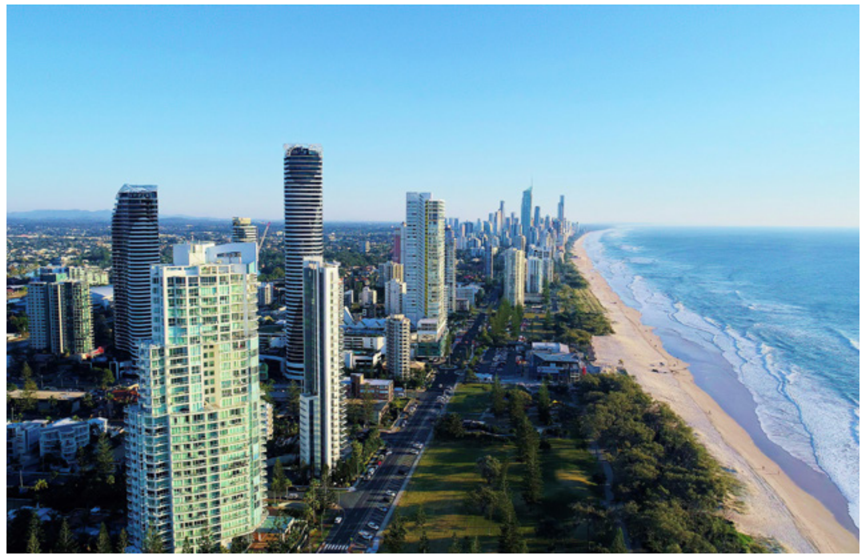


INTRODUCTION

Research into the Gold Coast Backpackers and Hostels market reveal sizeable opportunities for operators to enter an undersupplied market. While there are some 70 hotel and motel tourism assets within Surfers Paradise alone, there is a dearth of budget options for the backpacker and budget traveller market, with just 12 backpacker hostels located across the whole of the Gold Coast region.

The Gold Coast tourism market generated some $7.8 billion in visitor expenditure from approximately 12.2 million visitors during 2023. The budget traveller and working holiday tourism market is only a small part of the overall tourism market, however, it is nonetheless an important part given that the Australian Government granted 224,431 Working Holiday Maker (WHM) Visas alone during the 2023 financial year. According to Tourism Research Australia (TRA) there were around 29,082 WHM travellers to Surfers Paradise alone in the twelve months to March 2024.

Travellers on WHM Visas make up only a part of the budget traveller market, with budget travellers on other visa types and local and interstate travellers also representing a sizeable portion of the market. Given that there are just 12 backpacker hostels and many reports suggesting that obtaining a bed at short notice in a backpacker's hostel on the Gold Coast is either impossible or very expensive, there is a pronounced gap in the market considering the number of budget travellers and the total size of the Gold Coast tourism market. This represents a sizeable opportunity for operators to enter the backpacker market.

BACKPACKER HOSTEL MARKET OVERVIEW

The backpacker hostel sector is part of the Caravan, Parks, Holiday Houses and Other Accommodation sector. The sector generated Australia-wide revenue of $306.7 million for the 2024 Financial Year. Industry revenue for the sector as a whole is forecast to increase by 1.1 per cent over the five years to 2029.

A backpacker hostel can be defined as a form of budget shared accommodation which provides beds in shared or private rooms with communal amenities. The rooms are typically dorm-style rooms with multiple bunk beds. Some newer more upmarket hostels offer “capsule” or “pod” type accommodation – with rooms fitted out with multiple capsules or pods which contain a bed, power points, individual lights and usb ports. This style of accommodation provides more luxury and a degree of privacy while still keeping down costs by sharing the room and amenities with other capsules. Many hostels also provide private or family rooms which are often still cheaper than motel or hotel rooms. Hostels aim to provide a sociable atmosphere, and many provide access to low-cost tourist activities, and offer facilities such as lounge areas, shared kitchens, co-working facilities and restaurants or cafes.

Backpacker hostels traditionally cater to budget travellers with less discretionary income, although demographics have been changing in the post-pandemic years, with the industry increasingly attracting so called “flashpackers”. Flashpackers are generally digital nomads who work remotely while travelling around the world. The sector has also benefited from an increase in the number of solo travellers since the borders reopened. Many solo travellers with higher travel budgets are also deciding to stay in backpacker hostels due to their cost-effectiveness, value for money, convenient locations and ability to connect with other travellers. In order to attract and cater for the flashpacker and solo market, many backpacker hostels have opted to provide facilities to cater for these markets, such as co-working spaces. This in turn has increased rack rates for beds, which makes many backpacker hostels less accessible to traditional backpackers.

Many backpacker hostels cater to travellers who are in Australia on WHM Visas. The 224,000 WHM Visas granted in the 2023 financial year was significantly above the 97,000 grants in the 2022 financial year. The number of WHM grants are now also above pre-COVID levels, which averaged around 221,000 grants annually.

According to Tourism Research Australia (TRA) there were 281,267 international visitors to Surfers Paradise in the twelve months to March 2024. Of these 59,992 travellers were backpackers, out of which 29,082 travellers were in Australia on a WHM Visa. This WHM market has become an increasingly important market for the backpacker hostel sector to tap into.

The sector is highly fragmented with YHA being the largest backpacker hostel provider. YHA Australia operates 38 backpacker hostels across Australia, with a single hostel located on the Gold Coast in Bilinga. The other backpacker hostels are mostly operated by small-scale operators.

The backpacker hostel sector was severely affected by the COVID Pandemic, with a number of hostels closing down during the period Australia’s international borders were closed. However, demand for budget accommodation has largely recovered since the borders were reopened on the back of increasing numbers of international and local visitors. While some new hostels have opened since the pandemic, the total number of hostels remains lower than pre-COVID. This, along with increasing costs and inflation, has resulted in price for beds increasing by up to 50 per cent since 2019. Despite the price for beds increasing, demand for backpacker hostel services remains high, with strong levels of occupancy reports across the sector.

Given that there is more demand than there are backpacker hostels available, especially on the Gold Coast, it is worth noting that there are relatively low barriers to enter the backpacker hostel sector. There are no real legal barriers and relatively low start up costs. The initial costs in capital come from purchasing or leasing property and fitting it out to the appropriate standard. Higher real estate prices have made this more difficult in the past decade, but the potential capital gains from property increasing in value in future years helps to offset this cost. There are also marketing costs to promote the business. However, the main barrier to entry is obtaining a development permit from local government. A number of applications to convert properties to backpacker hostels have failed in the past due to objections from neighbouring owners, around noise, security and parking issues. One recent application to Gold Coast Council to build a backpacker’s hostel at the former Surfers Paradise Bowls Club was rejected by council due to concerns about parking and safety. Thus, most backpacker hostels are established in commercial areas or areas with substantial pre-existing hotel accommodation.

BACKPACKER HOSTEL INDUSTRY GOLD COAST LOCATIONS

There are currently 12 backpacker hostels across the Gold Coast, with one located in Surfers Paradise currently being fitted out and due to open in October 2024. Eight of the hostels are located in Surfers Paradise, with two in Southport, one in Coolangatta and one in Bilinga. The largest hostel is the six-level Bunk Surfers Paradise Backpackers Hostel in Surfers Paradise. The hostel was originally opened in 1999 and was refurbished in 2017. All the hostels on the Gold Coast have a combination of shared bunk rooms and private rooms.

There are also plans to build two new hostels. Plans have been submitted to replace an existing hostel at 4-10 Pine Avenue, Surfers Paradise with a new 7-storey building with up to 102 rooms. There are also plans to construct a 243-bed hostel at 7 Staghorn Avenue, Surfers Paradise.

Average pricing for a single night in a bunk room is $61, with a range from $49 to $104. This is significantly higher than prices pre-COVID and travellers often need to book in advance to secure accommodation.

DESPITE THE PRICE FOR BEDS INCREASING, DEMAND FOR BACKPACKER HOSTEL SERVICES REMAINS HIGH, WITH STRONG LEVELS OF OCCUPANCY REPORTS ACROSS THE SECTOR.

INVESTMENT

The most recent backpacker hostel to sell was the Capsuleaccom Hostel at 34 Nerang Street, Southport, which sold for $1,125,000 (excluding GST) in January 2022.

While there have not been many transactions of backpacker hostels on the Gold Coast, it is worth highlighting that since the end of 2020, five YHA hostels assets across Australia have transacted for a total of $33.1 million. These sales occurred during the later part of the pandemic and highlighted that some investors could see the potential for strong returns in the sector in the post-pandemic years.

CHALLENGES

While the reopening of the Australia's borders following the pandemic has seen increased traveller demand for accommodation on the back of an increasing number of travellers, there are some challenges.

The most significant is that while demand remains high, prices per bed have risen significantly. This is partly due to the relative lack of competition in the sector, while increasing inflation and interest rates have also driven up operator costs which are then passed on to travellers. Thanks to significant pent-up desire to travel, the increased prices haven't stopped visitors from coming to Australia. To counter some of the cost increases, operators such as YHA are now focusing on broadening their appeal to travellers so that they will not dissuaded by higher prices, and providing increased amenities in backpacker hostels, such as through the inclusion of co-working spaces.

Another challenge remains the popularity of accommodation-share providers such as Airbnb, which have increased the overall accommodation supply over the past decade. Prior to the pandemic, this forced established operators to lower prices to retain customers. Competition from Airbnb remains a challenge as it continues to increase the amount of available accommodation for travellers. Competition from Airbnb and other accommodation-share providers has reduced profitability for some operators over the past decade. The challenge has been mitigated somewhat as the Gold Coast Council requires short term accommodation providers to be registered and have appropriate zoning. Given the accommodation crisis and shortage of rental properties the Council is also adding pressure on property owners to ensure that properties are available for long term rental as opposed to short term tourist accommodation. However, despite the recent pressure on private landlords, backpacker hostels still need to differentiate themselves from accommodation-share providers by providing amenities that cannot be provided in the typical Airbnb.

Rising inflation and interest rates have not just driven up operator costs. They have also reduced real household discretionary incomes in Australia. This has had an impact on overall travel trends in Australia, and subdued the domestic holiday market overall. However, while inflation and interest rates have dampened demand from local budget travellers, conversely ongoing international geopolitical instability and rising environmental consciousness are likely to increase the pool of domestic tourists who choose not to travel overseas, and continued inflationary pressure is likely to also lead to travellers looking for more budget accommodation options when they do choose to travel.

The backpacker hostel market is vulnerable to border closures or changes in national visa legislation given that a large number of their guests are drawn from international tourists or WHM Visa holders. Any border closures can have an adverse effect as seen during the recent pandemic. The sector therefore also needs to appeal to the budget-conscious local tourism market.

BACKPACKER/HOSTEL INDUSTRY STRENGTHS AND WEAKNESSES

STRENGTHS

1. Limited competition and high demand for budget accommodation.
2. Many houses and commercial buildings can be repurposed as backpacker hostels.
3. Significantly higher numbers of Working Holiday Maker (WHM) Visas have been approved in the past few financial years compared with pre-Covid.

WEAKNESSES/CHALLENGES

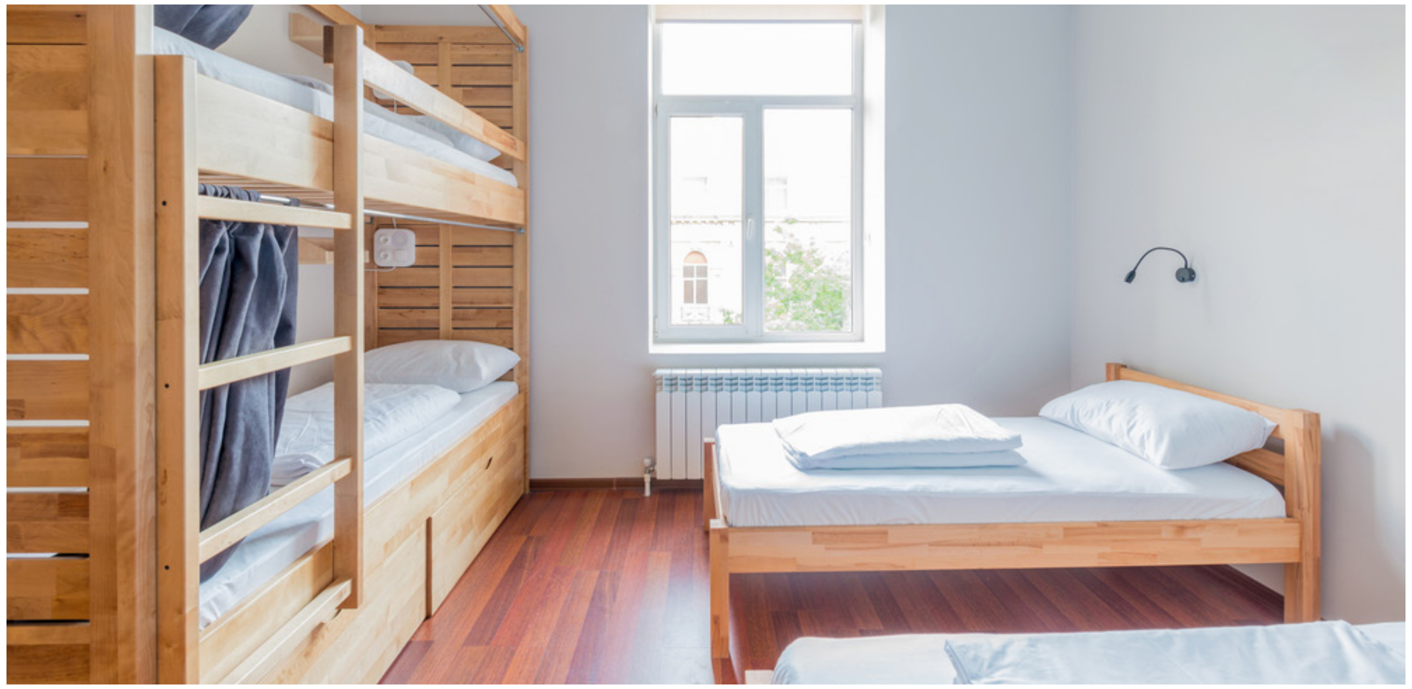
1. Approval issues. Proposed backpacker hostels often attract opposition from neighbours over noise and traffic issues.
2. Vulnerable to border closures or changes in visa legislation or approvals. The backpacker hostel industry suffered extensive losses during the pandemic due to border closures and lockdowns restricting both international and local tourism.

OPPORTUNITIES

1. Limited number of facilities and beds are available when compared with the potential size of the market.
2. Relatively low barriers for entry.

THREATS

1. Changing demographics. So called “Flashpackers” are taking over from traditional budget-orientated backpackers and often demand a higher level of amenities. This in turn drives up asking rates for beds/rooms making budget accommodation less accessible for traditional backpackers.
2. Competition from Airbnb and other alternative budget providers.



CONCLUSION

The backpackers hostel market is a relatively small but vital part of the accommodation sector, providing accommodation for budget-conscious travellers. The backpacker hostel sector has rebounded from border closures enforced during the Covid pandemic. Traveller numbers have returned to at least pre-COVID levels and the hostel sector has been able to tap into this market. However, demographics have changed in recent years, with more solo travellers and flashpackers looking for budget accommodation options. As a result, hostel owners have diversified their offerings by providing co-working spaces and offering more facilities. Demand for rooms is high and rooms often need to be booked weeks ahead. Given that there are only 12 backpacker hostels operating on the Gold Coast at the time of writing with one more being fitted out and due to open and two more proposed for construction, there are opportunities for operators to open new hostels and capture this demand.

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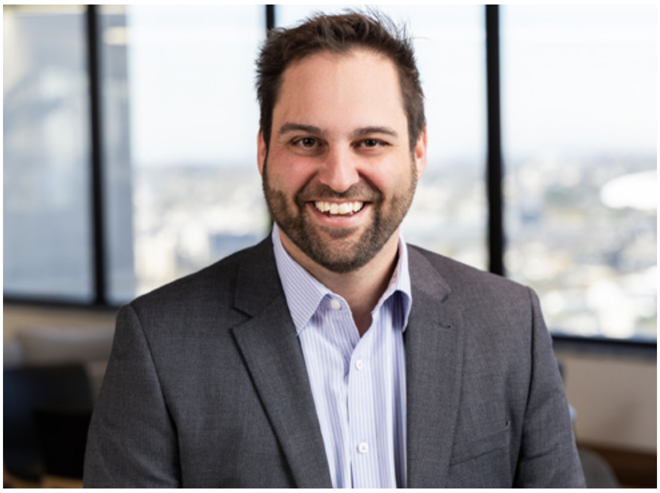
CONTACT THE TEAM



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