

Targeting the 'Next Gen' tourism market is the future of hospitality



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'Next Generation' travellers in the under-40 age cohort make up the largest group of guests in Europe's hospitality market and are rapidly catching up with their older peers in terms of total spend on nights away. Yet these younger tourists have been under-serviced for European hotel choices that meet their appetite for modern, affordable accommodation that combines authentic local experiences with environmental responsibility.

Redevco, one of Europe's largest privately-owned real estate managers and an urban real estate & regeneration specialist, has partnered with Swiss Finance and Property Group to address this attractive market opportunity with the formation of a 'Next Gen Stays' Iberian hotel joint venture. The JV is initially based on a seed portfolio of six assets in Portugal and Spain, two in the city of Lisbon and one each in Porto, Bilbao, Malaga and Seville. The parties intend to grow the portfolio with more acquisitions in the coming two years.

The Next Gen Stays strategy is targeting a net leveraged IRR of 15%-plus over a five-year period and aims to build a portfolio of around €300 million. The strategy focusses on redeveloping and repurposing under-exploited real estate in city centres to create modern and sustainable hotel product. The longer-term vision is to expand the offering into a pan-European hotel vehicle with €500 million to €700 million assets under management.

Next Gen travellers prioritise experience and sustainable travel

UN Tourism's latest World Tourism Barometer predicts international visitor numbers will fully recover to pre-pandemic highs in 2024, with initial estimates indicating a growth of 2% above 2019 levels. Mediterranean European countries are in the vanguard of this tourism resurgence, with these markets already exceeding pre-pandemic visitor levels in 2023.

The World Travel & Tourism Council forecasts robust growth in tourism and general travellers over

the next decade, with the sector projected to account for more than 11% of the entire global economy by 2034. Millennials and Gen Z are driving that future. Millennials travel frequently and account for almost 40% of all travel expenditures, the Netherlands Enterprise Agency's Centre for the Promotion of Imports from developing countries (CBI) reported. Across Iberia, travellers under 40-years old comprise more than 80% of hotel guests.

These younger tourists have distinct preferences. Millennials, the CBI report noted, "see themselves as travellers who want to live the local life for a short period of time. They are interested in authenticity and are eager to explore the hidden gems, whether this is local food, the culture and music scene, or craftsmanship." Sightseeing and experiencing a new local culture are also the top reasons to travel for Gen Z. Sustainability is critical to both cohorts, with over half of Gen Z preferring to stay in green or eco-friendly accommodations. "When they travel, [millennials] want to make a positive contribution to the places they visit and have a minimal impact on the local environment," the CBI concluded.

Meeting Next Gen accommodation demands

Ownership within the affordable hotel segment is currently highly fragmented, with limited brand presence, resulting in an inconsistent and often unprofessional product. Redevco's Next Gen Stays strategy is tailored to the demands of these younger, tech-savvy travellers. It taps into the strong sustainability and social returns that can be achieved through repurposing architecturally interesting but outdated buildings, and upgrading their environmental footprints to create authentic, sustainable, good value accommodation.

The strategy epitomises our focus on repurposing assets to create vibrant places in dynamic urban locations. By acquiring and repurposing strategically located, out-dated real estate with local character and redevelopment potential, we are creating both an attractive investment product and helping cities become more sustainable. The refurbished hotels will be compatible with Redevco's mission of making its entire real estate portfolio net carbon neutral by 2040.

Prime Iberian locations

The six initial Next Gen Stays hotels are centrally located in resilient and proven Spanish and Portuguese tourist markets. Each is situated in a prime location close to the cities' main attractions and cultural experiences. For example, the hotel on Lisbon's famous 'Pink Street' is in the heart of the prime tourist district



of Cais do Sodre. An artistic and lively neighbourhood lined with bars and restaurants, it is visited daily by thousands of young travellers. The property in Bilbao lies at the centre of the medieval old quarter, with numerous bars, restaurants, theatres, museums and the city's main cathedral in easy walking distance.

Our studies show that hotels in urban centres boasting strong city quality indicators – such as a vibrant tourist market, a prevalence of creative professionals, a relatively young demographic and multiple points of visitor interest – tend to

deliver investment outperformance relative to urban centres at the lower end of the rankings.

Thanks to Redevco's research-driven approach, extensive network within the Portuguese and Spanish real estate markets, strong relationships with local authorities and team of dedicated investment specialists on the ground, we have also identified a strong pipeline of off-market opportunities in Madrid and Seville. We will continue to seek out acquisition opportunities in the target cities across the Iberian Peninsula.

De-risking the investment

Whilst we are targeting value-add returns, we have mitigated the commercial risks as much as possible by agreeing fixed construction costs, and pre-leasing the assets at acquisition with a fixed start date. The leases with a fixed rent and turnover element will allow us to capture future operational outperformance of the hotels.

Madrid-headquartered hotel management company Room007 has been selected for the seed portfolio. Room007 currently operates hotels across Spain, Portugal and Italy, offering a range of concepts that cater to different price ranges and target travellers. Going forward, we have identified a pool of preferred operators to benefit from a competitive market and to diversify our portfolio. These Next Gen operators benefit from flexible and tech enabled business models, allowing them to personalise services and reduce operating and labour costs.

In repurposing under-exploited assets and designing them to meet the preferences of under-40 travellers, Next Gen Stays presents an opportunity for investors to participate in a value-add real estate strategy with strong fundamentals and long-term growth potential. Authentic, technology-driven hotel offerings that offer good value accommodation and strong sustainability credentials will benefit from the growing demand in the future.

