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**FEATURES AND FACTORS OF THE HOSTEL MARKET  
DEVELOPMENT IN RUSSIA**

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***Abstract***

Recently, hostels have been gaining popularity in the Russian market of means of accommodation at a fairly rapid pace. In Russian legislation there is no concept of “hostel”, but at the same time numerous hotels in Russian cities operate as a hostel. A hostel is a relatively small budget hotel operating as a modern dormitory. A distinctive feature of hostels is the client base, the basis of which is the youth. Hostels in this respect occupy their own narrow market niche, which differs from traditional hotels. As a rule, the managers of the business are also young people. The study reviews the advantages of hostels compared to other means of accommodation, in particular, price advantages, flexibility in accounting for customer needs. In addition, the study describes a number of features that allow hostels to pursue a special pricing policy. At the beginning of 2017, about 1,500 official hostels are operating in Russia. For growing tourist centers hostels are an important component of the tourist and economic infrastructure. The main factors in favor of the hostel market development are the following: hostels solve the problem of shortage of hotel beds, short deadlines for opening and payback, a good level of comfort, a fund of jobs. The authors of the study conclude that it is necessary to develop a set of conditions for the further development of hostel activities.

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**Keywords:** Hostel, tourist infrastructure, small accommodation facilities, hostel market, economy class accommodation.



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## **1. Introduction**

In Russia, hostels began to actively open in 2010-2011. Now many hotels in our country prefer to conduct activities precisely as a hostel, providing the opportunity to accommodate several guests in one dwelling. Hostels offer tourists the opportunity to stay in the center of a large settlement at a reasonable price. A similar pricing policy is possible due to a number of features: for example, unlike hotels, a hostel guest pays not for a room, but for a place in a room. Savings are often achieved by the lack of separation between men's and women's rooms, bunk beds, a kitchen or a bathroom can be offered to a client in a room, usually shared on the floor (Barsky, 1992).

Hostels traditionally mean small economy class accommodation, offering a short-term or long-term accommodation service to customers, usually providing a bed without extra amenities in the room (Borovskaia & Dedova, 2014; Nazariana, Atkinson, & Foroudi, 2017).

## **2. Problem Statement**

The concept of "hostel" is missing in Russian legislation. The mention of these accommodation facilities is only available in GOST R 53423-2009 in clause 2.2.8 "Tourist Services. Hotels and Other Accommodation for Tourists. Terms and Definitions". Here it is indicated that the youth hostel is a company that provides accommodation and catering services, the management is carried out by a non-profit organization; accommodation - in multi-bed rooms, meals - with a limited choice of dishes and / or the availability of equipment for self-catering; provision of additional services, including entertainment and educational programs.

According to its structure, a hostel is a small hotel operating according to the principle of a modern dormitory. In one room at the same time can be placed up to 10 or more people. Although there are hotels designed for 3-4 people in the room.

For the first time, hostels as a means of accommodation appeared in the United States, later hotel facilities designed for living together began to open in European countries (James et al., 2017; Melissen, Cavagnaro, & Damen, 2015). In recent years, this market has received rapid development in Russia. At the present time in any large Russian city there are several hostels that offer a bed and basic amenities at a price that is noticeably lower than the rates of ordinary hotels.

## **3. Research Questions**

In order to identify the main factors in favor of the hostel market development, the following research questions are considered: hostels solve the problem of shortage of hotel beds, short deadlines for opening and payback, a good level of comfort, a fund of jobs.

## **4. Purpose of the Study**

The purpose of the study is to review the advantages of hostels compared to other means of accommodation, in particular, price advantages, flexibility in accounting for customer needs, and to describe a number of features that allow hostels to pursue a special pricing policy.

## 5. Research Methods

The idea of a hostel, a budget hotel with inexpensive multi-bed rooms, where people often stay to spend the night with people unfamiliar to each other, has been successfully developed for several years by entrepreneurs looking for their niche in the Russian hotel market. The main clients of hostels are young people. At the same time, older clients are not uncommon for hostels.

Hostels have a fairly strong market niche. Compared to other means of accommodation they offer clients a number of advantages:

1. Price advantage. The price of hostel services is several times less than the prices of even the most economical traditional hotels. In this advantage, hostels proceed from the principle of affordability of accommodation for all categories of people in any location in the world, fulfilling a significant social role (Batina & Selezneva, 2016; Poldrugovac, Tekavcic, & Jankovic, 2016)

2. The special “family” atmosphere inherent in hostels. The advantage to save money, as well as to communicate with customers is the availability of a public kitchen in hostels, where guests have the opportunity to cook for themselves. Common hostel living rooms allow you to communicate with guests. Many hostels organize various animation programs for guests.

3. Flexibility in accounting needs. In hostels, adaptation to changing customer needs is happening fairly quickly (Ahmad, 2014; Dahlstrom, Haugland, Nygaard, & Rokkan, 2009). The family atmosphere develops an individual approach. A small number of guests which differs hostels from large hotels allows solving problems faster and more creative.

4. Hostels are usually compact in size and can accommodate in a relatively small area, including in residential buildings near the city’s attractions or near convenient traffic interchanges (Dahlstrom et al., 2009; Barros, 2005).

Table 01 presents the factors that determine the success of hostels and their position in the market.

**Table 01.** Success factors for hostels in the hotel market

| Financial factors   | Management factors                           | Market factors   |
|---|--|------------------|
| Size of borrowed funds  | Property management system                   | Age of the hotel |
| Size of a hospitality business (assets, sales, number of employees) | Quality management system                    | Location         |
| Duration of asset turnover, indicators of business activity         | Environmental management system of the hotel |                  |
| Applicable economic management instruments                          | Corporate social responsibility              |                  |
|   | Revenue management system                    |                  |

Hostels in this respect occupy their own narrow market niche, which differs from traditional hotels. Their clients are people under 25 years old with low requirements for comfort, preferring the economy class. In addition, the construction of large hotel complexes with expensive rooms in some cases is considered inappropriate from the standpoint of cost-benefit, and even impossible.

The hostel market that currently exists in Russia can be considered quite attractive for investors and businessmen (Matasova & Kulyagina, 2015). As a rule, the managers of the business are young people. The proximity to the target audience, the desire to work for themselves, a fairly small start-up capital, all this attracts young businessmen to this segment (Morrison, 1998).

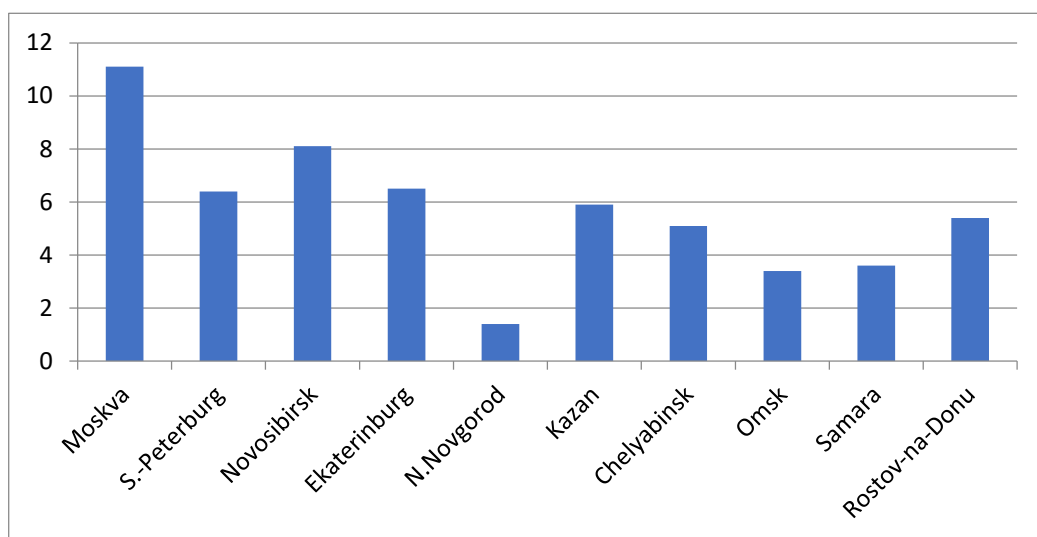
Unfortunately, with regard to statistical studies of the hostel market, it is very difficult for experts to estimate its volume. The market of hostels and mini-hotels in Russia is opaque and official statistics in open sources are very different. So, at the beginning of 2017 in Russia, according to the calculations of the Association “Interregional Association for the Development of the Hostels Industry”, there are about 1,500 official hostels (almost 352 hostels operate in Moscow), and 80% of them are located in residential apartment buildings.

Currently hostel accommodation is regulated by the Housing Code (the owner has the right to rent the premises under the contract), in addition there is a state standard of technical requirements for hostels and the decision of the Supreme Court of March 3, 2016, which states that there are no bans on hostels in apartments.

Now hostels is a risk group, because the State Duma adopted a draft law prohibiting placing hostels in residential buildings in May 2016. In 2015-2016, parliamentarians supporting hostels developed amendments to the Housing Code that would allow using residential premises for hotel services, subject to rules established by the government. So the bill suggests that the opening of a hostel in a residential building should be supported by the majority of residents. The amendments proposed by the deputies in the State Duma of the Russian Federation were approved in first reading in May 2016. Since then, this issue has not been discussed. The second reading of the document has not been passed yet.

There are also legal conflicts in the regulation of hostels. One of them is the lack of a legal definition of a public space. So in building codes and regulations it is stated that public premises must have a separate entrance, but the definition of such premises is not given.

In the past few years, there has been a boom in the opening of hostels in major cities of Russia and Kazan. Their share in large cities and megacities ranges from 11% (Moscow) to 1.4% (N. Novgorod) in 2017 (Figure 01).



**Figure 01.** The share of hostels in major cities of Russia in 2017 (% in the total number of accommodation facilities)

In the capital of Tatarstan (Kazan) at the end of 2017, there were 199 hotels with a total capacity of about 20 thousand people, 77 of them were hostels, 26 of them opened in 2015 on the eve of the World Aquatics Championship and 8 opened in 2012 on the eve of the Universiade. The average price of ordinary hostels is 500 rubles per place. In the run-up to the Confederations Cup, serious work was done on the classification of accommodation facilities, this procedure was carried out in relation to 100% of Kazan hotels. Namely one-star and two-star hostels and hotels became the most dynamic segments by the number of bookings in January - October 2017 (Sotnik, 2017; Erdyneeva et al., 2016). During winter holidays the rates of Kazan hostels can reach 98%.

If we take into account unofficial statistics, there are more than 100 hostels in Kazan, while about 30% of them are located in apartment buildings. Most of these accommodation facilities still have no legal status.

Unfortunately, the hostel owners use residential space for their business without following the rules established by the Russian government. Most often it is non-compliance with fire safety, sanitary, environmental and other legal requirements. In addition, hostels in apartment buildings can cause social tensions due to extreme discontent of local residents. Illegal hostels exist without any title documents, while on a permanent basis they accommodate guests in them. Such hostels pay for utilities not as organizations, but as individuals, they often do not even use metering equipment, paying utilities at average rates. The bottom line is that all the overpayments for communal use are paid by neighbours and management companies.

## **6. Findings**

At the same time, for existing and growing tourist centers, hostels are an important component of the tourist and economic infrastructure, and also reflect the ability of a flexible response to changes in customer demand in the accommodation market.

1. Hostels can solve the problem of shortage of hotel rooms in a period of high demand. Such a problem can be periodically observed in many tourist, cultural, and business destinations. It is especially characteristic of large cities. At the same time, thanks to the hostel market, it is possible to provide guests with accommodation facilities in a short time. An illustrative example of this is the opening of dozens of hostels on the eve of major sporting and cultural events, such as the 2013 Universiade, the Confederation Cup, the New Wave festival in Sochi, etc. (Mustafina & Kaygorodova, 2016). In such a period, hostels become the only mechanism for solving the problem of accommodating tourists.

2. The relatively short time of opening and payback period of hostels. A significant advantage of hostels compared with other forms of hotel business is more restrained investments and relatively quick payback period. Usually hostels do not require investment in construction, as well as investments in their repair or arrangement, and they are limited to a rented fund of premises. For example, the average cost of the finished hostel project in Moscow ranges from 700 thousand to 2.5 million rubles. If the hotel is 1500 meters, so there could be 50 standard rooms, in the hostel with the same meters, there could be 250 beds. These factors lead to the fact that the payback period of the hostel is from 1 year to 3 years, and these figures are significantly less than the payback period of an ordinary hotel, which, as a rule, is twice as long.

3. Modern hostels are distinguished by a relative level of comfort compared to traditional hostels and provide an opportunity to join tourism and travel even to those people who cannot allocate significant funds for travel. This increases the tourist accessibility and attractiveness of tourist zones. Hostels facilitate the influx of tourists from the youth environment and amateur tourists (Vesloguzova, 2014; Mentzer, 2010).

4. Modern hostels form a special fund of jobs. They often offer secondary employment, reducing unemployment. The hostel market in the Russian Federation provides jobs for more than 7,000 people. Mostly students work in hostels, who earn extra money for study. This type of accommodation is also relevant for tourism in rural areas, where a small business in the sphere of tourism and hospitality reduces unemployment (Brochado & Rita, 2018).

5. Hostels are able to quickly adapt to changing conditions of the market environment, they are largely focused on creativity and innovation in the provision of services, offering quick and easy solutions. This is achieved due to the pursuit of a cost-effective approach to solve problems, as well as the possibility of an individual approach to each client, which is difficult in large hotels (Paiva, Reis, & Costa Lourenço, 2016).

6. Formation of personnel potential for large hotel facilities. The level of hostel clients' requirements does not require well-trained staff and high standards of service, which imply high qualifications and experience. In their own way, hostels can be viewed as a good start in a career for administrators, managers and other professions in the field of hospitality. In a hostel with a low level of guest traffic and a simplified service, it is much easier to master the basics of organizing hotel service in all parts of the technological cycle.

## 7. Conclusion

Despite a number of drawbacks, hostels are actively developing in our country and create serious competition to hotels. These factors emphasize the need to develop a set of conditions for the further expansion of hostel activities.

In practice, entrepreneurs who develop the hostel business in the Russian Federation face organizational and legal barriers, namely: the lack of a clear legal definition of a "hostel"; conflicts in legislation controlling hostels; problems of selecting a suitable room, the underdeveloped culture of living in hostels.

With a competent, consistent and most importantly legal niche-based development of the market niche, hostels have good prospects, taking into account the annual increase in tourist traffic, as well as the growing demand for hostel services.

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