

## Editor's comment from *City Profiles* No. 12 – July 2003

### **Low-cost airline passengers do not necessarily want budget hotels**

The increase in new routes opened up by low-cost airlines is not being matched by investment in new hotels, according to a recent report, *No-frills Airlines – What's in it for Hotels?* from KPMG. Hotel groups are nervous about further consolidation in the airline industry and about new routes and destinations being cut, the report says. They think they are more likely to benefit from investing in destinations with a growing and sustainable local market, which is not directly dependent on incremental demand driven by the budget airlines.

The study, carried out by KPMG member firms across Europe, found little evidence that increased passenger traffic is stimulating new hotel developments in the immediate catchment areas of secondary airports in Europe. The group's research showed that, in existing hotels near secondary airports, budget airline travellers actually account for less than 10% of total occupancy.

This low share is, in fact, hardly surprising. A lot of the airports used by the new no-frills airlines are located at some distance from the cities and the major attractions that most leisure tourists want to enjoy during their stay

True, it is the availability of attractively priced airfares that motivates most consumers to fly with low-cost carriers in the first place. But when they do decide to travel, they often turn the opportunity into a special occasion, opting for deluxe or first-class hotel accommodation and five-star dining and entertainment at walking distance from the major attractions. Staying at a budget hotel in the airport's vicinity holds little appeal for many of these travellers.

However, contrary to the report's findings, Six Continents is reportedly looking to cash in on the success of no-frills routes and is thinking of building Express by Holiday Inn properties at no-frills destinations. But their main customers may well turn out to be commercial travellers. That is, after all, what happened with the first spate of Formule 1 hotels developed by the Accor Group in France with the budget leisure traveller in mind.

As KPMG points out, the growth of commercial developments close to new airline hubs, such as Charleroi airport in Belgium, could provide good returns for hotel investment. Increased passenger traffic to secondary airports has supported other commercial developments in local areas, giving rise to demand for hotel accommodation, and the commercial spin-offs from the emergence of such centres could be the magnet for future hotel investment.