

THE CONNECTED VISITOR ECONOMY BULLETIN



SHORT-TERM RENTALS: THE BENEFITS OF FINDING COMMON GROUND

Business innovation creates value and efficiencies within marketplaces. As the value of the new is understood, opposition declines and acceptance grows. Innovation has introduced the ‘sharing economy’, including companies such as Uber, Grab, and Didi. In most countries, these companies have grown spectacularly fast. Innovation has also introduced crowdfunding and the “gig economy” – the employment side of the sharing economy, which continues to grow.¹



The same is true of the sharing economy for accommodation, or the short-term rental (STR) industry.^{*} The Media cover this industry avidly, often focusing on the uniqueness of some rental properties and opportunities for hosts to profit. Coverage has also exposed the downside of this industry, including mishandlings and government opposition. Increasingly, there is a backlash against this sector. Major cities including New York, Singapore, Tokyo, Barcelona, and Paris are experiencing hurdles due to newly imposed regulations, despite an increase in supply and demand.

^{*} Other common names include vacation rentals, non-hotel accommodations, local host rentals, and borrowing a company name) “Airbnbs”.

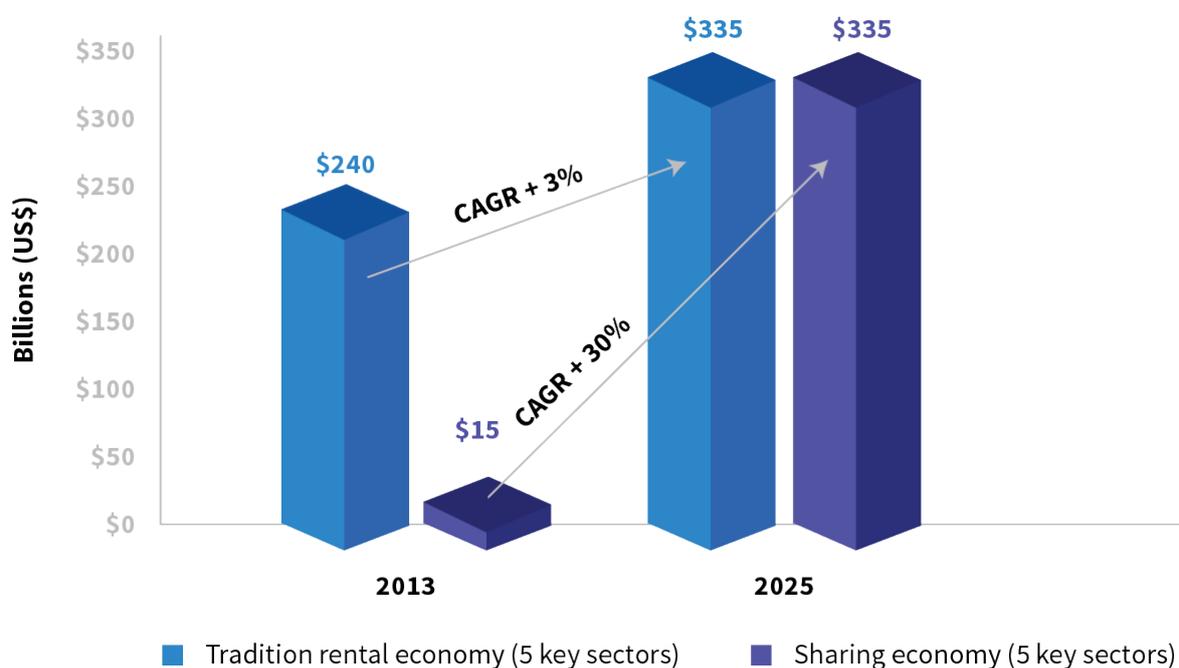


There are many benefits of this sector that should be recognised. If stakeholders work together, there is a possibility to maximise benefits for all.

A GROWING CONCEPT

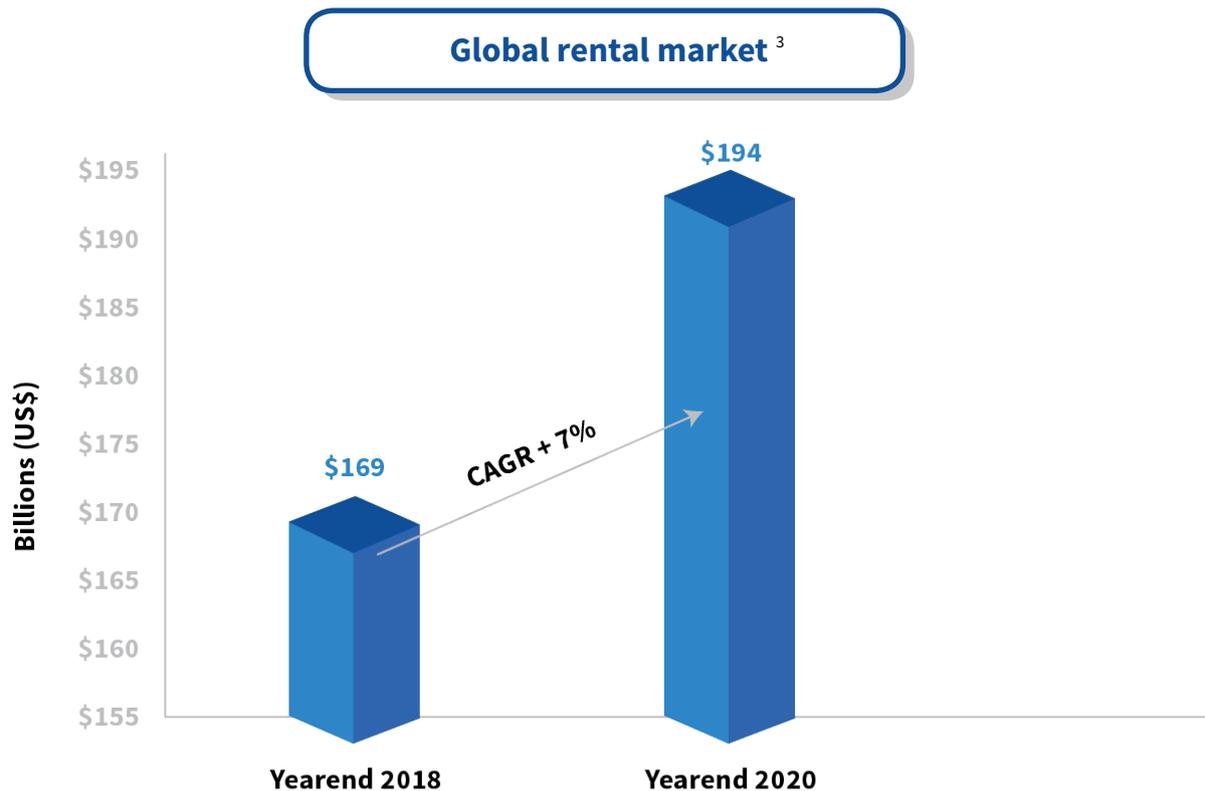
Short-term rentals are not a new concept. Offering hospitality to strangers in private homes, either free or in exchange for payment, is a tradition that dates back thousands of years. What has changed with the advent of the Internet is the speed in which hosts and guests can connect. PwC predicted that the five major sectors of the sharing economy, including peer-to-peer lending, online staffing, accommodations, ride-sharing, and music will grow at a compound rate of 30 percent per year. This is ten times that of the ‘traditional rental economy.’

Growth of the rental economy ²



Note: CAGR: compound annual growth rate

The global rental market, according to Skift, will reach nearly US\$2 billion by 2020.



Note: CAGR: compound annual growth rate

The STR market is growing at two to four times the rate of the global economy, according to HomeAway.⁴

Skift describes this growth as a “gold rush,” as investments pour in.⁵ To cite two Chinese players, Tujia has received US\$300 million in investments from Ctrip, All-Stars Investments, China’s Renaissance New Economy Fund, Glade Brook Capital and G Street Capital. Tujia is valued at US\$1.5 billion.⁶ Xiaozhu, valued at US\$1 billion, has received US\$120 million in Series E funding from Jack Ma’s Yunfeng Capital and other investors. More and more major travel companies are engaging in the sector – not only the industry’s poster child, Airbnb, but HomeAway, Booking.com, Tujia, Xiaozhu, Agoda, and aggregators like Tripping.com. STRs are neither a blip nor an aberration: they are a major development.

STRs are growing for a very simple reason: travellers want them. In many cases they are cheaper than hotels, and Agoda’s internal data show that price is one of the most important factors that affect consumer behaviour in choosing places to stay. Short-term rentals also offer many facilities that hotels simply do not, including kitchens, laundry facilities, and the opportunity for people to stay in a single place yet still have separate sleeping areas. People traveling in groups, especially families with children, place a high value on these features. Additionally, people travelling for longer periods, including business travellers with stays of a week or more, often prefer to stay in a home than in a hotel room. Millennial travellers, in particular, are highly attracted to this kind of travel: 74 percent have used STRs for business trips.⁷



Agoda research: Reasons why travellers book short-term rentals ⁸

| | Origin Market | | | | | | | | | | | | | | |
|---|---------------|-----------|----------------|-------|-------------------|-----------|---------|-------------|-----------|----------|-----------|----------------|---------------|--------|--------------|
| | China | Hong Kong | Chinese Taipei | Japan | Republic of Korea | Indonesia | Myanmar | Philippines | Singapore | Thailand | Australia | United Kingdom | United States | Brazil | South Africa |
| Less expensive than hotel accommodation | 25.6% | 44.4% | 54.0% | 36.3% | 31.8% | 45.9% | 55.4% | 57.2% | 57.2% | 53.9% | 45.5% | 47.5% | 41.7% | 53.3% | 47.1% |
| Offers a more local experience | 54.6% | 46.5% | 50.4% | 34.1% | 43.2% | 40.5% | 43.1% | 47.2% | 44.5% | 42.9% | 38.7% | 38.8% | 37.6% | 42.7% | 20.4% |
| To try something different | 41.9% | 32.3% | 50.0% | 19.0% | 25.1% | 48.6% | 43.5% | 45.4% | 46.4% | 36.1% | 35.7% | 37.2% | 45.5% | 41.9% | 31.1% |
| Is more suitable for families or large groups | 41.5% | 38.0% | 36.1% | 14.9% | 16.4% | 54.8% | 53.7% | 52.7% | 36.9% | 39.2% | 25.7% | 32.7% | 34.0% | 31.3% | 48.9% |
| Offers a unique experiences | 43.6% | 42.0% | 43.8% | 28.7% | 44.9% | 38.4% | 39.8% | 43.3% | 43.0% | 32.7% | 34.4% | 26.2% | 42.7% | 30.6% | 21.1% |
| Offers unique accommodation | 49.0% | 46.0% | 41.2% | 18.5% | 19.2% | 31.9% | 35.4% | 39.2% | 35.0% | 35.3% | 33.0% | 38.1% | 41.2% | 23.1% | 18.6% |
| Access to kitchen or laundry facilities | 30.9% | 34.0% | 33.9% | 16.1% | 16.2% | 28.9% | 43.6% | 45.4% | 43.3% | 27.7% | 43.3% | 36.0% | 39.6% | 27.4% | 26.8% |
| Better location than hotel accommodation | 26.5% | 28.0% | 20.9% | 8.4% | 17.8% | 20.4% | 28.7% | 32.6% | 30.3% | 44.2% | 26.9% | 28.6% | 28.8% | 21.2% | 25.8% |
| Meeting new people from around the world | 24.3% | 20.2% | 25.7% | 16.2% | 13.7% | 24.9% | 21.9% | 31.1% | 26.0% | 27.2% | 20.2% | 17.2% | 21.5% | 31.4% | 18.4% |
| Hotels at my destination are booked out | 8.5% | 13.5% | 9.0% | 12.6% | 7.5% | 11.7% | 12.2% | 13.2% | 14.5% | 17.1% | 11.7% | 9.1% | 16.7% | 8.1% | 14.0% |

STRs also offer important benefits to hosts. Like other aspects of the sharing economy, STRs offer increased value from under-utilised assets.⁹ Hosts value the additional income that STRs provide. Studies by HomeAway in the United States found that 70 percent of the company's hosts use income from properties to pay at least 50 percent of their mortgages.¹⁰ Other major uses of STR income included home renovations, funding daily living expenses (such as groceries), and saving for retirement.¹¹ The need for such additional income is apparent: One global research study shows that, "49 percent of a typical host's income is used on household expenses like rent and groceries; and 54 percent of hosts say the income has helped them stay in their homes."¹² While some critics say that STRs destabilise neighbourhoods, in many cases the opposite is true.

Communities and cities also benefit from STRs. STR guests stay longer than hotel guests: Agoda data for the second half of 2017 indicate that the average stay in STRs is 2.4 nights, vs. 2.0 nights for hotels – a 20 percent increase. Overall (in part because of their longer stays) STR guests spend more than guests who stay in hotels. More of the money they spend goes to businesses in the neighbourhoods where they stay.¹³ Recipients include restaurants, shops, bars and pubs, local transportation and more – small businesses that hardly benefit when tourism flows only to traditional tourist districts. Introducing STRs can help distribute the economic benefits of tourism more equally.





STRs can also be more sustainable than hotels. Local hosts, in particular, are likely to be more mindful of such basic costs as electricity, heating, air conditioning, and water use than hotels, in which guests tend to utilise such services liberally because they are not paying for them directly. Traditional tourism patterns generally lead tourists to concentrate in a few centralised areas. However, research from University College London shows that STR listings have a “wider geographic coverage and consequently, naturally load-balance tourists across the city.”¹⁴

STRs offer one more essential benefit: new jobs. While some hosts provide services, many outsource cleaning, laundry, food preparation, key transfer, and so on. Additionally, local experiences are a rapidly growing market: More and more travelers are seeking to experience the culture of the places they visit, through tours, dinners, wine tastings and sports, to name a few. These additional services provide employment – a benefit most communities cannot afford to turn down. Where STRs are taxed, the revenues they generate can subsidise basic city services such as police and fire departments, or more expansive goals such as destination management and support for the arts.¹⁵ A well-managed STR economy offers a vast range of benefits.



NOT EVERYBODY IS HAPPY

No silver lining comes without a cloud: the rise of STRs has unfortunately created challenges in some areas. Homeowners and tenants are sometimes uneasy about meeting neighbours they do not know; on rare occasions guests or hosts behave poorly, and these instances tend to be dramatised by the media, whereas problems that occur in hotels attract far less attention. Additionally, regulators are often troubled by STRs, which they sometimes see as an unfamiliar phenomenon that creates a sense of disorder, change, and risk. These feelings may be exacerbated by complaints from those affected by the change, and the fact that in many cases regulations do not effectively address this sector appropriately, since existing laws were written before STRs were widespread. There are also occasions where STRs have reduced the available market for long-term rentals. As a result, hotels are concerned that they are losing market share to new competitors, and neighbours are concerned about changes to neighbourhoods in which they live

The reaction in many cases has been stark. San Francisco fined a couple US\$5.5 million for hosting 14 STRs illegally over the course of a year.¹⁶ Another couple in New York was fined US\$1 million for hosting 7 STRs illegally;¹⁷ in Amsterdam, fines reached €297,000 (~US\$345,000);¹⁸ and a pair of hosts in Singapore were fined SGD60,000 (~US\$44,000) each for illegal rentals.¹⁹

Change of this nature can cause disruption and some stakeholders will be adversely affected by the growth of this new industry. Simply banning change, however, is neither realistic nor beneficial. The STR trend is already a major presence in the market. Trying to turn back the tide will only work in the short term and on a very localised basis. In addition, communities that halt the industry may drive this new business underground, increasing the risks of unlicensed rentals and depriving themselves of the benefits.

WELCOME



EMBRACING CHANGE

If ostrich-like behaviour is not the answer, what is? The first step is to accept that the world of accommodations is changing: Industry players, communities, and governments should recognise that they are part of a landscape that is in the process of transformation and begin to look ahead, rather than looking behind. They should embrace the benefits and explore how to make the most of them.

The following steps will help stakeholders embrace change:

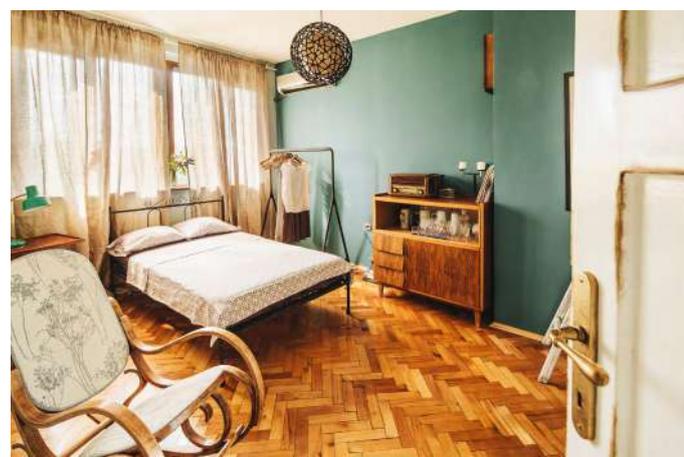
Design appropriate rules for regulation and licensing

Hosts, rental management associations, tourism bureaus, and other regulators should work together to design reasonable and appropriate frameworks for short-term rentals. Everyone wants STRs to be safe, but one obstacle to ensuring safety is that licensing requirements are often too complex and too burdensome for tiny businesses to navigate. The rules for a host renting out a single bedroom or a single apartment cannot be the same as those for a 400-room luxury hotel. If the requirements are reasonable and manageable, hosts will comply; safety will increase; and neighborhoods and cities will be able to benefit from the substantial extra revenue and cultural exchange that additional local tourism will bring.

Learn from others

The hotel industry is highly professional; it has a great deal of expertise on how to meet guests' needs efficiently and effectively. Individual hosts can benefit by finding ways to make their accommodations more hotel-like, for example,

- ensuring exceptionally high housekeeping standards
- making their properties accessible to every type of guest, including those with disabilities
- making it easy to check in and check out at the guest's convenience, and
- ensuring safe and secure transactions, such as those offered by major hotel chains and international online travel agencies (OTAs).



OTAs offer additional important advantages, including world-class marketing, round-the-clock customer support in many languages, and payment in a wide variety of currencies and modalities. Working with OTAs to make STRs more reliable and more convenient will reassure and attract more travelers.

Hotels can also learn from local host rentals, which offer many features that travellers want — from services such as laundry machines (increasingly available in mid-level Asian chain hotels) and simple cooking facilities, such as those available in serviced apartments. Individualised welcomes, a truly local feel, and variety are important too. Some hotel companies are experimenting in this area, whether by creating chains that adopt features of local host rentals, such as Marriott's [Moxy Hotels](#) and Hilton's "locally curated" [Tru](#) and [Curio](#).²⁰ Some are going even further and buying STR companies, as Accor has done with its 2017 purchase of Onefinestay (though there is clearly more to be learned in this area, as the hotelier has taken a significant write-off on this acquisition).²¹

Everyone can benefit by plugging into the growing networks of the sharing economy. A growing array of online businesses is developing to meet the needs of travelers, from laundry ([Cleanly](#)) to food delivery ([Deliveroo](#), [FoodPanda](#)), child care ([Helpr](#)), exercise ([Handstand](#)), alcoholic beverage ([Drizly](#)), massage ([Zeel](#)), and beauty ([Glamsquad](#)), to outdoor activities ([StepOutside](#)). Increasingly, the bundle of services traditionally packaged as a 'hotel' is being disaggregated. This trend is likely to continue. To succeed in the long run, all stakeholders should look forward and find ways to compete that emphasise their strengths, as well as maximise working together.

It is anticipated that future will be more agile. Key to success will be for companies to be able to constantly adapt. The Boston Consulting Group has noted that the trend toward "everything as a service" may well continue, and has warned that, "Executives should not assume that sharing tomorrow will be the same as sharing today."²²

Rather than treating new development as a risk or threat, the accommodations industry and the governments that regulate it would benefit by accepting and embracing change and working together. The upside – for guests, hosts, industry players and communities will be substantial.





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