

The New Frontier in Lodging:

Supply and Demand Growth for Short-Term Rentals Outpaces Hotels

AIRDNA

Annual Hotels vs. Rentals Report
2023





INTRODUCTION

When planning a trip, most travelers have the option between booking a hotel or rental property. The unique circumstances of the trip—the purpose, budget, location, and size of the group—may make one accommodation type more appealing than the other. A family hoping to get a feel for a local neighborhood may opt for a vacation rental, while a business professional traveling for an annual conference may return to the same hotel year after year.

These distinct consumer **preferences evolved during the COVID-19 pandemic**, as remote work and the need for physical distancing made long-term stays in vacation rentals more desirable. Tourists gravitated toward locations that provided space from neighbors, like mountains, lakes, and rural areas. In these sparsely populated areas, short-term rentals frequently outnumbered hotels, making them a sensible option among travelers.

In this report, we use aggregate data (2018 - 2023) to examine changing trends in supply, demand, and ADR for vacation rentals and hotels in the United States. [AirDNA](#) contributes data on short-term rentals (STRs), while [STR/CoStar](#) provides traditional hotel data. Using these comprehensive data sets, we also forecast industry trends in the second half of 2023 and into 2024.

Our analyses show that rental shares of supply and demand have accelerated. **Small city/rural and suburban locations** drove this growth, as they provided consumers with physical space during the pandemic. **Larger homes** also contributed to growth, **with 3-bedroom rental properties accounting for a larger share of growth than 1-bedrooms**. In the year ahead, the rental share will continue to grow, and hotels are expected to feel the impact.



OUR METHODOLOGY

We examined aggregate rental and hotel data (January 2018 - May 2023) from AirDNA and STR/CoStar. AirDNA contributed rental data, while STR/CoStar contributed hotel data. Both data sets represent a comprehensive assessment of their respective product categories. STR/CoStar collects data directly from hotel operators from most hotels in the United States and estimates the performance of non-contributing properties. AirDNA sources all public listings from both Airbnb and Vrbo, representing a vast majority of the U.S. rental markets.

Hotel demand is defined as the total number of room nights occupied in hotels over a given period, while rental demand is the total number of nights occupied in a rental listing. This means that a single listing that contains multiple rooms would account for only one occupied night. The sum of hotel and rental demand is total accommodation.

Supply of units for both hotels and rentals is the number of individual units available to rent, whether or not they were rented. This number is significantly more stable in hotels, where the supply corresponds closely with the number of extant rooms. Rental supply is more flexible, as rooms are frequently brought in and out of the supply depending on market conditions. Supply can surge during major events, like the Super Bowl, and contract during the winter in markets like Cape Cod, Massachusetts. The supply in this case is the sum of the occupied listings nights and the nights noted as being advertised as available to rent in the month.

Additionally, revenue information is gathered by these firms. Average daily rate (ADR) is the total revenue generated by a property or market divided by the number of nights occupied over the same period.

Rental share of the accommodation market is examined as a way of gauging the relative prevalence of rentals compared to hotels. It is calculated by taking the ratio of the total number of occupied nights in rentals, or rental demand, to total accommodation.

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Rental Demand Growth Outpacing Hotels.

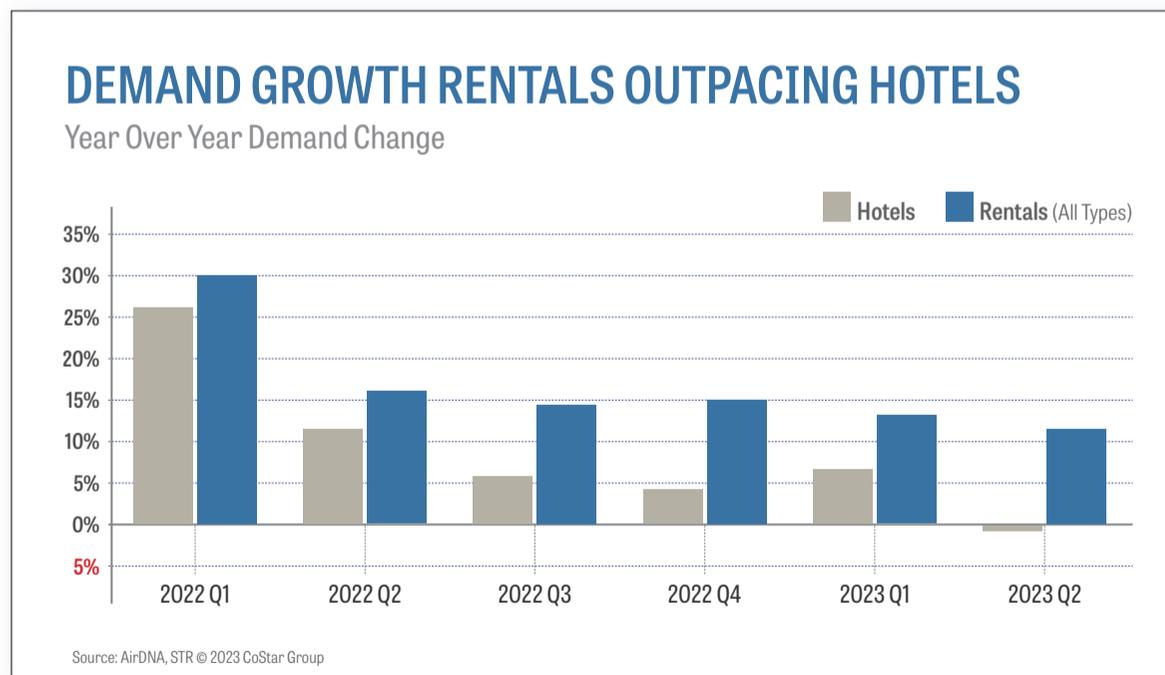
“Bleisure” travel and location preferences through the pandemic and today have contributed to the shift in demand growth between different accommodation types.

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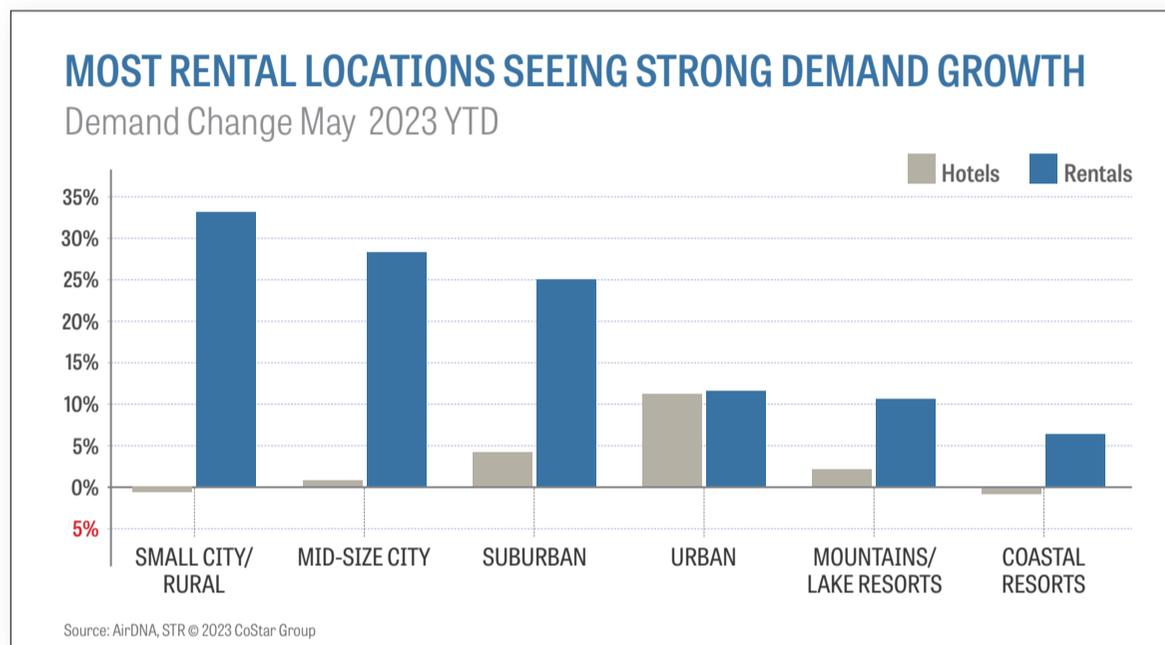
Demand growth in **the accommodation market cooled between Q1 2022 and Q2 2023**. In Q1 2022, YoY demand growth was 30.0% for rentals and 26.4% for hotels, and by Q2 2023, growth had decelerated to 11.7% for rentals and -0.6% for hotels. **Increased travel to Europe explains some of this deceleration**, as many American tourists booked trips abroad after Europe lifted its three-year pandemic restrictions.

Despite the cooldown, demand growth for rentals outpaced hotels. The rise in “bleisure”, travel that combines work and leisure, likely contributed to higher demand growth for rentals. During the pandemic, a growing share of travelers booked long-term lodging that allowed them to blend work commitments with non-work activities. They also gravitated toward less densely populated areas, where rentals comprised a greater proportion of the lodging space.

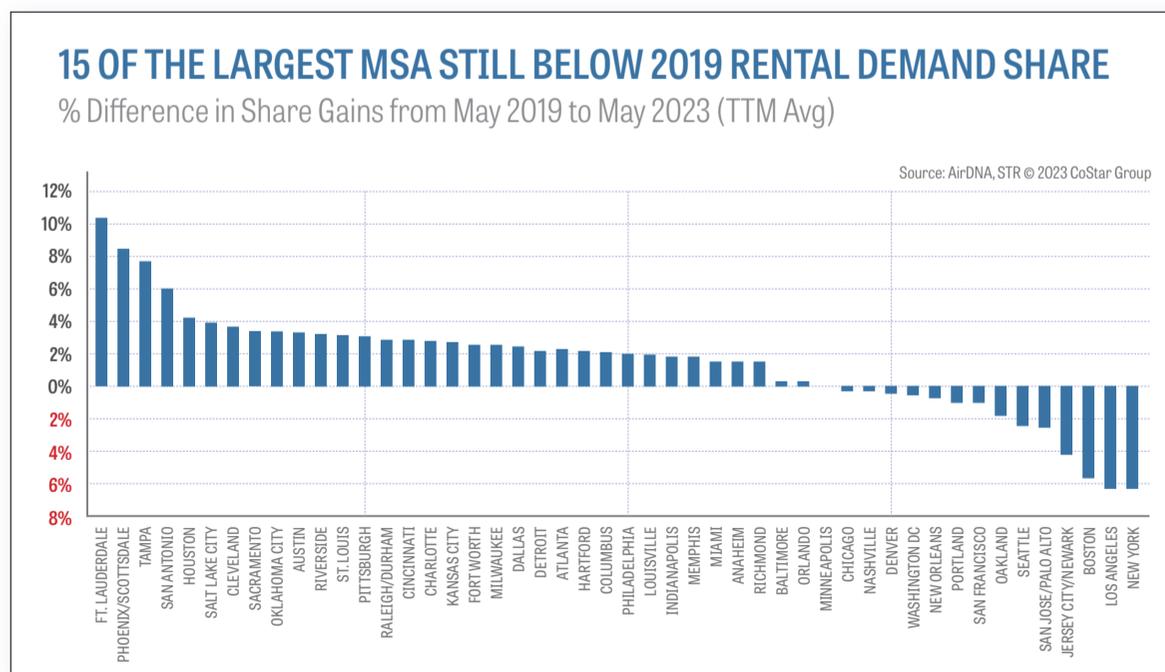


Strong rental demand growth is happening across all location types and is **especially pronounced in small city/rural areas**. By May 2023 YTD, demand growth for small city/rural locations was 24% for rentals and 0% of hotels. Rentals in these locations allowed for social distancing and have remained popular into 2023. Rental demand change also exceeded hotel demand change in mid-sized cities, suburbs, mountains/lake resorts, and coastal resorts. Nevertheless, **demand change in urban areas was 12% for both hotels and rentals**.

High supply of conventional hotel rooms and **strict STR restrictions** explain comparatively high hotel demand growth in urban areas. Several large cities (e.g., Miami, Boston, Los Angeles) have implemented stringent rental regulations. For example, **Los Angeles's 2019 Home-Sharing Ordinance** stipulated that hosts must live in their rental properties for at least half the year, and that homes could only be rented for 120 calendar days/year. Consequently, L.A.'s available listings fell from 42,000 in January 2019 to 35,000 in December 2019.

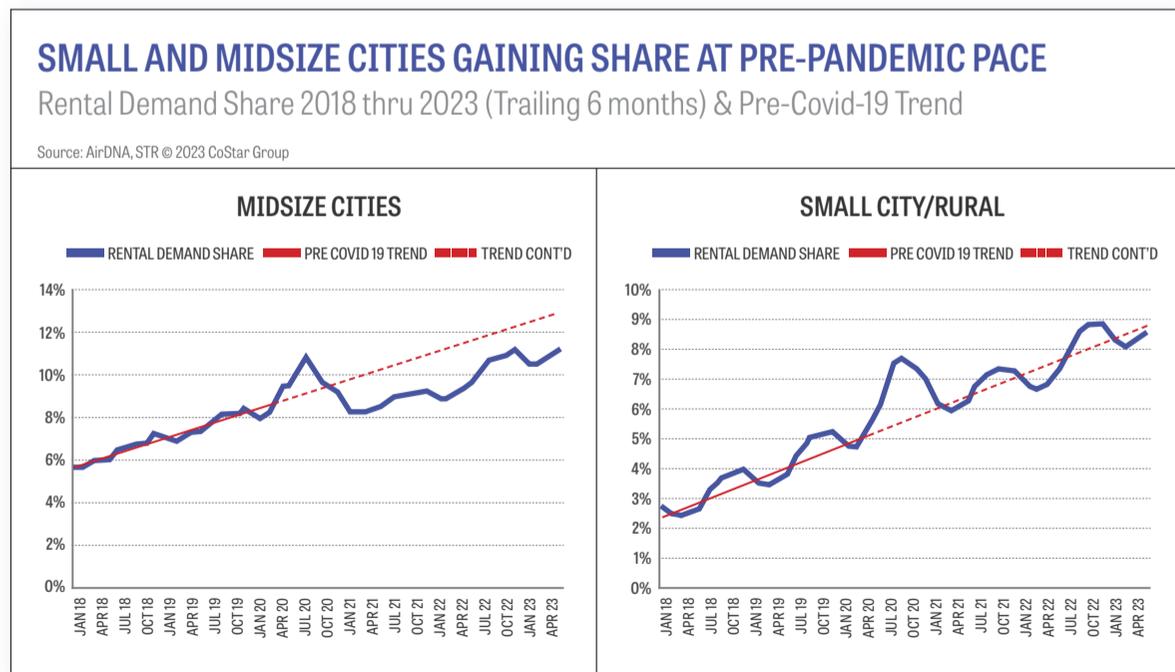


Lower demand for rentals in urban areas is evidenced by the change in rental demand share across major MSAs. In May 2023, the **rental demand share fell short of 2019 for 15 of the largest MSAs**. In Boston, the percent difference in share gains was - 5%, while in Los Angeles and New York, the difference was -6%. **Rentals in these MSAs face steeper regulations than elsewhere** and must compete with hotels along more criteria.

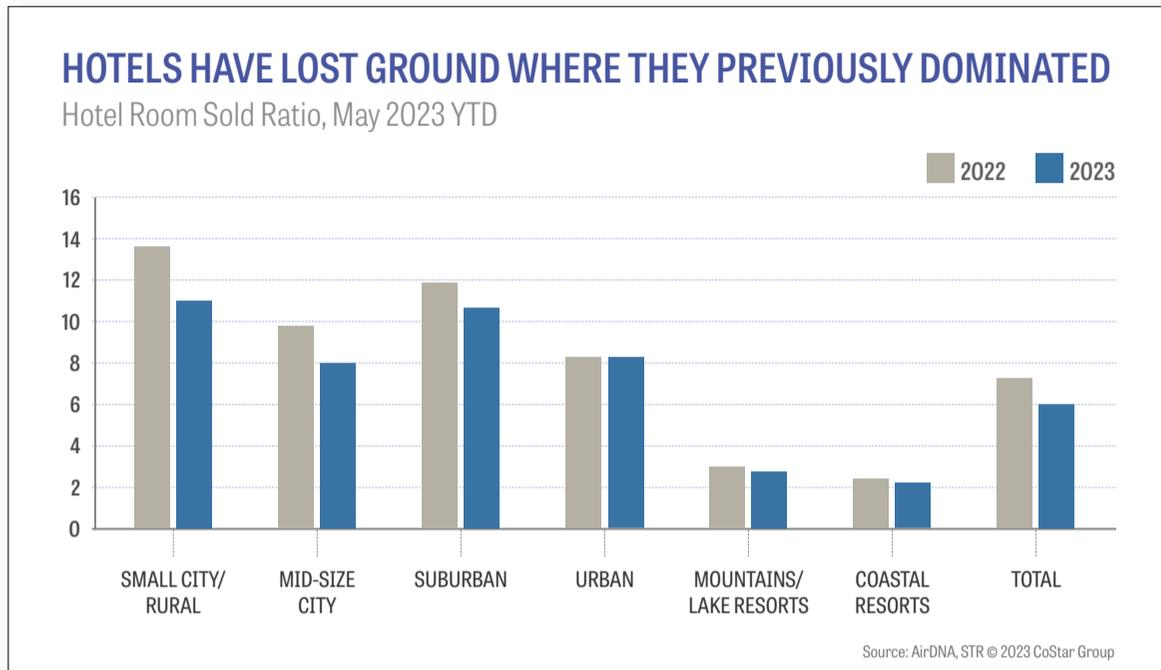




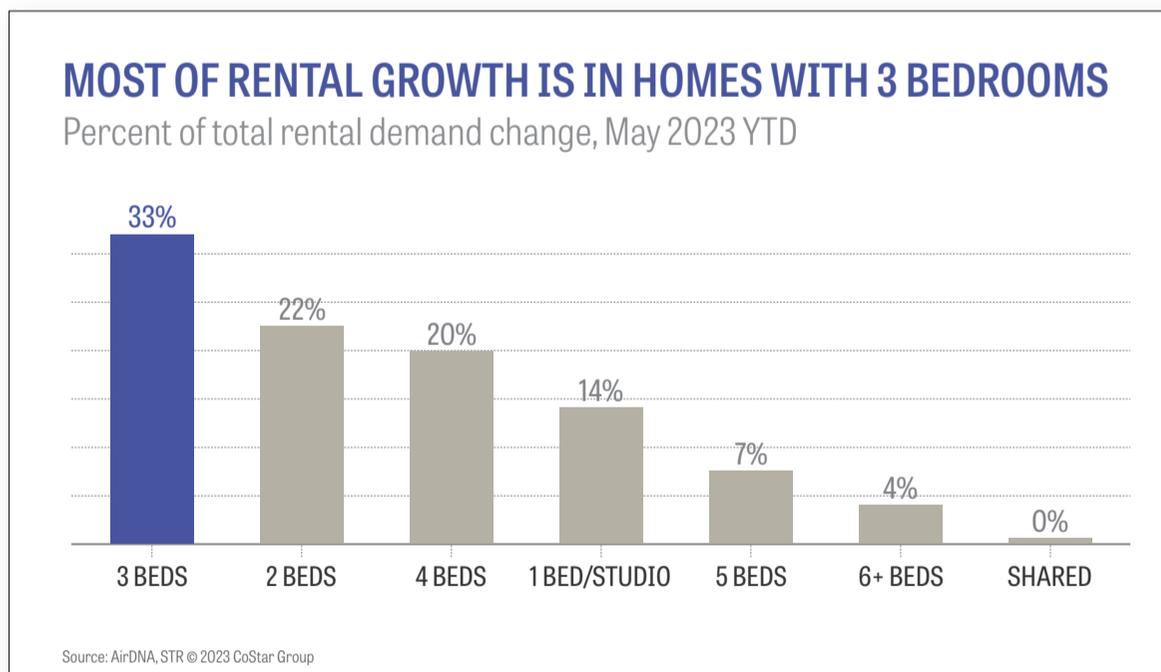
Conversely, rental demand share in **small and midsize cities is growing at the pre-pandemic pace**. The rental demand share in small city/rural areas was on an upward trajectory prior to the pandemic, climbing from 2.6% in January 2018 to 4.9% in January 2020. **It continued to grow throughout the pandemic, reaching 8.6% in May of 2023.** In midsize cities, the rental demand share **grew from 5.7% in January 2018 to 8.5% in January 2020.** In May of 2023, it reached **11.1%.**



Location also played a role in the ratio of sold to available hotel rooms in both 2022 and 2023. **Hotels lost ground in many of the areas they previously dominated** but maintained their standing in urban areas and, to a lesser extent, mountain/lake resorts and coastal resorts. In urban areas, the ratio of sold to available rooms was 8.6 for 2022 and 2023 **but dropped from 3.0 to 2.7 in mountains/lake resorts and 2.5 to 2.3 in coastal resorts.**



Location constitutes an important aspect of consumer preference, but bedroom quantity also influences consumers' lodging decisions. In May 2023 YTD, homes with **three bedrooms accounted for 33% of total rental demand change**, while 2-bedrooms accounted for 22% and 1-bedrooms accounted for 14%. For large groups, 3-bedroom vacation rentals may offer better deals than multiple hotel rooms. Also, **larger rentals may be more suitable for families in search of long-term accommodation with more privacy.**

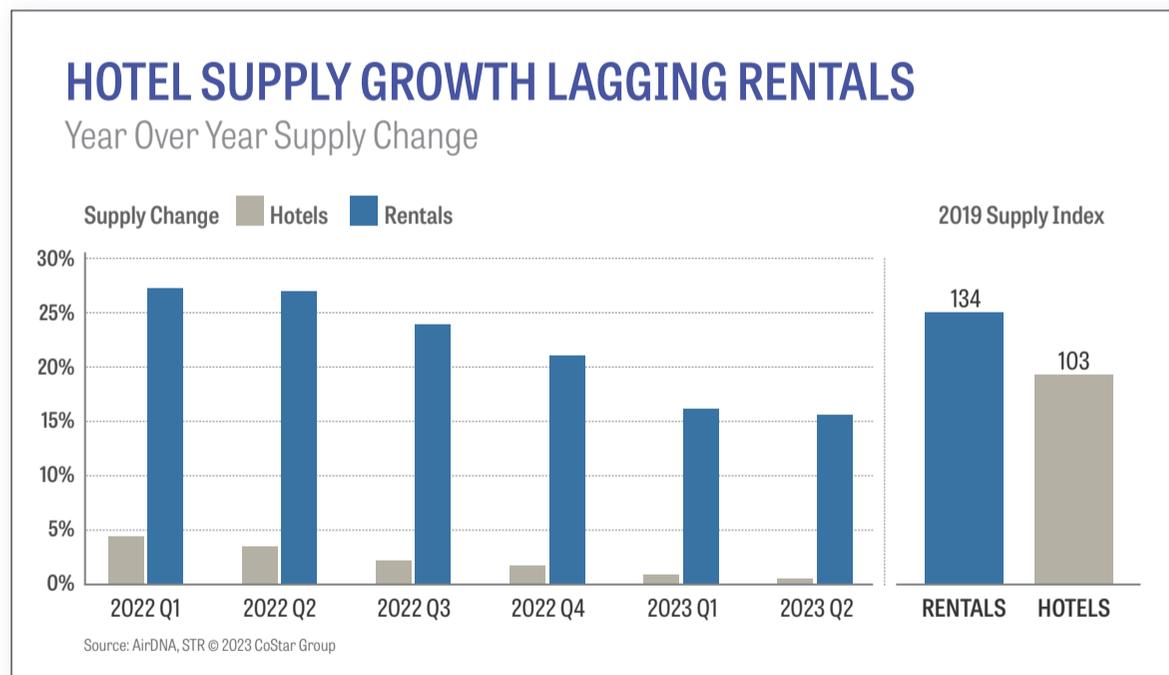


Hotel Supply Growth Lags Rentals.

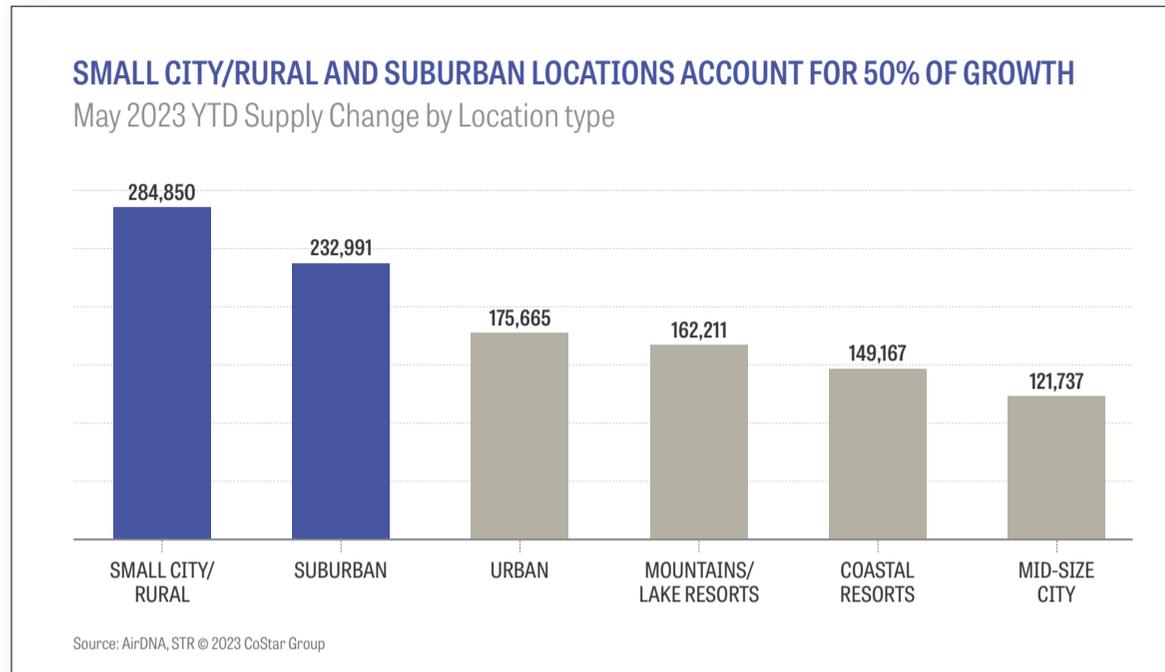
Supply growth faces challenges in both sectors, from the cost-related delays in hotel construction to housing supply constraints for rentals.



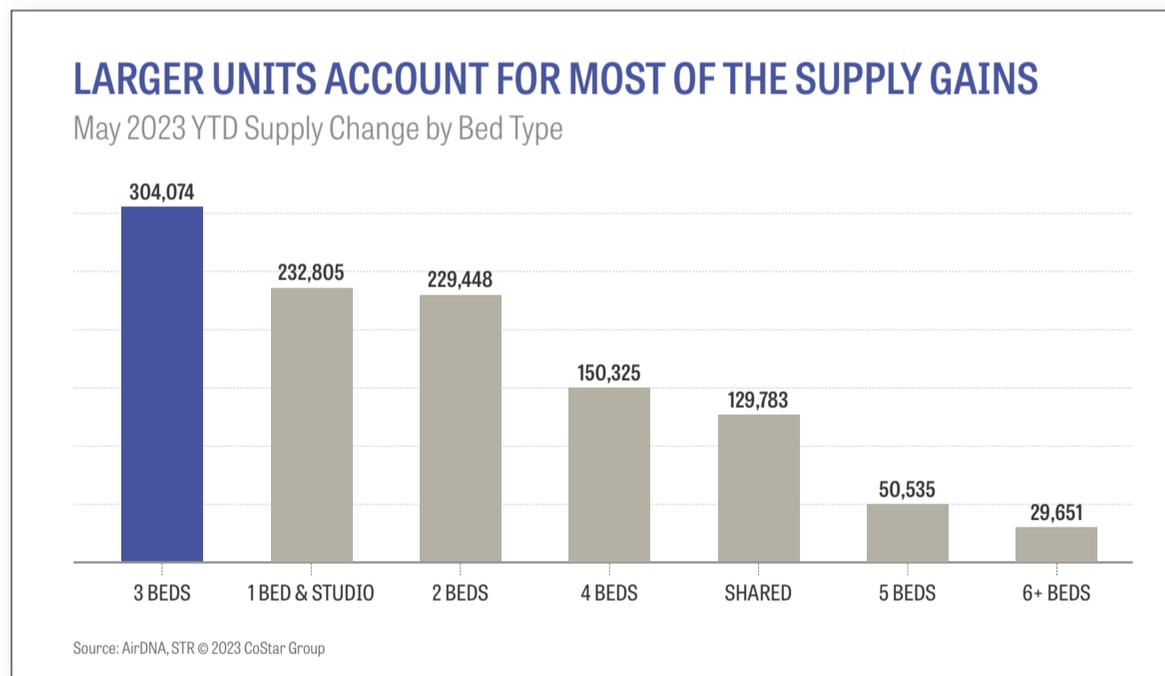
Hotel supply growth lags rentals, in part due to the cost of labor, land, and building supplies. **Cost-related delays in hotel construction** have led to apprehension among investors and left many projects in the planning phase. Rental supply has faced challenges, too. **Low housing supply and high interest rates have contributed to slower growth.** That said, **YoY supply growth remained above 15% for rentals and below 5% for hotels** for every quarter between Q1 2022 and Q2 2023.



Small city/rural and suburban locations **accounted for half of the May 2023 YTD supply growth**. During the pandemic, many travelers gravitated toward less densely populated locations. This trend continued into **May 2023, when supply change was 1.6 times higher in small city/rural areas than in urban areas**.



Larger units also accounted for supply gains. **Over 300,000 3-bedroom properties became available**, exceeding one bedroom/studios and two bedrooms by over 70,000 units each. These 3-bedroom properties do not directly compete with hotels; they provide a different accommodation experience and **may be more suitable for families seeking long-term lodging**.





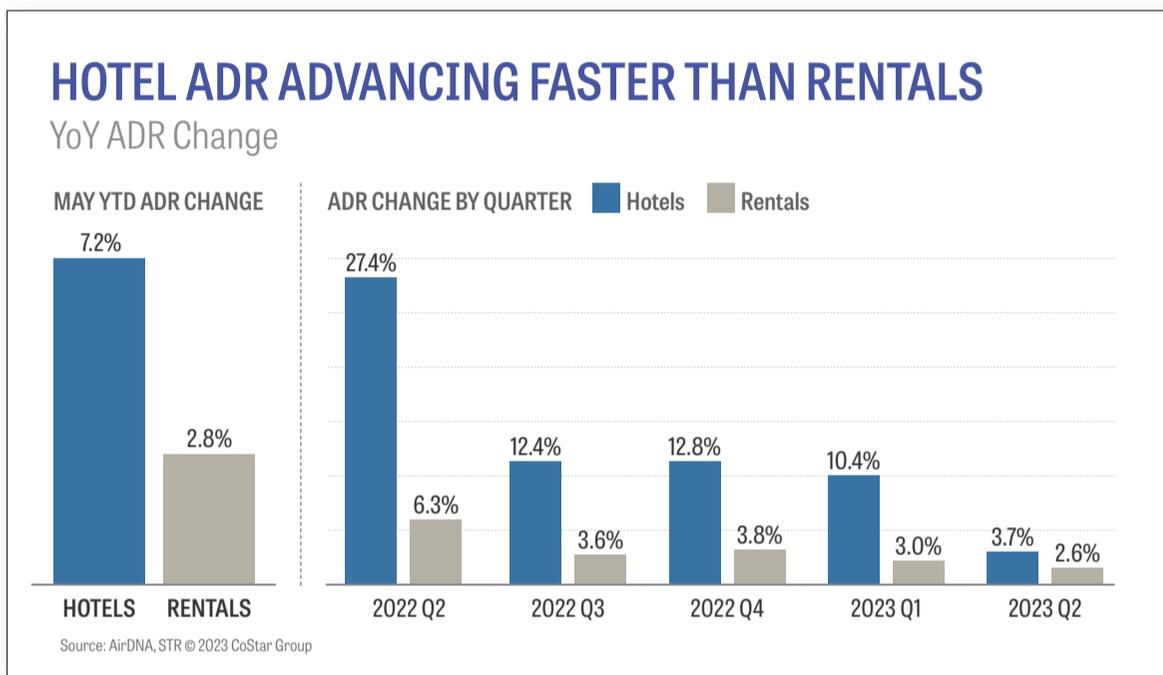
Hotel ADR Advances Quickly, Driven by Top 25 Markets

Hotel ADRs are accelerating faster than rentals, particularly in the Top 25 markets.

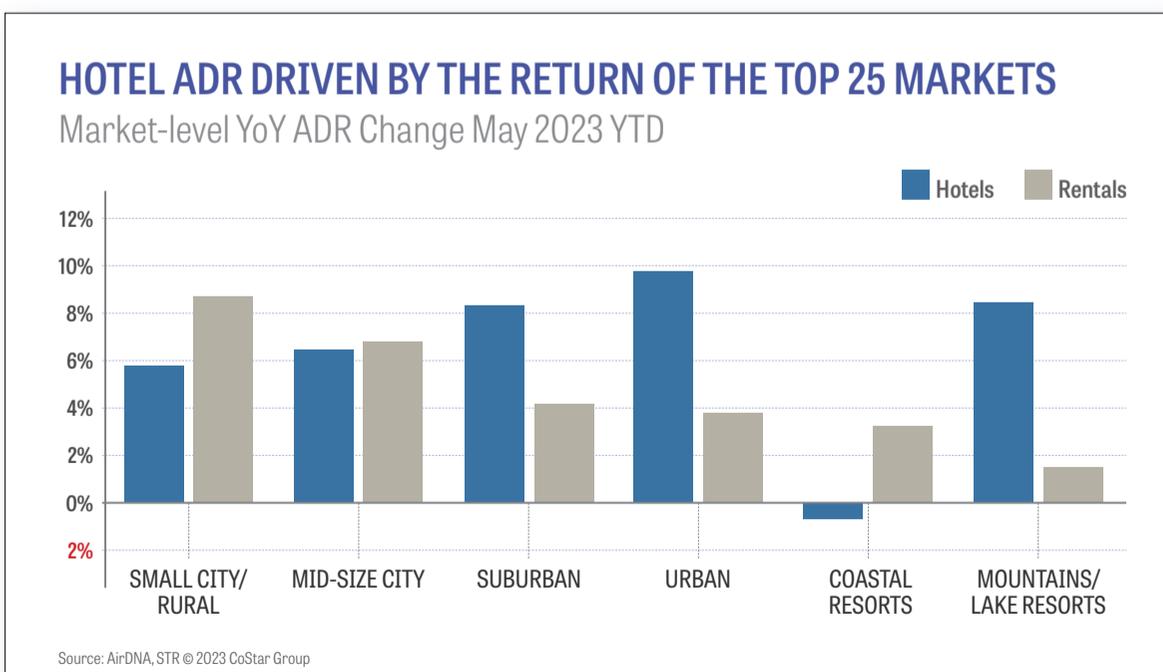
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Hotel ADR is advancing more quickly than rental ADR. In May 2023, YoY ADR change was **7.2% for hotels compared to 2.8% for rentals**. While the gap diminished between 2022 and 2023, the quarterly change was **higher for hotels than rentals for each quarter** between Q2 2022 and Q2 2023.



Hotel performance in the top 25 markets explains this advancement. In urban areas, YoY ADR change was 9.7% for hotels compared to 3.8% for rentals, while in mountains/lake resorts it was 8.6% for hotels and 1.3% for rentals. In urban areas and mountains/lake resorts, hotels are often located in highly desirable locations and include numerous amenities. Further, fiscal stimuli during the pandemic prevented mass permanent hotel closures. **When urban tourism began to recover, the hotel supply was prepared to absorb demand.**



Outlook

Looking ahead to the rest of 2023 and into 2024, as rentals continue to gain traction, where can we expect growth?



Looking ahead to the end of 2023 and 2024, **we expect growth in available listings and ADR.** YoY change in nights listed, demand, and ADR is **expected to remain positive but decelerate.** These forecasts are part of a gradual deceleration since 2022 or earlier. For example, demand (% change) was 22.6% in 2021, 18.1% in 2022, and 2023 F is projected to be 10.4%.

US RENTAL INDUSTRY OUTLOOK

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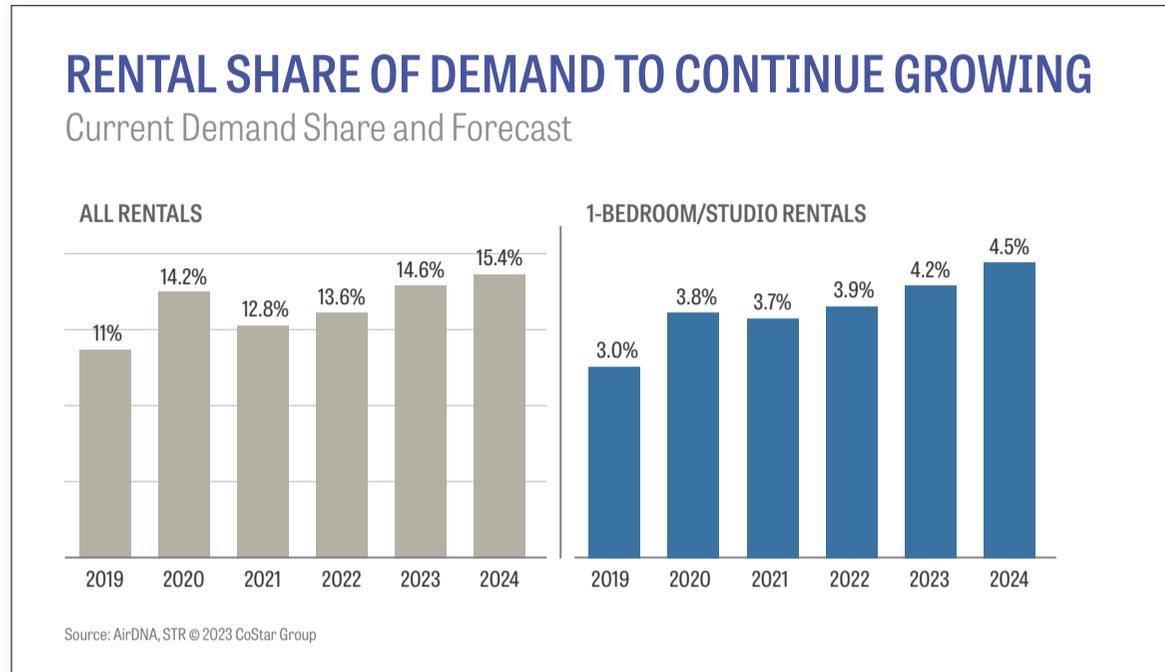
US Short-term Rental Historical Performance & Forecast (2019-2024)

	2019	2020	2021	2022	2023 F	2024 F
AVAILABLE LISTINGS (AVG)	1,144,806	1,019,889	1,036,527	1,260,091	1,450,325	1,597,887
NIGHTS LISTED, % CHANGE	19.9%	-14.4%	7.1%	24.6%	14.0%	10.2%
DEMAND, % CHANGE	23.1%	-14.4%	22.6%	18.1%	10.4%	8.5%
OCCUPANCY	54.9%	54.8%	62.8%	59.5%	57.6%	56.7%
AVERAGE DAILY RATE	\$243	\$265	\$298	\$314	\$321	\$326
ADR, % CHANGE	2.6%	9.1%	12.1%	5.7%	2.1%	1.7%
REVPAR	\$133	\$146	\$187	\$187	\$185	\$185
REVPAR, % CHANGE	5.4%	9.1%	28.3%	0.1%	-1.1%	0.1%

Source: AirDNA - Updated May 30th, 2023

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Despite this deceleration across key measures, the rental share of demand **will continue to grow from 14.6% in 2023 to 15.4% in 2024**. Among 1-bedroom/studio rentals, the share is **expected to climb from 4.2% to 4.5%**. Pandemic-related forces that shaped consumer preferences and boosted demand for rental properties **may persist into the near future**.



The hotel industry will feel the impact of continued growth in demand for rentals. For 1-bedroom/studios, the hotel occupancy impact (ppts) is **expected to fall to -2.8% in 2023 and -3.0% in 2024**. Additionally, hotel **ADR impact is expected to fall \$1.31 in both 2023 and 2024**.

