Peter Zabierek

The Airbnb Effect on the U.S. Hotel Business

[5 QUESTIONS]

New York, Miami and San Francisco especially hard hit by the upstart.

Peter Zabierek, the CEO of Montreal-based Presima, has been a real estate investor for 25 years. As his young sons point out, "That was before the Internet." Not quite, but close. Over his career, Zabierek has witnessed the increasing impact of technology on property, including online shopping, Zillow, cloud computing, online travel services and, now, Airbnb. Zabierek, with the benefit of research conducted by his team at Presima, offers some perspective on this fast-growing company and its disruption of the hotel industry.

HOW IS AIRBNB AFFECTING THE HOTEL BUSINESS?

A January *Huffington Post* report says Airbnb has amassed more than 2 million listings in 192 countries and grown to an estimated present market value of $25 billion. Much of the hotel industry is feeling the effects of Airbnb, which will account for 5.4 percent of total room supply in 2016, up from 3.6 percent in 2015, according to estimates from Goldman Sachs reported by the *Miami Beach Advocate*. Goldman points out that only five hotel operators have a market share greater than 5 percent. A study by the Boston University School of Management, which looked at the impact of Airbnb on the hotel industry in Texas, concluded that a 20 percent increase in Airbnb listings would impact hotel revenues by 1 percent in aggregate.

HOW DO AIRBNB USERS AND HOTEL GUESTS DIFFER?

While there is plenty of overlap between Airbnb users and hotel guests, there are also important differences amongst them. The main difference is the leisure/business mix. Airbnb's target segment is leisure (90 percent of the company total), while hotels serve a much higher portion of business travelers (41 percent of the industry total). Furthermore, average stays are longer for Airbnb. In San Francisco, for instance, an Airbnb guest stay is 5.5 days, compared to 3.5 days for hotel guests, according to a *TechCrunch* report.

WHICH TYPES OF HOTELS ARE MOST AT RISK?

Hotels that offer limited services, with a low business mix and a high percentage of "economy" or "budget" rooms, are most vulnerable. Airbnb's impact thus far has been focused on just a few U.S. markets, most notably New York City, Miami and San Francisco. According to Evercore ISI, Airbnb as a percentage of hotel supply in these three markets is 10.0 percent, 8.8 percent and 6.1 percent, respectively.

IS AIRBNB REDUCING HOTEL ASSET PRICES?

Looking forward, the outlook is weaker, but not necessarily because of Airbnb. Owners and investors appear to feel pretty good about REVPAR (revenue per available room) growth, with estimates of between 5 percent and 6 percent based on our conversations with management teams. But storm clouds on the investment front start with a challenging lending environment, as CMBS issuance has been limited to small deals. In addition, there are simply fewer buyers, with public companies and oil-dependent sovereign wealth funds out of the market, leaving only picky private equity. In sum, we do expect some pricing softness, but again, for reasons beyond Airbnb.

HOW WILL HOTEL COMPANIES RESPOND?

This story is just getting started. Here is the bad news for hotels: Since Airbnb market penetration of the U.S. housing market is less than 0.1 percent, according to Evercore ISI, there is plenty of room for the service to grow. In addition, though regulations should get tougher for Airbnb, they should only slow the company's growth, not stop it. Large, high-cost cities — such as Los Angeles, New York City and San Francisco — have already seen how Airbnb can disrupt markets. Airbnb supply is also growing quickly and its impact should soon be felt in cities such as Seattle, Philadelphia and Chicago. Now, the good news for hotels. First, consumers should continue to value the consistency, convenience and loyalty programs that accompany traditional hotels and brands. That should set a floor on demand. Second, we expect to see hotel development slow in the next few years as the market adjusts to more peer-to-peer space. Third, we expect to see more consolidation in the hotel industry, as operators appreciate the value of scale in the face of the Airbnb threat. And, finally, much like hotel companies did when OTA's such as Expedia burst on the scene, we expect many more "strategic" discussions between Airbnb and hotel companies where true win-win partnerships can emerge. Much of this will take time, though. We expect a rough ride for hotels in the short term, especially for assets that are already in Airbnb's crosshairs. ■