U.S. Short-term Rentals Thrived Throughout the COVID-19 Pandemic.

Can the Trend Hold as America Heads Back to Work?

ABOUT THIS REPORT

The “new normal” of travel is here. A lot has changed since the pandemic began and, with travel restrictions easing and more people heading back to the office and school (at least part-time), the lodging landscape looks very different.

This report explores how travel, travelers, and the short-term rental (STR) space have changed, and provides three outlook scenarios based on this data and economic and social factors shaping the new normal.

METHODOLOGY

Building on 10+ years of forecasting the hotel industry, AirDNA’s economists developed the short-term rental industry’s first econometric forecasting models to help industry participants better understand what the future may look like.

These models incorporate expectations of U.S. economic growth through employment and GDP forecasts as well as how underlying changes in the housing market may impact the available supply of vacation rental properties.

This methodology revealed that, while STR demand has hit astonishing levels in many markets, we’re yet to see whether or not the industry recovers demand back to the level it would have achieved if it had maintained its 2019 growth rate.

While significant progress has been made, our baseline outlook calls for another 2+ years to achieve it, though it could be reached sooner if certain scenarios play out. This report will outline these scenarios and how their assumptions would impact the U.S. short-term rental industry.
Can Short-term Rentals Continue to Thrive as Americans Head Back to Work?

Short-term rental (STR) demand exceeded all expectations in 2021. How so?

- **Demand surged in small-town and destination markets throughout the United States**
- **In Q1, the U.S. hit a new bookings record each month leading up to April 2021 when demand (nights) surpassed 2019 levels for the first time since February 2020**
- **This milestone marked the end of recovery and the beginning of the next phase of expansion for the U.S. short-term rental industry**
Occupancy Rates Hit All-time April High

Peeling apart the highest-ever April occupancy rate (61.6%) for U.S. STRs, we find that demand has recovered in four out of the six location types that AirDNA tracks.

- 67% more listing nights sold in 2021 than 2019 in small cities/rural markets
- 25% more demand in both destination/resort locations (mountain/lake and coastal)
- Eight percent demand growth in mid-size cities
- 13% lower demand levels of demand in suburban markets
- 41% lower levels of demand in the 50 largest U.S. cities based on population

Occupancy Rates: April 2021 Compared to April 2019

- Small Cities/Rural: +67%
- Destination/Resorts: +25%
- Mid-sized Cities: +8%
- Suburban: -13%
- 50 Largest U.S. Cities: -41%
Old Supply Trends Held, Another Emerged

Historically, owners add units during high-demand periods and remove them when demand dissipates. This trend generally held over the past year:

- **40% fewer available nights in urban areas**
- **25% more nights available in small city/rural locations**

Destination/resort areas have somewhat bucked this trend.

- **Demand remained high, though many markets’ availability declined**
- **Destination markets near major cities see increased demand for single-family housing**
- **Many owners removed properties, preferring to use second homes themselves**
Short-term Rentals’ Economic Health Tied to COVID Cases’ Decline

Recovery in demand for short-term rentals has been the result of many factors. Vaccine rollout and subsequent COVID-19 case decline remain the most important.

- As of May 24th, all states have seen major declines in the rate of new cases since winter
- All have eased economic restrictions or have fully re-opened
- Travel’s recovery will be dependent on easing safety concerns and reopened businesses
- High consumer incomes and high savings rates mean people have the means to travel

The U.S. government provided unprecedented stimulus to American workers and businesses. This support enabled many businesses to continue operations and workers to keep their jobs throughout the past year.

- Through April 2021, the U.S. had only lost 5.4% of employed workers
- It had recovered over 14 million jobs over the past year
The Hospitality Industry’s Disproportionate Recovery

The leisure and hospitality industry is yet to see major recovery in overall employment. The overall decline in accommodation employment has roughly mirrored the recovery in hotel performance and closely aligns with short-term rental demand in large U.S. cities.

Each of these sectors remains dependent on cities reopening, attractions like Broadway theaters, sports arenas, and concert halls returning to full capacity, and business travelers getting back on the road.

- Pent-up demand restaurants, travel, and entertainment will rebound strongly in 2021
- Real GDP is forecast to increase 6.5% in 2021 and taper off to 4.4% growth in 2022
- The biggest recovery risks are new COVID-19 variants and slowing vaccine uptake

With consumption roaring and government unemployment benefits expiring, most economists expect employment to recover to pre-pandemic levels by the end of 2022, which is significantly earlier than any prior estimates.
## AirDNA’s U.S. Short-term Rental Outlook Scenario Assumptions

<table>
<thead>
<tr>
<th>Listings</th>
<th>Baseline</th>
<th>Upside</th>
<th>Downside</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong new unit growth in high-demand areas, but not nearly as fast as demand. Available listings recover to 2019 levels by 2023 in urban areas.</td>
<td>The high demand for short-term rentals brings in hundreds of thousands of new hosts, allowing more people the opportunity to stay in STRs. Supply accelerates.</td>
<td>High demand for single-family homes outside of major cities pushes more prices higher and reduces investment in short-term rentals. Supply growth stalls.</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Length of Stay</th>
<th>Baseline</th>
<th>Upside</th>
<th>Downside</th>
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</thead>
<tbody>
<tr>
<td>A hybrid work model allows many workers more flexibility to work from home more often. Extend trips because the norm as more and more travelers combine business and leisure trips.</td>
<td>Flexible travel is here to stay. A significant portion of the population continues to work remotely, giving them flexibility to work from anywhere and live on Airbnb. Mid-term stays grow as incremental new demand.</td>
<td>The flexibility of remote work and school ends, bringing workers home. Lengths of stay shrink, and mid-term stay demand returns to pre-pandemic levels.</td>
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<table>
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<tr>
<th>Demand</th>
<th>Baseline</th>
<th>Upside</th>
<th>Downside</th>
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<tbody>
<tr>
<td>STRs retain most of the gains made vs. hotels for leisure travel and maintain gains in destination markets. Demand begins to recover in major cities in late 2021 with most markets recovering to pre-pandemic demand levels by the summer of 2022.</td>
<td>Added flexibility extends peak travel periods. Short-term rentals take more share from hotels as a preferred lodging choice. Vaccination rates accelerate globally, leading to more inbound travel and a rapid recovery of urban demand.</td>
<td>As global travel opens back up, Americans begin to travel overseas before inbound travel recovers for the U.S. This leads to less demand for destinations and a slower recovery in U.S. cities.</td>
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<table>
<thead>
<tr>
<th>Rental Rates</th>
<th>Baseline</th>
<th>Upside</th>
<th>Downside</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited new supply and strong demand allow most STR operators to continue gradually raising rates, increasing the revenue earned per unit.</td>
<td>Even with new supply added, the scarcity of available units allows operators to raise rates and indefinitely keep them at elevated levels.</td>
<td>Demand growth doesn’t meet expectations. Increase competition among hosts and hotels leads to discounting and overall lower revenue per unit.</td>
<td></td>
</tr>
</tbody>
</table>
Expectations for the Short-term Rental Industry

New demand in small city/rural and destination/resort markets dominated 2020 and 2021. 2022 will focus on a return to the great American cities.

- **Through April 2021, demand was still down over 40% compared to 2019 in urban areas**
- **We expect urban travel to begin recovering in Q3 and Q4 2021 and in earnest in 2022**
- **We predict urban demand to fully recover to 2019 levels by 2023**

Urban STRs could see an even quicker rebound if business travelers prefer their own space and added amenities like a kitchen and separate living space. There may also be additional demand as remote workers plan trips back to headquarters.

International travel remains a recovery risk. In markets like New York, San Francisco, and Miami, as much as 30% of historical demand could be attributed to international guests.

- **Vaccinated Americans could travel overseas before foreign guests can enter the States**
- **This could create an imbalance of travel that could temporarily impair U.S. performance**
- **It may take some time for vaccination rates to catch up around the rest of the world**

The Return of Urban Travel

Urban STRs could see an even quicker rebound if business travelers prefer their own space and added amenities like a kitchen and separate living space. There may also be additional demand as remote workers plan trips back to headquarters.
Will Schools’ and Offices’ Reopening Restrict Travel Flexibility?

Throughout the pandemic, many fortunate Americans have been able to work or go to school remotely. This provided them flexibility to “travel anytime, anywhere, and stay longer” as Airbnb pointed out in a recent call.

- *This appealed to digital nomads looking for unique places to live and explore new areas*
- *Flexibility and people’s willingness to live anywhere hugely benefited short-term rentals*
- *Airbnb notes that 24% of its nights booked were long-term stays (defined as stays of 28 days or more), up from 14% in 2019*

Our outlook is optimistic: more companies will have a hybrid option, meaning more flexibility to work remotely more often.

However, we don’t expect remote work to remain the norm once safety is no longer a concern for most in-office workers.

- *Added flexibility means an increase in combined and extended business-leisure trips*
- *Widely adopted remote lifestyles will further support travel, especially longer STR stays*
- *In Q1 2021, the average length of stay was 25% higher than pre-pandemic, mainly due to longer stays in large and mid-sized cities*
- *We expect LOS to shorten but remain materially higher than 2019 levels*
AirDNA’s Industry Outlook

High levels of demand and a delayed expansion of available supply of new STR units will mean at least two years of elevated occupancy levels for U.S. properties. In 2020, STR demand contracted by 16.1% for the year. A significant portion of that demand was for private and shared rooms or 1- or 2-bedroom apartments listed on Airbnb and primarily located in large metropolitan areas.

- Demand shifted to larger homes in destination markets, with higher average rates, leading to overall 2020/21 ADR growth
- This same factor, but now in reverse, will cause ADRs to decline in 2022 as demand returns to the cities and smaller properties
- 2022 rate contraction still means the average rate will be 7.5% higher than in 2019
- Total revenues will increase by 42% over the four-year period

### U.S. Short-term Rental Forecast (2019-2022)

<table>
<thead>
<tr>
<th>Metric</th>
<th>2019</th>
<th>2020</th>
<th>2021 F</th>
<th>2022 F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Available Listings</td>
<td>1,175,437</td>
<td>1,039,948</td>
<td>1,138,111</td>
<td>1,370,903</td>
</tr>
<tr>
<td>Listings, % Change</td>
<td>11.0%</td>
<td>-11.5%</td>
<td>9.4%</td>
<td>20.5%</td>
</tr>
<tr>
<td>Demand, % Change</td>
<td>20.9%</td>
<td>-16.1%</td>
<td>27.5%</td>
<td>23.4%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>53.5%</td>
<td>53.2%</td>
<td>58.9%</td>
<td>57.9%</td>
</tr>
<tr>
<td>Average Daily Rate</td>
<td>$214.30</td>
<td>$233.84</td>
<td>$248.06</td>
<td>$230.33</td>
</tr>
<tr>
<td>ADR, % Change</td>
<td>1.3%</td>
<td>9.1%</td>
<td>6.1%</td>
<td>-7.1%</td>
</tr>
<tr>
<td>RevPAR</td>
<td>$114.59</td>
<td>$124.50</td>
<td>$146.22</td>
<td>$133.40</td>
</tr>
<tr>
<td>RevPAR, % Change</td>
<td>3.8%</td>
<td>8.6%</td>
<td>17.4%</td>
<td>-8.8%</td>
</tr>
</tbody>
</table>
No Vacancy: Summer Rentals in Short Supply

So far, new supply has struggled to keep pace with rising demand. New campaigns from both Airbnb and Vrbo should help, but will not be enough to satisfy the record demand for this summer.

- **As of May, ~52K new units have been added on either Airbnb or Vrbo**
- **Overall, this is 10% lower than a typical year over the same period**
- **AirDNA expects many new listings on both platforms throughout the summer into 2022**
- **The average unique available listings count on both is expected to increase by 20.5% in 2022 to over 1.3 million listings**

Bookings already show a strong summer for most markets in the U.S. As expected, destination/resort markets will capture most of that demand.

- **Domestic travel to beaches and mountains remains popular**
- **In mid-May, demand nights in these markets are up over 40% relative to the same time in 2019**
- **Small cities/rural areas are already pacing 62% higher for this summer than in 2019**

U.S. Summer 2021 Demand Booking Pace Relative to 2019, as of May 20th

![Diagram showing demand booking pace for different market types](image-url)
Cities’ Slumps Mean Fewer Guests

A recovery in large cities is just beginning to take shape. Since the beginning of the year, each week’s new bookings have looked slightly better when compared to 2019.

- At the beginning of the year, bookings in large cities were 45% lower than 2019’s pace
- In May, bookings are only 15% below 2019’s pace
- The deficit of new bookings continued to compound and summer bookings are currently about 46% lower in urban areas than in 2019
- Lead times for stays in large cities will remain short, as there continues to be plenty of availability and little incentive to book far in advance
The “New Normal” of Travel is Here

Will increased flexibility to live and work anywhere change the short-term rental sector forever? Probably not, but there are plenty of tailwinds for the sector that should help it get back to its pre-pandemic trend growth rate.

- *In the longer term, the short-term rental industry will continue to professionalize and expand its share of total lodging spend*
- *Brands like Vacasa and Sonder will grow and Airbnb and Vrbo’s competition will intensify*

While the industry will somewhat normalize with the return of international travel, the short-term rental sector has strengthened consumer trust and sentiment during the pandemic, which will only speed its recovery rates compared to its lodging counterparts.