

CBRE RESEARCH

SHORT-TERM RENTALS

A Maturing U.S. Market &
Its Impact on Traditional Hotels



CBRE

EXECUTIVE SUMMARY

- The supply penetration rate of short-term rental (STR) units to traditional hotel units reached 10.4% in 2019 and is expected to hit 12.2% this year with the addition of more than 100,000 net new units.
- STR supply grew by 26% in 2019, down from 39% in 2018 and after seven years of exponential growth (100% to 500%) since 2009. Growth rates are expected to slow further to 19% in 2020.
- Recent growth for STRs has been primarily in suburban and rural areas. Units in urban areas make up only 21% of total supply, down from more than 45% in 2014.
- Los Angeles remained the largest STR supply market in 2019 after overtaking New York in 2018. Los Angeles, New York and Orlando together accounted for about 12% of total STR supply in the U.S. last year.
- Guests consistently cite price and location as their top reasons for choosing alternative accommodations.
- Branded apartment/hotel models such as Sonder, Stay Alfred, Lyric and Domio depend on the pricing arbitrage between monthly apartment rent and nightly STR rates. Many companies have entered the market, primarily in U.S. urban areas.
- Given the undeniable change underway in the lodging sector, historical hotel valuation underwriting practices will no longer suffice. A reasonable understanding of the short-term rental market is required for properly valuing hotels.





INTRODUCTION

There no longer is any question that the sharing economy—and the short-term rental market specifically—is here to stay. Once dismissed as a relatively inconsequential niche product and a distant cousin to traditional hotels, STRs have become a widely accepted, mainstream form of nightly accommodation.

STRs total more than 10% of the size of the traditional U.S. hotel room supply and, according to Skift Travel, have become an estimated \$115 billion industry as of 2019. This alternative lodging market has evolved from catering to the adventurous, millennial leisure traveler to targeting core hotel guests like the business traveler, a la Airbnb Plus.

Given the undeniable change underway in the lodging sector, historical hotel valuation underwriting practices will no longer suffice. A reasonable understanding of the short-term rental market is required for properly valuing hotels.

In terms of size and product offerings, STRs now demand the attention of hotel owners, operators and industry professionals alike. Professional operators, buoyed by hundreds of millions of dollars in private equity investment, have taken an arguably inferior

product and helped transform STRs into a mainstream alternative for those seeking temporary accommodations.

Increasingly, venture capitalists and traditional real estate investors are fueling the STR market either through properties, brands, management companies or vendors that provide services to the growing number of STR operators.

As the hotel industry continues to enjoy high occupancy levels, the scarcity of available traditional hotel rooms during peak periods causes travelers to look for alternative options like STRs. In addition to availability, guests are searching for affordability, location and local experiences.

As STRs now compete directly with hotels, the platforms used to book them have evolved as well. Airbnb, Booking.com and Expedia (HomeAway/VRBO) remain the largest distribution platforms and many property managers list their units across multiple sites.

This report details the current size of the STR market in the U.S., how and where the sector is growing, and how industry participants should view this maturing sector when analyzing the performance of existing and new hotels.



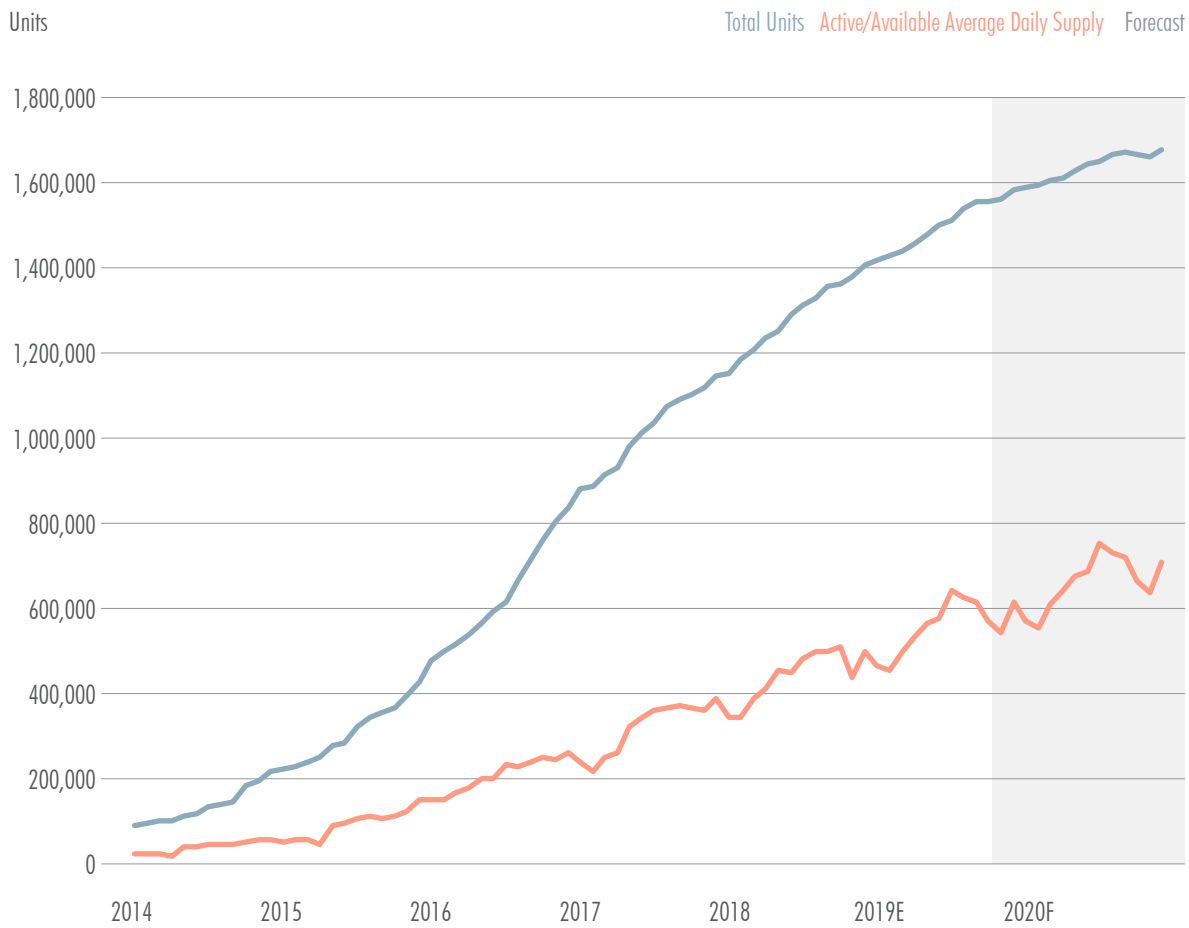
SHORT-TERM RENTAL GROWTH IN THE U.S.

Determining the total supply of STR units is difficult, but the most widely available and reported estimate is the total number of units listed on each platform. There were more

than 1.5 million STR units on various listing platforms in 2019—at least seven times the amount in 2014. However, not all these units were active or available for booking year-round.



FIGURE 1
TOTAL UNITS & ACTIVE/AVAILABLE AVERAGE DAILY SUPPLY OF
SHORT-TERM RENTALS



Source: AirDNA, CBRE Hotels Research, Q4 2019.
 Note: Data from 2014 to 2019 provided by AirDNA, forecasts generated by CBRE.



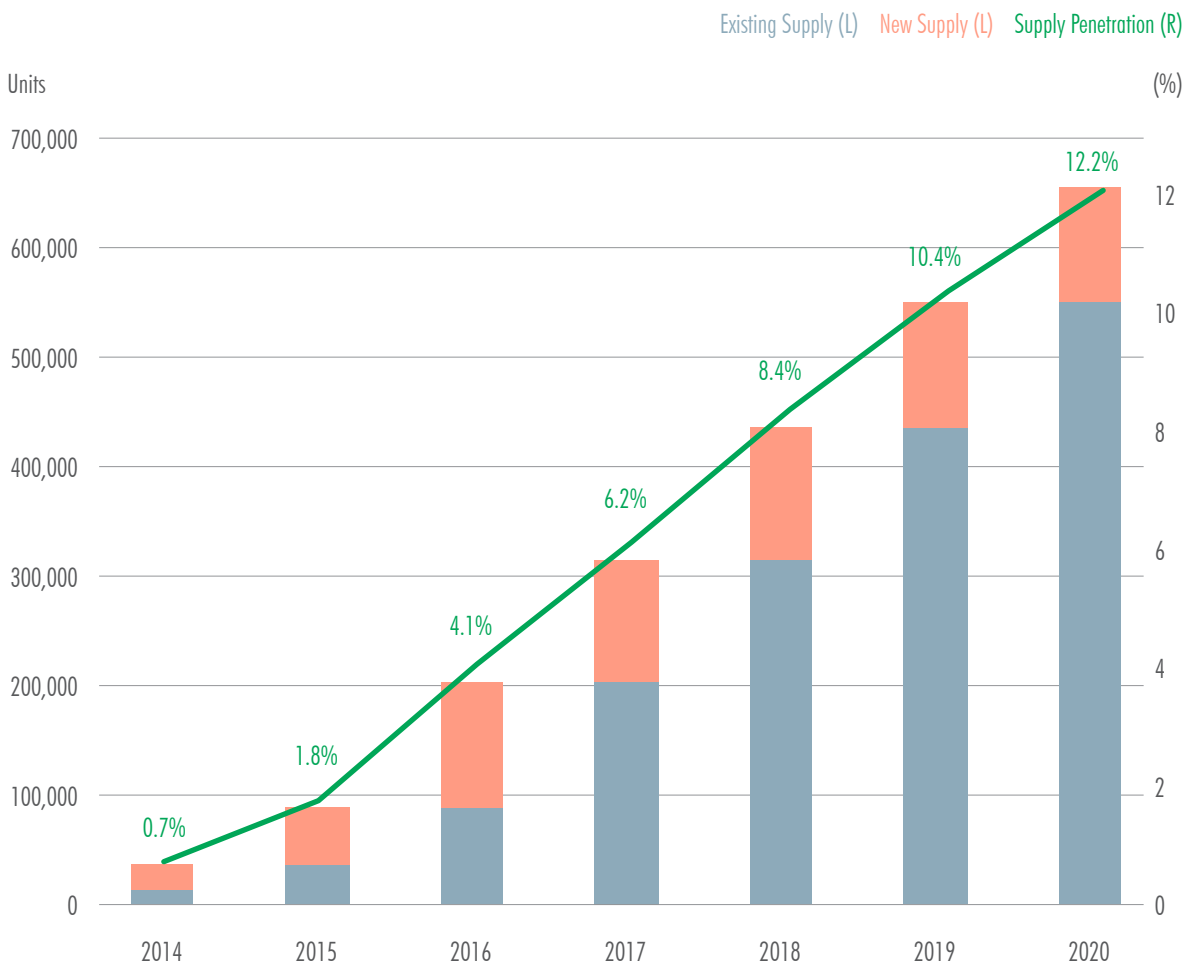
The penetration rate of short-term units to traditional hotel units reached 10.4% in 2019. For context, CBRE estimates U.S. flex office space (i.e., WeWork, Regus, Spaces) has a penetration rate of only 2.0%.

Despite the impressive growth of STRs over the past decade, the days of total STR units doubling every year are long gone. That doesn't mean the number of units added per year has slowed; 2018 was a record year for the absolute number of units entering the market.

Data provider AirDNA reports that there were, on average, approximately 123,000 more units in the U.S. in 2018, up from roughly 114,000 added in both 2017 and 2016. In 2019, unit growth slowed to 115,000 and is expected to slow further in 2020.

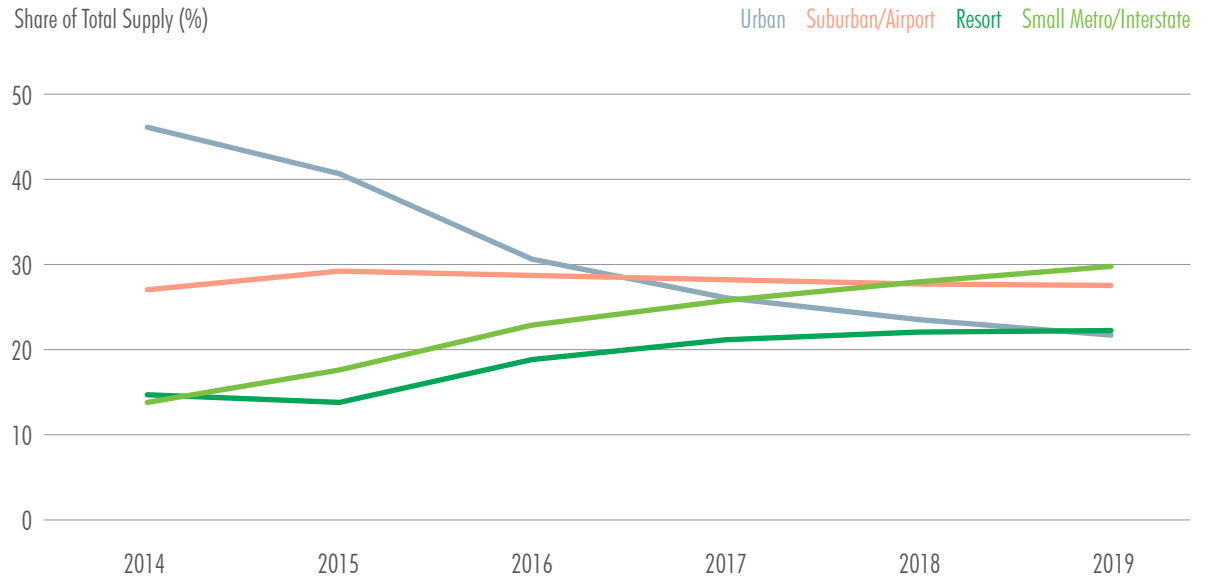
Despite the slower growth rate, new units have averaged over 100,000 per year since 2016, with 2020 marking the fifth consecutive year that this threshold has been met. Based on CBRE's projections, the penetration rate of STRs to hotel supply will rise to 12.2% in 2020.

FIGURE 2
SHORT-TERM RENTAL ACTIVE/AVAILABLE AVERAGE DAILY SUPPLY GROWTH



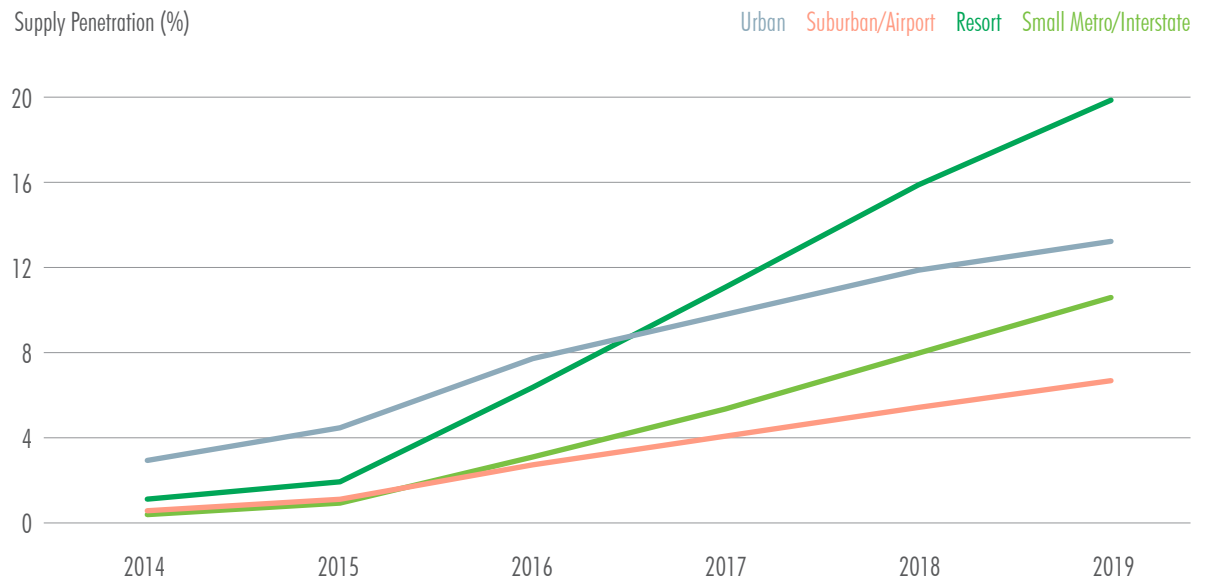
Source: AirDNA, CBRE Hotels Research, STR, Q4 2019.
 Note: Data from 2014 to 2019 provided by AirDNA, forecasts generated by CBRE.

FIGURE 3
SHARE OF SHORT-TERM RENTAL SUPPLY BY LOCATION TYPE



Source: AirDNA, CBRE Hotels Research, Q4 2019.

FIGURE 4
SHORT-TERM RENTAL PENETRATION BY LOCATION TYPE



Source: AirDNA, CBRE Hotels Research, STR, Q4 2019.

With a bigger base of STR units, year-over-year percentage growth rates for STR supply in the U.S. will continue to decline. STR unit supply grew by 26% in 2019, down from 39% in 2018 and after seven previous years of exponential growth (100% to 500%) since 2009. Growth rates are expected to slow further in 2020 to 19%.

Recent growth of STRs has primarily occurred in suburban and rural areas. Units in urban areas dropped to 21% of total STR supply in 2019 from 46% in 2014. As of 2019, 57% of units were located outside of large cities (urban and suburban/airport locations).

Most of the change in share resulted from large increases in resort and rural locations that primarily serve destination-vacation travel. Units for rent along the beach, at lakes and at ski/mountain resorts account for 42% of units outside of urban areas.

Slowing STR supply growth can be attributed to many areas reaching market saturation and others seeing increased regulation.

The growth story outside of the metro areas is also supported by the higher growth rates in home rentals compared with apartment, condo or loft rentals. With the increased growth outside of cities, the penetration rate of STR units to hotel rooms has increased the most in those areas as well.

In 2019, supply of units in urban locations grew by 17%, well below the 30%+ growth rates for all other location types. Hotel supply is growing by 3% in these urban areas on a year-over-year basis compared with 2% nationwide.

Looking at just the top 30 traditional lodging markets, these trends hold as well. In 2019, 40% of STR units in those markets were in urban areas, down from 60% in 2014. All other location areas have gained share during this period.

A REVIEW OF STR PROPERTY TYPES

Note: The balance of this report will focus on an analysis of the top 30 U.S. hotel markets to isolate the trends impacting areas where most of the hotel investment takes place.

Houses and apartment/condo/loft units make up about 96% of all the properties available for rent in the U.S. on STR distribution channels. The other 4% includes unique units (like lighthouses, boats and tents), B&Bs, hotels and hostels. These national percentages have stayed relatively consistent over time. But in the top 30 markets, the numbers have varied.

While apartment/condo/lofts comprised more than 60% of rental units in these top 30 markets in 2014, they now make up only 42%. Houses in the top 30 have grown at a significantly higher rate and now account for about 54% of the total.

It's clear that home/apartment units dominate the supply of available units, accounting for about two-thirds of the total. Shared spaces (private and shared rooms) represent only about 30% of supply in the top 30 hotel markets.



STR PROPERTY TYPES



House

The largest property type available for STR booking in the U.S. This includes single-family homes, townhouses, vacation homes, cabins and villas.



Apartment/Condo/Loft

The second largest group in the U.S. This group primarily includes multifamily properties.



Other

Unique units including boats, lighthouses, planes, tents, treehouses and yurts.



Bed & Breakfast

Traditional bed & breakfast listings.



Hotel/Hostel

Hotels, resorts, boutique hotels, nature lodges and hostels. Any analysis of these units can be skewed since a single listing can represent multiple units available for booking.

Note: For the analysis and statistics in this report, all bed & breakfast, hotel, and hostel units are removed.

There is a strong correlation between the high prevalence of private-room demand and markets with elevated hotel average daily rates (ADRs). This supports the notion that price is a significant factor for guests when choosing to stay in an STR unit. In high-ADR markets like New York, San Francisco and Boston, private

rooms represent between 40% and 50% of total demand for STR units. Another factor may be regulation, as these markets grew quickly at the onset of the STR trend and have since seen stringent regulation on home and apartment rentals for less than 30 days when the owner is not present.

FIGURE 5
2019 PERCENT OF SHORT-TERM RENTAL SUPPLY BY PROPERTY & LISTING TYPE

Property Type	House	Apt./Condo/Loft	Other	Listing Type Total
Entire Home/Apartment	34.4%	32.2%	1.3%	67.9%
Private Room	19.1%	8.9%	0.2%	28.3%
Shared Room	1.0%	0.6%	0.0%	1.6%
Hotel/Hostel	-	-	1.6%	1.6%
Bed & Breakfast	-	-	0.5%	0.5%
Property Type Total	54.5%	41.8%	3.7%	100.0%

Source: AirDNA, CBRE Hotels Research, Q4 2019.



MARKET LEVEL FINDINGS

The most penetrated markets for STRs are Los Angeles and Miami, with 22.3% and 19.2% of their hotel room count, respectively, allocated to STRs—roughly double the national average of 10.4%—due to their being high-occupancy, high-ADR markets that cater to a large volume of leisure travelers.

Once the volume of STR units reaches approximately 10% of the total hotel supply in urban/suburban markets, growth rates start to slow significantly (Figure 6). Only those urban/suburban markets with a large destination/resort demand orientation likely have the potential to reach an STR penetration rate of 15% or more. These examples show that 15% to 20% penetration rates may be the ceiling

in large urban and suburban markets, while markets with a resort component may be able to reach as much as 25% penetration.

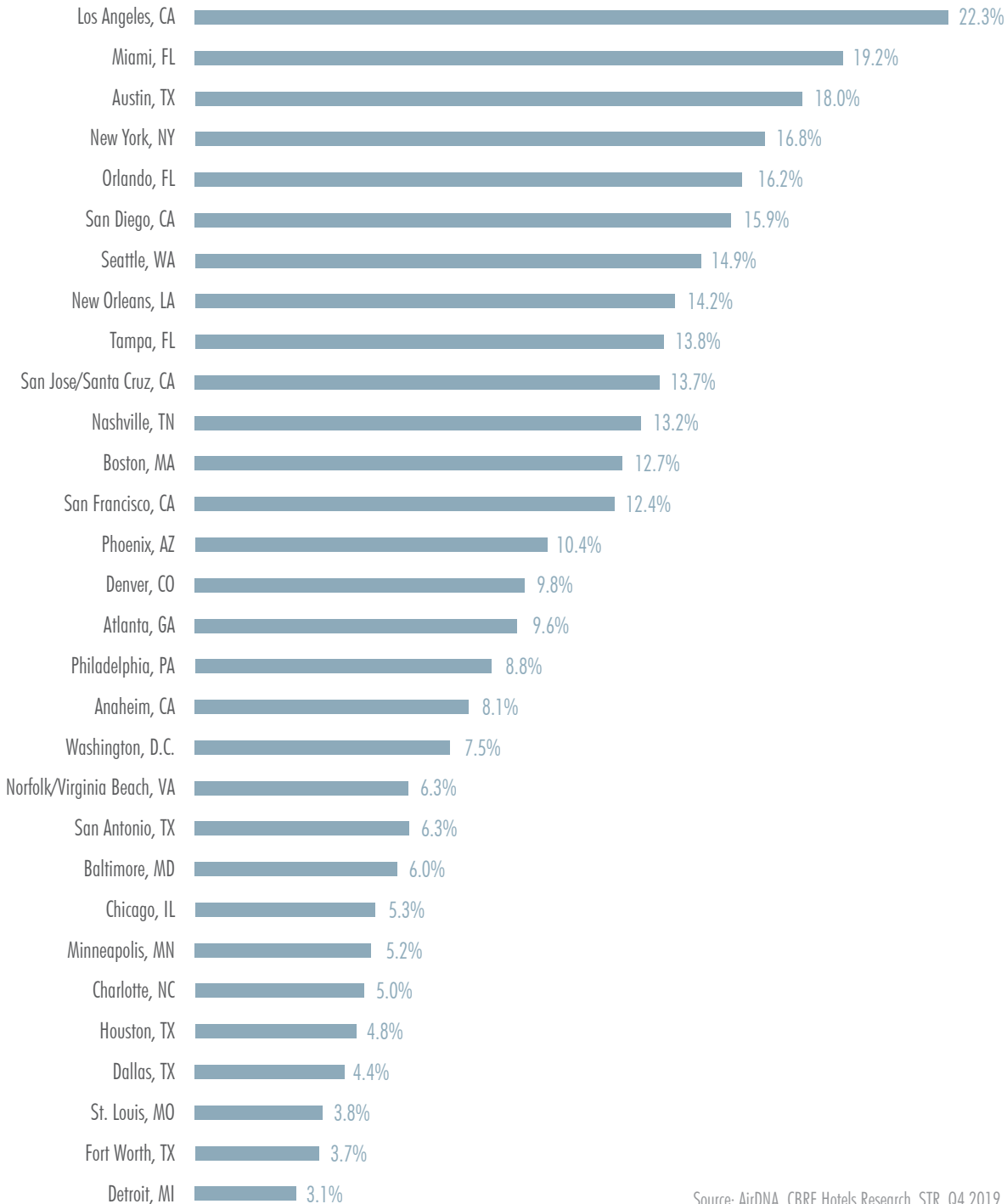
Many markets had flat to declining STR penetration rates in 2019. On average, the 30 largest lodging markets increased their penetration by 1.6% compared with a 2.0% national average.

Five markets had penetration increases of less than 0.5% (New York, Minneapolis, Seattle, Denver and Boston), while New York had a decrease for the first time with a combination of slow gains in units (1.9%) and a very strong supply increase for traditional hotels (3.7%).





FIGURE 6
2019 SHORT-TERM RENTAL UNIT PENETRATION TO HOTEL SUPPLY IN
30 LARGEST HOTEL MARKETS



Source: AirDNA, CBRE Hotels Research, STR, Q4 2019.



MARKETS WITH THE GREATEST SUPPLY OF SHORT-TERM RENTALS

Los Angeles remained the largest market for STR supply in 2019 after overtaking New York in 2018. Los Angeles, New York and Orlando together accounted for about 12% of total STR supply in the U.S. last year.

The expansion in STR supply from Super Bowl LIII propelled Atlanta to the fastest growing market in 2019 with an annualized growth rate of 68%. Total units in Atlanta increased by 113% during the month of the event.

In 2014, the 10 largest markets for STRs in the U.S. were, in order, New York, Los Angeles, San Francisco, Miami, Washington, D.C., Chicago, San Diego, Austin, Boston, Seattle and Portland. These 10 cities represented about 55% of STR supply in the U.S.

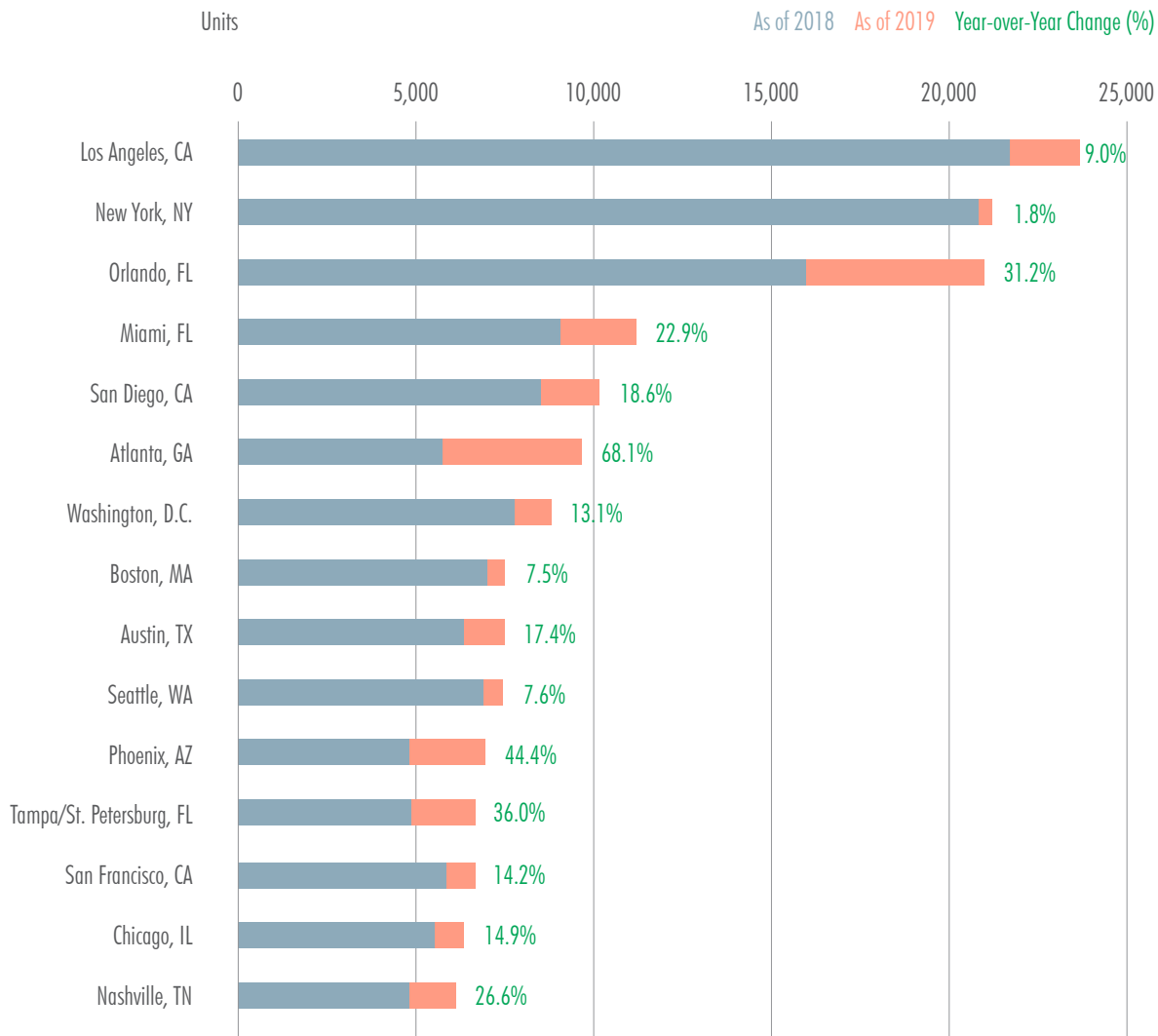
Since then, most of the growth has been outside of these major markets. Today, those same top 10 MSAs make up only about 25% of total supply in the U.S., a decline of 30%. New

regulations have curtailed growth in many of the largest MSAs.

Leisure/destination/resort areas have dominated the list of fastest growing markets over the past five years, which confirms that these platforms are being used more by owners and property managers for vacation rentals. While these units are new to the platforms tracked by AirDNA, they may not be new STR competition, having been rented in other ways by their hosts or property managers.

The availability of STRs allows markets to capture more overnight guest demand than ever before. For example, by adding the average nightly demand for STRs in New York City to its average nightly hotel demand during peak months and then calculating occupancy using only the city's available hotel supply results in an occupancy rate of 104%—well above what traditional hotels alone can accommodate.

FIGURE 7
LARGEST SHORT-TERM RENTAL MARKETS, 2018 & 2019 SUPPLY & YEAR-OVER-YEAR CHANGE



Source: AirDNA, CBRE Hotels Research, Q4 2019.

WHY GUESTS CHOOSE SHORT-TERM RENTALS

Many factors motivate consumers to choose STR accommodations, including local interaction, home-like amenities, more space and/or an unusual experience. Price and location, however, remain the primary motivators.

According to an annual survey of travelers by Morgan Stanley, more than half said that

price is the most important factor for STR use. Indeed, STRs can provide affordable options to tourists visiting cities in which hotels are disproportionately high-priced. Moreover, the typical home or apartment unit offers unique alternative benefits (e.g., kitchen and laundry facilities) and more



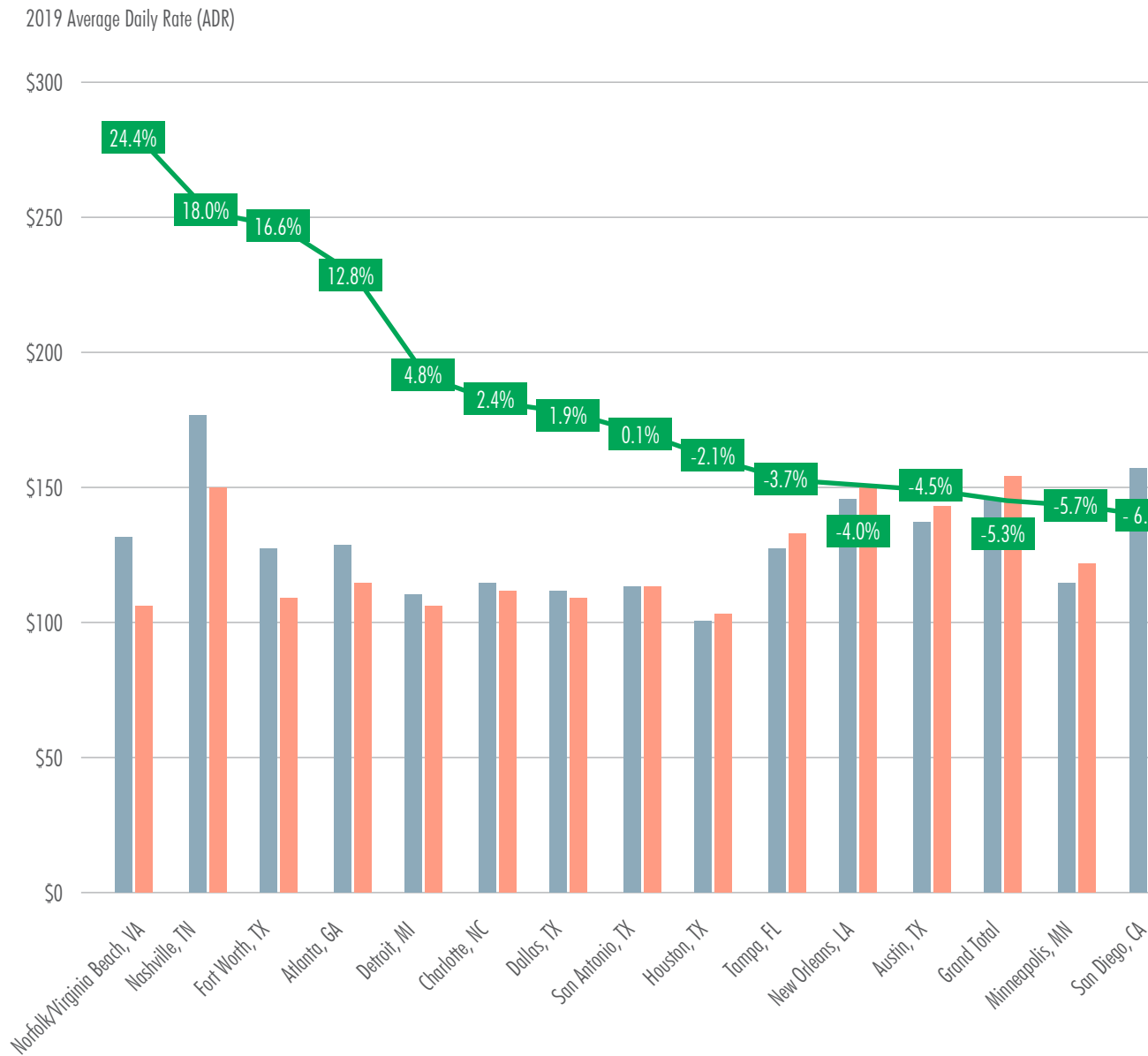
local, authentic destination experiences and intimate social interaction.

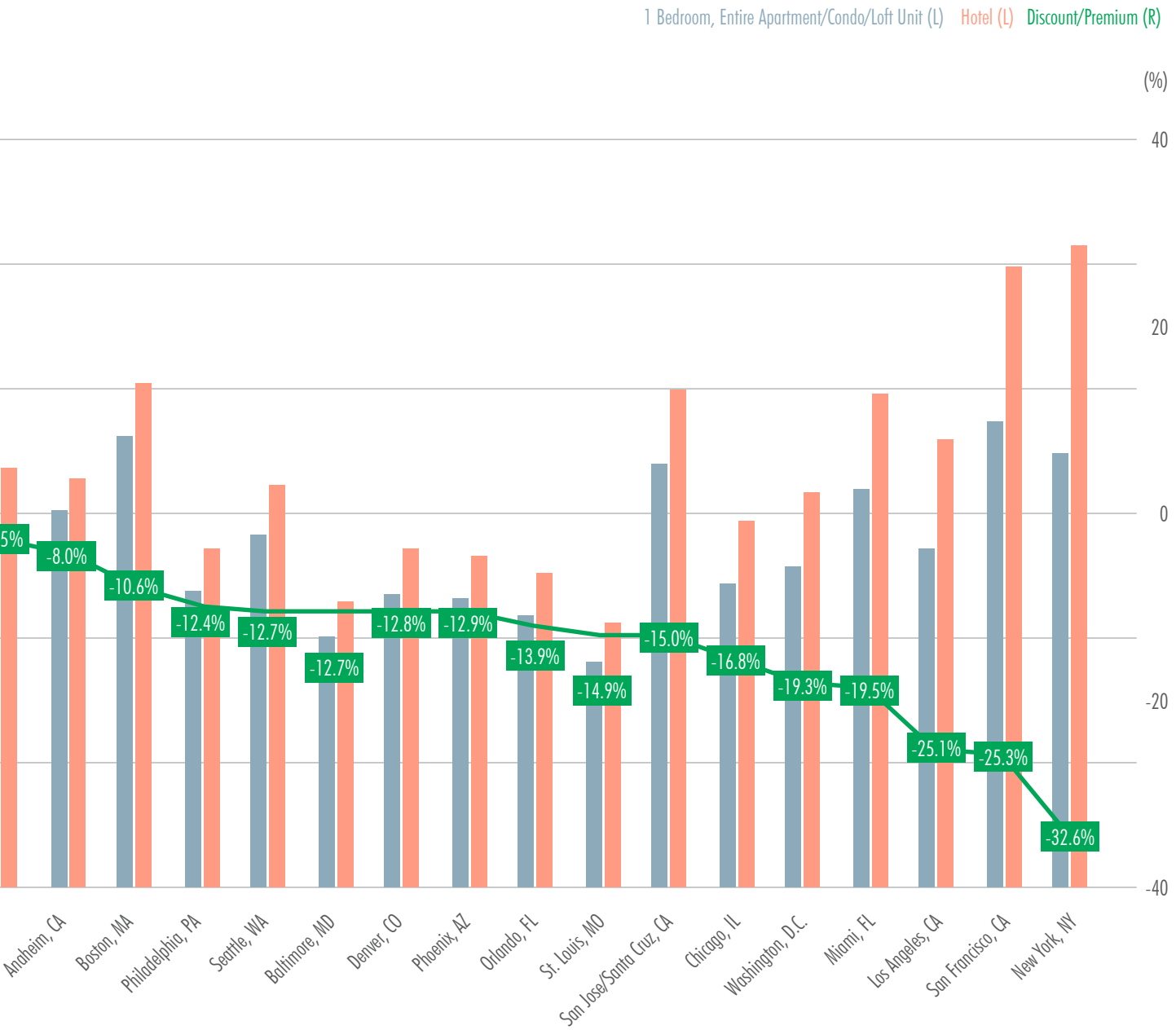
Figure 8 shows the average room rate difference between hotels and STRs. To determine a relatively comparable rate, CBRE filtered the STR units to just one bedroom

or studio units in apartment, condo or loft buildings. On average, STRs offered a discount of about 5% across the 30 markets studied, while in the more urban U.S. cities the discount was as high as 20% to 30%.



FIGURE 8
2019 HOTEL & SHORT-TERM RENTAL ADR COMPARISON BY MARKET
WITH PREMIUM/DISCOUNT





Source: AirDNA, CBRE Hotels Research, STR, Q4 2019.

LOCATION

After price, location generally is the most likely reason travelers choose STRs. One-third of Morgan Stanley survey respondents said that location was the biggest reason for choosing an STR unit.

A CBRE analysis of hotel and STR unit location data shows that more than 35%

of STR properties are located more than a mile from the closest hotel (Figure 9). That increases to 57% for rural locations (small town/metro & interstate).

Combined with record-high hotel occupancy levels, it is understandable why STRs have seen such strong adoption over the past few years.

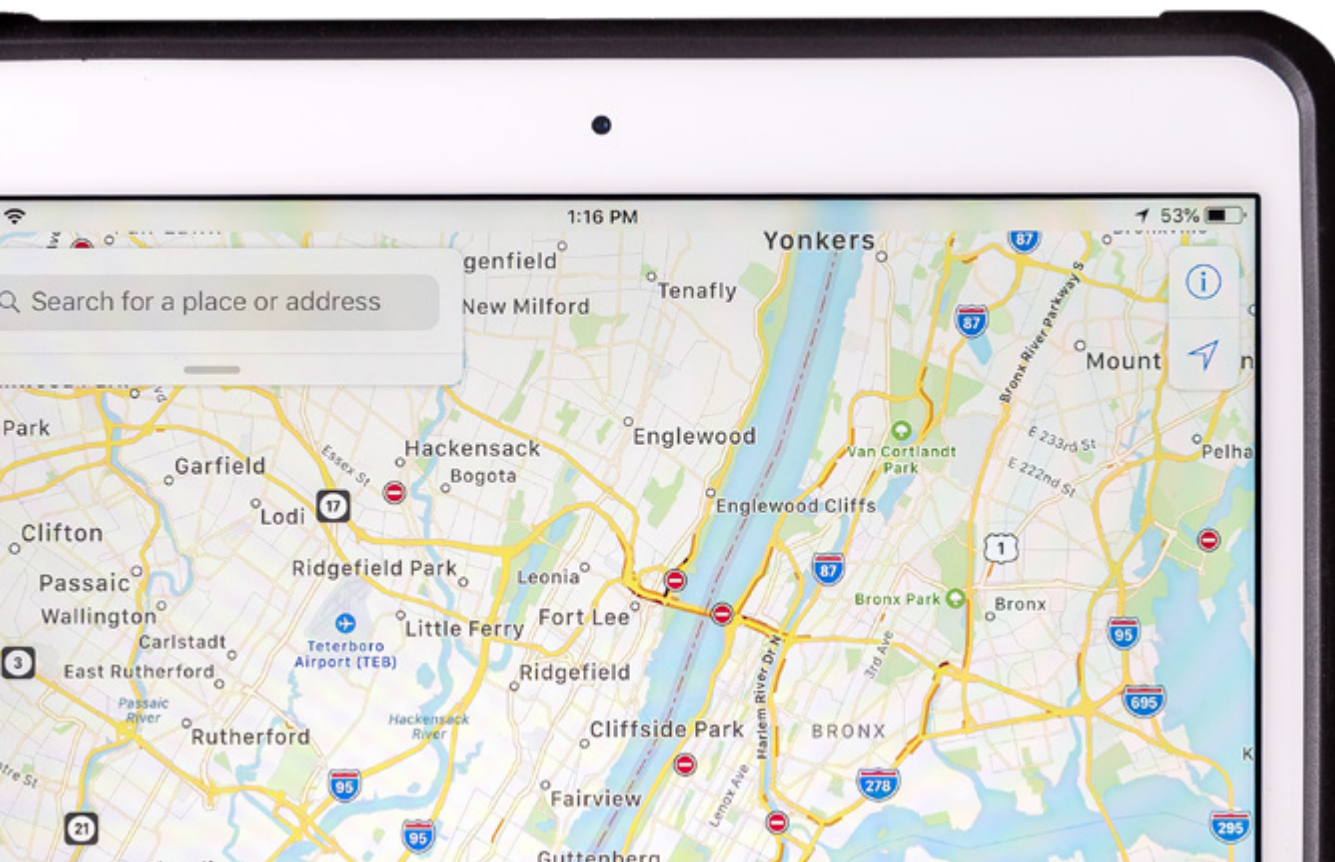
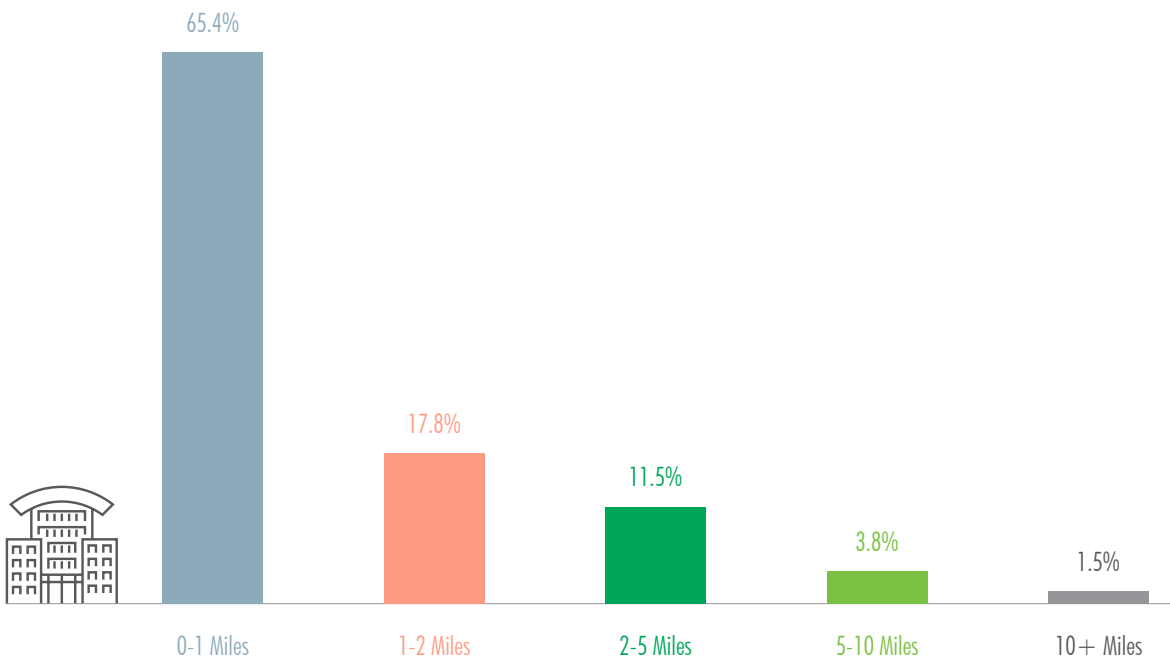


FIGURE 9
PERCENT OF SHORT-TERM RENTAL PROPERTIES LOCATED MORE THAN
1, 2, 5 & 10 MILES FROM CLOSEST HOTEL



Source: AirDNA, CBRE Hotels Research, STR, Q4 2019.

IS ADR GROWTH OVER?

In most markets with high STR supply growth, ADR increases have been below inflationary levels and/or recent historical trends. This is logical given the elasticity of STR supply, which can be delivered during times of demand spikes like peak seasons, fill nights or during major events and then removed afterward. This, in turn, limits the pricing power that traditional hotel operators have historically relied on to optimize rates during these high-compression periods.

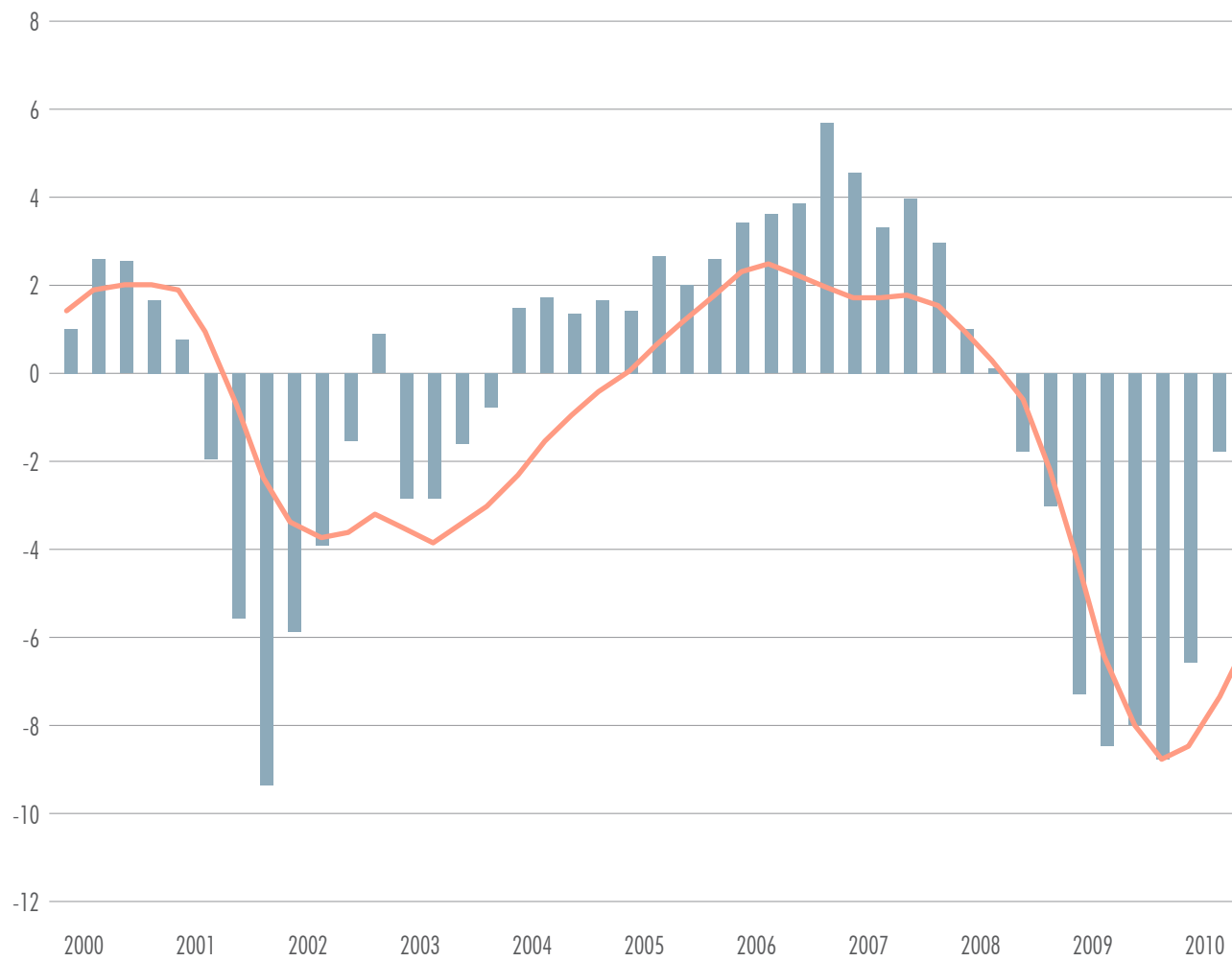
The U.S. traditional hotel industry has not experienced real ADR growth (inflation-adjusted) since 2016 (Figure 10). Real ADRs reached their pre-recession peak in 2015. Despite record hotel occupancy levels since then, the influx of STR units and an expanding supply of traditional hotel rooms has curtailed hotel managers' ability to further raise ADRs.

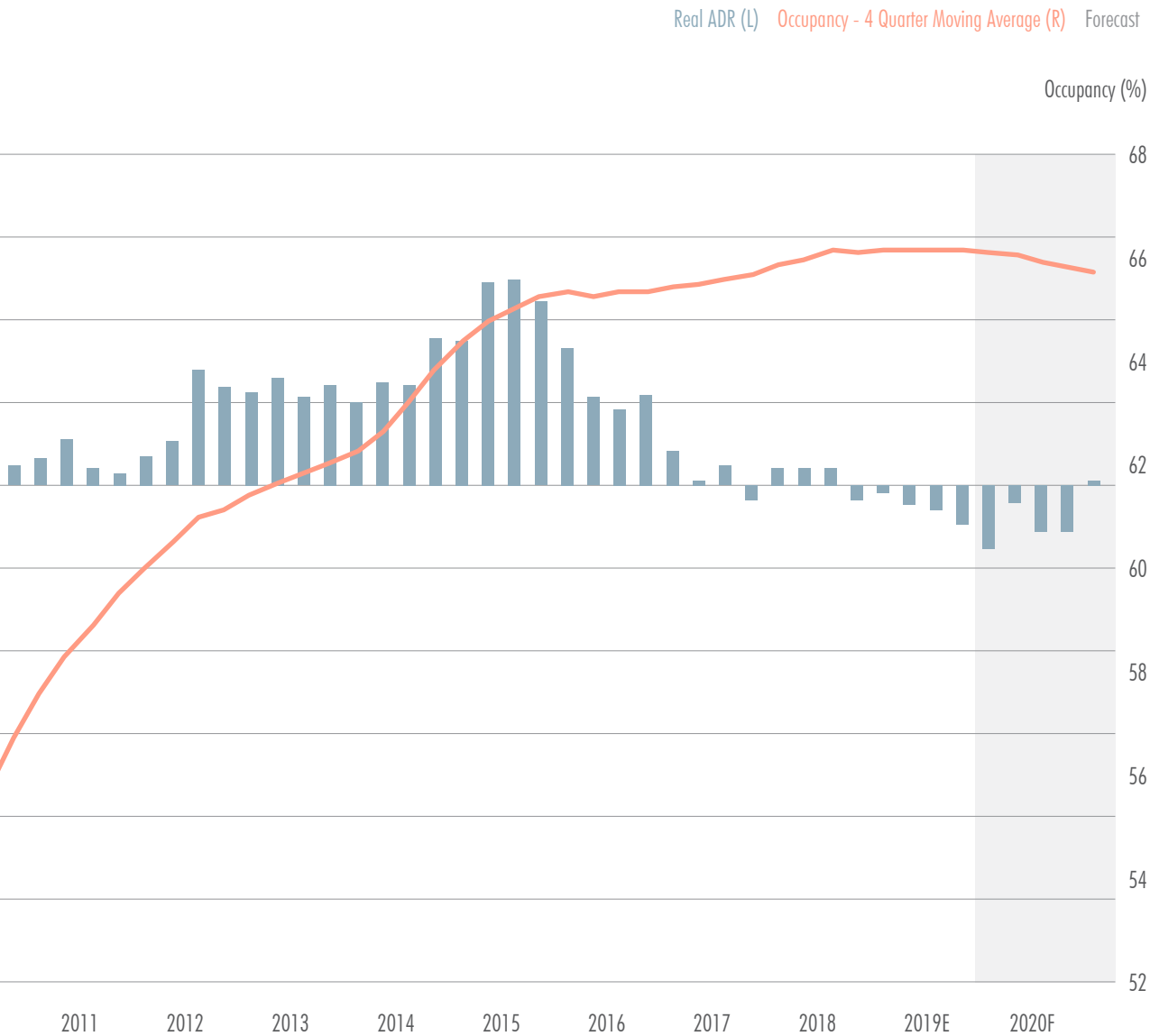




FIGURE 10
REAL ADR CHANGE FOR HOTELS

Y-o-Y Change (%)





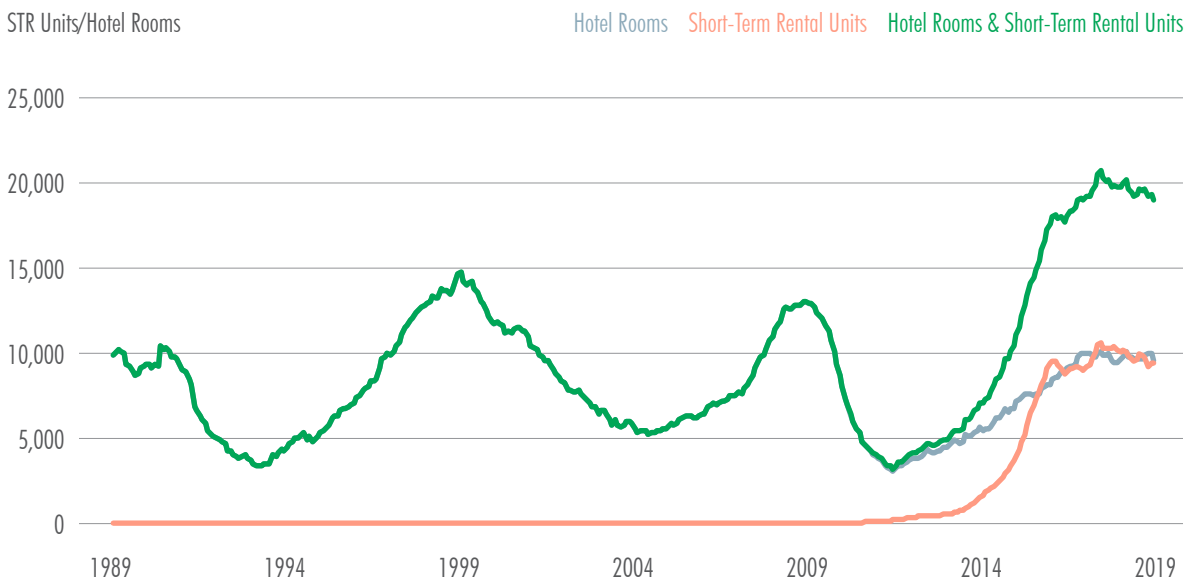
Source: STR, CBRE Hotels Research, Q4 2019.



History clearly reveals that when conditions (driven by strong real ADR growth) make new development attractive again, new supply will come into the market. In the current cycle, however, with the evolution of the sharing economy, additional capacity has come to market much more quickly (and efficiently) than in previous lodging cycles.

As performance across the industry recovered in 2015, so did total supply growth, but this time it was a combination of both traditional and non-traditional units. However, the number of traditional hotel units built has not been at nearly the same level as in past cycles. Taken together, though, new supply has expanded to meet the rising demand for overnight accommodation.

FIGURE 11
AVERAGE MONTHLY NEW UNIT GROWTH FOR HOTEL ROOMS & SHORT-TERM RENTAL UNITS



Source: AirDNA, CBRE Hotels Research, STR, Q4 2019.

QUANTIFYING THE IMPACT

A [study](#) by Bram Gallagher of CBRE Hotels confirms what other researchers (Zervas 2017, Dogru 2019) have shown: New supply both from traditional hotels and STRs has a significant and negative impact on hotel revenue per available room (RevPAR), primarily by impeding management's ability to raise rates at existing hotels.

In analyzing historical supply-and-demand dynamics of hotels, these researchers isolated the impact of rising STR supply on traditional hotel RevPAR and confirmed the anecdotal evidence we have heard from many of our clients.

This research suggests that because of the fluid nature of STR supply, price premiums realized during peak demand periods—both cyclical and seasonal—will remain mitigated over time. Additionally, our analysis shows that declining real ADR levels could be restraining new hotel construction.

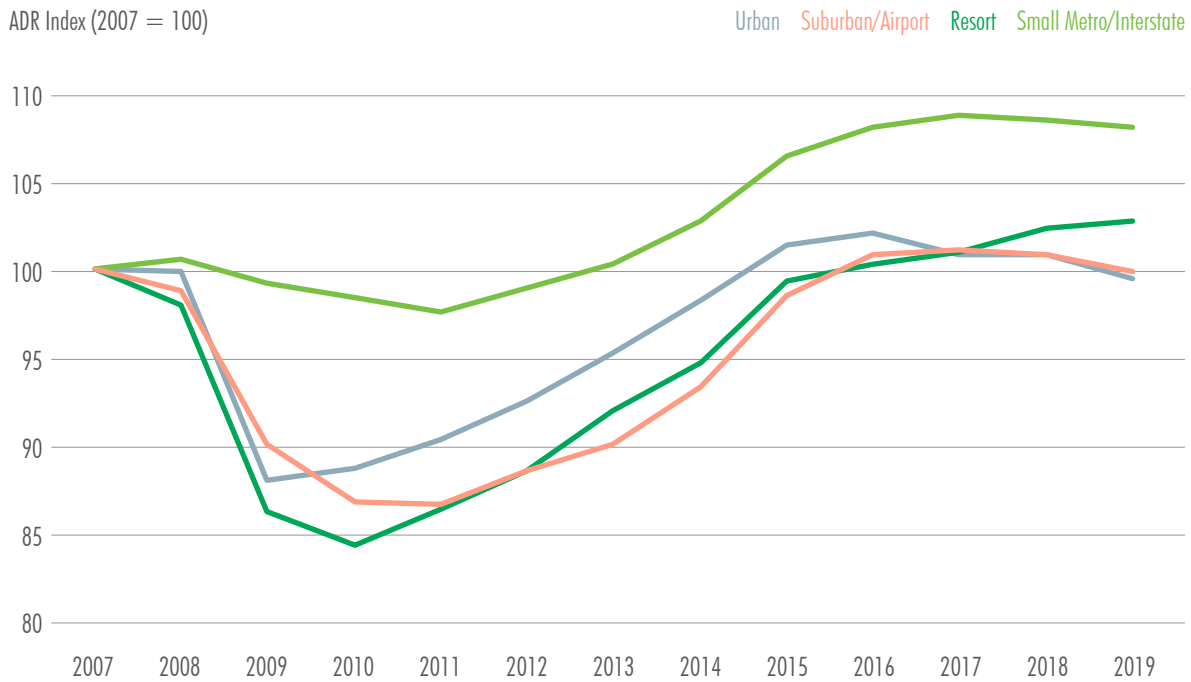
It is difficult to show a direct impact at the metro level as STRs are just one of many factors that are impacting daily hotel performance. In urban/suburban locations, STR units may compete much more directly with hotels, as they are more comparable products and typically offer a significant

price discount. This could be a contributing factor to urban and suburban locations' underperforming hotels since 2016 (Figure 12).

Resort/rural locations, on the other hand, continue to outperform the national average even with high concentrations of STR units. Potential reasons include:


- STRs are more complementary in these locations and don't compete as closely as in the major MSAs.
- There is a more differentiated product (entire home with multiple rooms vs. hotel room) in these areas.
- A higher percentage of home rentals can lead to STRs having higher rental rates than traditional hotels, which negates any potential cost savings.
- A large percentage of STRs (57%) do not have a hotel within one mile of their location.
- Many of these rental properties have been available for decades. The growth in penetration is a result of these units only now making themselves available in the online booking platforms.

FIGURE 12
INDEXED HOTEL REAL ADR GROWTH BY LOCATION TYPE



Source: STR, CBRE Hotels Research, Q4 2019.





In analyzing areas with low vs. high levels of STR penetration, there is no significant difference in hotel management's ability to raise rates. Hotels with a high number of STR units nearby actually are doing better than areas with a lower number of STR units, especially in large MSAs (urban and suburban locations).

This could reasonably be explained by the fact that highly penetrated submarkets are near major demand generators and in areas where hotels are fully occupied during peak periods. There may be a considerable number of guests who would have otherwise stayed outside of the core trade area, or perhaps would not have made the trip at all, but because of STR options are now able to stay closer to their optimally desired location.

In these types of situations, we expect that suburban hotels would be negatively impacted as they no longer benefit from the same level of demand given an increase in STR units in the urban submarkets.

THE NEXT WAVE: BRANDED APARTMENT UNITS

Distinct business models have evolved in recent years across the STR universe, not to mention the large number of companies that

have started to assist these companies on operations, hardware, guest support services, revenue management, pricing, etc.



FIGURE 13
SHORT-TERM RENTAL BUSINESS MODELS

MODELS	ONLINE PLATFORMS	BRANDED STR APARTMENTS	APARTMENT COMMUNITIES	POP-UP HOTELS
DESCRIPTION	An online marketplace where individual properties can be listed as short-term rentals	Allows a property to rent a subset of units to a property manager who then sells the units as short-term rentals	Designed for residents to rent out their units on short-term rental platforms, in which profits are shared with the landlord	Takes a large number of units and runs them as short-term rentals during ramp-up period for new apartment buildings
ADVANTAGES	Property owners can increase their exposure, which can lead to more bookings; allows for an increase in travel and tourism across markets and locations	Increased occupancy, decreased liability to owner, premium rent	Property owners can increase their revenue by collecting monthly rent as well as a commission from STRs; residents are able to reduce their monthly cost by renting their unit	Improved internal rate of return for building owner, reduced absorption risk and increased economic efficiency of property
DISADVANTAGES	Commissions paid to the company, regulations restricting the use of short-term rentals in major cities, issues of safety	Logistics, safety concerns from other building residents	Logistics, safety concerns from other building residents	Short investment period per property for STR management company
EXAMPLES	Airbnb, Vrbo and HomeAway	Sonder, Lyric, Stay Alfred, Domio	Niido, Airbnb friendly buildings	whyHotel

Source: CBRE Hotels Research, Q4 2019.

The progressive rise of professional operators since 2017 is evolving further with the advent of new businesses focused entirely on managing and marketing short-term rental units. This business model can better compete with individual operators in the following ways:

- Consolidating multiple units in the same building, allowing the operator to more efficiently clean and manage multiple units.
- Branding the units, signaling a differentiated, consistent and trusted product and service for consumers.
- Leveraging technology and venture capital to scale quickly and build brand awareness.
- Focusing on purpose-built or converted apartment buildings, which are then converted to STRs.

FIGURE 14
SHORT-TERM RENTAL BRANDED MANAGEMENT COMPANIES

	DOMIO	LYRIC	MINT HOUSE	NIIDO	STAY ALFRED	SONDER	THE GUILD	WHYHOTEL
Year Founded	2016	2014	2017	2016	2011	2012	2016	2017
Location of Headquarters	New York, NY	San Francisco, CA	New York, NY	San Francisco, CA	Spokane, WA	San Francisco, CA	Austin, TX	Washington, D.C.
Number of Markets	12	13	10	2	33	28	6	4
Number of Bookable Units	500	475	400	80	2,500	4,500	535	400
Number of Signed Units*	1,966	-	-	-	-	10,000	800	-
Funding (US\$)	117M	185M	15M	200M	62M	400M	31.5M	34M

Source: CBRE Hotels Research, AirDNA, company websites and press releases, Q4 2019.

*Includes units under contract but not available to rent yet.





Branded apartment business models depend on the pricing arbitrage between monthly apartment rent and nightly STR rates. STRs have benefited from an excess supply of luxury apartments in some markets in recent years and could see further supply made available in the event of a recession or some other impact to demand for apartment/condo space.

Other factors that could impact the hotel/STR supply-and-demand dynamics in a recession:

- **STRs increase their share of available demand.** In the event of a recession, price becomes an even bigger consideration and could cause both leisure and business travelers to shift their choice of lodging toward the more economical option.
- **Hosts remove their units from STR inventory.** Overall hotel ADRs contract significantly enough that STR hosts/operators no longer have a strong revenue incentive to bring their property into the STR marketplace. Evidence shows that hosts add/

remove their units during peak/low seasons based on available demand and the potential to earn revenue.

- **More hosts rent their available units.** If there is a significant amount of job/income loss throughout the country, it creates a strong incentive for people to list their extra bed, room or house on an STR platform. Given a low or non-existent cost basis and the sunk cost nature of their housing unit, hosts may choose to list their space without regard to lower achievable rates, which causes more pressure on hotels to lower their rates to remain competitive.
- **Apartment owners shift supply into the STR market.** In an attempt to make up for lost demand during a recession, apartment owners make more of their units available for nightly bookings either through renting their units directly, signing long-term leases with branded/STR operators or entering into a management agreement with an STR operator to rent vacant units.



STRs' IMPACT ON HOTEL VALUATIONS

Hotel valuation techniques to date have largely entailed analyzing ADR, occupancy (OCC) and RevPAR trends from third-party reports and reviewing pipeline reports and county-sourced data to assess future supply shifts in traditional hotels. It is common among practitioners to ignore the STR market altogether, or not give it adequate consideration in valuation underwriting.

Traditional market forces like shifts in competitive hotel supply, consumer spending patterns, demand generators and non-recurring events are used to explain historical fluctuations in ADR, OCC and RevPAR, and are employed as the basis for critical value assumptions.

With some exceptions, negative impact of new supply is often accounted for on the occupancy side of the equation—a temporary decline until new supply is absorbed and returns to historic norms. Moreover,

beneficiaries of RevPAR upside potential would be considered solely through the lens of a hotel-centric competitive market, without acknowledgement of potential restrictions from lodging alternatives.

While these valuation techniques are sound, they must now be expanded to give due consideration to the impact of the STR market, particularly in locations where supply is sizable enough to influence traditional hotel performance. A minimum cursory review and understanding of the quantity and quality product offerings is warranted in markets where STR supply is low, while markets with more than 10% of STR supply may require more detailed analyses.

Outside research and data presented in this report indicate that primary markets with large urban cores or popular destination markets have experienced the highest level of growth in STRs. Further, STRs are prevalent in

markets with many fill nights that have high occupancy levels and a significant volume of displaced and/or under-accommodated demand. Most of the top STR growth markets, while experiencing negative RevPAR pressures, have not experienced sharp occupancy declines.

New supply from both traditional and alternative units have satisfied much of the demand that had historically been displaced and have induced new demand and broadened the lodging consumer base in the market. However, there is compelling data to suggest the negative impact of STR supply on hotel RevPAR can be meaningful and disproportionately affects ADR growth over occupancy.

The impact on hotel ADR is particularly important as it relates to hotel valuations since

there is a strong relationship between ADR and its flow through to profitability (NOI), and therefore asset value. As such, it is imperative to recognize the nature of historical RevPAR fluctuations in a competitive set and identify the stage of the STR life cycle in order to make informed decisions on forecasts, particularly in markets with 10%+ STR supply. For example, it may be reasonable to forecast temporary, negative real ADR growth in lagging markets that are just now hitting their growth stride.





Conversely, extrapolating weak ADR growth based on recent historical trends in saturated markets where the STR product has already been introduced and largely absorbed could be considered punitive. Further, limited opportunity for hotel operators to optimize rates during peak periods can reduce the probability or prolong the construction of planned new hotel supply that may already be marginally feasible.

Finally, there could be opportunity for hotel operators to capitalize on ancillary revenue sources by providing services like food & beverage, meeting room rentals and daily housekeeping to guests of nearby STR units. In these instances, rate growth and revenue projections and valuations may be underestimated if not properly analyzed.

Many of the largest STR markets have begun to experience significant declines in supply growth over the past two years. It appears that these markets are at or near saturation.

CBRE research indicates that saturation points for the top 30 markets generally range from 10% to 20%, with mature

markets in primary locations at the upper end of the range. Most of the remaining markets are in various stages of the growth life cycle, including some below 10%, but are considered mature markets based on historical growth trends and market characteristics.

For markets at or near saturation, whether the STR supply ceiling is 10% or 20%, we anticipate an easing of downward rate pressure as the new STR supply is absorbed. Moreover, mounting efforts to expand and enforce regulations on STR hosts to level the playing field with traditional hotels likely will suppress future STR growth and may even result in supply reductions in some markets.

Overall, traditional hotel valuation underwriting has forever changed. While the STR market is still very fluid, practitioners are now equipped with enough history and data to provide for better-informed assumptions when developing value opinions. The jury is still out on how modern hotel valuation practices will evolve, but at a minimum it is certain to include a respectful consideration of short-term rentals.

APPENDIX 1 **2019 SHORT-TERM RENTAL PENETRATION TO HOTEL SUPPLY FOR** **TOP 30 LODGING MARKETS**

Rank	Market	Hotel Rooms Supply	Short-Term Rental Units	Supply Penetration	Rank	Market	Hotel Rooms Supply	Short-Term Rental Units	Supply Penetration
1	Los Angeles, CA	105,038	23,413	22.3%	16	Atlanta, GA	100,320	9,583	9.6%
2	Miami, FL	57,787	11,069	19.2%	17	Philadelphia, PA	49,800	4,391	8.8%
3	Austin, TX	41,325	7,422	18.0%	18	Anaheim, CA	57,931	4,674	8.1%
4	New York, NY	124,981	20,972	16.8%	19	Washington, D.C.	115,240	8,691	7.5%
5	Orlando, FL	128,531	20,768	16.2%	20	Norfolk/Virginia Beach, VA	36,633	2,303	6.3%
6	San Diego, CA	63,234	10,044	15.9%	21	San Antonio, TX	47,725	2,987	6.3%
7	Seattle, WA	49,404	7,375	14.9%	22	Baltimore, MD	35,476	2,128	6.0%
8	New Orleans, LA	41,317	5,847	14.2%	23	Chicago, IL	119,033	6,319	5.3%
9	Tampa, FL	47,918	6,617	13.8%	24	Minneapolis, MN	44,432	2,320	5.2%
10	San Jose/Santa Cruz, CA	36,523	4,943	13.5%	25	Charlotte, NC	37,716	1,904	5.0%
11	Nashville, TN	46,015	6,059	13.2%	26	Houston, TX	92,872	4,493	4.8%
12	Boston, MA	58,748	7,441	12.7%	27	Dallas, TX	91,538	4,070	4.4%
13	San Francisco, CA	53,214	6,615	12.4%	28	St. Louis, MO	39,885	1,517	3.8%
14	Phoenix, AZ	66,133	6,882	10.4%	29	Fort Worth, TX	34,523	1,272	3.7%
15	Denver, CO	51,544	5,045	9.8%	30	Detroit, MI	44,471	1,361	3.1%
30 Market Total							1,919,308	208,525	10.9%
U.S. Total							5,308,519	552,773	10.4%

Source: AirDNA, CBRE Hotels Research, STR, Q4 2019.





METHODOLOGY

To determine the number of units available for rent on a given night, we calculate the average available daily supply. We first remove inactive (no booking activity in the past month) and unavailable units (delisted from the booking platform). Next, we subtract nights when a unit may be unavailable for rentals or blocked.

There are many reasons why units may be blocked, including owner use, restrictions on days available for rent and scheduled cleanings, among others. In our measure

of the active available average daily supply, or just supply, the blocked nights are removed from the estimated supply figure by calculating the average daily available supply that only includes units that are either booked or available for booking. To estimate a supply number comparable with traditional hotel data, this is the most relevant metric.

After this further analysis and removing unavailable and inactive listings, the average daily number of units was roughly 566,000 in 2019, up from 35,000 in 2014.

MEASURING SHORT-TERM RENTAL SUPPLY

While measuring the size of the traditional hotel universe has been relatively easy with branded purpose-built properties, commercial licenses and dedicated sales teams, it is much more difficult to assess the size of non-traditional lodging units. This stems from the fact that STR platforms are controlled by just a few companies with limited transparency into their inventory. Adding to the complexity, many units are listed in multiple platforms

and many apartment or condominium units are listed under the same address.

In our review of the available sources to analyze the size and scope of the non-traditional lodging space in the U.S., we have found AirDNA has the most complete data set and longest time series of STR data. It generates estimates of the number of properties, bookings and revenue of STR units.

MEASURES OF STR SUPPLY

Total Units: Total number of units available to rent that month at any previous point in time (usually the past 12 months); matches up most closely with data reported by the listing platforms.

Active Available Average Daily Unit Supply (Supply): Average daily supply (nights available for booking or booked) of units available for rent and active (i.e., with at least one booking in that month).

LOCATION ANALYSIS

To further understand how and where supply is growing, we categorized every U.S. property by location type as determined by hotel data provider STR (formerly known as Smith Travel Research). Each unit was given the location type of the nearest hotel property. This allows for a direct comparison of these two lodging segments (traditional hotels and STRs).

There are six hotel location categories; however, for this analysis, we combined Airport and Suburban as well as Small Metro/Town and Interstate because they cover similar geographic areas and have exhibited similar performance trends over time.

- **Urban:** Densely populated location in a large metropolitan area.
- **Suburban:** Suburbs of metropolitan markets.

- **Airport:** Hotel close to an airport that primarily serves demand from airport related activity.
- **Interstate:** Property close to a major highway with the primary source of business via passerby travel. Hotels located near a major highway in a suburban area have the suburban classification.
- **Resort:** Property in a resort area or market where a significant source of business is derived from leisure/destination travel.
- **Small Metro/Town:** Area with either a smaller population or remote locations with limited services. Size varies by market orientation. Suburban locations do not exist in proximity to these areas.

Source: <https://www.STR.com>

CONTACTS

To learn more about CBRE Research, or to access additional research reports, please visit www.cbre.com/research-and-reports. Additional U.S. Research from CBRE can be found [here](#).

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