

What's the Deal By Daniel Lesser

Daniel Lesser, president and CEO, LW Hospitality Advisors, New York City

Keep your eye on Airbnb

(The views and opinions expressed in this blog are strictly those of the author.)

In a rapidly changing world, particularly with respect to digital technological advances, the lodging sector has often been reactive. The birth of OTAs and Airbnb were initially perceived as nonthreatening by many in the transient lodging sector. As a matter of fact, during the post 9/11 challenges faced by the hotel industry, reliance was placed on OTAs as an inexpensive and streamlined alternative to sell available inventory.

Naively and mistakenly, the lodging sector also locked itself into strict contracts with distribution platforms that were attempting to wrest control of the industry's most precious commodity, namely heads in beds. During this period, OTAs astutely expanded their networks and leveraged formidable web presences to command relatively high commission rates, assign strict rate parity clauses, and leave little room for negotiation with the hotels.

To further complicate the distribution landscape, additional intermediaries rapidly developed, including Google, Facebook, TripAdvisor and Airbnb. However, more recently, direct booking campaigns initiated by the major brands in addition to Marriott International's acquisition of Starwood Hotels & Resorts has resulted in a shift of bargaining power back to the hotels.

The lodging industry has clearly been challenged and impacted during the past decade since the founding of Airbnb has changed how people throughout the world find places to stay away from home. I find it intriguing that when it was founded, Airbnb's home-sharing platform was not a new concept: Vacation Rentals by Owner (VRBO), HomeAway and Craigslist had been in business for more than 20 years.

The Airbnb platform originally allowed guests to choose from an entire home or apartment, a private room or a shared space. Airbnb now includes an additional four categories: vacation home, unique space, B&B and boutique. The last of these, boutique hotels, is particularly interesting for business travelers, as it signals Airbnb's shift from its beginnings as the go-to provider of no-frills places to stay to become a resource for a broader demographic. Airbnb's Business Travel Ready program has lured corporate travelers with accommodations that mirror a hotel stay in relation to experience, cleanliness and dependability.

Airbnb, reportedly valued at more than US\$38 billion, continues to evolve into an end-to-end platform with a goal of servicing consumers 24/7, not just when they are on a journey. Airbnb launched Trips, a service that assists travelers to explore the world outside their rentals by offering more than 800 "Experiences" to book. The company invested in Resy, an upstart online restaurant reservation service rivaling OpenTable. And it reportedly has explored offerings including car rentals, grocery delivery and flight planning.

As it builds its expansion narrative ahead of a much-anticipated IPO, Airbnb is seemingly on a path to burrow deeper into hospitality and property management, evidenced by a recent flurry of mergers and acquisitions activity including the following:

Samara, an experimental product development team at Airbnb is launching Backyard, “an initiative to prototype new ways that homes can be designed, built, and shared”;

The acquisition of Luckey Homes, a French company that provides concierge services/property management services for residences used as short-term rentals;

The acquisition of Gaest, a Danish startup that provides a marketplace-style platform to post and book venues in hourly or daily increments for meetings, workshops, photoshoots and other off-site, work-related events;

An investment in Oyo Hotels & Homes. Oyo is India's largest hospitality company consisting of budget-oriented accommodations offering standardization of services, amenities and in-room experience in more than 18,000 properties with 458,000 fully controlled, leased and franchised rooms in over 500 cities in India, China, Malaysia, Nepal, Indonesia, United Arab Emirates, the Philippines and the U.K.;

The acquisition of HotelTonight, developer of a technological booking application that provides a platform for individual hotels to offer unsold rooms to travelers needing last-minute accommodations in the Americas, Europe and Australia;

Leading a US\$160 million investment in Lyric Hospitality, a startup luxury apartment rental platform. Like WeWork's business model, Lyric rents out floors from well-known multifamily landlords, provides furnishings and maid service, and markets the units to all types of travelers for short- and long-term hotel stays. With only several hundred suites in its portfolio, the platform, while relatively small, is attractive to Airbnb due to its strict regulatory compliance in all municipalities it operates in. Major real estate players Tishman Speyer and RXR Realty are among numerous prominent investors in Lyric.

Although with some success the lodging industry has vigorously lobbied in local and federal circles for stricter regulations governing home sharing/rental services, Airbnb will continue to cannibalize, disrupt and represent a threat to the hotel sector.

Competing with the sharing economy requires continuous re-thinking of the concepts and meanings of brand and experience. The hotel industry has clearly woken up. At this juncture the sector needs to remain vigilant, stay awake and keep smelling the coffee.

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