

How the astonishing growth of Airbnb is changing Vacation Rentals

Insights into Airbnb growth - why it is happening - what you can do about it.

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April 2014

Summary

This eBook examines the rapid expansion of Airbnb and its impact on the Vacation Rental Industry worldwide.

THE AIRBNB GROWTH STORY

- The strange Airbnb market valuation
- There's a new Gorilla in the industry!
- My research shows astonishing growth globally
- Why should we care?
- What is happening in the urban Market?
- The case study that left me stunned!
- Owner experience on the ground
- Has your market shifted?

WHY HAS AIRBNB GROWN?

- What is the Airbnb model? Why is it going viral?
- My "Airbnb 8 Layers of Trust Model"
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- An owner's perspective
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THE FUTURE

- Will Airbnb affect your vacation rental? You better believe it!
- Airbnb influence on pricing.
- Will Airbnb become a mainstream provider?
- Some limitations of the Airbnb model
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- What can holiday rental owners do about this?
- What is your experience with Airbnb?

TOOLKIT TO CHECK YOUR MARKET

- The HRM '5 Step Growth Measurement Method'

The example is from Australia, but the approach for understanding your local market applies worldwide.

THE AIRBNB GROWTH STORY

The strange Airbnb market valuation

Alarms first started ringing in my head in March 2014 when I read a [small item](#) in the business press about Airbnb.

A recent capital raising gave an apparent \$10 billion valuation to Airbnb.

Hmm. Seemed a bit high, no big deal, UNTIL I read the comparison with Homeaway, the big Gorilla already in our industry.

The Airbnb \$10 billion valuation with just 600,000 properties on its books was compared directly with Homeaway's market valuation of just \$4 billion at the time and around 800,000 properties.

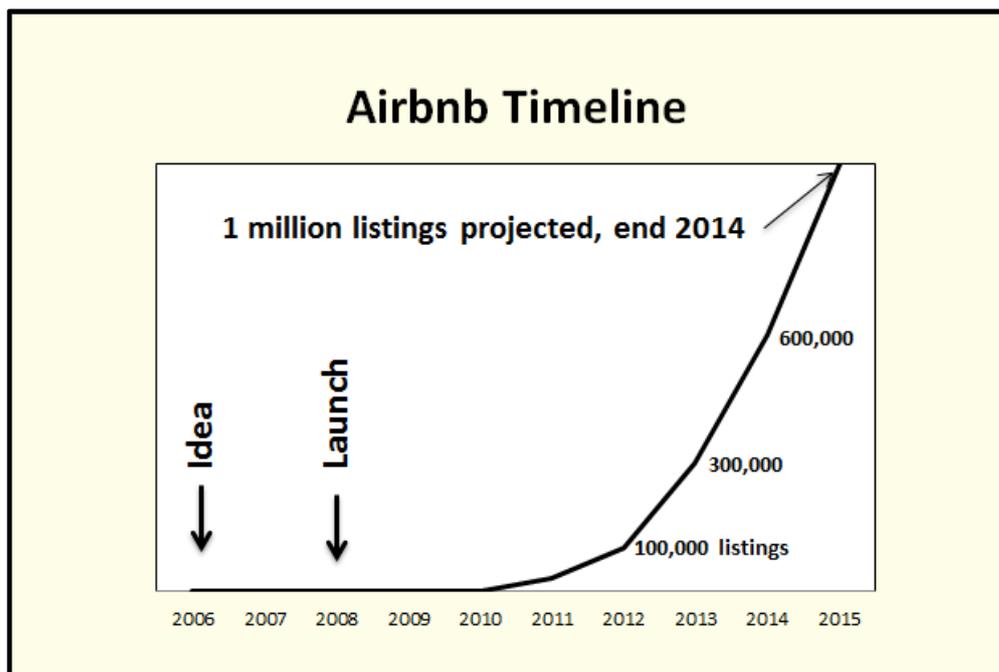
Something was not right here. How could a small new player like Airbnb be valued more than double the well-established and respected Homeaway, when Airbnb had 25% fewer properties on offer?

Perhaps the analysts and investors has had simply got their sums wrong? Maybe, but investors don't throw money at guesses. What were they thinking?

Or maybe we have a *new* Gorilla in our industry.

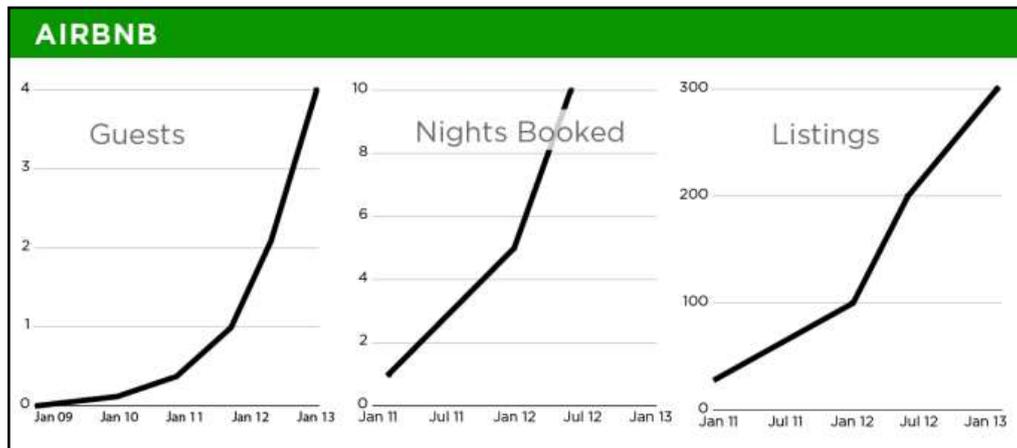
My research shows astonishing growth globally

From a spontaneous rental idea in 2006 in San Francisco, Airbnb started up around 2008 with no listings. It started to grow seriously in 2010, and then has grown **exponentially** over the last three years to 600,000 properties at the end of 2013.



With growth continuing at this pace, Airbnb is targeting [1 million listings](#) by the end of 2014, putting it ahead of Homeaway and far ahead of the largest global HOTEL chain - Intercontinental Hotels Group. Already Airbnb is being used in 190 countries!

Here are earlier Airbnb growth charts, showing Guests, Nights booked and Listings, way back at the start of 2013. It's the classic hockey stick that start-ups dream of.



Source – [Techcrunch](#)

Another surprise factor is that Australia is the [second biggest](#) Airbnb market after the USA. (Australia is only the 12th biggest country in the OECD.) Listings in Australia are growing at 110%, from a relatively small base. Airbnb attributes [the high adoption rate](#) to being global leaders in travel and ahead of the curve in adopting the sharing economy.

Homeaway by comparison started around 2006 and has been skilfully grown through acquisition of other successful vacation rental businesses. That is, it mainly *cannibalises* the market, taking competitors into its own stock of properties.

As a recent example, Homeaway acquired Stayz, the market leader in the Australian holiday rentals in late 2013. Homeaway currently dominates the Australian holiday rental market.

The additional growth of new owners joining Homeaway is significant but small, compared to its growth through acquisition.

On the other hand, Airbnb has grown the **total market** and at an astonishing rate.

Why should we care?

Is Airbnb really relevant to the vacation rental industry? It has been described as a place to rent out a spare room to a traveller and to make a few dollars on the side and perhaps meet a few interesting people along the way.

BUT - It also competes *directly* with complete houses and apartments, the entire fabric of the vacation rental industry.

What is happening in urban Melbourne?

I got a shock awakening when I decided to check my local holiday rental market.

As background, I run [Alto Richmond](#) townhouse in Richmond - an inner suburb of Melbourne, 3 km from the city centre.

During an owner networking dinner early this year several of us remarked on how the Richmond market was a lot slower this year than previous years. Is it just a variation in the market or has the market shifted? This, plus the story of the strange Airbnb valuation, became the trigger for me to check the market.

The Case Study that left me stunned!

I got systematic. I took a grid of 1.7 km by 2.5 km in Richmond Melbourne around my holiday rental property.

I analysed each property listed on Airbnb physically located within the sample grid.

Then I repeated the process for the main competitor website 'Stayz' the Australian subsidiary of Homeaway.

There were 113 listings in total. It took a while.



I found there had been an extraordinary shift in the market in just the last year.

Here are the results from my Airbnb sample:

AIRBNB SAMPLE:

April 2014 – 57 houses/ apartments

April 2013 - 9 houses/ apartments

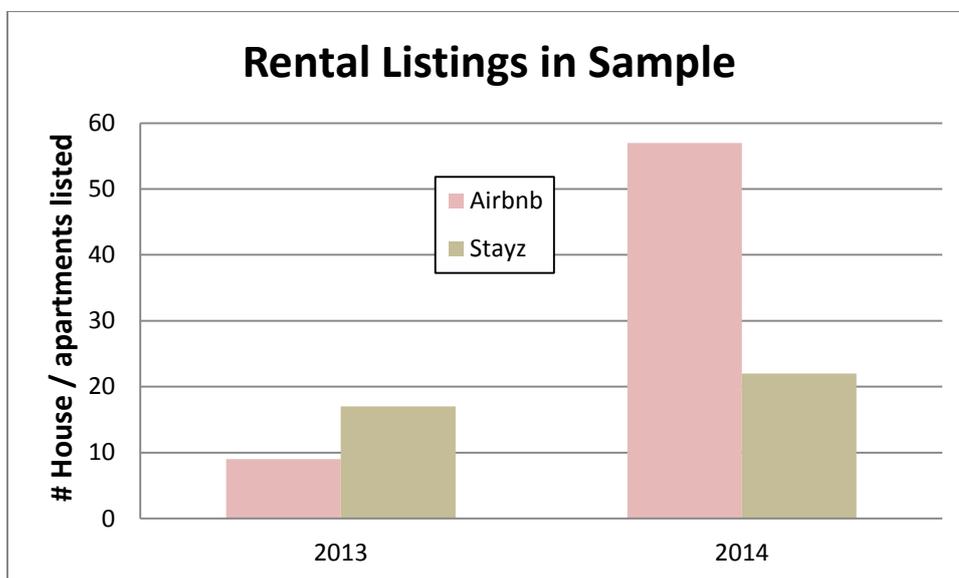
This is game changing growth in Airbnb!

The majority of this growth was in the most recent 6 months!

There were also 34 private rooms listed in 2014, up from 7 in 2013.

In comparison for the same sample grid, there were 22 houses/ apartments listed on the Homeaway owned Stayz site in 2014, up a little from 17 in 2013.

I was stunned. From almost no presence three years ago, Airbnb had exploded! A handful of the listed houses were on both websites, but the majority were new to the market.



The growth in Airbnb is transformational. In 2013, most entire house/ apartment listings were on Stayz. A year later most house/ apartment listings were on Airbnb, and by a large margin.

Staggeringly, most listings were added in the last 6 months!

Owner experience on the ground

I called my friend Gary* a very savvy owner in the Richmond market. He is finding in the last year that over half his bookings are from Airbnb, with well under half the bookings through Stayz. This is a *total reversal* of the situation just a year ago in 2013 when Stayz dominated the market and Airbnb bookings were tiny.

In another snapshot, a friend Judy* runs a holiday rental business in the nearby South Melbourne area - another inner suburb like Richmond. She is doing very well, almost fully booked. She relies totally on Airbnb. She would like to expand to more properties on Airbnb.

In my other market on the Great Ocean Road 3 hours from Melbourne, I run two properties – [Sea Zen](#) and [Treetops](#). Here Airbnb is yet to get a foothold, but it probably will soon. In the nearby holiday township of Lorne, under 5% of properties are listed on Airbnb. In my village of Wye River, it is even less. I used the Toolkit at the end of this eBook to find out!

So with evidence of deep penetration into the urban parts of the Melbourne market, and little penetration in the regional areas, there is opportunity for Airbnb to expand into the regions.

Has your market shifted?

You can use my **5 Step Growth Measurement Method** to find out.

See the **TOOLKIT** at the end of this eBook, where I go through the steps involved.

WHY HAS AIRBNB GROWN?

Is it due to media hype? The fairytale of sharing your room and meeting interesting people has captured the imagination of the popular press and has given Airbnb a free ride to prominence.

But this does not explain why growth has been exponential.

I thought back to a book that changed my thinking like no other, “*The Lean Startup*” by Eric Ries. The aim of any start-up is to test the market and adapt quickly until it gets a viable growth model, preferably viral. If a product wows its users, they tell their friends to try it, and it grows virally.

Right now, Airbnb is growing virally.

What is the Airbnb model? Why is it going viral?

Let’s examine the Airbnb model in a little more depth to understand why it gets recommended.

It is not some amateur way of getting people to cram into spare rooms. In fact it is a highly sophisticated accommodation platform, based on multiple layers of trust.

I have called it the [‘Airbnb 8 Layers of Trust’](#).

The Holiday Rental Mastery “Airbnb 8 Layers of Trust” Model

1 The owner layer.

When the owner lists, he or she has a full identity and even an image. The owner and accommodation are rated by guests, so prospective guests can decide if they trust the product and the owner. This is similar to other models like Homeaway with customer reviews but far more personal. A dishonest owner will not last long.

2 Guest layer.

A guest also has a personal identity and image. The guests are also rated - by the owners. This is a new step. Have you as an owner ever wondered if a guest is secretly planning to have their friends over for a party? What is their track record? Can you as an owner check their history with other owners? No.

But with Airbnb to a large degree you can trust your guest through their record of reviews posted by owners. There is a “virtuous cycle” – owners reward good guests with good reviews, guests reward good owners with good reviews.

3 Photographs

Airbnb also offers to take professional photographs of the property – currently in most countries for free! Another point of trust for the guest. No fake photos. No photo shopping or extreme wide angle lens.

The guest can see exactly what they will get.

4 Fee and revenue model

The owner is charged a flat 3%. The guest is charged a modest 6-12% booking fee. Airbnb gets around 10% compared to about 8% for Stayz and about 12% for larger players like Expedia and Booking.com. Owners can (so far) trust Airbnb to keep fees low - an incentive to keep listing.

5 Enquiry Model

The owner has 24 hours to accept or decline a booking request. Here the guests’ history of ratings is helpful. During the process, Airbnb takes total control of the communication channel. All messages between the parties are done on the Airbnb email system and recorded.

This part of the model is where Airbnb suspends trust and keeps control of the customer communications – until it has the money, and even then it listens in.

6 Payment model

The guest pays Airbnb upfront on booking and the owner is paid 24 hours after the guest arrives. The total price to the guest is transparent, including any cleaning fee and security deposit. Another layer of trust. The guests know payment is secure; the owners know they will get paid.

7 Security deposit

The owner can specify any security deposit amount, which the guest pays in the total fee. After the guest leaves the owner has 24 hours to advise Airbnb on any claim, otherwise Airbnb releases the full amount back to the guest. Another layer of trust. The owner has a security deposit; the guest gets the deposit back quickly or there is a clear process with Airbnb in the middle.

8 Extra security for owners

Airbnb offers a \$0.9 million host guarantee to cover the host for certain damage caused by guests. You need to be a ‘bush lawyer’ to understand the fine print, but the owner does have extra protection.

Yet another layer of trust for the owner.

©Holiday Rental Mastery 8 Layers of Trust

The picture you get from the “8 Layers of Trust” is an excellent assurance of security for both guests and owners.

This trust is a good reason for owners to tell their friends and for guests to tell their friends about their experience - a good underlying driver of viral growth.

The Social Model

But there is yet another model of viral growth cleverly illustrated on the Airbnb website. It is almost a Facebook friends model.

Airbnb explain that when people stay with each other and share accommodation they enjoy the experience and often form friendships and stay in touch. This can be verified by simply reading many of the reviews on the Airbnb website. Also, owners become guests as they travel.

The happy experience is also a recruitment model for new properties, as guests realise for the first time that they can do this too. They list their spare room or their entire house when they get back home. They may live in or they may move out to a friend's place so that they can get a full home rental.

An owner's perspective

I checked with my friend Judy in South Melbourne. What has been her experience operating her rental through Airbnb? This is what she said:

- *"I love it, just love it!"*
- *I have high occupancy, solely through Airbnb*
- *It is a fantastic trust model*
- *At only 3%, the fee is much cheaper to list than competitors*
- *I don't have to collect any money and I have no worries with money at all.*
- *I get great service from Airbnb staff"*

When we spoke, she was just off the phone to a rental owner friend who lives in the Australian state of Queensland. She had bluntly told her friend: "You're mad if you don't list on Airbnb!"
That viral growth just grew a bit more!

Problems for owners with the Airbnb model

A problem for owners is that Airbnb keeps full control of the guest information. The owner needs to be creative and get permission from the guest to get their email address if they want to offer email e-mail marketing for repeat business.

Airbnb's exclusion of telephone calls pre booking precludes my [Fast Response Model](#) of calling guests back extremely quickly after the first contact. You can still respond quickly through the messaging system but it has less impact on the guest than a telephone call.

THE FUTURE

Will Airbnb affect your vacation rental? You better believe it!

Homeaway has [pretended indifference](#) to Airbnb, saying Homeaway targets families and guests who want a dedicated vacation rental, and Airbnb does not do that.

However my research sample in my inner city market described above shows a VERY different reality. About 63% of Airbnb listings are an entire house or apartment, ie direct competitors to the traditional dominant Homeaway/ Stayz model.

The growth in one year from 9 to 57 Airbnb directly competing listings in my sample grid described above is mammoth growth and cannot be ignored.

Some houses and apartments are only rented out when the owner is on holidays, but this is the minority.

With its astonishing growth in listings, Airbnb has gone from irrelevant to dominating a marketplace in just one year. Not only is there a new big Gorilla in the holiday rental market place, it is rampaging!

Airbnb influence on pricing.

I looked at the pricing of Airbnb compared to Stayz for dedicated rentals.

It makes sense that increasing the supply will drive prices down.

The price of Airbnb was 32% lower.

In my sample of houses and apartments, prices for 2 guests were \$149 per night compared to \$219 per night for Stayz, ie 32% less.

[Shared Airbnb rooms were even lower priced - \$94 per night.]

In a slightly different [comparison of 5 USA cities](#) Airbnb averaged 30% cheaper than HOTELS.

If you are an owner in my sample grid offering a place for couples on a budget, all of a sudden those couples can stay in dozens of alternatives provided by Airbnb, from houses to a spare room with ensuite bathroom. Not an entire market at risk, but quite a big slice.

It is inevitable that Airbnb will compete strongly in the budget market as it grows.

Will Airbnb become a mainstream provider?

As Airbnb grows, more *guests* will try it for self-contained houses and apartments and many will like the trust model and the price advantages. The brand will grow from a way of sharing a room to a way of getting reliable accommodation of all kinds in all locations. Including our self-contained vacation rentals.

Similarly many *owners* will find the simplicity and trust model attractive and the growing number of guests will be a compelling reason to list on Airbnb.

As the brand becomes more mainstream, Airbnb is likely to spread from urban areas to the more traditional holiday and vacation areas, purely as an efficient listing and booking model. The model

works for a full time rental and also for a rental for part of the season, a big slice of traditional holiday/ vacation rentals.

Some limitations of the Airbnb model

One problem is that it is expanding so fast, various cities have banned short term stays, and some areas are under pressure from the hotel industry to tax owners using Airbnb and short term accommodation.

For many *guests*, Airbnb will not be attractive. The customer may not want to go to the hassle of getting an Airbnb profile, and they may not want to lose their anonymity with a public image and a public identity.

Also the guest may want to have a telephone discussion with the owner to understand more about the prospective rental. Under the current Airbnb model, customer and owner can only message each other within the closed Airbnb system prior to committing to a reservation.

Similarly the *property owner* may not want to have a public profile.

Even with these limitations, Airbnb is likely to appeal to enough customers to grow dramatically in the market.

My prediction is that Airbnb will dominate the holiday rental industry within 3 years, maybe sooner

What can holiday rental owners do about this?

At [Holiday Rental Mastery](#) we take the view that owners should keep an eye on competition and adapt to meet it.

We also take the view that there are ways that an owner can get exceptional business in most changing markets.

The most important way to do well is to stand out from the crowd with a unique offering with a personality and superior service.

We recommend you list on the top few listing websites for your market and keep your eye on which are the top few as the market changes. In urban areas, you should keep your eye on Airbnb numbers. You may want to be an early adopter and list early to get experience before Airbnb numbers swell. And - if you can't beat them - join them.

We all need to understand Airbnb, this new big hairy Gorilla in the room.

What is your experience with Airbnb?

Tell me about your experience with Airbnb. Do you list with it? How is it working? Are there now more competitors in your market now than a year ago?

Please leave a comment on the [Holiday Rental Mastery website](#).

* some names have been changed for privacy.

About the Author

Rex Brown is the owner of Holiday Rental Mastery, a website that provides information to owners of vacation rentals / holiday rentals who want to maximise rental occupancy.

He lives at Wye River, near Melbourne Australia. He runs two holiday rentals at Wye River on the Great Ocean Road ([Sea Zen](#) , [Treetops](#)) and one in inner Melbourne ([Alto Richmond](#)).

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Further reading

[Airbnb spare room revolution](#) - Melbourne Apr 2014

[Valuation report](#) Mar 2014 (Reprint of NYT story)

[Interview with Airbnb CEO Chesky](#) Feb 2014

[Homeaway on Airbnb and Stayz acquisition](#) Dec 2013

[On Airbnb startup](#) Jun 2013

[Growth in 2012](#) Feb 2013

[Australian Airbnb office opens](#) Nov 2012

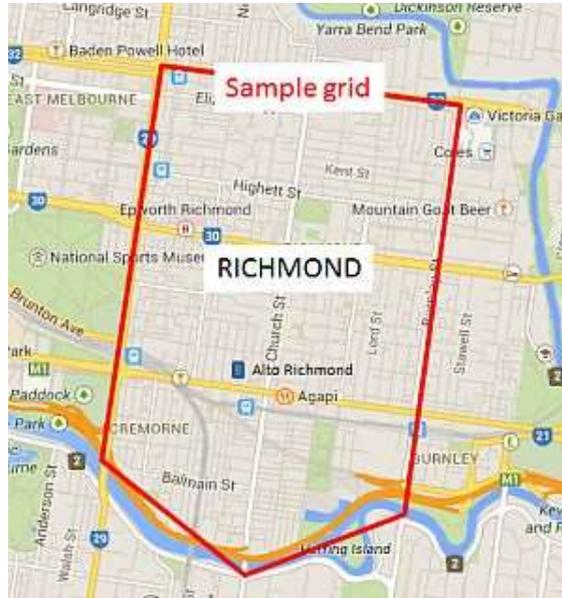
TOOLKIT TO CHECK YOUR MARKET

The Holiday Rental Mastery '5 Step Growth Measurement Method'

You can use this method to check Airbnb growth in your market.

Step 1 – Choose a map grid in your market.

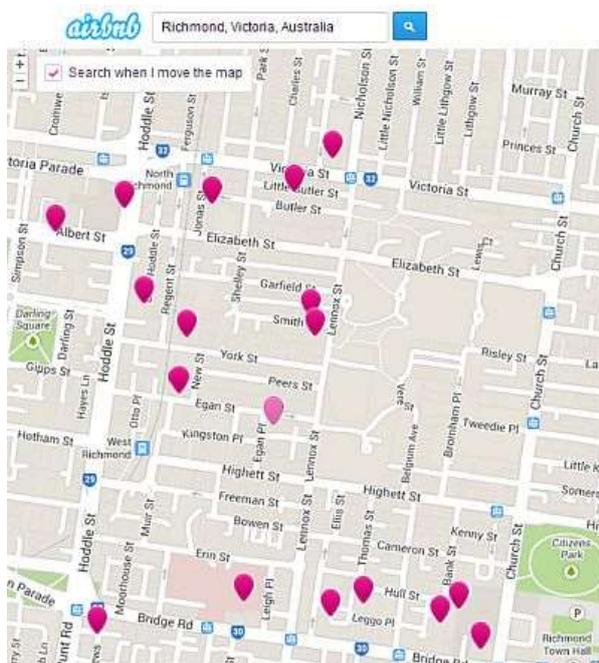
In my case the sample area was 1.7 km x 2.5 km.
Google maps works well.



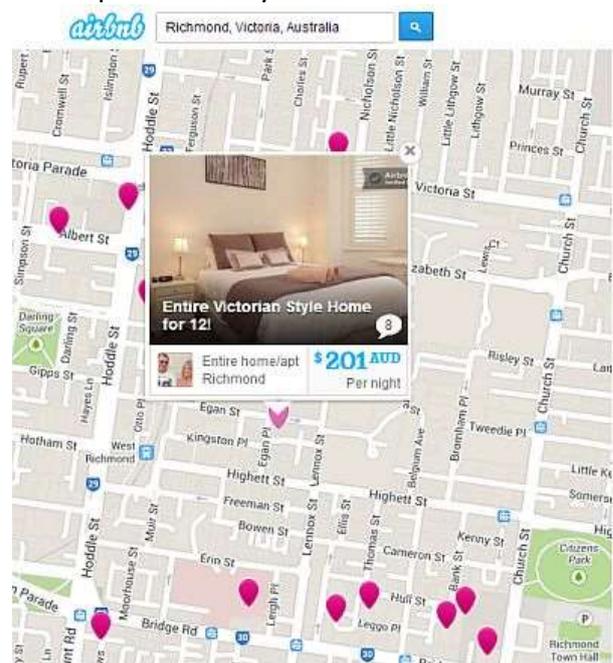
Step 2 Locate the Airbnb properties on its website.

Use the graphical search feature of Airbnb to see the available properties in your sample grid, section by section. You will need to zoom in until no new properties appear.

It will look something like this:



You can then select properties one by one and capture the key information.



Step 3 Record each Airbnb property key details

Click on each property and record the details you want in a spreadsheet eg whether it is an entire house or entire apartment or a private room; the earliest evidence of operating – the first review for the property; the inferred age from the first review; number of rooms and price. You may want to colour code houses and apartments differently. Here is an example.

Airbnb					
Name	Type: Entire House; Ent Apartt; Private room	First review	Age: yrs 1 or less; 2 or less; etc	Sleeps	total \$/n price for 2
Richmond's Very Best Apartment, Stanley Street,	Entire Apart	Feb-14	0.5	4, 2BR	\$150
Sleek Pad, Swan st	Entire Apart	Jan-14, 2 reviews	0.5	3, 2 BR	\$130
Designer warehouse apartment, , Kipling	Entire Apart	Apr 13, 15 Reviews	1	3, 2BR	\$160

Step 4 Repeat steps 2 and 3 for the existing mainstream competitor.

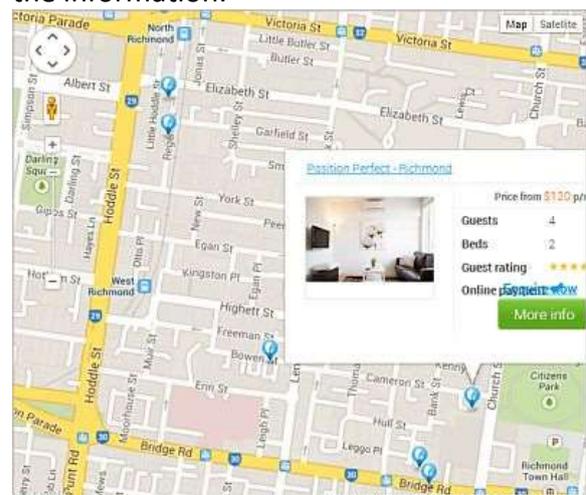
In my case the Homeaway subsidiary in Melbourne **Stayz** has a similar graphical search facility.

Here is the same area as used in step 2, but now showing the Stayz competitor properties.

In this case, the properties are the small blue dots:



In the same way as step 2 with Airbnb, highlight individual properties and capture the information.



Step 5 Compare the listings and calculate the growth.

The current number of listings for each website in the spreadsheet should now show the current situation, 'apples with apples'. ie count the number of entire houses and entire apartments, and exclude the private rooms to give your traditional vacation rental equivalent.

You can find an approximation to the number of properties operating a year ago, by the number who had reviews 12 months ago or older. Do this for Airbnb and the competitor. Here is an example:

	Airbnb	Competitor
# houses/ apartments - NOW	57	22
# houses/ apartments - 12 MTHS AGO	9	17
Growth	48 (530%)	5 (29%)
Average price	\$149	\$219

You can now calculate the approximate the growth from last year to now.

Is Airbnb having a large impact on your market? Now you know for sure!

Which competitor has more local listings? Now you know.

Is there greater competition on price? Now you know!

Notes

1 No recorded reviews can mean a very recent property or a property that is not rented seriously, opposites in terms of growth. You may want to discount such properties. If there are large changes over time, the No Reviews don't really matter.

2 You can drill down into properties that have low review activity. Do they have their calendars blocked out most of the year, except when the owner is away for a few weeks? These are not serious rentals, and you may want to exclude them.

3 You can do a quick initial assessment just by a rough count of the number of listings on the map grid. If there are scores for one listing website and a handful for the other it can be obvious. That is what I did for my regional market sample.