U.S. 2023 Short-Term Rental Outlook

Economic concern is riding high as the year closes, but data shows the vacation rental industry remains stronger than expected in our outlook report for 2023.

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Data shows the vacation rental industry remains stronger than expected despite unfavorable economic outlook.

You can feel it in the air—economic concern is riding high as the year closes, with the consensus of many economic forecasters predicting at least a mild recession in 2023.

But there are a few bright spots, too. Data shows us that the vacation rental industry has more cause to stay optimistic than despair, as travel tailwinds still have the power to overcome economic headwinds. With employment remaining strong and consumer interest increasingly turning to travel, the diverse and often affordable experiences offered by short-term rentals (STRs) will continue to draw crowds in 2023—both on the supply and the demand side.

In short, the performance forecasting isn't quite on par with the stellar and even dramatic results the industry saw in 2021 and 2022. But it's clear 2023 will be a year of mature performance from an industry that recovered more nimbly than conventional lodging and recently reached all-time highs in supply, demand, and total revenue.

2023 Highlights

Demand: Interest in vacation rental stays has exceeded even high expectations, and our current 2022 demand forecast of 21.1% exceeds our summer forecast by about 50 basis points (bps). 2023 will continue along a more mature path, further growing demand by 5.5% year over year.

Supply: Supply growth has since calmed in the face of falling revenue premiums (and after expanding in the first half of the year). We expect the number of active listings to increase by 21% in 2022, in line with our previous forecast. Additionally, the number of nights supplied will increase even more, to 25.3%, as existing and new listings broaden their availability. In 2023, growth for nights listed will be 9%, less than in 2022, as the pinch from lower profit potential is felt.

Occupancy: Strong supply growth will create a second year of declining occupancy—although the 2023 forecast of 56.4% is still significantly higher than pre-pandemic levels.

AirDNA's STR Industry Outlook (Baseline Outlook)

U.S. Short-Term Rental Historical Performance & Forecast (2019 - 2023)

	2019	2020	2021	2022 F	2023 F
Available Listings (Avg.)	1,176,306	1,045,618	1,059,929	1,278,254	1,424,441
Nights Listed, % Change	16.3%	-15.9%	5.7%	25.3%	9.0%
Demand, % Change	19.8%	-16.5%	20.5%	21.1%	5.5%
Occupancy	53.3%	52.9%	60.3%	58.3%	56.4%
Average Daily Rate	$210.94	$231.28	$259.05	$273.53	$278.19
ADR, % Change	1.4%	9.6%	12.0%	5.6%	1.7%
RevPAR	$112.39	$122.25	$156.19	$159.46	$156.98
RevPAR, % Change	4.4%	8.8%	27.8%	2.1%	-1.6%

Source: AirDNA

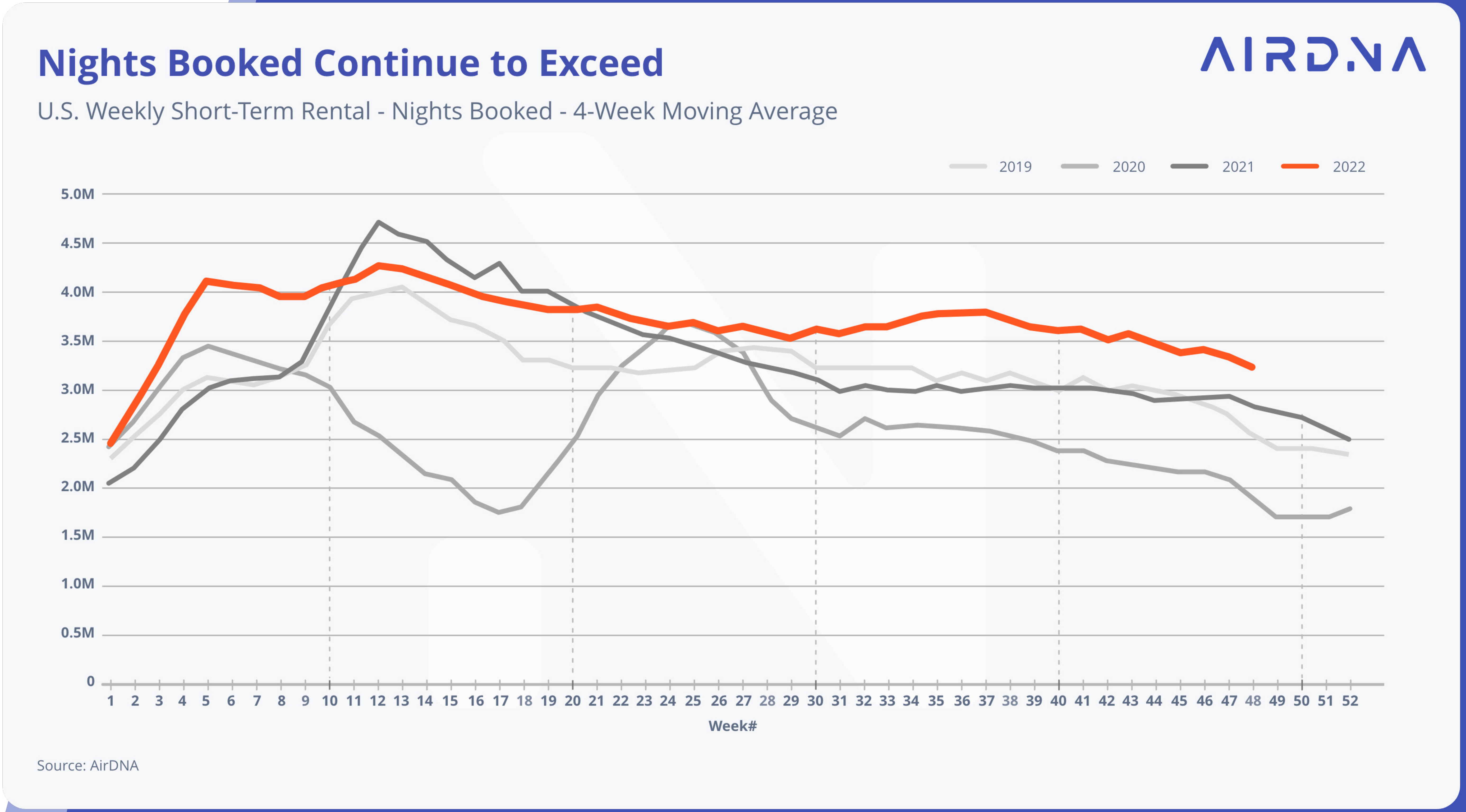
Average Daily Rates (ADRs): Economic pressures and inflation-weary consumers will lead to small ADR gains of 1.7% in 2023.

RevPAR: Small ADR gains won't be enough to offset occupancy losses, and RevPAR will experience a small decrease in 2023 of -1.6%.

Demand in 2023: Steady But Slowed Due to Economic Realities

Demand has maintained a strong pattern of growth throughout 2022. The first three quarters posted 20.9% more nights stayed year over year, pushing the number of nights stayed to the highest level ever recorded. Year-over-year comparisons have also improved each month since June, which tallied 14.8% more nights stayed than in June 2021. By October, this comparison rose to 21.3%, suggesting that future demand growth may temper the exceptional seasonal demand variation seen in 2021.

In total, we expect demand to increase 21.1% for the year of 2022. The maturing market recovery and economic headwinds will slow year-over-year growth in 2023 to 5.5%, about a quarter of its current level and roughly in line with our previous forecast. Current booking pace is slowing with the normal seasonal trend, too, but also is still well above 2021 levels. The booking pace saw the largest gain over 2021 in September and has since narrowed the gap.



Supply in 2023: More Growth, But Less Aggressive Growth

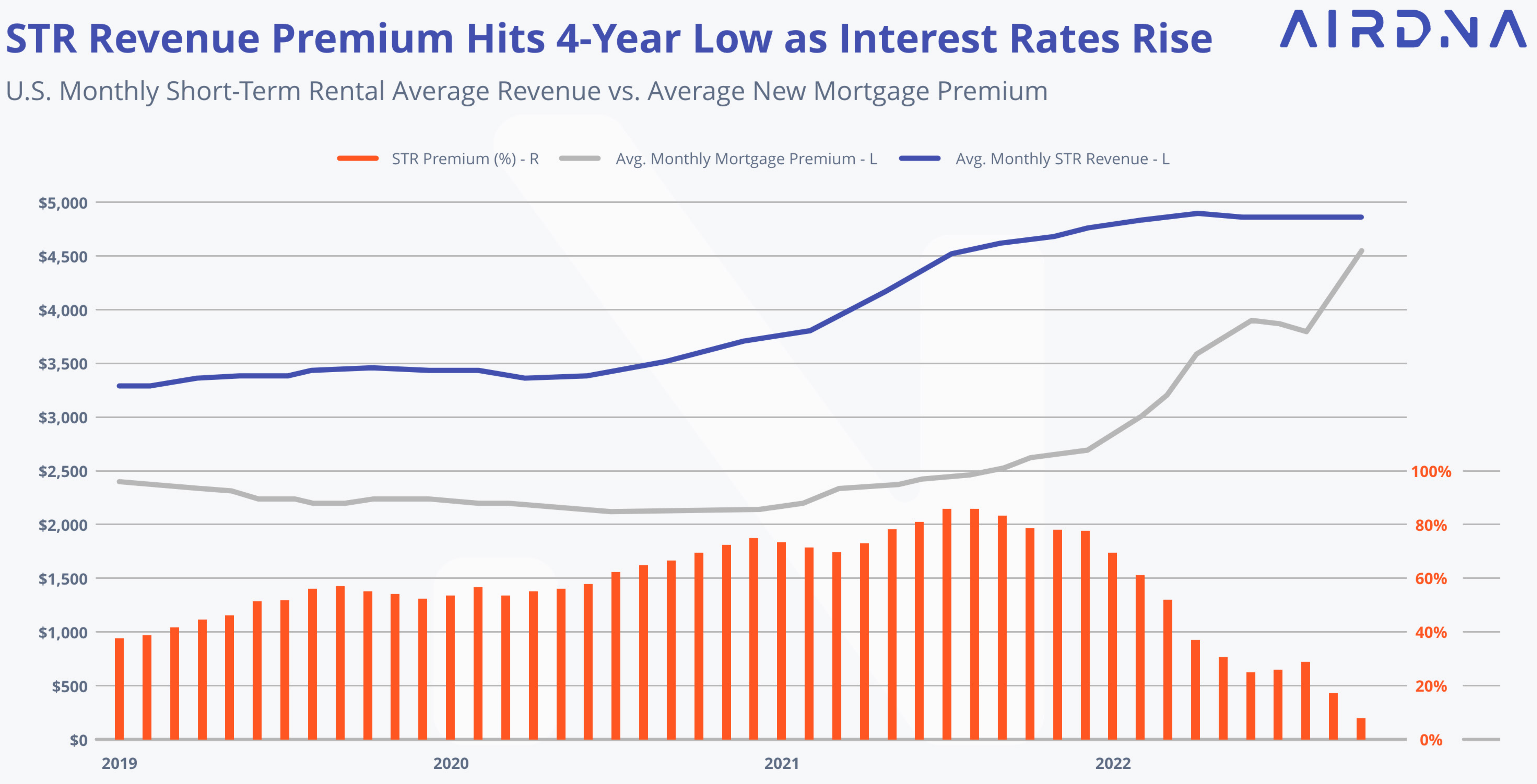
2021 saw a record premium between STR revenue and new mortgage payments, inspiring a large number of new listings to come online the following year. Eventually, by Q3 2022, this trend supercharged supply by nearly +25% year over year.

In more recent months, the U.S. Federal Reserve has triggered aggressive rate hikes. This translated into higher mortgage rates in concert with high housing prices, nearly erasing the premium and leaving the smallest gap between rental revenue and new mortgage payments since well before the pandemic. In a similar fashion, this reduced premium should slow the development of new supply throughout 2023.

On a positive note, there is some relief on the way for vacation rental investors and home buyers. While the average purchase price of a home increased 16.8% in 2021 and will increase 14.3% in 2022, prices will increase by only 2.28% in

STR Revenue Premium Hits 4-Year Low as Interest Rates Rise

U.S. Monthly Short-Term Rental Average Revenue vs. Average New Mortgage Premium



Source: AirDNA

2023, according to Oxford Economics. The Fannie Mae Housing Price Index forecast, which uses repeat sales to control for the types of houses sold in a given period, forecasts home prices declining -1.5% in 2023 after growing 9% in 2022. The average 30-year fixed rate mortgage is also expected to decline from 6.8% in Q4 2022 to 5.9% by the end of 2023, according to Oxford (based on expectations of a more measured rate increase schedule from the Fed).

The Fed has signaled it will slow hikes into 2023, and most economists predict lower housing prices as well. But current trends will still significantly slow STR supply. However, supply growth will not completely collapse. A side effect of slowing economic conditions and uncertainty about the future of the housing market may be incentives that push supply upward.

New Listing Activity Remains Elevated

U.S. Monthly New Short-Term Rental Listings - 3-Month Moving Average

Source: AirDNA

U.S. Short-Term Rental Supply Hits Record Levels in 2022

U.S. Monthly Available Short-Term Rental Listings

Source: AirDNA

Increases in interest rates and mortgage payments have clearly driven a wedge between buyers' and sellers' prices. The Fannie Mae forecast predicts that total home sales will drop -22% in 2023 after a drop of -17.7% in 2022.

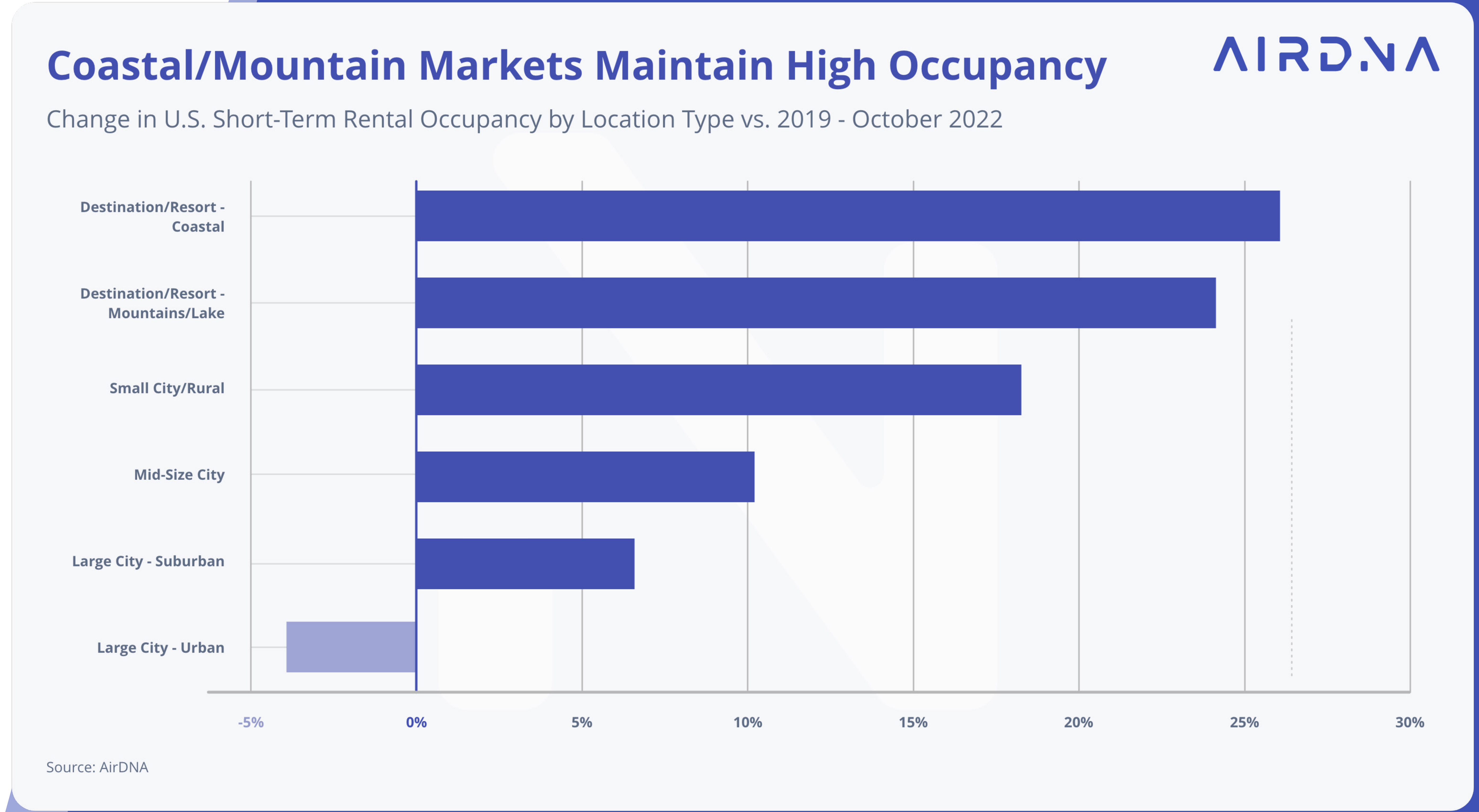
In order to maximize a property's value while waiting for economic tides to change, homeowners (particularly owners of second homes) may resort to short-term renting. Zillow's most recent report forecasts a surge in first-time landlords, due to surging rental rates and the number of investment properties that were financed at record-low rates.

For our part, AirDNA predicts that listings will increase 9% in 2023.

Occupancy in 2023: Down Year Over Year, Up vs. Pre-Pandemic

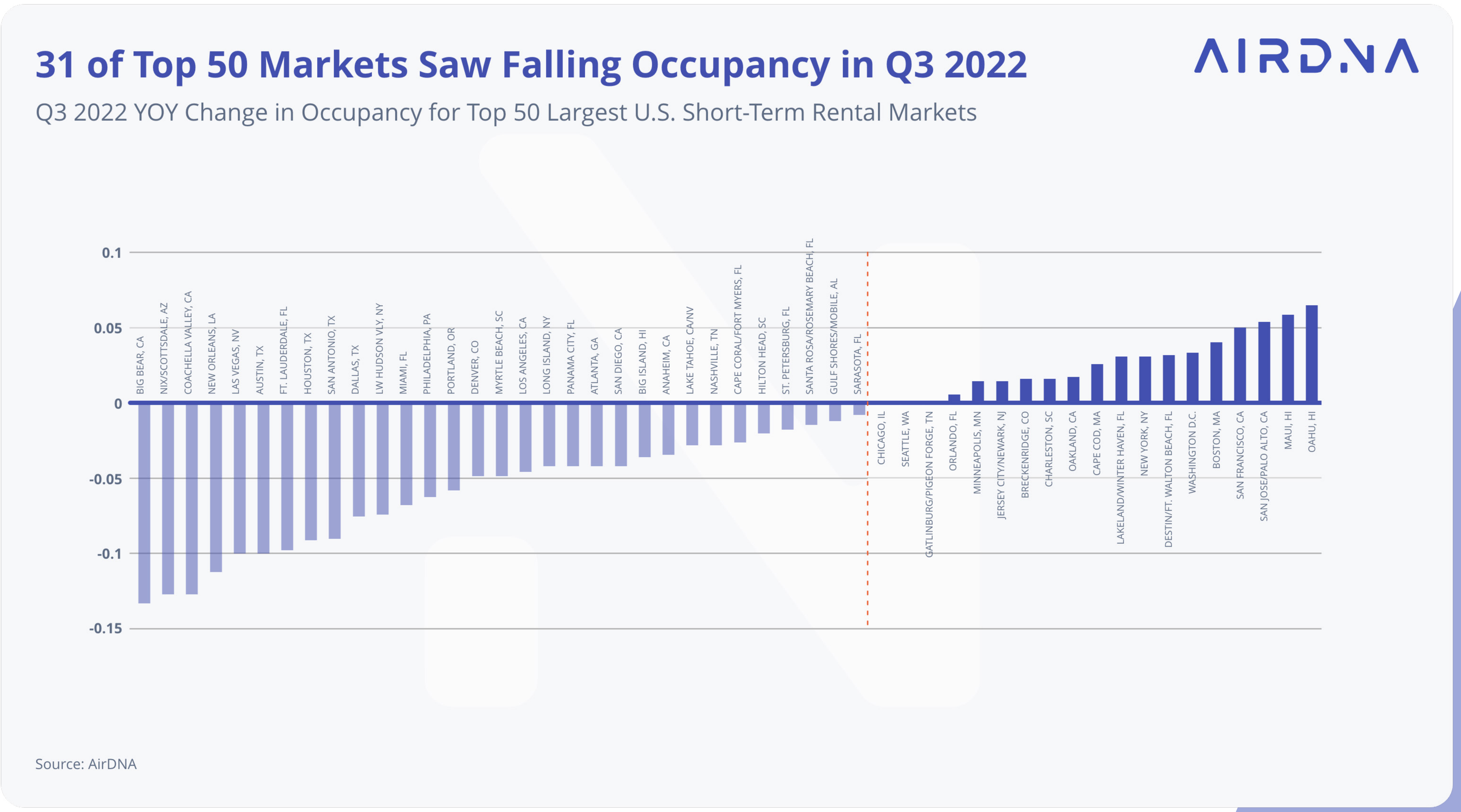
Even as STR demand reached all-time highs, supply surges inspired the so-called #Airbnbust debate as occupancies declined in the majority of the top-50 U.S. markets. The broader context behind this fall in occupancy goes back to the unprecedented explosion of STR demand that occurred in 2021 (along with supply that has been unable to keep pace). Due to unprecedented world events, STR occupancy reached an all-time high in 2021. Suffice it to say: This feat is unlikely to be repeated. Even with the large increases in listings seen at the beginning of 2022, overall occupancy still remains materially higher than pre-pandemic levels. We forecast that occupancy will drop again in 2023, to 56.4%, but still remain higher than pre-pandemic levels.

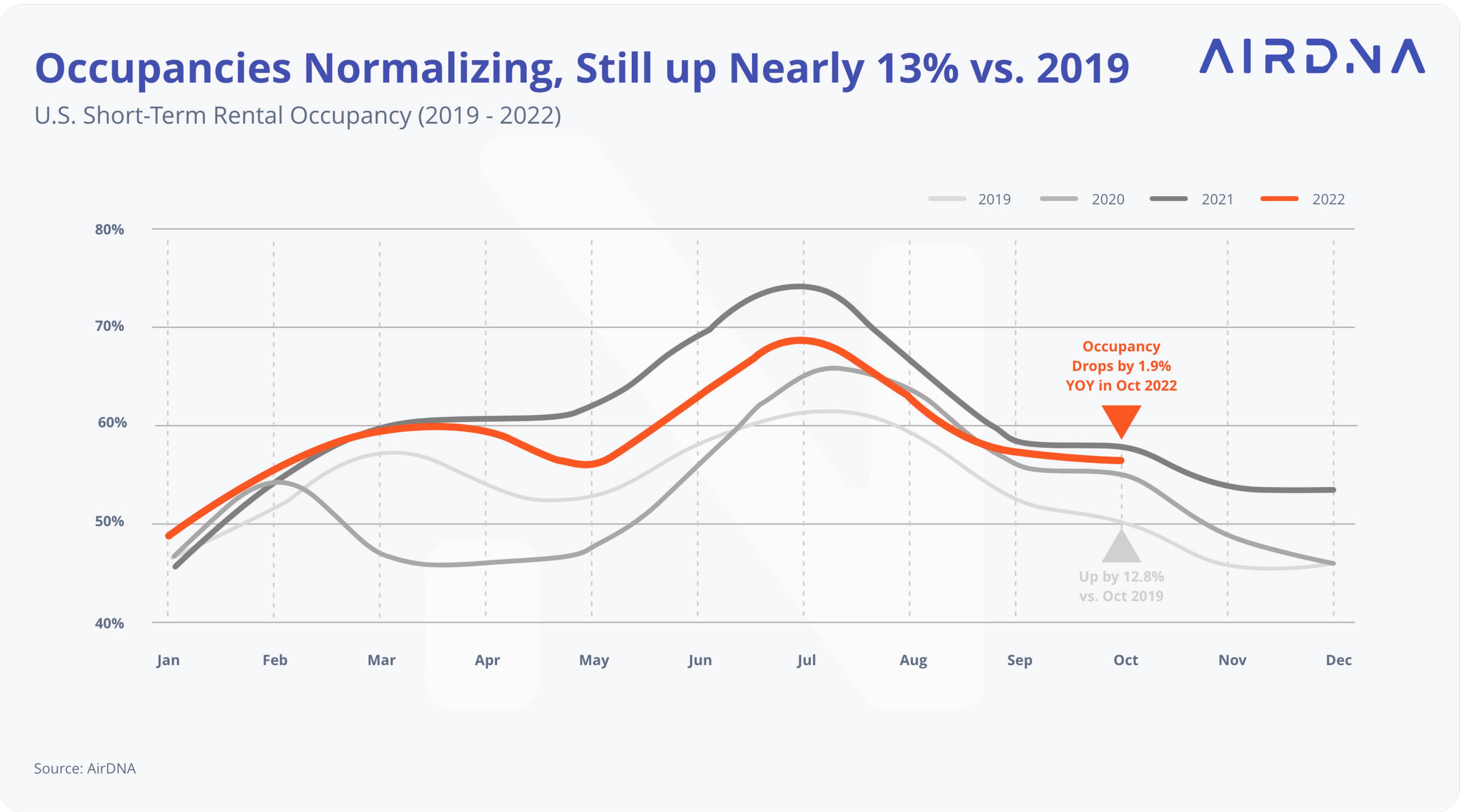
The 2023 drop in occupancy is expected to be felt most acutely in areas where occupancy is currently strongest, particularly coastal and mountain resorts. This is a general

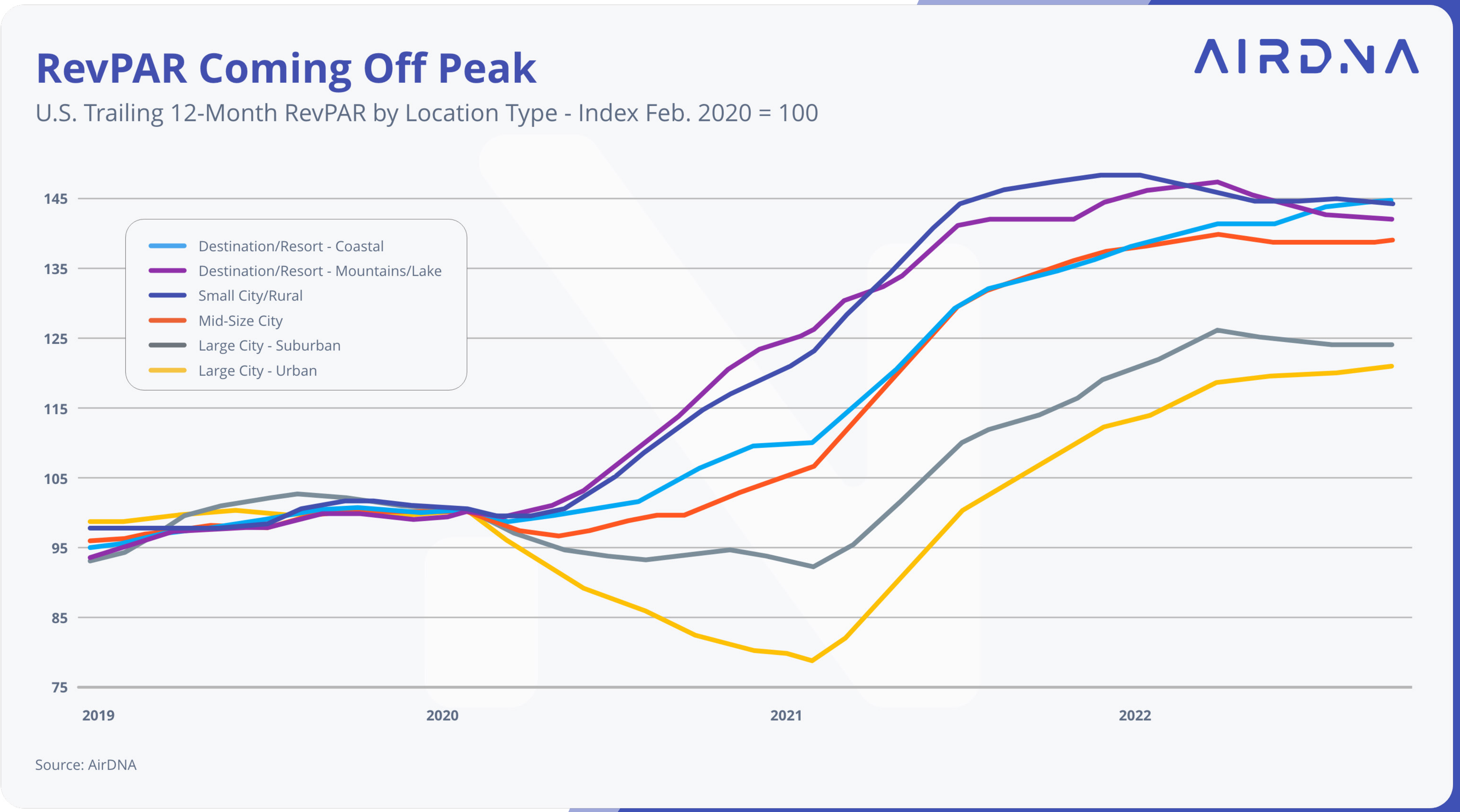


observation, as areas with constrained supply, often due to short-term rental regulations—such as Hawaii's Maui and Oahu—have experienced increases in occupancy that may well continue in 2023. Meanwhile, large cities such as New York and Boston have seen increases in occupancy as well.

The pent-up demand seen in 2021 ultimately exaggerated seasonality trends versus historical norms. 2022, on the other hand, has somewhat reversed course, with demand gains slightly favoring the shoulder months. We expect this trend to continue in 2023 as travelers seek value in less busy seasons.







ADR and RevPAR in 2023: Little to No Change

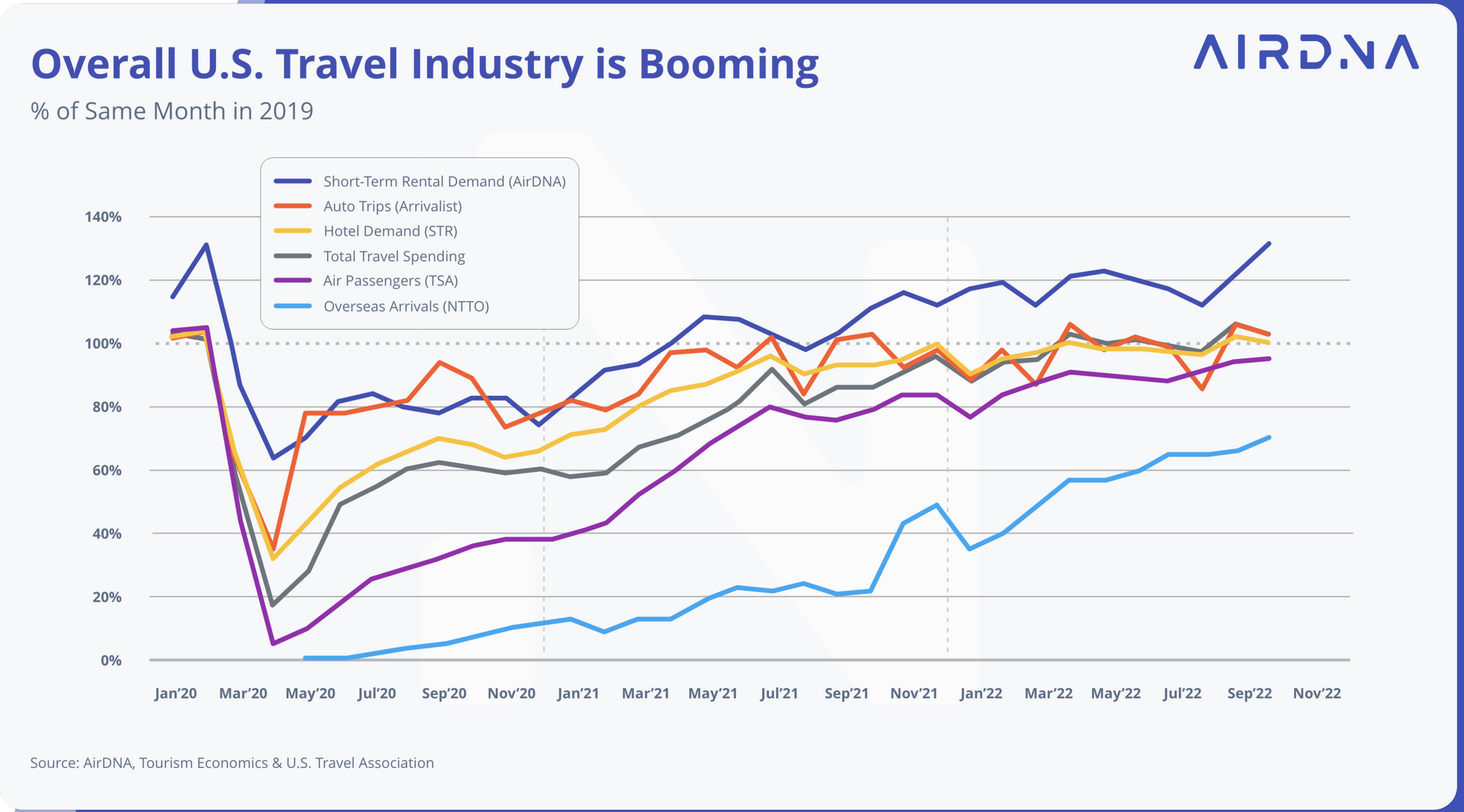
Although occupancy declined throughout most of 2022, inflationary pressure from higher costs will still push ADRs 5.6% higher year over year. This, unfortunately, represents a loss in real rate, as inflation will be about 7.6% over the same period (as measured by change in Consumer Price Index). We expect a similar trend of increasing rates but decreasing real rate in 2023, as inflation slows to about 3.6% and ADR growth slows to 1.7%.

Overall RevPAR is expected to shrink because the small increase in ADRs will not be enough to offset the decline in occupancy. This will be felt most strongly in resort locations and small cities, where occupancies have already begun to slip from their peak. Other city locations, experiencing a lagged recovery to pre-pandemic performance, may see small RevPAR gains, too.

Economic Conditions in 2023: Finding Opportunities in Uncertain Times

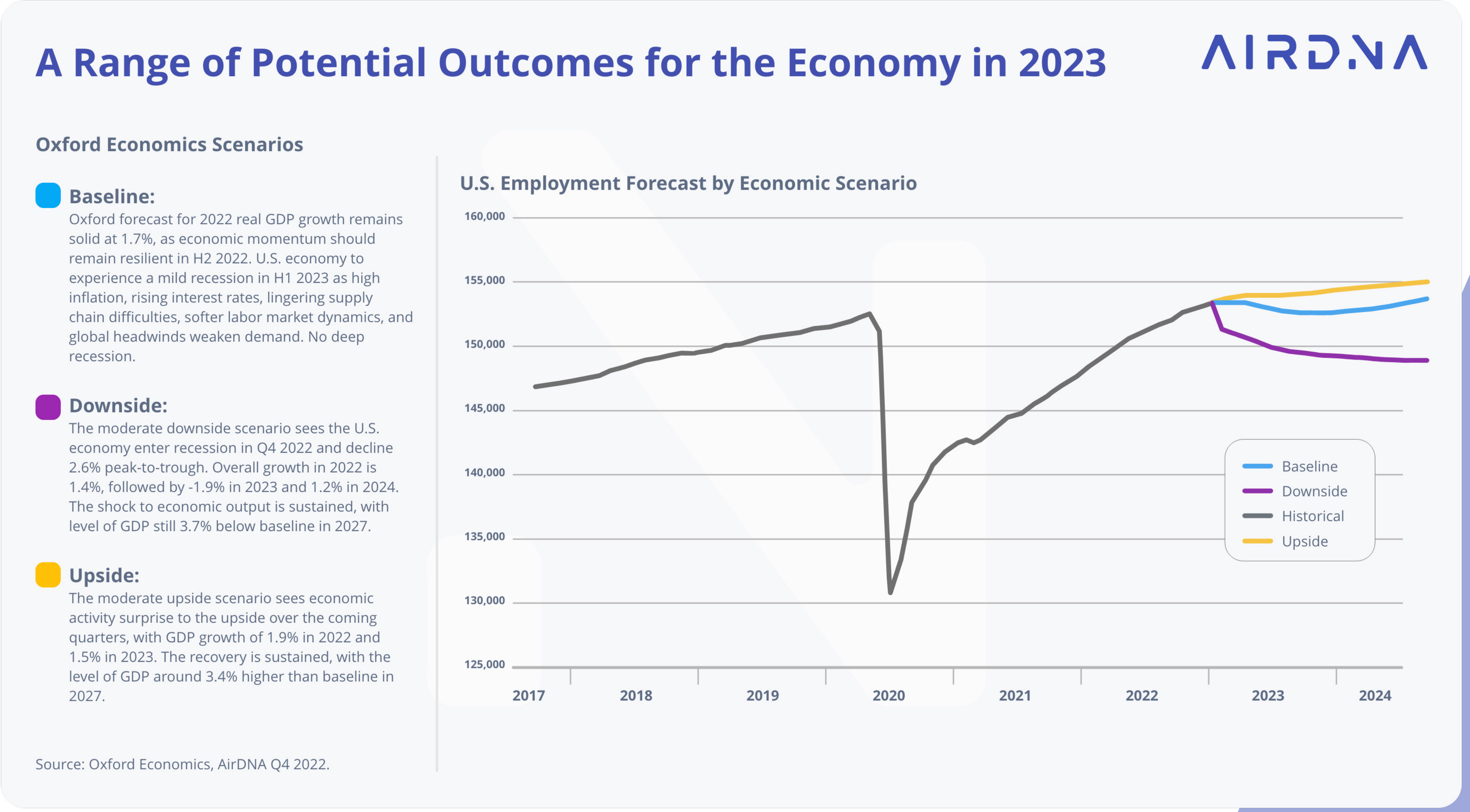
Although much of today's economic talk revolves around the possibility of imminent recession, the outlook for the STR market remains full of potential. Simply put: Consumers will continue to prioritize travel. Compared to one year ago, almost all travel indicators have shown consistent improvement, from travel spending to overseas arrivals. Both STR and hotel stays have noticeably improved since 2021—a sign of the increasing interest in experiential consumption and travel specifically.

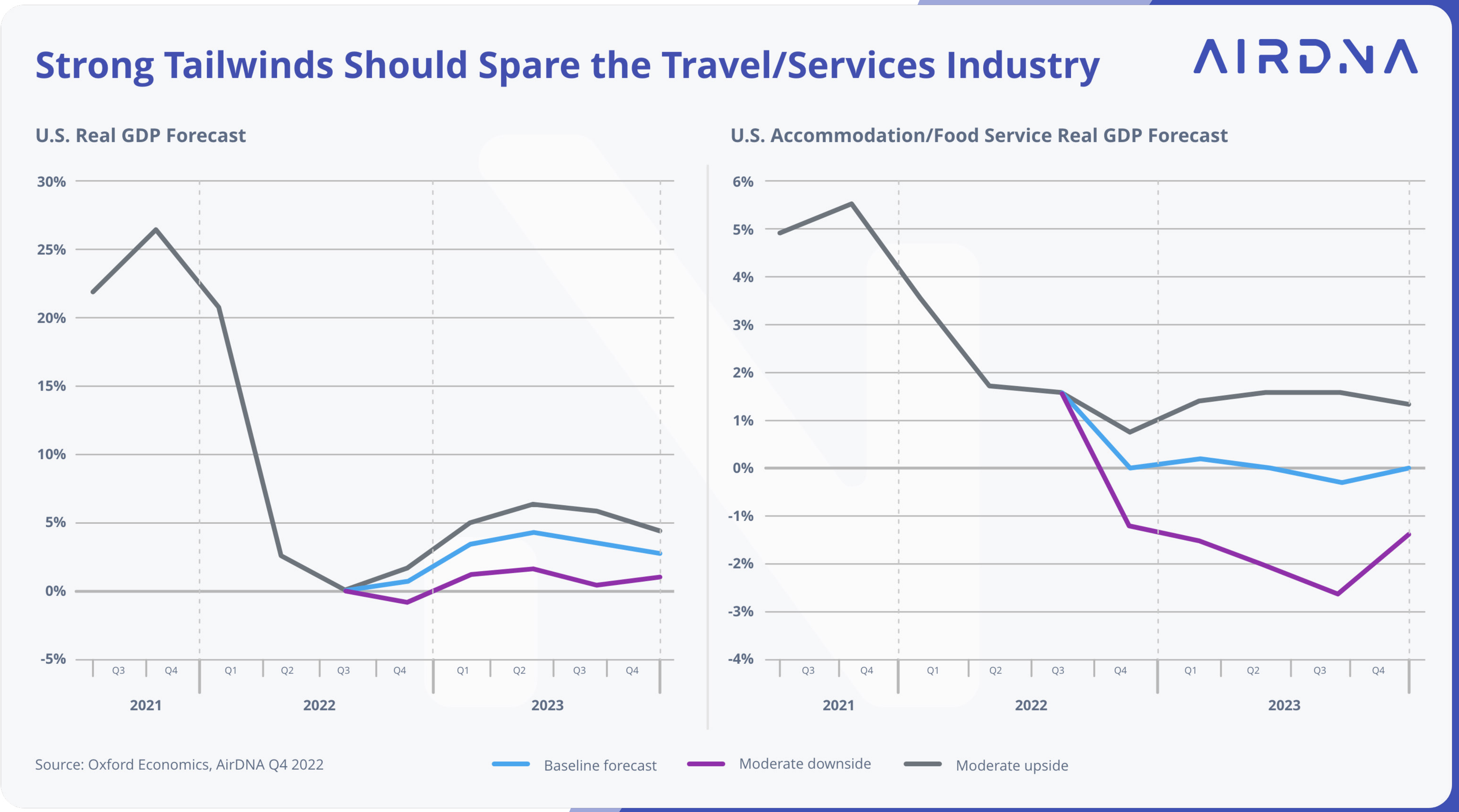
Travel enthusiasm notwithstanding, Oxford Economics predicts at least a mild recession and declining employment (in case of either its baseline or downside scenario). Moreover, the balance of risk remains on the downside, with the upside scenario showing mild improvement compared to significant losses on the downside. However, in any case, a severe recession is not anticipated. Recent memory includes several remarkably deep downturns sparked by an unprecedented financial market collapse in the case of the



Great Recession and more recently, COVID-19, a global health crisis on a scale unseen since the Spanish Flu outbreak over a century ago. A future recession in the baseline scenario would see GDP decline by only 0.4% over the year versus a decline of 2.8% in 2020.

Even better news for the STR market is that accommodation is now poised to be among the industries least affected by an upcoming recession, with positive growth throughout 2023—even in the downside scenario. Continued recovery in urban areas, as well as changing preferences that prioritize travel, create a strong position for STR in 2023 despite economic headwinds.





Positive Pacing Continues Through Winter, Growth Weakens

U.S. YOY Change in Short-Term Rental Demand & ADRs by Location Type (December '22 - February '23)

	Demand		ADR	
	YOY % Change	2019 % Change	YOY% Change	2019 % Change
All U.S.	9.4%	20.7%	7.5%	36.8%
Small City/Rural	18.8%	105.0%	7.9%	30%
Large City - Suburban	13.4%	12.2%	12.7%	43%
Mid-Size City	13.3%	30.0%	12.4%	42%
Large City - Urban	12.7%	-26.7%	11.7%	42%
Destination/Resort - Mountains/Lake	11.8%	46.7%	7.3%	24%
Destination/Resort - Coastal	0.4%	15.3%	5.8%	35%

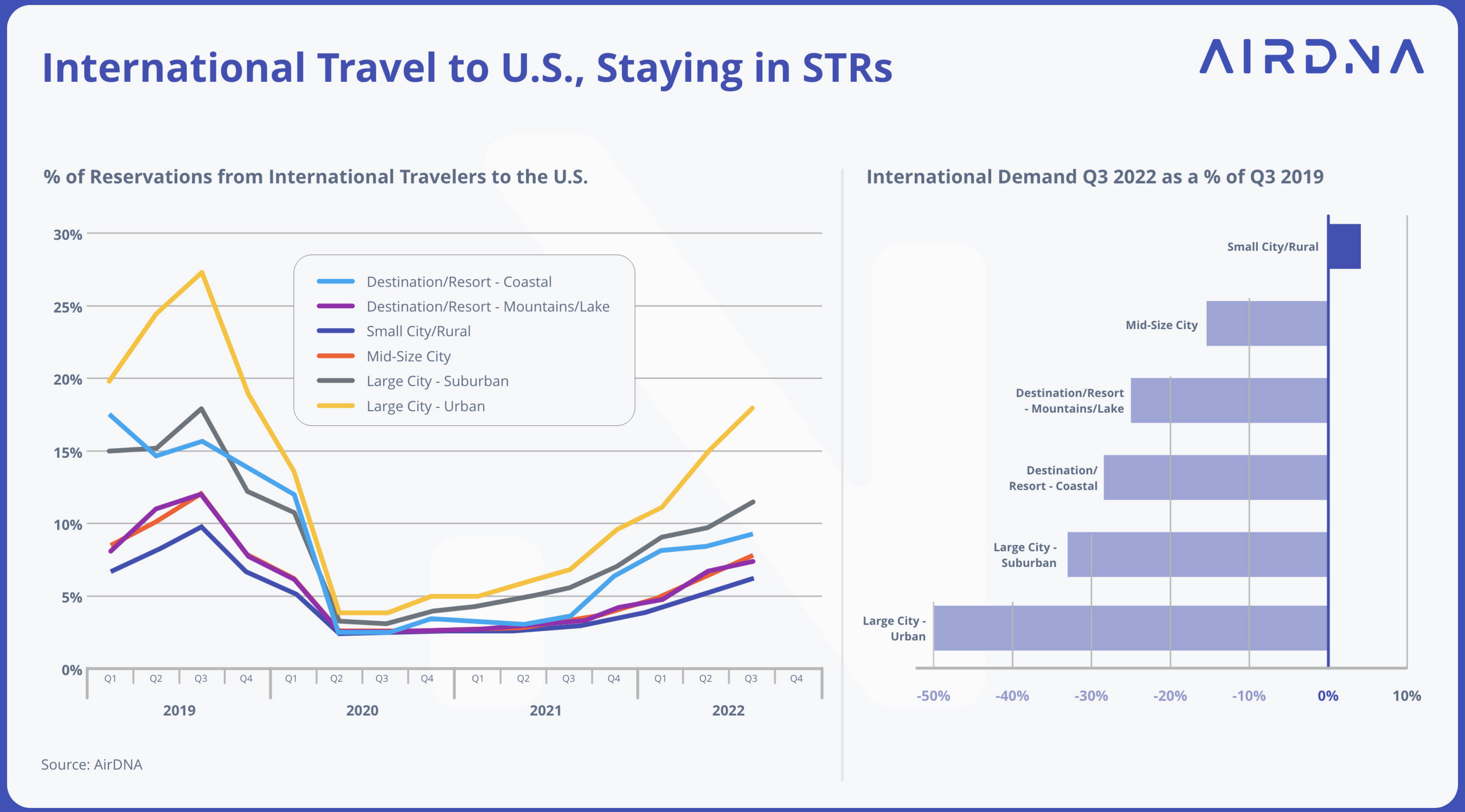
Source: AirDNA

A look at future booking confirms travel enthusiasm for the very near term, with small city and rural bookings leading in year-over-year demand growth. Comparing 2022 bookings to 2019 bookings also sheds light on the incredible transformation the STR landscape has experienced since the onset of the pandemic. While the appeal of urban and large city stays is still lagging behind (-26.7% versus pre-pandemic times), small town and rural locations have more than doubled their demand. The STR market—originally centered on a small number of dense, urban cities—is now seeing the most dramatic growth in widespread, less populous areas often underserved by traditional lodging. We expect continued development in this area throughout 2023, although cities will see strong growth numbers as they continue in their recovery.

Speaking of recovery, the STR market, as a whole, attained pre-pandemic levels by Q3 2021 and, by the end of 2022, returned to trend growth. It is now set to grow along a more mature path than in its earlier, pre-pandemic phase of growth (or during the relatively quick recovery seen in 2021 and 2022). And the good news remains: Although we expect to see slower growth rates in demand, even the downside scenario forecasts demand well above pre-pandemic levels.

International travel has been an especially difficult sector for STR recovery. Lingering concerns about the COVID infection and the strong dollar that has followed from global inflation have slowed interest in American travel from abroad, particularly in expensive and densely populated urban areas. In fact, international travel to large city urban locations is still only at about half of pre-pandemic levels, while small city and rural locations are 4.1% greater.

U.S. destination marketing that highlights small cities might help international travelers see the value of these less-traveled locations, but with the U.S. Fed leading the way on aggressive rate hikes, a weakening of the dollar in 2023 is unlikely. As a result, many American markets will have difficulties attracting international travelers, even with modest ADR increases.



2022 marked an important turning point for the STR market. 2021's uptick in STR interest could have been waved off as a result of social distancing. But the fact that the STR market handily exceeded demand levels throughout 2022, as traditional lodging regained its pre-pandemic traction, speaks to the enduring nature of this sector.

The many upward trends in the vacation rental space paint a picture of an inspiring future, particularly as consumers' appetite for travel shows no signs of slowing.

Economic difficulties are almost certainly ahead in the coming year, but the STR market is well-positioned to meet these challenges with both its unique offerings and the value proposition it offers to travelers from all corners of the globe.

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