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Why the merging of hotels and short-term rentals is a trend worth tracking

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Earlier this summer, I attended the Skift Future of Lodging Forum in New York. The foundation for the summit was the growing trend of convergence between hotels and short-term rentals dubbed by Skift's founder and CEO, Rafat Ali, as the 'The Great Merging'. This blending of these two lodging

ening for a while but is now speeding up due to a

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Two related shifts are happening. Firstly - hotels are increasingly offering

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accommodation that isn't just the standard hotel room. From the full-on Marriott's Homes & Villas platform of beautiful high-end properties in both leisure and city locations to lower-end, distressed hotels and motels adding kitchens in their units and then everything in between. Both hotel chains and independents are offering more unit diversity to meet guest preferences.

Secondly - property managers of short-term rentals are learning from traditional hotel brands and are increasingly offering a full branded experience from booking platforms to guest apps and consistent amenities. Some, such as ALTIDO, which operates rentals in the UK and Europe, now offers 'pop-up hotels' during peak seasons in gateway cities.

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A core fact is that consumers now differentiate less between the two property types and hold little loyalty to *what* they book (be that a hotel room or a short-term rental apartment, for example). Most travellers want a nice, comfortable place to stay, in a good location, with an easy booking experience, a positive in-property experience, and a feeling that they are getting value (what creates value differs for all of us) for money.

Some guests are more invested in buying into a brand or desire a greater 'lifestyle' experience. Some much less so. Many of the OTAs (online travel agents) now display hotel rooms and short-term rentals side by side and so right off the bat, the lines are blurred in the eyes of the consumer.

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Another factor is that during the pandemic, because of the perceived safety of self-contained accommodation, the short-term rental sector gained market share from hotels and resorts. Add to this the changing patterns in our working lives, with increased flexibility for many to work remotely, and it's clear why rentals are enjoying a surge in demand and hotels are keen to adapt.

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In fact, Europe's short-term rental segment is on track for steady growth, with gross bookings for 2022 forecast to reach €37.5 billion, and a full market recovery to pre-pandemic levels is projected to occur in 2023.

Both lodging sectors are highly fragmented with 85% of short-term rentals being managed by single hosts or micro-businesses. With easy access to demand through the OTAs, little capital expenditure, few regulations, and minimal industry standards - anyone can set themselves up as a 'property manager' of short-term rentals. However, greater professionalisation, increased technology adoption and the sometimes brutal self-regulation of reviews mean that standards are rising constantly.

It is generally agreed that around 35%- 40% of hotels are independently owned and managed. Again, a highly fragmented marketplace with plenty of scope for entrepreneurial activity and diversity.

Interestingly, there is yet to be any great merging of the technology solutions that power both short-term rentals and hotels with little cross-over between them - despite the clear parallels of pain points for managers. Vendors still seem to be staying in 'their lane' and offering solutions to either one of the lodging sectors - rarely both. Skift Research recently released a report on the challenges around this convergence, why there is a slow transition, and what we may expect to see in the future.

For property developers investing in hospitality, whether that is traditional hotel rooms or units with space and in-unit facilities, it is still a good bet, despite the looming recession and financial instability. Returns are higher, the

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brigade still needs places to stay, travel is booming and

there is still cash about. Some of the biggest names in private equity firms, hedge funds, and alternative asset management are looking at short-term rentals and vacation rentals at the moment.



Change happens in its own time, but for anyone interested in hospitality property markets, this convergence of short-term rentals and hotels is a trend worth watching as it will inevitably affect the nature of future investments.

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