



HOSPITALITY: AN OUTLOOK FOR 2021

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PRIVATE AND CONFIDENTIAL

Photo: Bubble Hotels

Executive Summary

This report dives into the pandemic's impact on hospitality and how it will shape the industry going forward. COVID-19 disrupted nearly every facet of lodging and accommodation, forcing companies to reevaluate their current product offering. However, with vaccine distribution on the rise and summer approaching there is growing consensus that the worst is over, which directs our attention towards the following: how will the hospitality industry reemerge?

While pandemic-driven restrictions will eventually subside, their impact on consumer trends will persist for some time. Macro changes in travel, a growing awareness of sustainability and permanent work from home policies are bound to alter the hospitality landscape, yet the matter of *how it will change* is unclear. To answer that question, we divide this report into three sections to explore what's in store for the next generation of hospitality. The contents of each section are as follows:

- ❑ **Section 1:** An overview of how the hospitality industry weathered 2020, unpacking key metrics like occupancy, RevPAR and layoffs
- ❑ **Section 2:** A critical look at the post-pandemic hospitality ecosystem, diving into the verticals of hotels and short term rentals
- ❑ **Section 3:** A deep dive into the emerging alt-hospitality sector, highlighting key companies to keep an eye on as this asset class matures

At Agya Ventures, it is our goal to assist our partners in capturing, evaluating, and implementing large technology trends transforming the built environment. Given the recent disruption in hospitality, we view it as a key sector to track with significant real estate implications. Should you have any questions or would like to discuss more, please don't hesitate to contact **Nobu Iguchi** (nobu@agyaventures.com), **Kunal Lunawat** (kunal@agyaventures.com), or **Aaron Farr** (aaron@agyaventures.com).

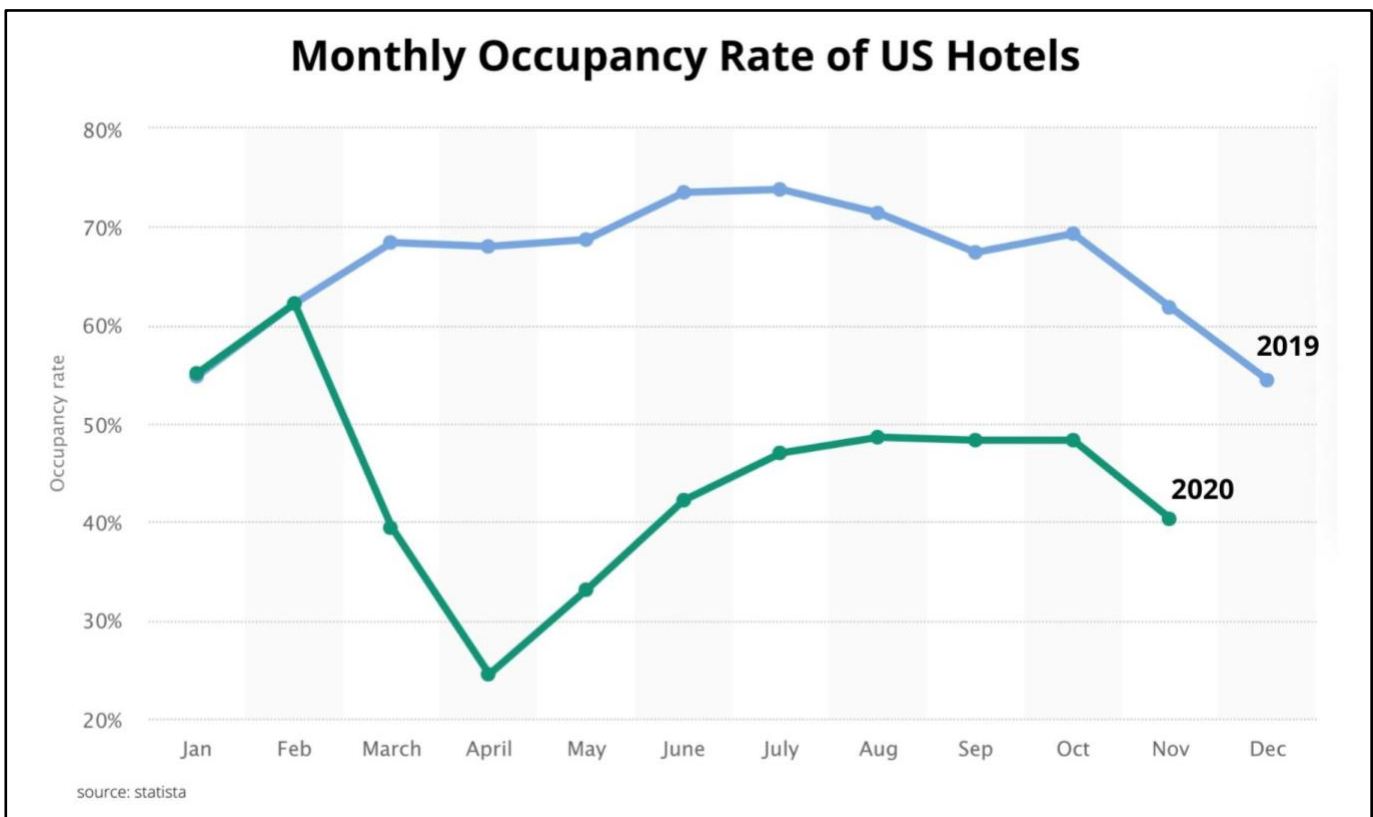
Section 1 | 2020, A Year in Review

Overview

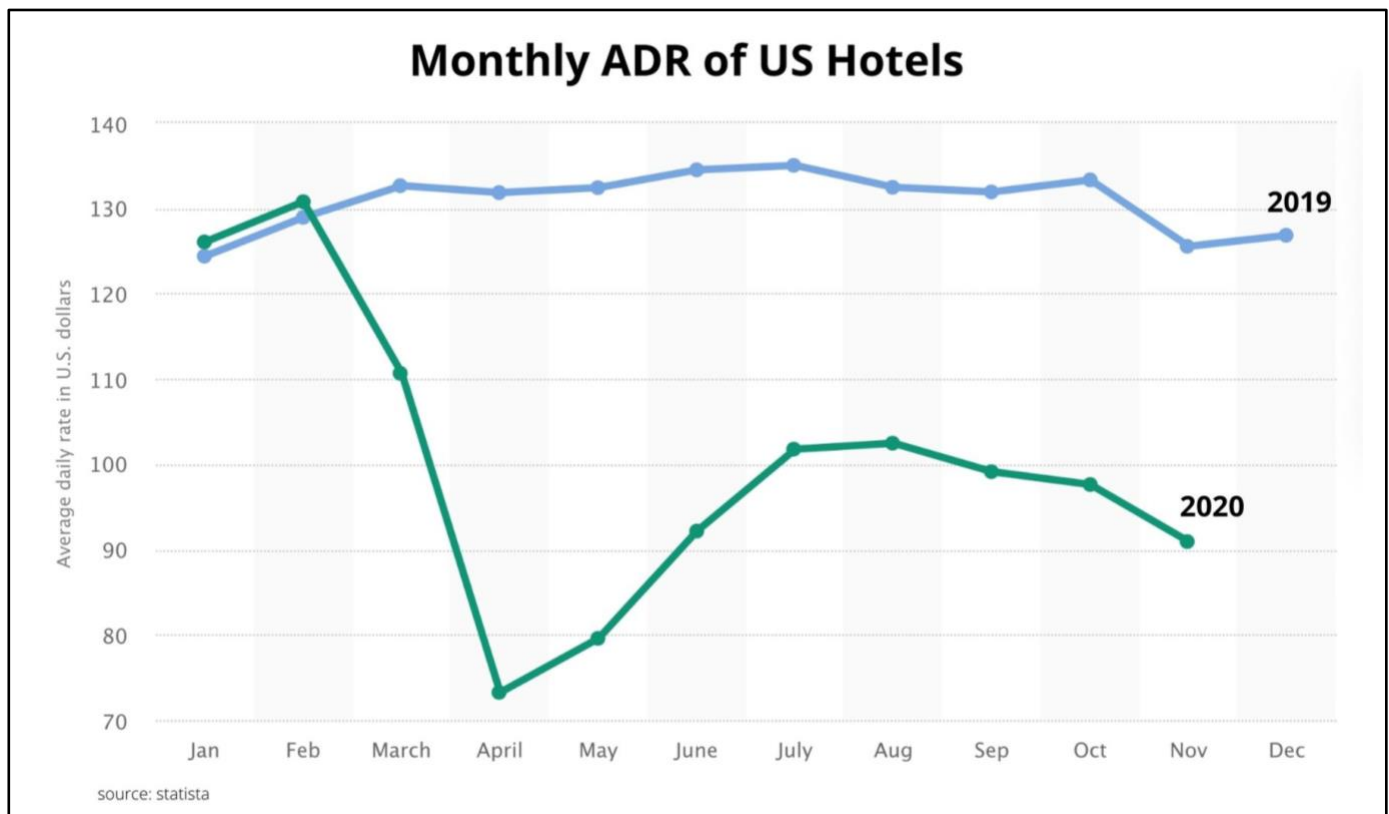
Before diving into what to expect from hospitality going forward, it's important to understand what happened in the industry since the pandemic hit. To unpack the past year, we dive into 3 verticals that collectively tell the story of hospitality's 2020: 1.) financial metrics 2.) public markets, and 3.) human personnel.

1. Financial Metrics

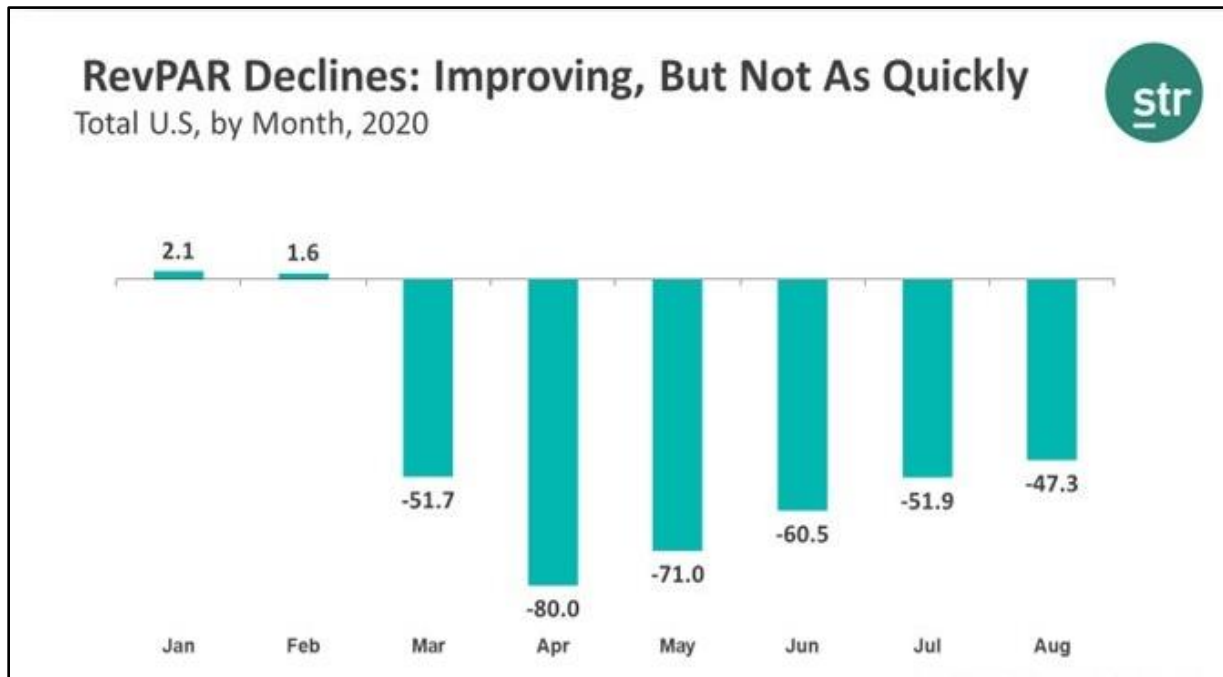
- a. **Occupancy** took a major hit at the beginning of the pandemic, dropping to an all-time low of 20% in April 2020 when the pandemic was at its peak. However, with a lift from seasonal tailwinds and easing of lockdowns, occupancy went up to 40% around November of last year; this is an improvement, but still significantly below historical levels.



- b. **ADR** (average daily rate) also saw a significant downturn at the beginning of the pandemic, as hotels slashed prices to stay afloat. ADR levels stood at \$70 / room in April 2020 and rebounding to \$90 / room by November, which was markedly lower than \$128 / room night for 12 months prior (November 2019).



- c. **RevPAR** (revenue per available room) was hit by the effect of low ADR and occupancy. A [2020 year-end report](#) by S&P Global estimated that RevPAR declines were the highest in US lodging history, dropping by ~80% YoY in March and stabilizing around a 50% YoY decline through the summer.



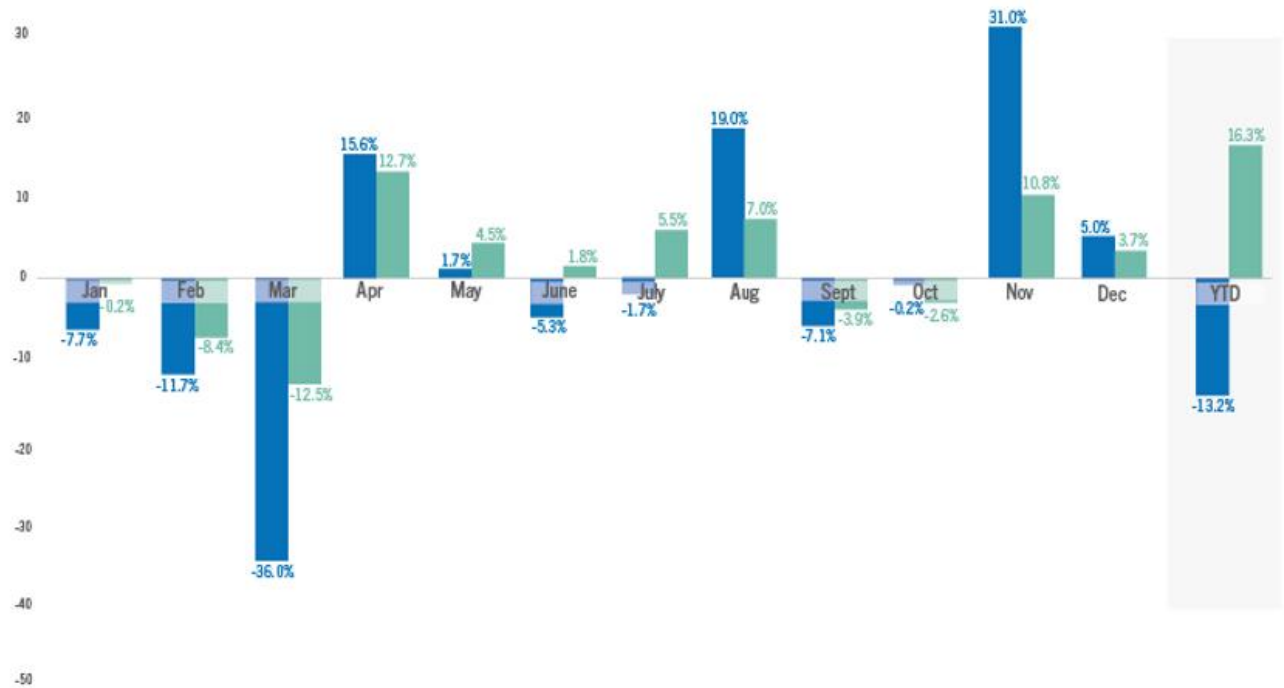
YoY Change in RevPAR in 2020

2. Public Markets

As expected, hotels in the public markets took a massive hit at the beginning of the pandemic, and struggled to rebound through 2020 as the country went through a series of lockdowns and travel restrictions. To understand COVID's impact on hotels from a holistic perspective, it's helpful to look at the Baird/STR Hotel Stock Index, which tracks 20 of the largest public hotel operators and hotel REITs in the United States.

2020 Monthly Returns

● Baird/STR Hotel Stock Index ● S&P 500



2021 Monthly Returns

● Baird/STR Hotel Stock Index ● S&P 500

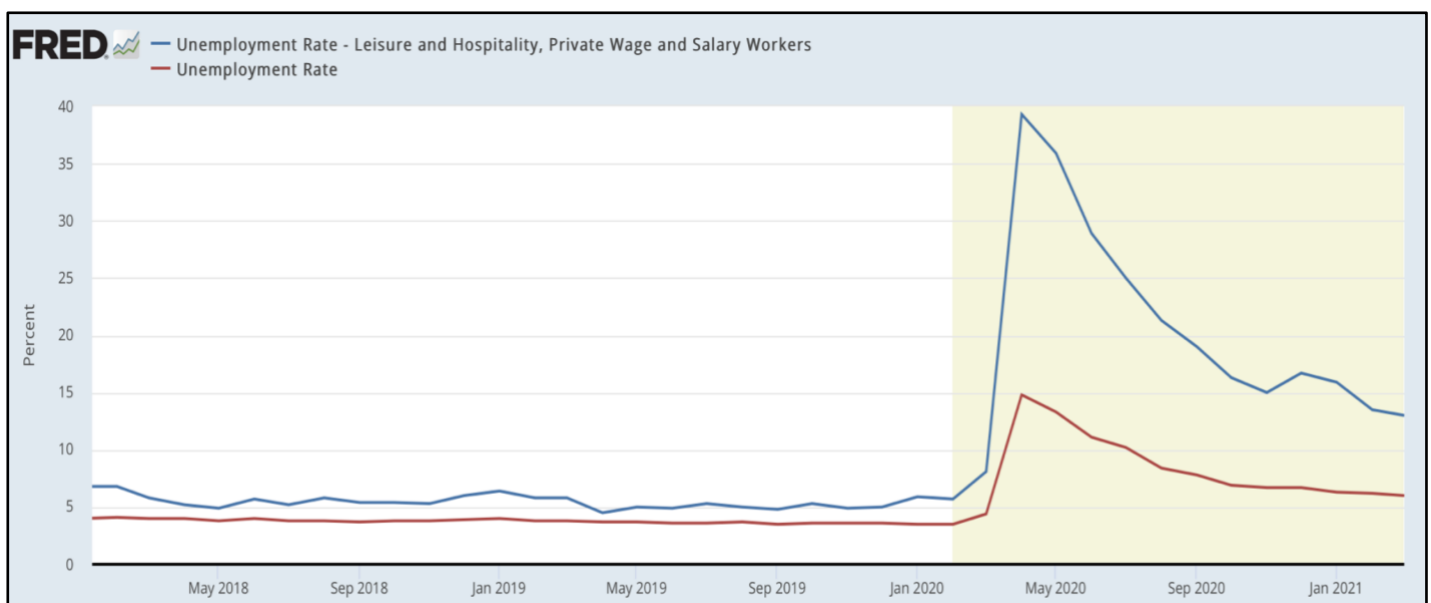


2020 was a volatile year for hotels in public markets. While the industry started to see a turnaround by Q4, the STR Hotel Index was down -13.2% for the year, underperforming the S&P 500 by almost 30%

2021, on the other hand, has seen the industry rebound to date. With the vaccination rollout accelerating and signs pointing towards a summer that's relatively safe for travel, hotel stocks are up 12.4% through February.

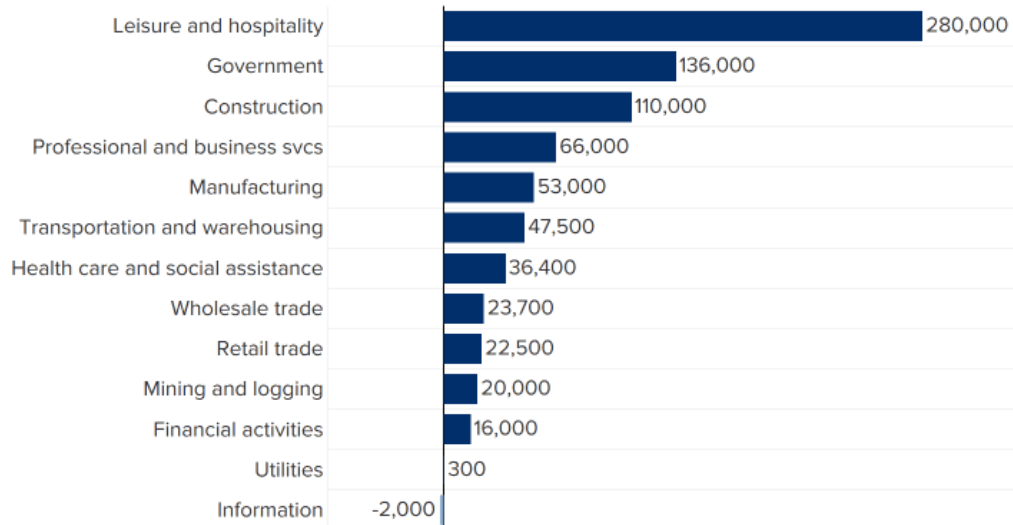
3. Human Personnel

In terms of employment, the leisure and hospitality sectors were hit quite hard. Leisure and hospitality jobs have [accounted](#) for ~40% of all layoffs since the beginning of the pandemic, with the industry [reaching](#) a 39% unemployment rate in April 2020; this was ~2.5x higher than the [national unemployment rate](#) at the time, which sat at 14.7%.



More recently, the leisure and hospitality industry has seen jobs returning, especially in destination and emerging markets. This culminated in a March jobs report showing that the sector added 2x more jobs than any other industry MoM.

March jobs one-month net change



SOURCE: Bureau of Labor Statistics



Section 2 | Moving Forward: 2021 and Beyond

The pandemic has brought to the fore some large questions facing the hospitality industry. As the vaccine rollout accelerated in Q1 2021, it became clear that people [are looking forward](#) to traveling once vaccinated, and that at least some markets would see a rebound before the end of year. What remains unclear, however, is exactly what post-pandemic hospitality will look like. Shifting definitions of work and leisure will change how and why people travel, with a new-age hospitality emerging that's defined by pandemic-driven trends. For more data about anticipated consumer travel trends, please reference the appendix.

In the rest of this section, we dive into what post-pandemic life might look like for hotels and short-term rentals.

Hotels

The state of the hotel industry often drives conversations about hospitality, and for good reason; in 2019 hotels were [estimated](#) to be a ~\$200.0 bn market in the US -- a number that's been consistently growing for years. This section focuses on what to expect from the hotels in the short term, and how the pandemic might impact the industry for years to come.

1. Leisure vs Business Visitors

One of the key areas that inform how hotels will return post-pandemic is leisure and business travel. These two segments are set on very different paths of recovery, and how people travel for work and fun post-pandemic will shape the hotel industry for years to come.

- **Leisure travel** has already started to materially rebound, and expectations are that it will return to pre-pandemic levels in 2021. According to a [survey](#) conducted by the American Hotel & Lodging Association (AHLA), 56% of Americans plan to go on a leisure trip in 2021 -- roughly the same percentage as in previous years; and in March, the CEO of United Airlines [said that](#) demand for domestic leisure travel is *already* back to pre-pandemic levels. However, it's important to note that demand has not returned evenly across markets, with travelers now [rushing to places](#) like Miami and Austin

instead of NYC and SF. The narrative of people leaving tier 1 cities for destination and suburban markets dominated 2020, and it seems to be driving hotel demand through 2021 as well.

- **Business travel**, on the other hand, [was down](#) 85% in Q1 2021 compared to Q1 2019. The AHLA predicts that business travel will be the last segment to return to pre-pandemic levels, potentially not until 2024. Given that [half of total demand](#) for luxury properties comes from corporate travelers, upper-tier lodging is likely years away from full recovery.

In the past, business and leisure travel has been cleanly divided into two separate groups; however, we expect this clear distinction to fade in post-pandemic hospitality. With the rise of 'work-from-anywhere', people will travel for both business and leisure *at the same time*. In response, hotels will need to adapt their experiences to satisfy a new group of visitors that seek both business and leisure amenities during the same stay.

2. Economy vs Luxury Accommodations

A second helpful trend to analyze is the trajectory of economy and luxury accommodations heading out of the pandemic.

- **Economy hotels** [were able to maintain](#) a national occupancy rate of 51% in 2020, nearly 20 points higher than their luxury counterparts. This in part derives from the working and traveling patterns of economy hotels' core visitors, which were relatively unaffected by the pandemic; for example, construction crews resumed work by the end of Q2 2020 and essential workers needed lodging through lockdowns.
- **Luxury hotels'** occupancy rates, on the other hand, remained near pandemic lows for all of 2020 and Q1 2021. Their core demographics are high-income earners who aren't required to leave their homes anytime soon. For this reason, the recovery path of luxury hotels remains uncertain, especially when you consider the new implications that 'work-from-anywhere' may have for these assets.

It's important to contextualize the economy's higher 2020 occupancy by looking at the average length of stay (ALOS). As the infographic below shows, the ALOS for lower-tier hotels was ~0.5 days higher in 2020 than 2019; the ALOS for upper-tier hotels, however, was unaffected by the pandemic. This indicates that the higher occupancy for economy hotels is partially driven by longer stays, not retaining the same number of guests. In the context of this ALOS data, economy lodging was hit harder by the pandemic --at least in terms of the number of guests -- than isolated occupancy data might indicate.



While the pandemic decreased the number of guests at economy lodging, they are still relatively better positioned than other hotel types. One data point validating their strength is the March 2021 [acquisition](#) of Extended Stay America by Blackstone and Starwood. Extended Stay averaged a 74% occupancy rate in 2020 – 30 points above the industry mean – by targeting essential workers who had to be on the road, regardless of public health or lockdown measures. This acquisition is the largest hotel transaction since the pandemic started, and demonstrates the expected strength of economy lodging -- particularly locations targeting extended-stay guests -- in the year ahead.

Overall, we expect these two trends to be driving factors for when and how hospitality will reemerge. On the economy lodging side, all signs point towards strong demand from its traditional client base.

However, it's becoming clear that business and leisure travel -- which drive luxury demand -- will look different in a post-pandemic world. For luxury hotels to stay relevant, they will have to adapt and provide cross-functional experiences that accommodate trips meant for both work and fun.

Short Term Rentals

Over the past few years, STRs have established themselves as a core asset class in the hospitality industry. In 2019, there [were over](#) 1.5 million STR units listed on US platforms, representing a ~10% penetration rate of STR units to traditional hotel rooms. For this reason, when lockdowns cut off nearly all STR demand and major players like Stay Alfred and Lyric were forced to [shut down](#), many were left wondering which operators in this space would survive. However, as the year progressed several leading players orchestrated impressive turnarounds, leaving the industry in a healthy position heading into 2021. In order to understand what to expect from STRs in a post-pandemic ecosystem, it's helpful to look at the journeys of a few key players: Airbnb, Sonder, Frontdesk and Zeus.

1. Airbnb

The pandemic hit [Airbnb](#) particularly hard; the first wave of lockdowns went into place as they were planning an IPO, and their global listing [dropped](#) 5.0% from January to June 2020. Instead of IPOing in the summer, they had to raise a [down round](#) in April that cut their valuation nearly in half, from \$31.0 bn to \$18.0 bn. Shortly after that, they [laid off](#) 25% of their workforce, with [many left wondering](#) if there was any floor to the losses Airbnb might accrue.

However, CEO Brian Chesky set in motion a plan that led to one of the biggest success stories of 2020. In the second half of Q2, he 1.) secured \$2.0 bn in loans, 2.) reduced costs, and 3.) shifted their focus to rural locations for 'quarantine getaways.' His plan worked. AirBnB finished Q3 with an increase in gross booking value and profits, and launched a successful IPO in Q4 at a \$47.0 bn valuation.

It's worth noting that Airbnb's supply and demand [have not returned evenly](#) across markets. Similar to other hospitality assets, they have seen growth in emerging and destination markets like Austin, Myrtle Beach and Jackson Hole; urban areas, meanwhile, are the only location type that's experienced a YoY *decline* in listings. This is accelerating an already-established trend of

Airbnb's supply shifting away from cities, with urban listings expected to drop to 20% of supply in 2021 from 40% in 2016.

2. Sonder

[Sonder](#) is also a leading STR player, and unlike Airbnb manages all of its properties to provide a more standardized visitor experience. They also faced a difficult 2020, [laying off](#) 1/3 of their workforce in March in response to nationwide lockdowns.

However, Sonder was one of the earlier indicators that the STR industry would rebound, raising a \$170.0 mn Series E round in June at a slightly higher valuation than its previous raise. They were able to do this by 1.) cutting prices, 2.) unloading ~2,000 underperforming properties in struggling cities, and 3.) shifting their marketing strategy to temporary housing for people displaced by the virus. This quickly produced results, with Sonder's occupancy [returning](#) to its pre-pandemic ~80% levels by the end of the summer.

3. Frontdesk

[Frontdesk](#) is a STR company that uses a vertically integrated tech stack to manage their rentals completely in-house, and leverages data analytics to ensure their properties are operationally efficient. Through 2019-20, they were actually operating in some of the same buildings as Stay Alfred. However, when the pandemic hit Frontdesk was able to outperform Stay Alfred's revenue *in the same buildings* because they had 1.) baked-in operational efficiencies and 2.) negotiated out of fixed-rent master leases into revenue sharing agreements.

Over the summer of 2020, Stay Alfred -- a company that had raised over \$60.0 mn -- shut down, and Frontdesk [took over management](#) for 55 of their units. Looking ahead, Frontdesk [is aiming](#) to leverage their full-stack model to scale from 550 properties in 2020 to 1500 by the end of 2021.

4. Zeus Living

The last STR operator we look at is [Zeus Living](#). They manage furnished rentals for corporate travelers, and generally require 30-day minimum stays. When the pandemic hit, their

occupancy [dropped](#) by 50%; in June they canceled \$10.0 mn in management contracts and laid off 60% of their workforce.

Zeus pivoted their strategy to focus on where there was demand: in destination and emerging markets. Over the summer they unloaded their properties in NYC, SF and other tier 1 cities and increased supply in places like Austin and Miami. By July, they were back to 85% occupancy and haven't faltered since. In fact, Zeus even doubled their properties under management since the pandemic started from 2,000 to 4,000, [targeting](#) emerging markets like Austin, Miami and Denver.




These four case studies collectively indicate how STRs' success depends on 1.) concentrating supply in the right markets, and 2.) operating assets in an efficient way. Companies who failed to do this, like Lyric and Stay Alfred, shut down; those who did it right, like Frontdesk and Zeus, are better positioned than before the pandemic happened.

Section 3 | Alt-Hospitality

The third section of this report dives into an emerging sector in this space called 'alt-hospitality,' which we define as lodging experiences immersed in nature, are outdoors, and follow sustainable practices. This segment of lodging has traditionally held small market share, but we have noticed a recent surge of demand for tech-enabled alt-hospitality experiences. These accommodations are riding on the tailwinds of the pandemic by offering contactless, outdoors and sustainable lodging, and we expect it to mature into a core part of hospitality over the next few years. Alt-hospitality providers are also prime acquisition targets for the Marriotts of the world, especially as incumbents look to expand their portfolios beyond traditional lodging options. We are tracking alt-hospitality's three main verticals, each with exciting, venture-backed companies leading the way: glamping, tenting and RVs.




1. Glamping

Glamping is the most prominent vertical of alt-hospitality, and consists of luxury cabins, yurts, and treehouses that are often owned and operated by a glamping company. The space has an [estimated](#) global market size of ~\$2.0 bn, and is expected to double by 2024. Notably, glamping has really taken off with millennial and gen z audiences, who [account](#) for 60% of total demand in the US as of 2020.

Bubble Hotels	Eco-friendly glamping resorts where visitors stay in standalone bubbles. First location in Joshua Tree opening in Summer 2021.	
Autocamp	Glamping sites where visitors can stay in modern Airstream suites or luxury tents. Currently in Cape Cod, Yosemite, and Russian River Valley.	
Getaway	Luxury campsites where visitors book remote cabins that require no in-person interaction with site staff. Currently in ~15 locations, mostly on the east coast.	

2. Tenting

Tech-enabled tenting has also gained traction in the past year, with Airbnb-like platforms helping users find turn-key tent set-ups across the country. These companies make authentic tenting experiences accessible to everyone, with users having the option to book anything from a basic tent to a high-end tech-enabled luxury site.

Under Canvas	Luxury tenting operator with ~10 locations nationwide, mostly in National Parks.	
Tentrr	A marketplace for tenting and campsites, with options ranging from basic to luxury. Currently has ~800 campsites on platform.	
Hipcamp	A marketplace for travelers to post and book glamping sites, cabins, RV parks and treehouses. They have over 300,000 listings.	

3. RVs

The last vertical of alt-hospitality that has gained traction over the past year is tech-enabled luxury RVs. This is another medium for travelers to experience nature in comfort, with fleets of customized vehicles popping up around the country. Companies like Cabana own and operate all of the RVs in their fleet, while Outdoorsy serves as a marketplace for third parties to rent RVs, trailers and camper vans.

Outdoorsy

Rental marketplace for RVs, camper vans and travel trailers. They currently provide services in 14 countries.

Outdoorsy

Cabana

Owner and operator of a fleet of luxury RVs that are available to rent. They launched in 2020 in Seattle.

 CABANA



Conclusion

In this report, we provide an overview and analysis of how the pandemic has affected hospitality, and dive into what to expect from the industry going forward. As more people get vaccinated, we have started to see certain asset classes rebound and new asset classes emerge, but what's apparent is that the recovery is not evenly distributed across markets. While leisure is approaching pre-pandemic activity, the future of business travel remains uncertain. Even within leisure, people are flocking to destination markets like Austin and Denver, whereas tier 1 activity remains near pandemic lows. These pandemic-influenced trends are starting to define the industry, and hospitality owners and operators must adapt to remain financially viable in the years ahead.

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Appendix | Survey Insights on the Future of Hospitality

The pandemic has disrupted every part of global hospitality, leaving many wondering whether the industry will ever return to its pre-pandemic state. In an attempt to answer that question, a number of studies have recently been published to forecast what the path forward might look like.

For example, Vrbo [released a survey](#) indicating: **Poll question here with data?**

- **65%** of respondents **plan on traveling more** than they did pre-covid
- **33%** of respondent are willing to spend **more on future travel** than in the past
 - ◆ 55% of these respondent plan to take longer vacations
 - ◆ 48% plan to stay at nicer accommodations
- **54%** of respondents are more likely to **take their bucket list trip** than before

This same survey, however, captures that while there may be pent-up demand, *where* or *when* people travel will likely look different than before.

- **59%** of families are more likely to **drive than fly** on their next trip
- **61%** of families are more likely to visit an **outdoorsy destination than an urban one**
- **54%** are more likely to visit a **national park than an amusement park**

An [end-of-year study](#) by booking.com also uncovered another important emerging trend: technology will be more important than ever to bring global hospitality back to pre-pandemic levels.

- **73%** of respondents believe that **travel technology adoption will accelerate** as a result of the pandemic
- **67%** of respondents said that accommodations will need to **use technology to help travelers feel safe**
- **61%** of respondents are **excited about technology's potential** to provide more customized travel experiences
- **32%** of respondents said they would be more likely to visit an unknown destination if they could **scout it out ahead of time with Virtual Reality (VR)**