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# Homes and Villas

Study of Marriot International's new project of home rental and how it compares to Airbnb.

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## Abstract

This report deals with the risks and benefits of Marriott International's new venture – "Homes and Villas" "Homes and Villas" is a house rental business. Airbnb is also compared with the Marriott's business. The report discusses the financial statements of Marriott International and decides that Marriott should move ahead with the rental business as it doesn't seem to affect its regular business. Seems to generate revenue from that source.

Airbnb's would face some risks to Marriott, but it has established in the market in the last 10 years. Having a head start sure does favor Airbnb but Marriott has a lot of revenue which they can put in prime locations to generate revenue.

In the end the social impacts are discussed. It also discusses the rental industries impact on hotel industry.

## Objective

Marriott International has launched its program of rental housing under the name of “Houses and Villas” [2]. After a test run in European markets [3], they have decided to launch the project which is a direct competitor of Airbnb. This report is a subjective look at whether this move is an apt one or is doomed to fail.

Just a note; Marriott is not the first big name in the industry. AccorHotels and Hyatt have their own rental housing programs called OneFineStay<sup>1</sup> and Oasis<sup>2</sup> respectively. Accor in 2018 admitted that they aren't making any profits from OneFineStay and Hyatt officially ended their affiliation with Oasis [3].

## Benefits of house rentals

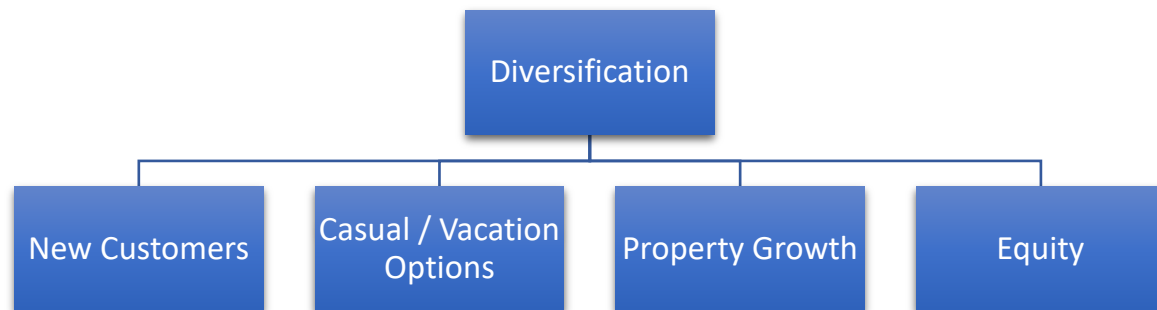


Figure 1: Benefits of Rental Business

One of the major benefits of house rental system is diversification. Rental house business opens a new avenue of revenue to the existing system [4].

- New Customers
  - Giving a new property, a new option, may bring in some new customers who are unsatisfied by the competition or are looking for a different service provider.
  - With new customers comes a chance of earning better profits.
- Casual / Vacation Options
  - Usual customers of Marriott are generally business oriented. With the new option of rental houses, they can break this stereotype.
- Property Growth
  - Different style of properties come in the portfolio which may be profitable on the longer run.
- Equity
  - Constant maintenance and servicing can drive up the cost of renting the place. Earning greater profits from the normal.

The table below shows the trend of before and after the test run by Marriott. These numbers are based on the quarterly reports posted by Marriott International [5], from the third quarter of 2016 to the first quarter of 2019. The test run was observed in 2018. Since the Tribute Portfolio's (parent of: Homes and

<sup>1</sup> <https://www.onefinestay.com/>

<sup>2</sup> <https://www.oasiscollections.com/>

Villas, acquired by Marriott International in Q3 of 2016) revenue isn't mentioned separately a global average was taken and analyzed. Marriott has two matrices of calculating the revenue per room, RevPAR and Average Daily Rate (ADR). RevPAR is short for Revenue per available room. Both the revenues are analyzed in this report. The percent share of Tribute Portfolio which accounts for rooms in rental houses isn't known, therefore the reported numbers are used along with reported occupancy rate from international dataset. Lastly, the discount rate is considered 5% annually.

The revenue before the pilot program are mentioned in Table 1

*Table 1: Before pilot run*

<b>Year</b>	<b>Quarter</b>	<b>PV by RevPAR (Approx.)</b>	<b>PV by ADR (Approx.)</b>	<b>Profit per room (Approx.)</b>	<b>Rental House numbers</b>
2016	Q3	\$425,000	\$573,000	\$206,500	4,114
	Q4	\$459,000	\$660,000	\$871,000	5,473
2017	Q1	\$477,000	\$688,000	\$1.3 Million	5,733
	Q2	\$578,000	\$763,000	\$1.6 Million	5,806
	Q3	\$617,000	\$805,000	\$1.6 Million	6,224
	Q4	\$525,000	\$740,000	\$750,000	6,208

The revenue during the pilot program can be seen in Table 2

*Table 2: Revenue during pilot program*

<b>Year</b>	<b>Quarter</b>	<b>PV by RevPAR (Approx.)</b>	<b>PV by ADR (Approx.)</b>	<b>Profit per room (Approx.)</b>	<b>Rental House numbers</b>
2018	Q1	\$517,000	\$741,000	\$1.5 Million	6,323
	Q2	\$680,000	\$888,000	\$2.6 Million	6,881
	Q3	\$523,000	\$688,000	\$1.6 Million	5,553
	Q4	\$470,000	\$670,000	\$1 Million	5,921
2019	Q1	\$482,000	\$700,000	\$1.2 Million	6,363

The profits due to some reason doesn't seem to be related to the number of rooms in house rental system. There could be several reasons for this trend. A deeper understanding of the data will be needed which isn't possible from the revenue reports.

Since, this was just a pilot program and the profit doesn't seem to be declining the overall result can be interpreted as a success to the pilot program.

## Drawbacks of house rentals

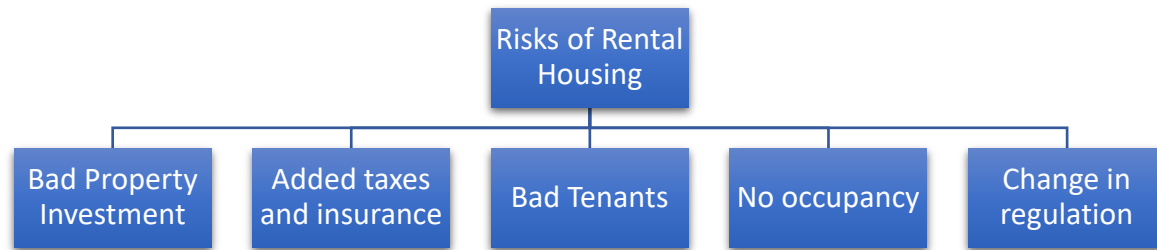


Figure 2: Risks of Rental Housing

Drawbacks of rental housing come from various sources. Each of them is explained below [4] [6].

1. Bad Property Investment
  - The property bought may depreciate over time which may hurt the profits in the long run.
2. Added taxes, insurances and fees
  - Owning a new place comes with its fair share of taxes, fees and insurance premiums. Breaking even on those costs could take a long time.
3. Bad Tenants
  - Humans can be unpredictable and sometimes irrational. Time to time there will be some bad tenants which may cause a lot of property damage.
4. No Occupancy
  - Sometimes there will be no guests occupying the rooms. Generating less revenue and driving the overall profit at that location to a lower percent.
5. Change in government regulation
  - Airbnb has faced a lot of regulatory issues with states in USA. This may drive some unpredictable changes in the overall system [7].

Quantifying those risks in a risk matrix.

Table 3: Risk Matrix for Marriott

Risk matrix		Likelihood				
		Unlikely $0.001 \leq P < 0.01$	Seldom $0.01 \leq P < 0.02$	Occasional $0.02 \leq P < 0.1$	Likely $0.1 \leq P < 0.5$	Frequent $0.5 \leq P \leq 1$
Consequence	Very High		1		4	
	High		5	3		
	Medium					2
	Low					
	Very Low					
HIGH IMPACT		MEDIUM IMPACT			LOW IMPACT	

## Impact on Airbnb

Airbnb will be facing some risks given that Marriott has entered the rental housing business. [8] Airbnb has already setup a good customer base as it has been in the renting business for a decade now. But there are some risks which they would face given that a new competitor has entered a market. Airbnb has a customer base of almost 150 Million people worldwide and has over 6 Million listings on its website (also worldwide). Their estimated revenue was \$1.7 Billion in 2016 ( $\approx$  \$2 Billion in 2019).

On the other hand, Marriott has 125 Million customers worldwide with 1.3 Million rooms available. As of writing this report, Marriott international has a net revenue of \$21 Billion [9] [10] It is evident that Airbnb and Marriott serve different customer bases.

Table 4: Risk Matrix for Airbnb

Risk matrix		Likelihood				
		Unlikely $0.001 \leq P < 0.01$	Seldom $0.01 \leq P < 0.02$	Occasional $0.02 \leq P < 0.1$	Likely $0.1 \leq P < 0.5$	Frequent $0.5 \leq P \leq 1$
Consequence	Very High			2		
	High				1	
	Medium					
	Low				3, 4	
	Very Low					
HIGH IMPACT		MEDIUM IMPACT			LOW IMPACT	

Even though the companies mentioned above serve different customers, there will be some risks to Airbnb.

1. Division of customer pool
  - Some customers may want to prefer Marriott's services as compared to the bare minimum services of Airbnb. They may like the 24/7 on call service of Marriott much to their liking than Airbnb's offer.
  - The growth of Airbnb might face a new hurdle.
2. Shrinking profits
  - Since there is a new option available. Airbnb will charge aggressively towards its competition and thereby shrink their profits.
3. Shrinking Market share
  - Marriott has a large resource and investor pool which would make them buy multiple prime locations relatively quickly. This may cause Airbnb to lose some market share.
4. Decrease in occupancy rates
  - Now that some of its customers are moving or considering a newer option. The properties under Airbnb may be occupied for a lesser rate than previous numbers.

## Impact of rental business on Society

### Pros

- Tourists tend to prefer local housing as compared to the hotels. It makes them feel closer to the locals. [11]
- City / Locality gets a lot of tourism. This drives the localities to develop in different avenues.
- They get a lot of revenue from the tourism which drives the state to improve the locality.
- In Amsterdam a host, on an average, earns about € 4,400 ( $\approx$  \$5,000) annually.

### Cons

- Tourism causes a lot of “nuisance” and it disturbs the locals.
- Local shops are converted to the better needs of tourists.
- Gentrification causes the real estate prices to rise.

## Impact of rental business on hotel industry

### Pros

- Quality of service increases.

### Cons

- Direct revenue lost to hotels about \$450 every year (A report by HVS Consulting and Valuation, New York). From September 2014 to August 2015, 480,000 hotel rooms were booked. In the same time Airbnb users reserved about 2.8 Million rooms in New York. [12]
- Over 2,800 jobs were lost directly to Airbnb in 2016, a loss of \$200 Million.(New York)
- Lose in food and beverage revenue. About \$108 Million in 2016. (New York)



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