CUSHMAN & WAKEFIELD

Tbilisi Hospitality Series: Airbnb

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Launched in a small apartment in San Francisco in 2008 by two roommates, Airbnb is an online home-sharing platform, which lets hosts rent out entire properties or rooms in their properties to guests. Over the last 10 years, Airbnb has become a global hospitality giant, offered at more than 81,000 cities in 191 countries.

Since its launch in Georgia, Airbnb offerings have spread like wildfire. As of May, 2019, there were 14,438 active listings in Tbilisi - a 7,213% increase from the same period three years ago. A sudden surge in supply has not however been accompanied by the same speedy increase in demand. In the first quarter of 2019, for every booked property in Tbilisi, two other available ones remain un-booked.

Georgian tourism is thriving, with the number of international visitor trips having surpassed 7 million in 2018 and projected to increase to 7.5 million by the end of 2019. Demand on Airbnb properties as measured by the ratio of booked properties over the total number of active listings (referred to in this report as "demand rate") has been inching upwards, albeit slowly. This report reviews the current state of the Airbnb submarket and its long- and short-term prospects and potential. Data has been obtained from AirDNA, a platform that provides aggregate data on demand and performance indicators or Airbnb. The scope is geographically limited to Tbilisi, covering a 35-month period between June 2016 and May 2019.

"anyone can belong anywhere through magical travel that provides unique, authentic and local experiences"

- Airbnb, 2019, Emerging Markets Report

From an Air Mattress to a Global Hospitality Giant

Airbnb began when two roommates, struggling to pay their rent, came up with an idea to share an air mattress and breakfast to wayfarers as a short-term rental. Hence the name – Air bed and breakfast – Airbnb.

What has propelled the unprecedented growth of Airbnb?

Airbnb's value proposition taps into the values and preferences that support what Pine and Gilmore (1998) call the experience economy. The very existence of Airbnb has expanded the dimensions of the experience economy to include (1) personalization, (2) "communitas", (3) localness, (4) hospitableness, (5) serendipity (or the opportunity to get a unique experience each time) and (6) ethical consumerism (Mody and Gomez, 2018). For a consumer who is looking for a sense of immersion in a local, foreign community, interactions with residents rather than trained hospitality professionals, and above all, inimitability of experience, Airbnb is the default choice. Millennials is the largest group within this category of customers.

Millennials have been propelling expansion of Airbnb across the globe, especially in the developing countries. A 2019 report by Airbnb emphasized this trend. Emerging markets, including that of Georgia, are amongst the fastest growing markets for international tourism. Half of Airbnb's trending locations for 2019 are located in the emerging markets; Batumi is among them.

Airbnb is set to grow further in the leisure segment. Some Airbnb properties have tapped into business tourism as well however this is a niche market so far catering to small to medium sized companies. Even so, Airbnb is a competitive force to be reckoned with. Some of the largest hospitality giants such as Accor, Hyatt and Marriott are investing in, partnering with or building ventures such as Airbnb to recapture market demand. Meanwhile, Airbnb is developing initiatives such as Airbnb Plus and Airbnb Experience to capture luxury and experience-focused clientele respectively.

Some of the complaints about Airbnb have to do with lack of regulation as well as its ability to completely reshape neighborhoods, sometimes not to the community's advantage. Variety of regulations govern Airbnb in cities such as San Francisco, Barcelona, Paris, Amsterdam, and London. These have to do with licensing, limitations on the number of listing nights, renting of entire houses, as well as tax regulations. These regulations, among other things, are an attempt at stabilizing Airbnb-ridden communities, which can per Guttentag (2018) quickly turn into "evolving door of strangers". Airbnb is not legally regulated in Georgia. And there does not seem to be an threat to Tbilisi communities. General social climate is positive, underscored by the financial benefits of operating an Airbnb.

Airbnb Guest Profile

Airbnb hosts both domestic and international guests; 96% of the guests in April 2019 (the last month with available data on guests) were international visitors. Monthly average number of guests renting Entire Houses between June '16 and April '19 was 5,131; that of guests renting Private Rooms was 361 while 33 guests on average rented Shared Rooms within the same period.

The number of international guests peaked between July and September 2018 – in each month the number of guests surpassed 10,000. The same feat may be hard to achieve this coming summer due to impending sanctions on travel issued by Russia. Nearly a third of the guests who rented an Airbnb in Tbilisi last year were from Moscow and St. Petersburg. Halting of direct flights between Russia and Georgia will affect the entire tourism sector, not the least the Airbnb.

Largest Guest Supplier Markets

- Moscow
- St Petersburg
- London
- Yerevan
- Dubai
- Berlin
- New York
- Baku
- Kiev
- Paris
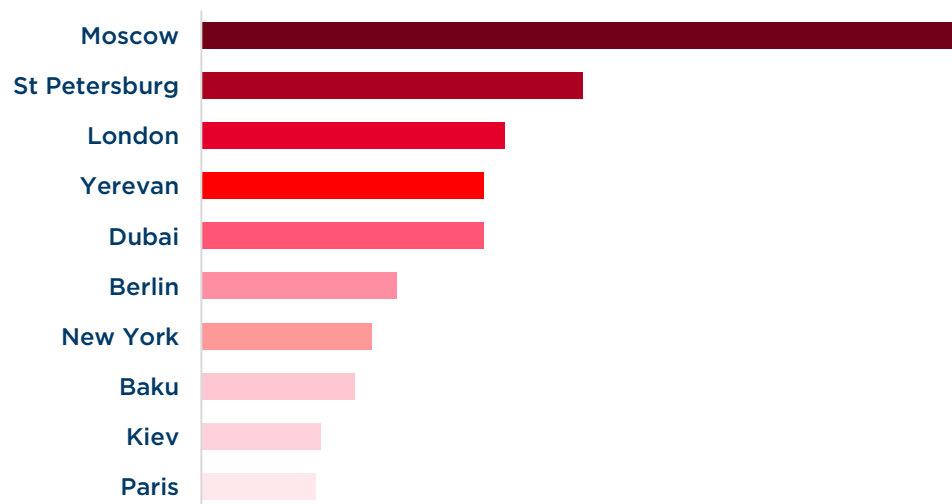
Source: AirDNA, accessed 27.06.19

Airbnb is not quite as popular with domestic guests as it is with international ones. Between June '16 and April '19 average monthly number of domestic guests renting Entire Houses on Airbnb was 179. There is an increasing trend in the number of domestic guests using Airbnb; the more familiar the Georgian market becomes with Airbnb, the more this number will grow. But it should be kept in mind that the top accommodation preference for domestic tourists is to stay with friends or relatives. This will inevitably cap the number of domestic guests renting Airbnb.

AirDNA does not provide data on the guest preferences or habits such as the purpose of arrival, length of stay and expenditure, however, globally, Airbnb guests tend to be majority leisure tourists, who stay longer and spend less than traditional hotel guests. The data on guest ratings however is available, indicating high level of satisfaction with Airbnb listings in Tbilisi. Overall average rating for the city stands at 4.72 out of 5 with 89% of properties rated at 4.5 or higher. The lowest average rating is for cleanliness at 4.8 while the highest is for communication and check in, both at 4.89.

Average Guest Rankings of Tbilisi Airbnb Properties

- Accuracy
- Value
- Location
- Communication
- Cleanliness
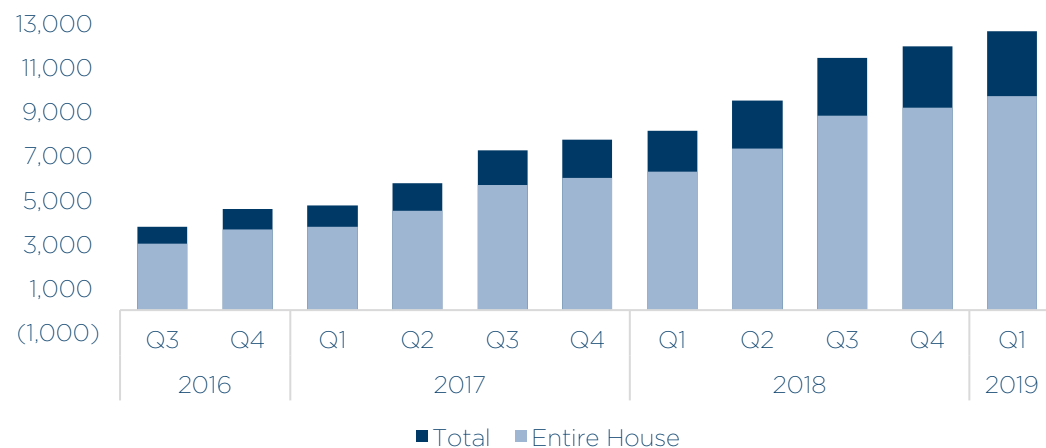- Check in
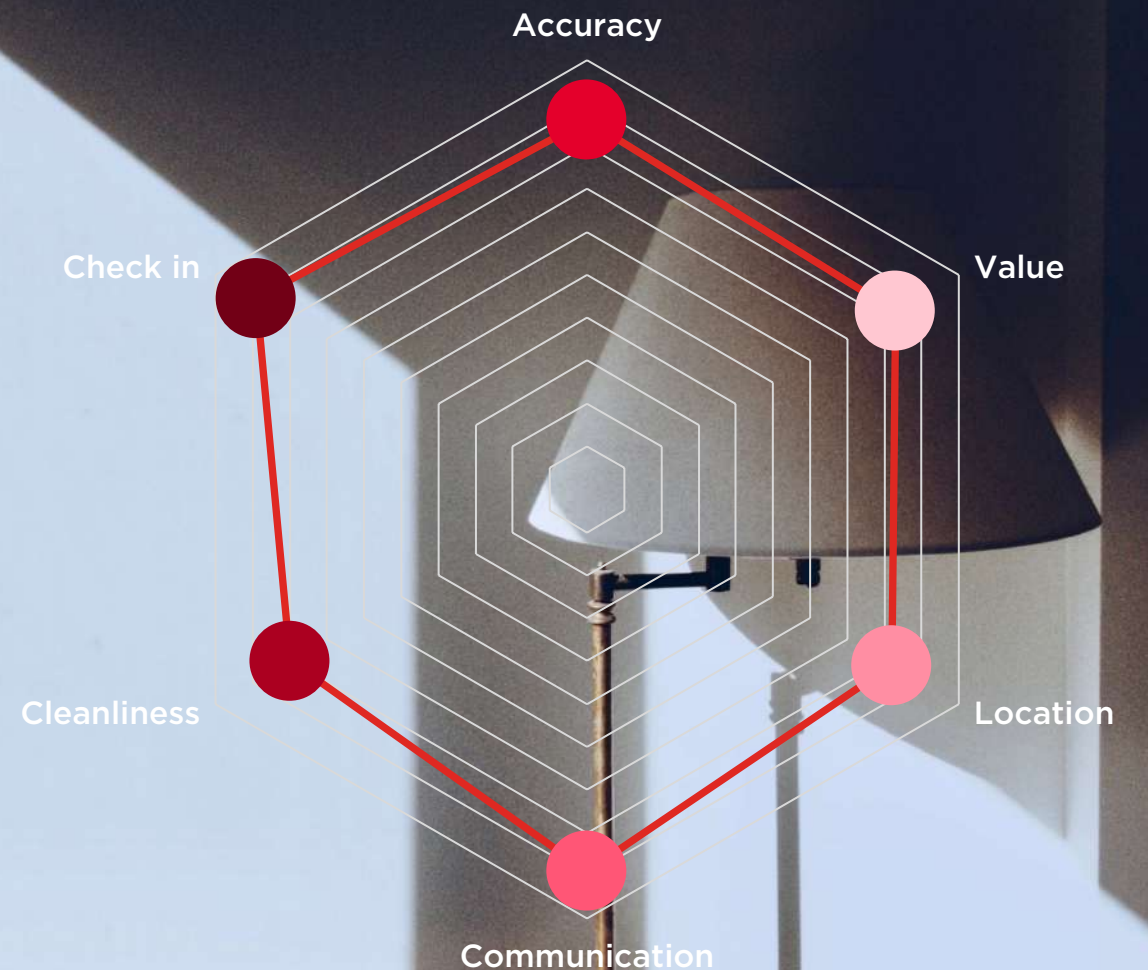
Source: AirDNA, accessed 27.06.19

Supply

Airbnb guests can choose among more than 14,400 active listings currently available in Tbilisi. The number of active listings changes as hosts add or retract previously posted listings on Airbnb. The net change in total number however is positive. By the end of Q4 2018, the total number of active listings amounted to 13,441; at the end of Q1 2019 it shot up to 14,231 as more properties became available. As of May, '19 there were 14,438 active listings on Airbnb, including all three types of offerings; 77% of these are Entire Homes, 21% are Private Rooms and 2% are Shared Rooms.
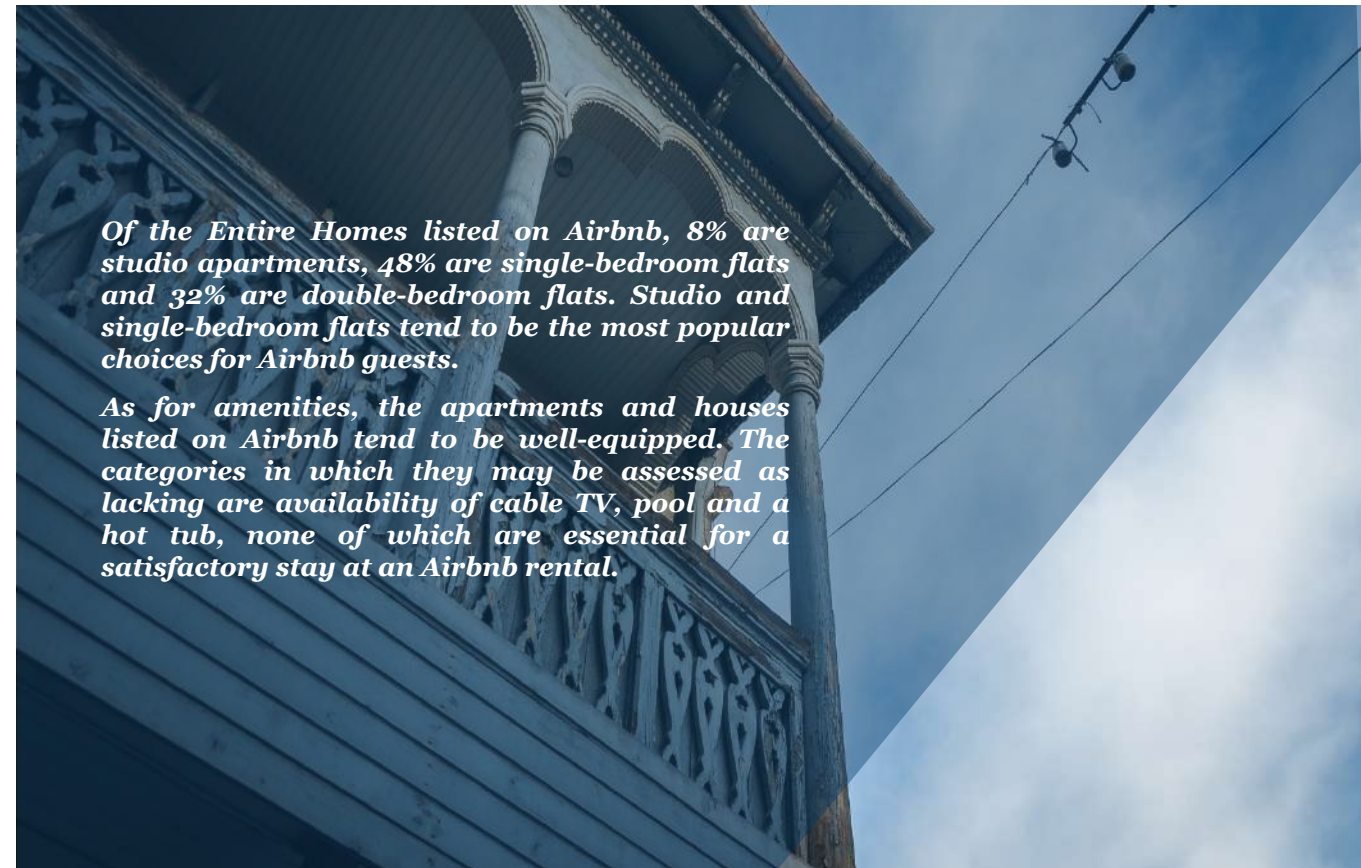
Many cities impose regulation on how long an entire home can be actively listed on Airbnb. In New York, hosts need to live in the homes they list on Airbnb for rentals that last 30 consecutive days or less. Such regulations do not exist in Tbilisi, which is one reason why majority of active listings are for Entire Home. Another reason for this is a widespread availability of alternate housing options: per AirDNA, 15% of the properties in Tbilisi are listed as available for 300 days to a year.
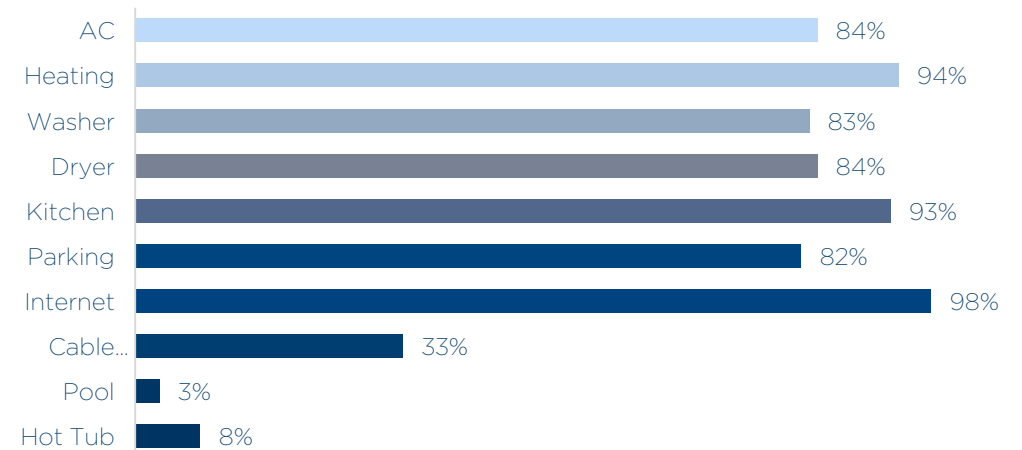
ENTIRE HOME 77%   PRIVATE ROOM 21%   SHARED ROOM 2%

Of the Entire Homes listed on Airbnb, 8% are studio apartments, 48% are single-bedroom flats and 32% are double-bedroom flats. Studio and single-bedroom flats tend to be the most popular choices for Airbnb guests.

As for amenities, the apartments and houses listed on Airbnb tend to be well-equipped. The categories in which they may be assessed as lacking are availability of cable TV, pool and a hot tub, none of which are essential for a satisfactory stay at an Airbnb rental.

Monthly Average Number of Active Listings

■ Total   ■ Entire House

Source: AirDNA, accessed 27.06.19

Tbilisi Airbnb Amenities

Amenity	%
AC	84%
Heating	94%
Washer	83%
Dryer	84%
Kitchen	93%
Parking	82%
Internet	98%
Cable…	33%
Pool	3%
Hot Tub	8%

Source: AirDNA, accessed 27.06.19

Rental Availability

53%	20%	12%	15%

■30-90   ■120-180   ■210-270   ■300-365

Source: AirDNA, accessed 27.06.19
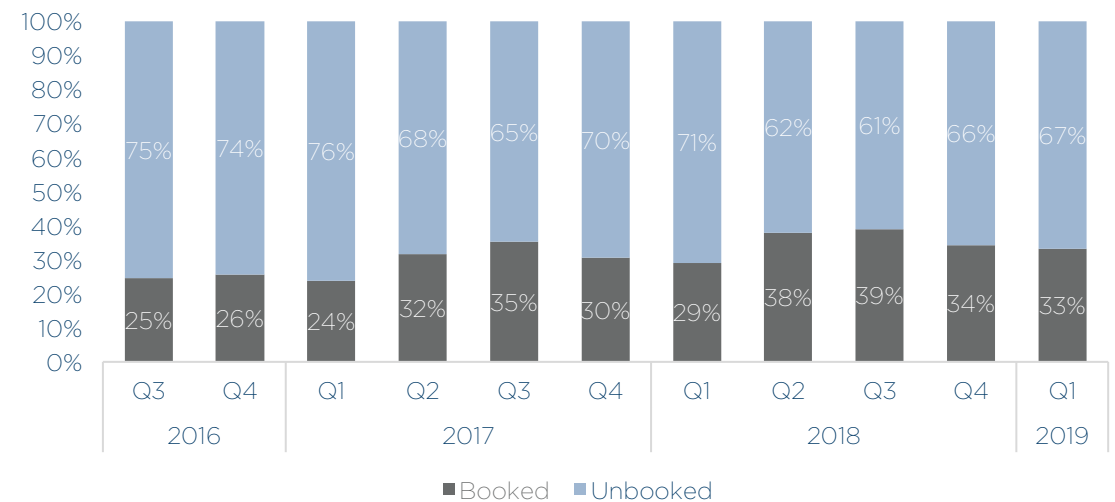
Demand

The supply of Airbnb active listings abounds in Tbilisi, however there is apparent demand for only about a third of these listings. Demand rate, or the ratio of booked properties to the total number of active listings in a given period in Tbilisi has increased from one fourth to one third between Q3 2016 to Q1 2019, which in itself is a positive development; regardless, on average, 67% of listed properties remained un-booked in Q1 '19.

Such a trend can be traced back to July 2016 when the number of active listings increased from 229 in June of that year, to 2,753. This is a growth rate of 1,102%. The number of booked properties in the same period grew only by 134%, from 89 to 208. This sharp surge in supply is mainly responsible for the relative distribution of booked and un-booked properties. It should however be added that average monthly growth rate of the number of booked properties has outpaced growth rate of active listings in both 2017 and 2018, and again in the last five months of 2019.

Average Monthly Demand Rate Fluctuations Through Years

	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Unbooked	75%	74%	76%	68%	65%	70%	71%	62%	61%	66%	67%
Booked	25%	26%	24%	32%	35%	30%	29%	38%	39%	34%	33%
	2016		2017				2018				2019

■Booked ■Unbooked

Source: AirDNA, accessed 27.06.19

Demand on Airbnb is characterized by seasonality. Demand rate fluctuates from quarter to quarter, peaking in the third quarter and dropping to its lowest in the first. Occupancy rate exhibits the same trend.
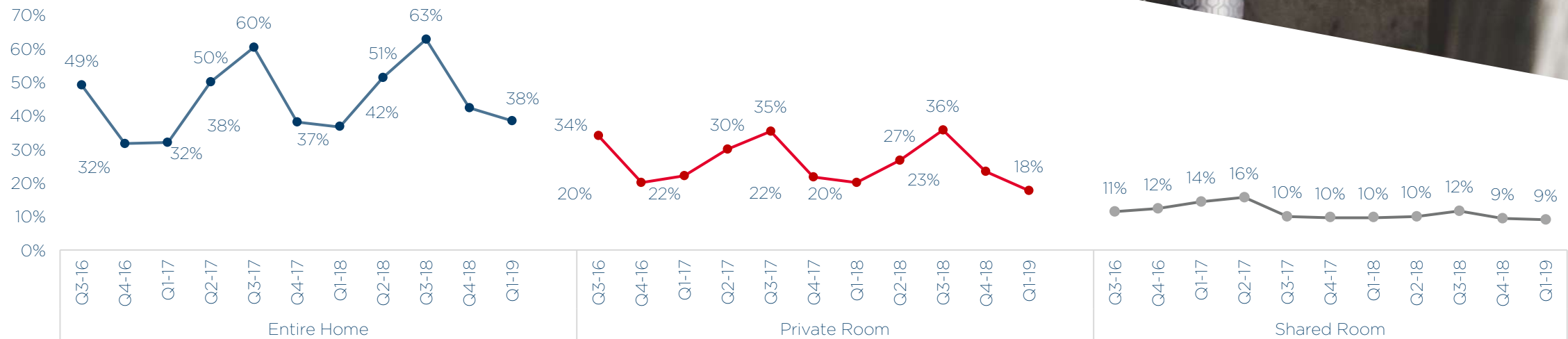
Growth Rate of the Number of Listings
2017 – 5%   2018 – 4%

Growth Rate of the Number of Booked Properties
**2017 – 9%   2018 – 7%**

Average Monthly Occupancy Rate Dynamics

Source: AirDNA, accessed 27.06.19

Seasonality is more pronounced in occupancy rates on Entire Homes and Private Rooms compared to that of Shared Rooms. The latter is the least popular category of listings, with median occupancy rates fluctuating between 9-16%. In Q3 2017, monthly average of median occupancies in Entire Homes reached 60%, increasing further to 63% a year later. In these periods, median occupancies for Private Rooms stood at 35% and 36% respectively. It should be noted that occupancy rate at Entire Homes exhibits not only seasonality, but also an slight upwards trend. No such trend is observed for either Private or Shared Rooms.

**Occupancy Rate Comparisons at Entire House Listings**
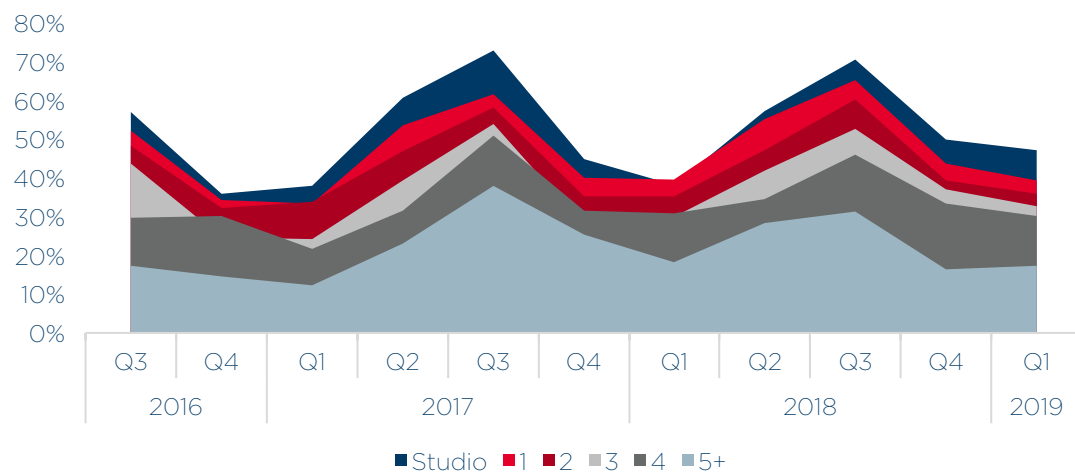
Source: AirDNA, accessed 27.06.19

Of Entire House categories, Studio apartments tend to have the highest occupancies, closely followed by single-bedroom flats. Homes with 5+ rooms are the least demanded category.

Median occupancy is a fairly good indicator of overall market performance. However, it should be noted that there are properties that perform at the same occupancy level as some of the most successful upper upscale hotels. The 90th percentile achieves occupancy of 96% or higher in high season and does not suffer from drastic seasonality fluctuations. In May, '19, 90th percentile achieved occupancy of 95% or higher.

Percentile Distribution of Monthly Average Occupancy at Entire Houses
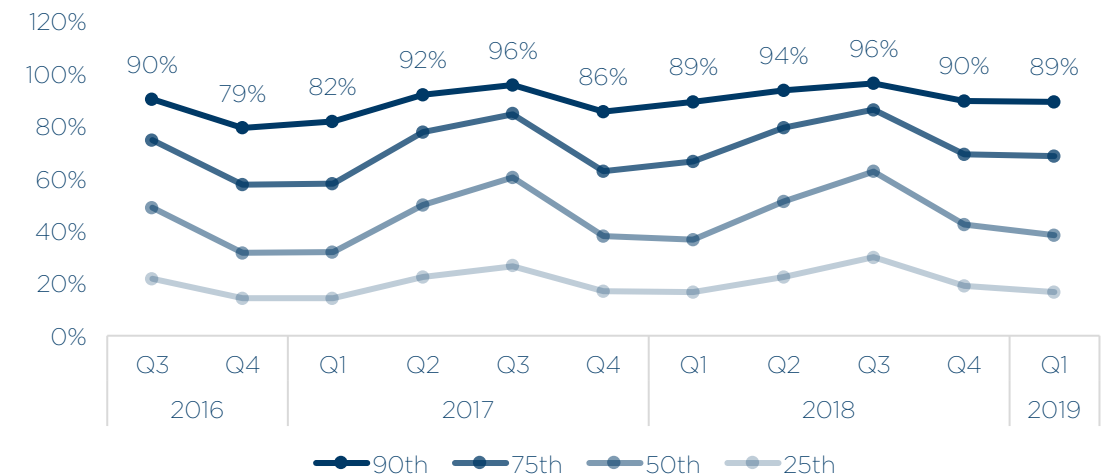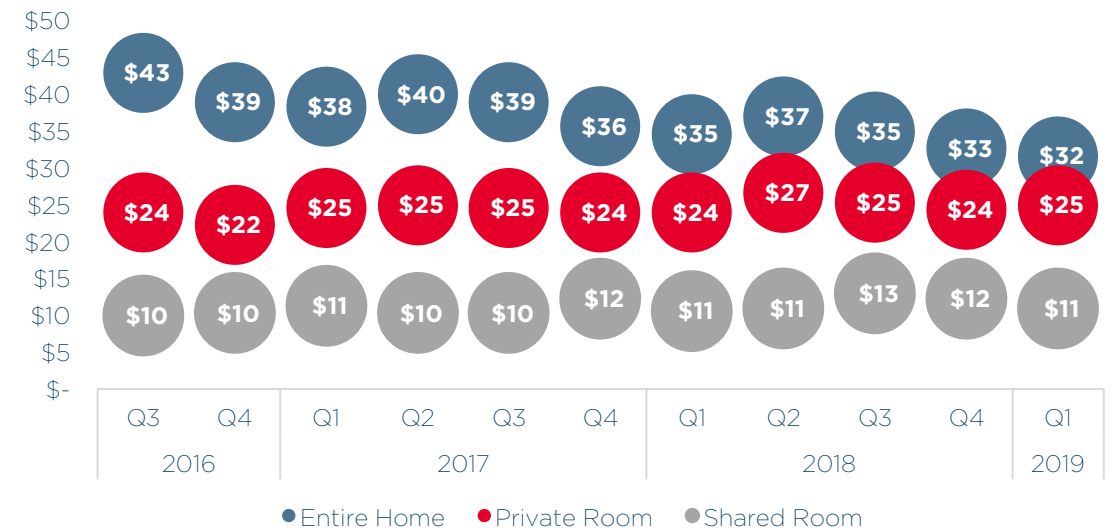

Source: AirDNA, accessed 27.06.19

Rates and Performance

Monthly average of median rates for Entire Homes came down from $43 in Q3 2016 to $32 in Q1 2019; medium rates for Private and Shared rooms have been stable over the same period. By designation and also due to the rate structure, Airbnb ranks as economy-tier accommodation option. That is not to say that it is not a profitable enterprise.

The main appeal for Airbnb for hosts is that in majority cases there is very little capital expenditure required. Median revenues are not disappointing either, however these have fluctuated seasonally, even if rates have not.

Average Monthly Rate Dynamics by Listing Categories

	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Entire Home	$43	$39	$38	$40	$39	$36	$35	$37	$35	$33	$32
Private Room	$24	$22	$25	$25	$25	$24	$24	$27	$25	$24	$25
Shared Room	$10	$10	$11	$10	$10	$12	$11	$11	$13	$12	$11
	2016		2017				2018				2019

● Entire Home ● Private Room ● Shared Room

Source: AirDNA, accessed 27.06.19

Median revenue for an Airbnb listing of an Entire House in May 2019 amounted to $457; 75th percentile earned more than $778 and 90th percentile earner at least $1,209. The highest earnings registered in Q3 2017, when monthly average median revenue for Entire Houses amounted to $573. Q4 2016 was the least profitable at $325. Private Rooms and Shared Rooms due to lower rates and lower occupancy tend to bring in lower revenues than Entire Homes. Median revenue from Private Rooms has ranged between $100-250 and that of Shared Rooms has fluctuated between $30-50 in the period under discussion.

Historical total market revenue for the 35-month period being discussed adds up to a total of $95.5 million, with August 2018 being the most profitable month to date.

With the given data, it is impossible to accurately gauge to what extent rates affect occupancy, and whether properties with asking prices in the 90th percentile also have high occupancy rates. The list of Top Properties as classified by AirDNA is provided, however this list cannot be generalized to the entire market. It is still apparent that in terms of location Old Town is the most popular and highly ranked. This area is populated with old-style, expansive houses, which provide exactly the kind of local, authentic, immersive environment that a typical Airbnb guest is looking for. Geographic proximity to the tourist center is a strong advantage as well.

Revenue Flows in Airbnb Properties by Type of Listing
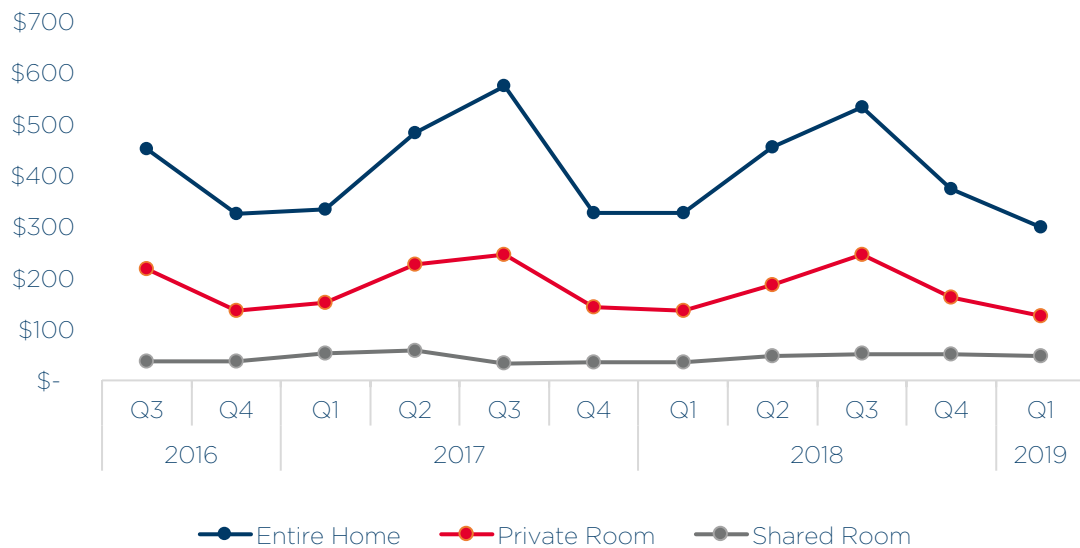
Source: AirDNA, accessed 27.06.19

Legend for the Top Properties Map

Top 12 Airbnb Properties and their Performance Indicators
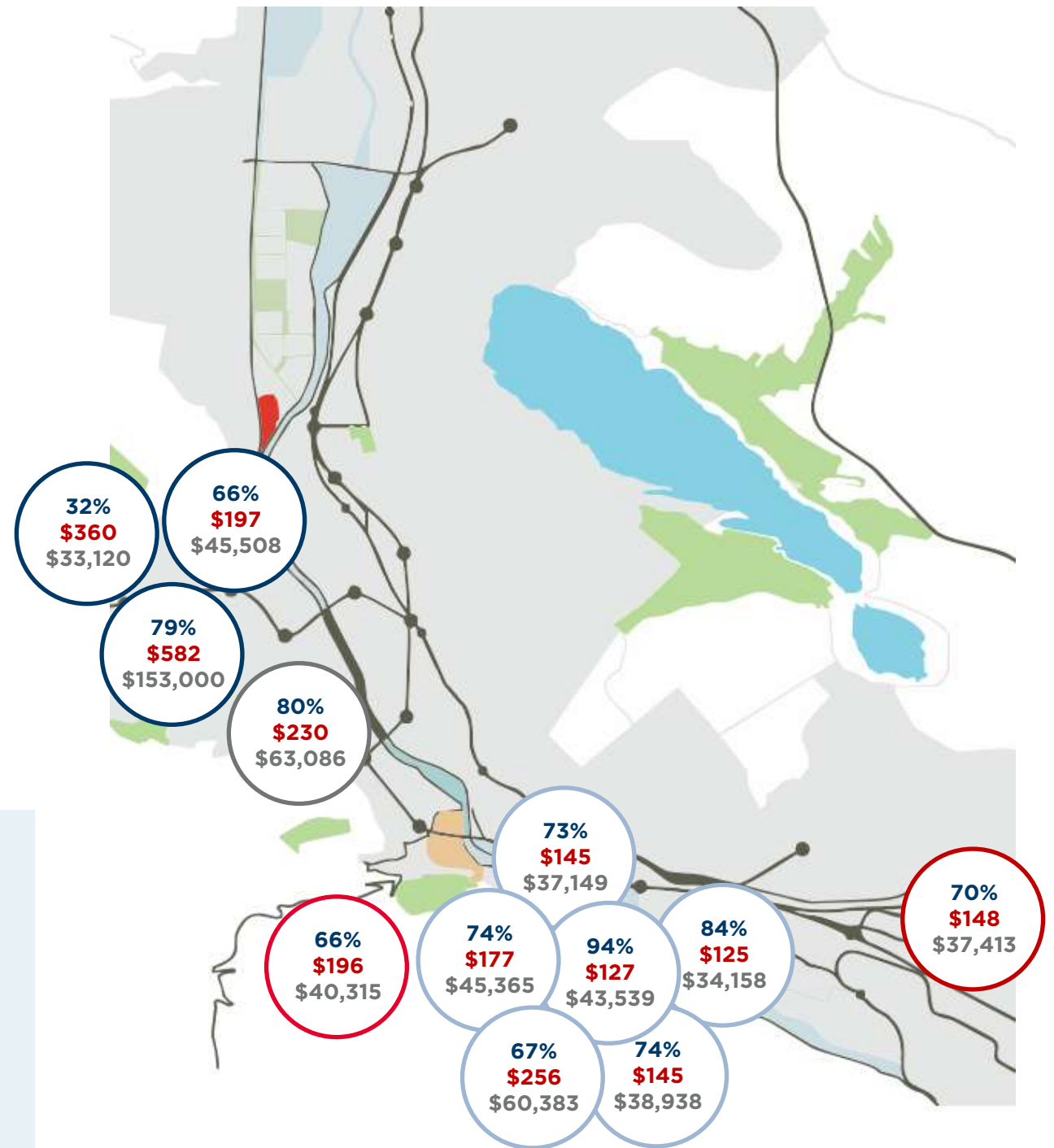
Source: AirDNA, accessed 27.06.19, Cushman & Wakefield Georgia

Comparative Context

When Airbnb was first launched, it did not seem like it could compete with giants like Marriott or Accor. Nowadays, globally, in terms of room offerings, Airbnb falls behind only Marriott. According to the Georgian National Tourism Administration, by the end of May 2019 there were 9,548 rooms offered at hotels in Tbilisi, as opposed to 14,438 active listings on Airbnb. In Q1 2019, average occupancy in the city hotels was 53%; that at Entire Houses was 38%. Airbnb Listing Nights Booked added up to 135,036 in Q1 2019; in comparison, more than 460,500 room nights were sold by hotels.

Does Airbnb present competitive threat to hotels in Tbilisi? At this point, Airbnb operates at the level of economy to midscale segment and as such may pose threat to these facilities. However, overall, Airbnb has yet to become a competitive threat to Tbilisi hotel sector as a whole. As more luxurious apartments are listed, diversifying the Airbnb offerings, the greater traction Airbnb will be able to gain, obtaining an advantage over the hotels as well.

Looking Ahead

- Entry of Airbnb Plus and Airbnb Experience on the Georgian market – supported by both infrastructure and the potential experiential offerings

- Increasing number of luxury listings, as Airbnb is starting to be seen as a legitimate, profitable business

- Potential of Airbnb to tap into business tourism

- Threat of regulation

- Threat to the local communities; threat of the "revolving door of strangers"

- Benefits of Trending: rising recognition of Georgian cities on the world stage

Glossary

Active Listing – property listed as available for any number of days in a given time period

Airbnb – online marketplace and home sharing platform used to advertise and rent entire properties or parts of the properties, usually for a short-term stay

Airbnb Experience – an Airbnb service providing activities designed and led by locals for Airbnb guests

Airbnb Plus – luxury class of Airbnb, offering properties that have been verified by the company for "quality and comfort"

Booked Property – property that was booked at least once in a given time period

Demand Rate – only used in this report, this term denotes the share of booked properties in the entire pool of active listings in a given time period

Entire Home – type of listing where the entire property is available for rent

International Visitor Trips – "International visitor is a traveler taking a trip to a main destination outside his/her usual environment, for less than a year, for any main purpose (business, leisure or other personal purpose) other than to be employed by a resident entity in the country or place visited." (GNTA)

Median – 50th percentile i.e. value below which 50% of the observations fall

Occupancy Rate – ratio of the number of days a property is occupied to the total number of days it has been available in a given period

Percentile – a statistical measure indicating the value below which that given percentage of observations falls i.e. 90th percentile indicates that 90% of observations have a value lower than the value attributed to the 90th percentile

Private Room – type of listing where guest is only allowed full access to a room they are renting

Seasonality – characteristic feature of a time series, where the data is exhibiting regular, period-specific fluctuations

Shared Room – type of listing where guest share the room they are renting with one or more roommates

Un-booked Property – property that was not booked at all in a given time period

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