LAVANDA

How to Optimise Portfolios with Short Stays

PART 2: THE CASE FOR SHORT STAYS IN TIER 2 AND TIER 3 CITIES

Over a series of 4 articles, we look at why short stays are a key part of the mix for student accommodation portfolios. We investigate when and where they are able to transform a building's economics with accretive NOI, and how to ensure your short stay strategy delivers maximum value to all stakeholder groups.

- Part 1: Understanding short-term rental demand
- **Part 2: The case for short stays in tier 2 and tier 3 cities**
- Part 3: How short stays create value for student accommodation buildings designated for student-only occupancy
- Part 4: Short stay best practices for student accommodation operators

We hope you find these articles informative. If you have any questions at all and would like to speak to one of our student accommodation specialists, please just send an email to **hello@getlavanda.com**

PART 2:

THE CASE FOR SHORT STAYS IN TIER 2 AND TIER 3 CITIES

It’s a common assumption that short-term rental demand is only strong in capital cities and maybe a small handful of secondary cities that benefit from strong tourism. Whilst this may have been the case 10 years ago when disruptors like Airbnb were still in their infancy, it is categorically not the case today. In this article we explore the nature of urban short stay demand in the UK and uncover some of the trends underpinning its rapid proliferation and growth.

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Top 10 cities to Airbnb in the UK

In August 2022 Pikl, an insurance provider to short-term rental landlords, performed an analysis of all 69 UK cities before publishing the top 10 cities to Airbnb across the UK. The list ranks cities by average nightly price, predicted revenue per month (based on an average nightly price and occupancy rate), and quarterly rental growth in that area.

Whilst Airbnb does not, of course, represent the entire short-term rental market, it's not a bad proxy. The results of this analysis will likely challenge any preconceptions held by many: Dundee holds the top spot, and Brighton (3), Chichester (5), Bristol (7) and Portsmouth (10) all making it onto the list.

Ranking	City	Average Nightly Price (£)	Predicted Revenue per Month (£)	Quarterly Rental Growth (%)
1	Dundee	279	1900	16
2	City of London	263	1900	21
3	Brighton & Hove	212	2300	27
4	Bath	204	2300	16
5	Chichester	202	2000	28
6	Edinburgh	208	2100	19
7	Bristol	174	2300	16
8	York	179	2200	16
9	Cardiff	207	1700	17
10	Portsmouth	189	1800	24

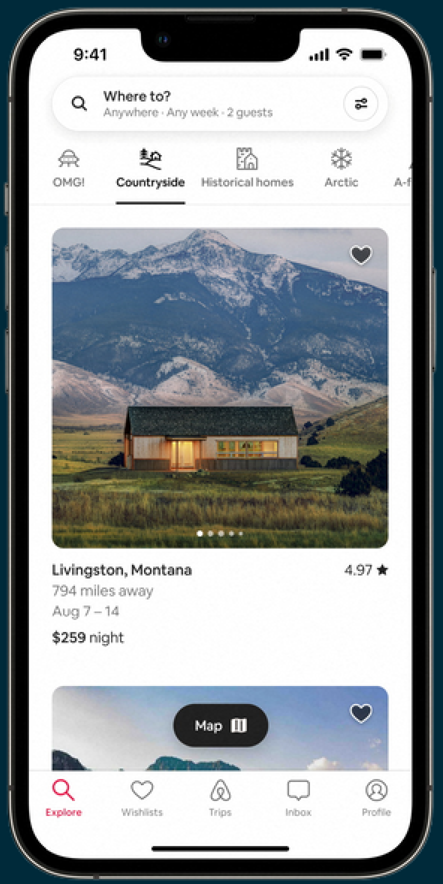
Particularly interesting is how the list illustrates strong growth in short-term rental demand within secondary and tertiary cities - a trend that we‘ve witnessed and monitored at Lavanda over the last 5 years, and which only continues to be reinforced year on year.

What's driving growing demand in Tier 2 and Tier 3 cities?

We believe a primary driver of short stay growth in Tier 2 and Tier 3 cities is on the supply side - i.e. a sharp increase in the availability of short stay accommodation. Demand to rent on a short-term basis has always existed in these locations (to a greater or lesser extent), however it has been largely unfulfilled due to a lack of available inventory. So what has changed to prompt the increase in supply?

airbnb

A lot of this step change in supply can be attributed to Airbnb. As a marketplace, Airbnb's primary growth lever is to drive demand to rent via its online platform, then match that demand with relevant supply - something it has done a phenomenal job of over the years.



By relentlessly focusing on the quality of its user experience, and by making the discovery and rental of accommodation possible with just a couple of clicks via a smartphone app, Airbnb has set a new benchmark in online rental experience.

High quality photography, beautiful design and instant booking features have attracted hundreds of millions of monthly active users onto its platform, all of whom find booking accommodation a less stressful, more rewarding experience through Airbnb. Having established itself as a market-leading brand commanding a massive, highly engaged audience preferring to rent via its platform - unlocking the supply side becomes easier.

Obtaining inventory is fairly straightforward when demand to rent is strong. Consequently landlords (hosts) have flooded onto Airbnb looking to profit from higher rates, combined with greater flexibility and control over their renters. This marketplace dynamic has brought rapid liquidity to secondary and tertiary short stay markets, and is the primary driver of growth as these cities become more established and mature short stay markets.

Secondary growth drivers

A number of very important secondary drivers of growth exist on the demand side and can be attributed to more macro economic and societal trends.

Key examples of these are as follows:

- Remote Working
- Domestic business travel
- Group student travel

Remote working

Remote or hybrid working has been adopted in some shape or form by the majority of workplaces since the pandemic. This has meant that workers are no longer confined to their home or office, and are instead increasingly able to work from any location they choose.

This has accelerated the phenomenon of the "digital nomad"; young professionals who value travel and experience over being anchored to a single residence.

Consequently, we've seen an explosion in people travelling domestically, hopping from city to city where they typically rent an apartment on a very flexible short or mid-term basis so that they can experience that location and culture.

Domestic business travel

The domestic travel market remains incredibly robust; specifically consultants, service providers, engineers and similar professions needing to travel around the country to deliver their services and support their client base.

Often these trades are self-employed, so for shorter stays they often have a preference for lower cost alternatives to hotel accommodation, or alternatively are seeking a base for more extended stays whilst on secondment.

Rising inflation and the continuing cost of living crisis favour lower cost non-hotel accommodation categories, so this trend is expected to continue throughout the recession and likely beyond.

Group student travel

Having been severely impacted by the pandemic, group student travel is back in force. Whether for sports (touring teams) or education (cultural trips, language schools, summer camps, etc.), schools and universities are filling their calendars to make up for lost time and revenue over the last few years.

Group student travel - specifically due to the need to keep the cost of accommodation affordable without compromising on location, whilst also needing to accommodate groups of children and young adults under a single roof, etc. - is a major driver of non-hotel bookings over the summer months within Tier 2 and Tier 3 cities.

What opportunities exist for student accommodation operators?

With short-term rental demand, robust and predictable month to month, growing rapidly YoY, and with an obvious peak over the summer - this opens up a number of highly lucrative solutions and strategies for student accommodation operators to explore:

Optimise the summer holiday period

By optimising the utilisation and performance of vacant units over the summer months, student accommodation operators can profit from peak seasonal short-term rental demand whilst at the same time offering students more flexible and affordable 42 week leases (as opposed to the more conventional 51-week lease).

The resulting increase in occupancy over the summer drives high-spending footfall to local retail and hospitality businesses at exactly the time of year when many struggle due to the exodus of students from the cities where they study. As a result, optimised "summer strategies" enable accommodation operators to more proactively develop and nurture more balanced, year-round communities. The current recession makes these benefits particularly meaningful and significant for local economies.

Monetise term time voids

Should voids appear across your portfolio during the academic year, these can be neatly occupied and monetised with short stay guests.

Having easy, flexible access to short stays is a hugely valuable tool that supports and optimises the core rental business. It equips student accommodation operators to better navigate potential downside risks, as well as realise significant upside opportunities, and for these reasons is increasingly considered “table stakes” by institutional investors. Operators that don’t have a short stay solution/strategy in place are simply leaving money on the table.

Find out more

Every building and every location is unique.

To understand how your student accommodation portfolio can profit from short stays, our student accommodation specialists can produce a free “Impact Analysis” analysing the business case for each asset.

Just send an email to hello@getlavanda.com or visit getlavanda.com

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