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Airbnb, Marriott battle upstarts for short-term rental market

Amateur hosts dominate the industry, but big hotel companies and some well-funded startups are out to change that

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In the niche between Airbnb Inc.'s home rentals and traditional hotel rooms, a new breed of startup is offering a hybrid option aiming to merge the best of both worlds.

Companies like Domio, Lyric and Sonder lease a number of floors in commercial or residential buildings, stock them with comfy furnishings, then rent them out for short-term stays.

These companies are betting that some guests are growing wary of Airbnb, where experiences and services can vary depending on the host and in some cases can run afoul of local laws. But they also believe many travelers would prefer the comfort of an apartment over a standardized hotel room.

The unpredictability of small-time hosts is a “problem that doesn’t improve over time like an algorithm,” said Jay Roberts, Domio’s chief executive officer.

An Airbnb spokeswoman said the company has been working on partnerships with real estate owners across the country. The company has also been expanding its offerings, in part to ensure high-quality stays, for example with a program that includes only top-rated hosts.

How can apartment-hotel startups compete with big corporations like Marriott and Airbnb? Join the conversation below.

These startups won't have the field to themselves for long. Big hotel operators are also starting to offer so-called apartment hotels—professionally managed accommodations in private residences or commercial buildings—as alternatives to the individual host model popularized by Airbnb and Expedia Group Inc.'s HomeAway.

Marriott International Inc. announced a new home-rental business last week that would include 2,000 high-end homes in 100 markets across the U.S., Europe and Latin America. The company says it is working with property managers to ensure hotel standards for safety and service.

Even Airbnb is experimenting with a similar approach. The company recently announced a partnership with real estate owner RXR Realty to turn 10 floors near the top of a Rockefeller Center office tower into hotel-like accommodations, the first of what the partners hope will be several in New York.



New York City-based Domio, meanwhile, recently opened its first location in New Orleans, in a venture with investment firm Upper90. Units look like conventional apartments but are rented out by the night at rates starting at \$149. Perks include a kitchen and access to washing machines and a rooftop pool, along with hotel-room staples like cable TV and free toiletries. Founded in 2016, the company is in negotiations to open another 15 apartment hotels, with more in the pipeline.

Sonder, which like Airbnb is based in San Francisco, has raised \$135 million in venture capital and is close to raising more in a new round at a valuation of around

\$1 billion, The Wall Street Journal recently reported. The company recently opened a short-term rental location in Manhattan's financial district.

Some cities' restrictive short-term rental laws are shaping competition in the industry, where typically only licensed hotel operators are permitted to offer lodgings by the night.

New York City has some of the strictest such rules in the country, barring people from listing entire apartments for rent for less than 30 days. Sonder says its property isn't affected by the law because it is built to hotel code, with tweaks like fire alarms that include an announcement system and wider staircases.

The regulations are one reason why Airbnb—which built a company valued at \$31 billion by relying on millions of individual hosts to list their homes for rent—is increasingly interested in the apartment-hotel industry, according to people familiar with the company. It is also part of Airbnb's plan to diversify its business ahead of a planned initial public offering, which bankers expect next year.

Last year Airbnb dispatched Alex Ward, of its real-estate team, to New York to help solve the company's supply problem in the city and warm the local real-estate industry to potential cooperation, according to people familiar with the effort.

Airbnb held talks with several startups, including Domio and Lyric, a luxury-rental startup catering to business travelers with hotel services like room cleaning and 24-hour customer support, say people familiar with the matter. Airbnb discussed providing financial backing to startups to lease buildings, and in return the units would be listed exclusively on its site, these people said.

While Airbnb didn't reach a deal, it is leading a \$160 million round of debt and equity funding for Lyric.

Lyric's CEO, Andrew Kitchell, said many of the companies looking to open apartment hotels will realize they need a specialized operator and seek to join with Lyric, which currently operates around 400 apartments and hopes to expand to 2,000 over the next 12 months.

“It’s the sort of thing that sounds easy,” he said, “but is extremely hard to do.”

Some real-estate firms are betting they are well-positioned to enter the fray. Related Companies is working on short-term rentals at one of its San Francisco properties starting this summer, Nicholas Vanderboom, chief operating officer of Related California, said. The developer plans to set aside 10% of the building’s apartments for short-term use.

Customers will have to book for at least 30 days to comply with local laws, and Related said it is targeting some guests who might otherwise stay at a hotel for an extended period, such as business travelers or those visiting other properties while planning a move.

