
Vacation Rental Case Study

Puerto Rico



October 2019

AllTheRooms Analytics

Zack Davisson

Table of Contents

Table of Contents	1
1. Introduction.....	2
2. Puerto Rico’s Vacation Rental Market	3
3. Region Breakdown	6
4. Host Analysis.....	11
5. Puerto Rico Guest Demographics	14
6. The Impact of Hurricane Maria	16
7. Puerto Rican Vacation Rental Regulations.....	18
8. Impact on the Hotel Industry in Puerto Rico.....	21
9. Conclusion	22
10. Contact Us	23

1. Introduction

Puerto Rico should be a go-to vacation destination for millions of Americans. A trip to the island nation has all the exoticism of a Caribbean or Latin American getaway, and all the convenience of a domestic one. US citizens can take a trip to Puerto Rico with ease as no passport is required, flights are often cost-effective and quick from the East Coast, and other worries surrounding travel outside of the States are somewhat neutralized. These include exchange rates (US currency is used) and language (Spanish is the primary language but many locals in the cities speak English).

However, Puerto Rico's travel appeal has, more often than not, been reduced to mere convenience. Puerto Rico is a world-class destination. The island is constantly alive with music and has introduced the world to new forms of salsa and reggaetón, San Juan is home to one of the most stunningly well-preserved old towns in the Caribbean, and the beaches are lined with palm trees and accented with turquoise waters.

Despite tourism already contributing to 10% of the island's GDP, Puerto Rico still has room to grow as a market. But before reaching its full potential, it's important to ask how the vacation rental market is currently performing. While many areas of Puerto Rican tourism are thriving, the short-term rental space is just beginning to blossom.

2. Puerto Rico's Vacation Rental Market

Since the onset of 2016, Puerto Rico's vacation rental market has seen consistent growth on both the supply and demand side, with total room nights booked increasing significantly. Even when tourism suffered periodically and vacation rental market performance subsequently retracted, there is cause for celebration. Somewhat surprisingly, in 2018 the island nation's vacation rental market recovered rather quickly after Hurricane Maria, and tourism is clearly thriving despite the phenomenon.

From July 2017 to July 2019 the number of active listings in Puerto Rico increased by 60% from 5,142 to 8,503 (Figure 2.1). This massive increase in supply has not oversaturated the market. Instead, since July 2017, demand has remained strong and gross yearly revenues have scaled accordingly, increasing from \$58MM to \$115MM at the end of July 2019. This is a reassuring sign for the future of vacation rentals in Puerto Rico as the market has grown steadily.

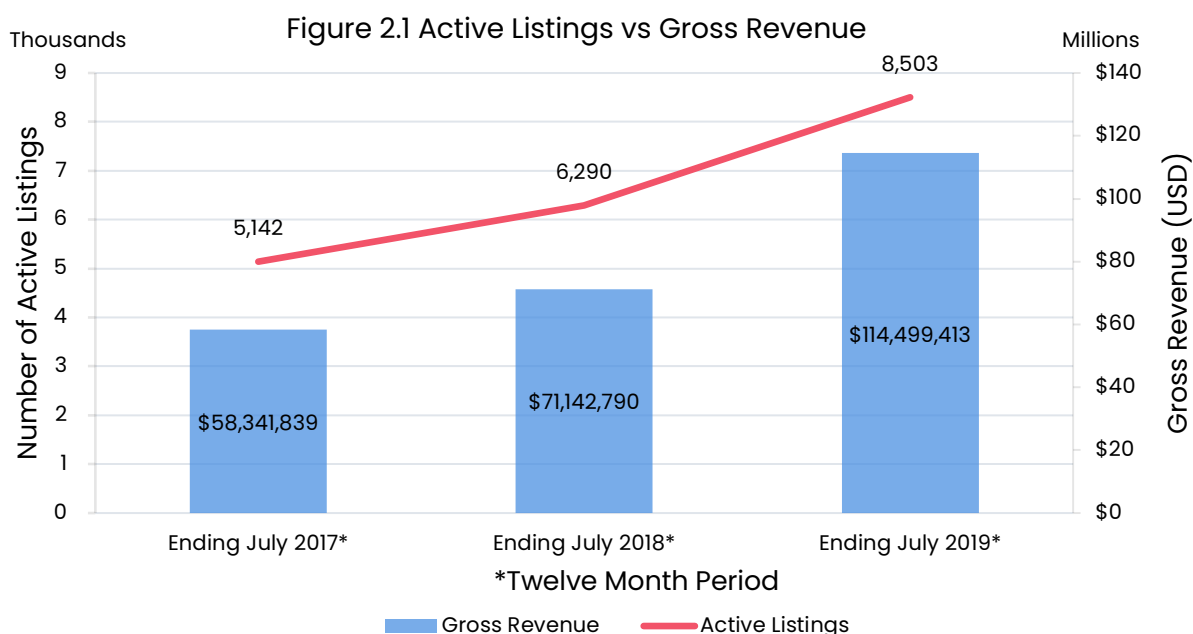


Figure 2.1

Average Daily Rates (ADR) and Occupancy Rates have been the most consistent since 2016 (Figure 2.2). Puerto Rico has seen an average ADR of \$127 over the last three years. Interestingly, immediately prior to the inevitable drop in pricing power due to seasonality, ADR achieved an all-time high of \$137. Unfortunately, during that seasonal drop due to Hurricane season, Maria landed a direct hit on the island, devastating much of the infrastructure and subsequently driving down demand and pricing power to near zero.

Since the hurricane, peak summer ADR has not recovered to quite the same extent, although has still remained strong. Meanwhile, occupancy has steadily increased over the same time period, and is currently at both seasonal and three-year highs. Occupancy rates average just over 27%, with a double peak seasonality in March and July yielding higher rates. In 2019, peak seasonality in the spring and summer resulted in an occupancy of 39% and 35% respectively.

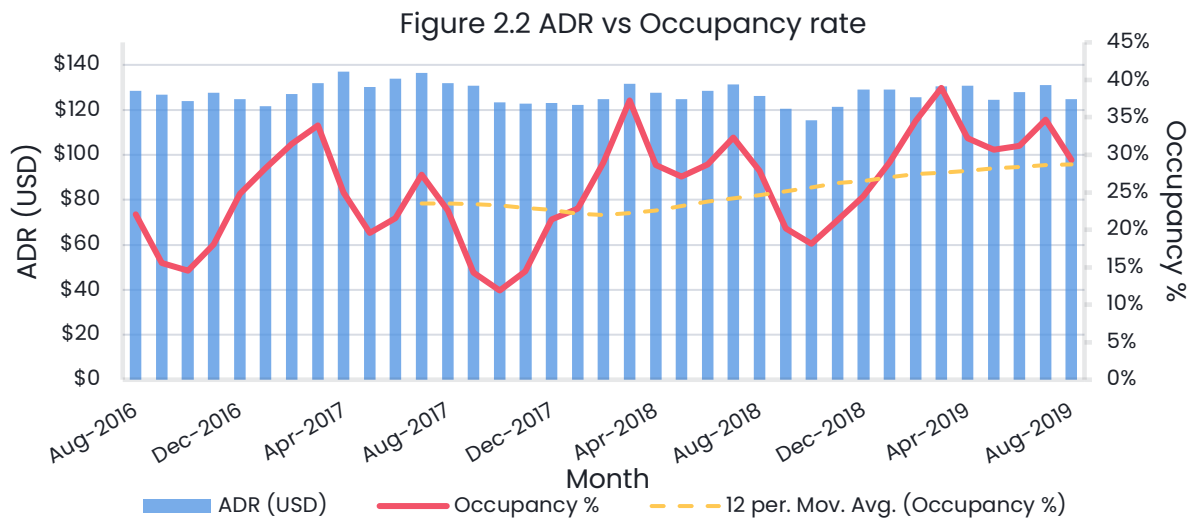


Figure 2.2

Supply numbers are driving growth across the season. This steady growth in supply coupled with strong demand has resulted in a ballooning of nights booked (Figure 2.3).

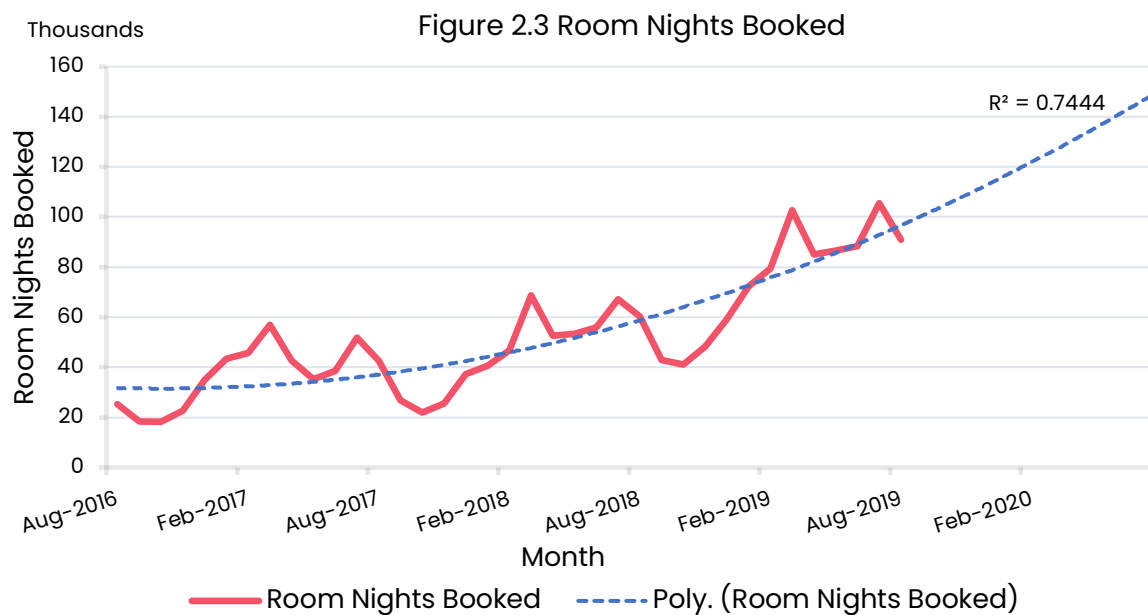


Figure 2.3

Supply has absorbed the growing demand of travelers coming to Puerto Rico looking for a rental. Subsequently, gross revenues have showcased consistent YoY growth (Figure 2.4). The weakest period of revenue growth occurred just after the hurricane. As of today, the market looks to have recovered fully to pre-Maria growth rates.

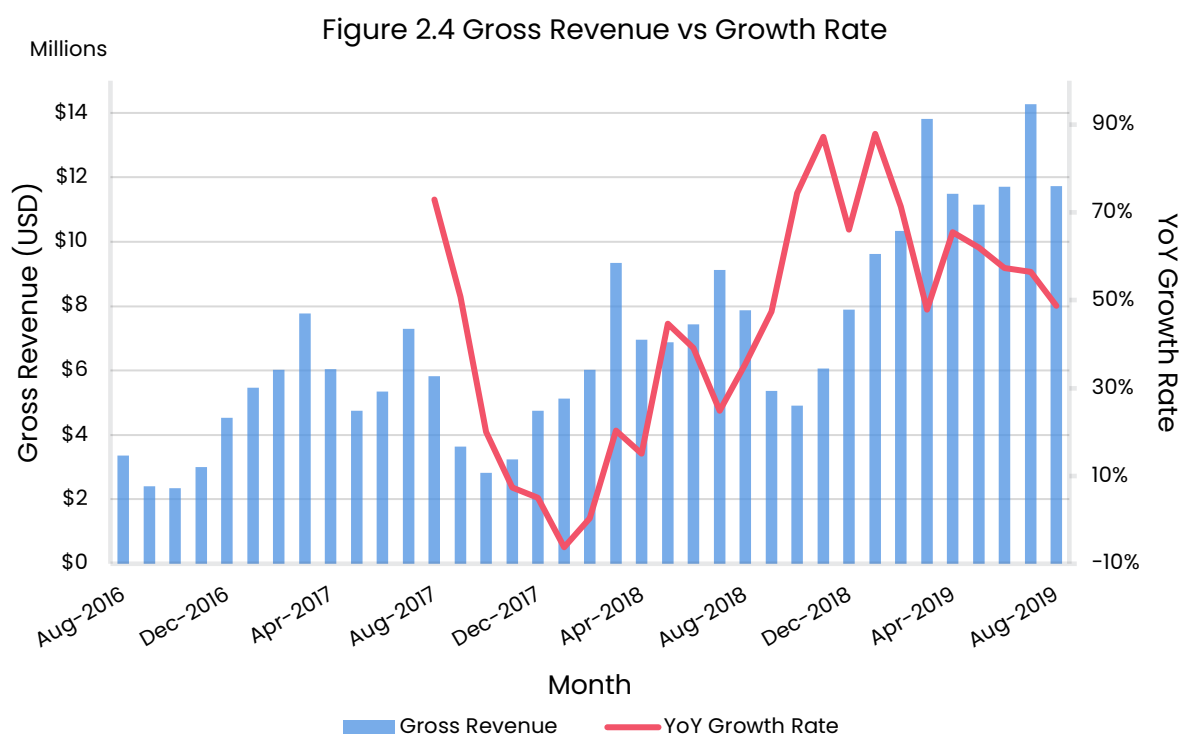


Figure 2.4

3. Region Breakdown

Puerto Rico's six regions are divided by their geographical location (Figure 3.1). The only region that may not be self-explanatory is "Metro" – which is the metropolitan area of Puerto Rico occupied by its colorful capital, San Juan.



Figure 3.1

Perhaps unsurprisingly, San Juan's Metro region leads in region-specific performance. San Juan is by far the largest city on the island, with around 350,000 people living in the municipality and over 2 million living in the San Juan Metro area. As of July 2019, Puerto Rico's Gross Revenues are peaking at over \$14MM, 35% of which are generated by the Metro region (Figure 3.2).

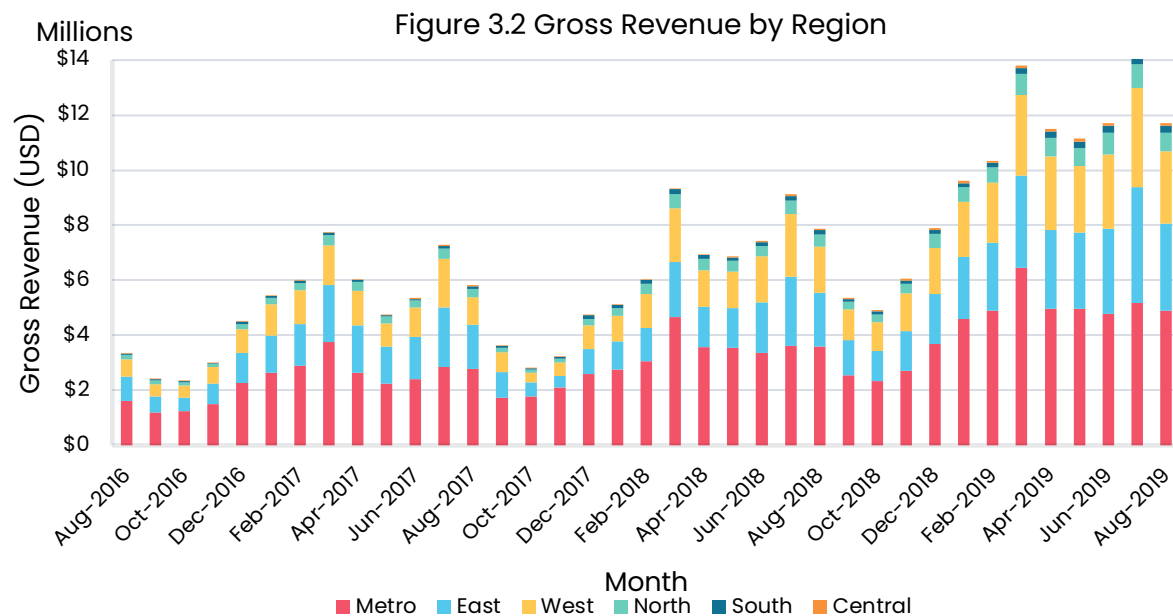


Figure 3.2

At Metro's current peak, which came in March of this year, Gross Revenues were around \$6 million generated from about 4,000 units which saw an average of 23 nights per month booked (Figure 3.3 – 3.4).

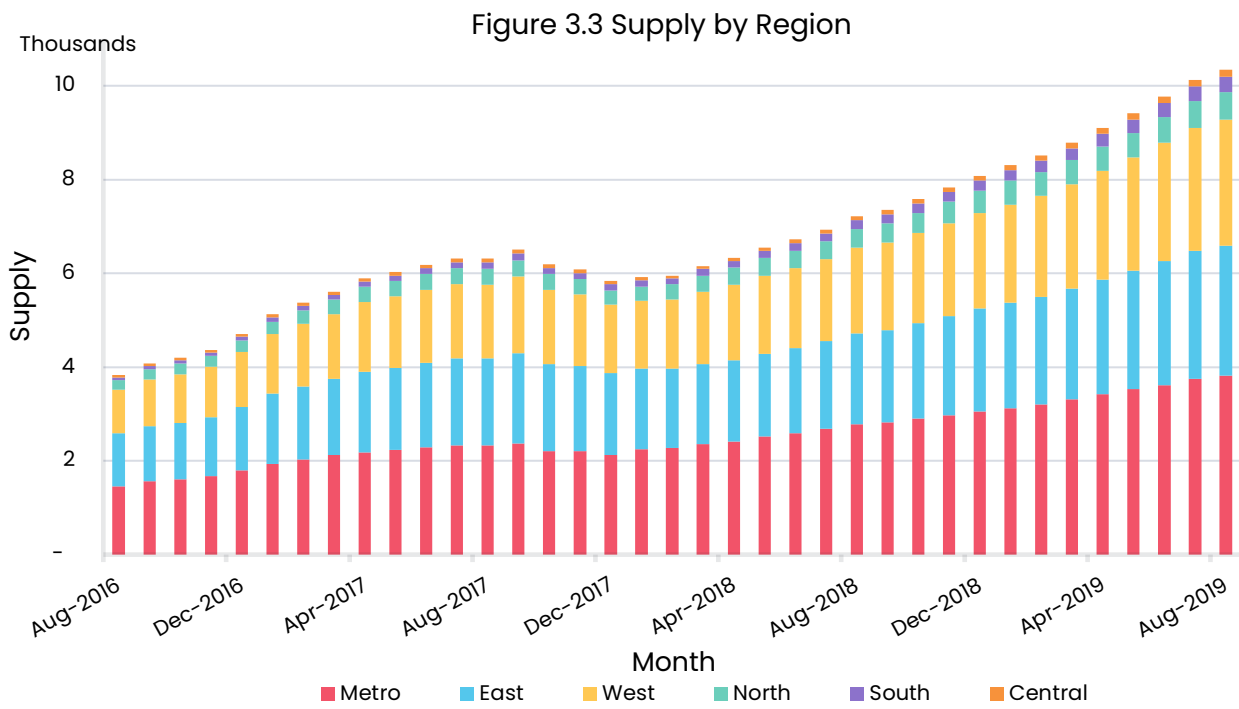


Figure 3.3

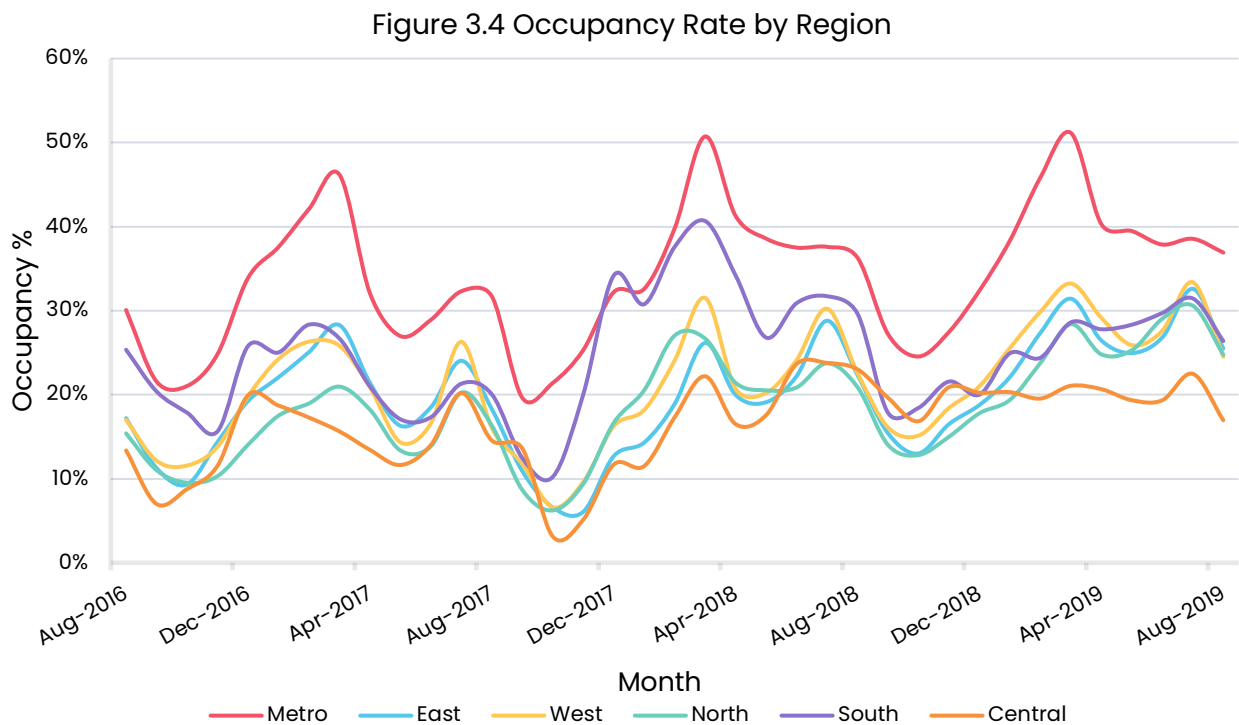


Figure 3.4

Interestingly, following Hurricane Maria, the South briefly overtook Metro in occupancy – the cause of this increase (tourism or recovery efforts) is unclear. However, since then the South has leveled out and shown occupancy trends similar to those of the East, North, and West regions. These regions though cannot touch the Metro’s dominance. While their average Occupancy Rates sit around 19-21%, the Metro region has maintained a 34% average Occupancy Rate.

The one metric the San Juan area does not dominate is ADR (Figure 3.5). Despite having the highest demand and supply figures, vacation rentals are on-average cheaper in the capital than in many other regions throughout the island. This suggests San Juan is a different kind of destination than the rest of the island.

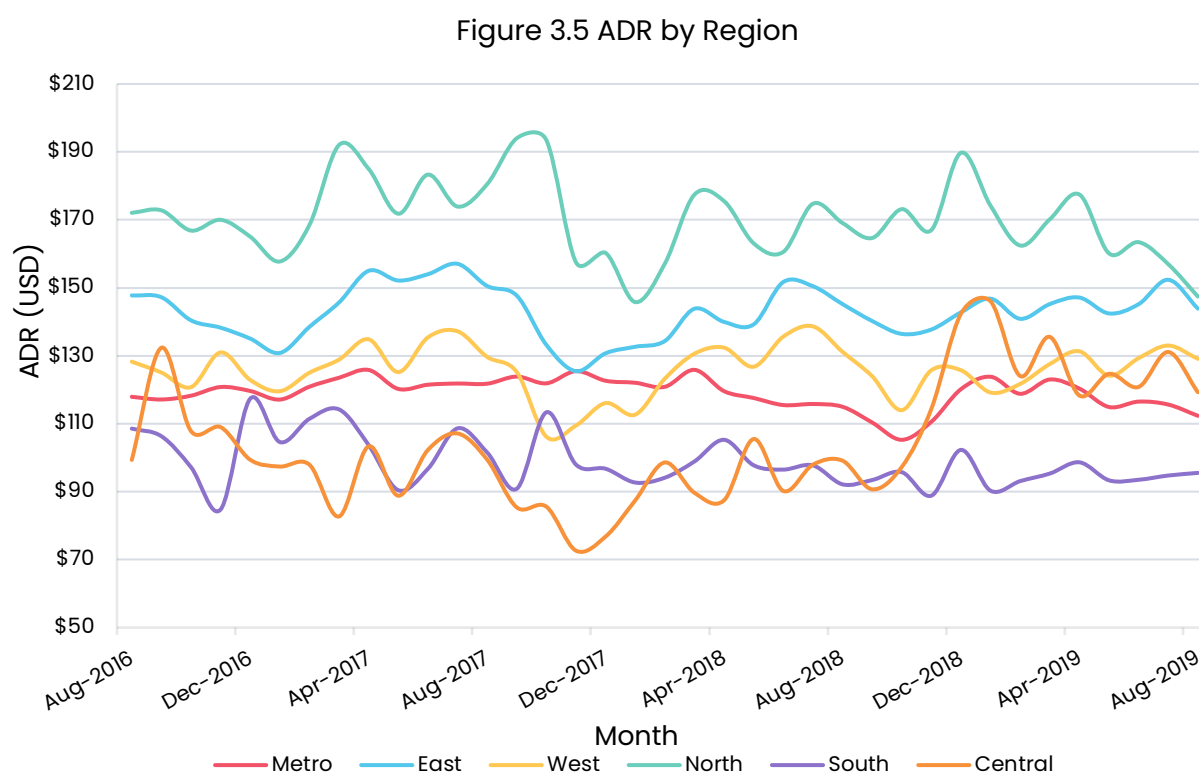


Figure 3.5

While the West is home to the popular beach destination Rincón, and the East has Vieques Island, San Juan is a major city. People going to non-metropolitan regions are paying for beachside homes. In every region except for San Juan, the ‘home’ arrangement type makes up over a quarter of the region’s supply – whereas in the Metro region this category accounts for a mere 12% of supply (Table 1). A much greater number of visitors in the Metro region are paying for city-based apartments. As with just about everywhere in the Caribbean, a home on a beach will cost more to rent than a city apartment. Metro’s ability to generate a plurality of the island’s gross revenue stems from a large supply and consistent demand.

Table 1 – Most popular Property Type per Region							
Region	Property Type	Ending Jul 2017		Ending Jul 2018		Ending Jul 2019	
		# Listings*	% Total	# Listings*	% Total	# Listings*	% Total
Metro	Apartment	2,145	64%	2,454	58%	2,698	52%
	Condo	359	11%	597	14%	1,010	19%
	House	389	12%	545	13%	708	14%
East	Apartment	992	39%	1,023	36%	1,218	34%
	House	630	25%	675	24%	811	22%
	condo	272	11%	387	14%	706	20%
West	Apartment	895	41%	1,060	41%	1,317	37%
	House	621	29%	721	28%	1,009	28%
	Condo	161	7%	228	9%	391	11%
North	House	165	33%	214	36%	285	33%
	Apartment	149	30%	158	26%	235	27%
	Villa	66	13%	62	10%	89	10%
South	House	78	41%	117	41%	177	40%
	Apartment	65	34%	87	30%	141	31%
	Condo	3	2%	12	4%	24	5%
Central	House	43	36%	48	31%	66	30%
	Apartment	15	13%	29	19%	44	20%
	Boutique Hotel	7	6%	11	7%	16	7%
* Unique number of listings per period							

Table 1

It is important to note that the table above does not account forth breakdown of all accommodation types, but rather the top three arrangements and their market-share over the past three years. After Metro the East and West regions account for a significant portion of supply. The North, South, and Central regions only account for a fraction of the island’s supply.

House and Condo units are on the rise across the Metro East and West (Figure 3.6a), but apartments still dominate San Juan.

Figure 3.6a Property Type Breakdown per Region

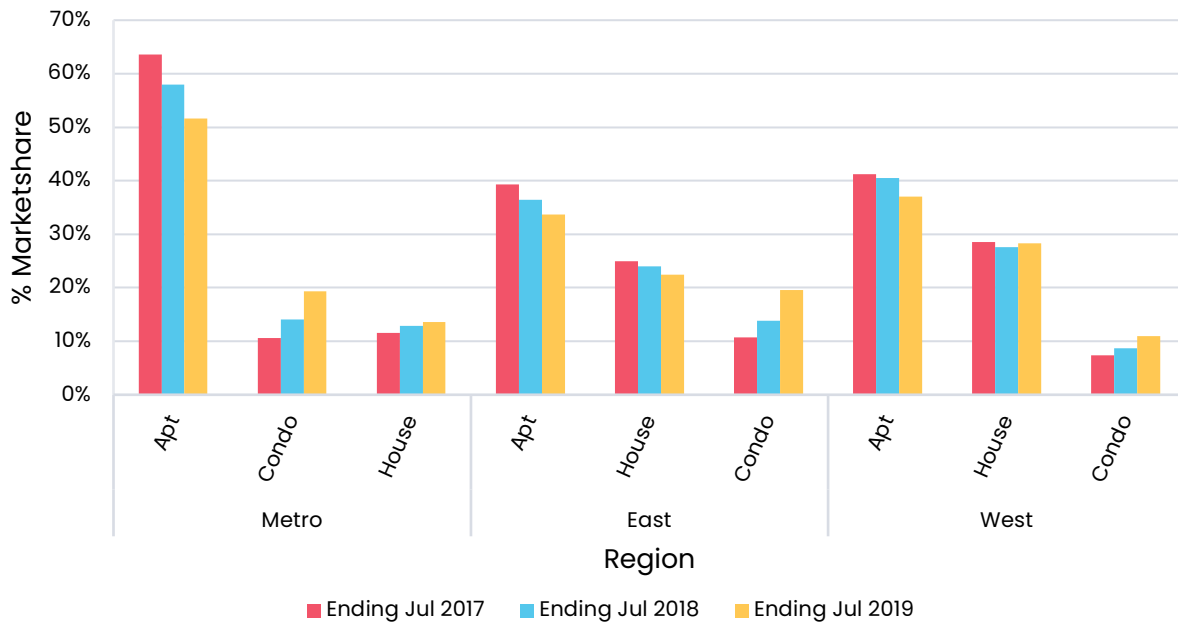


Figure 3.6a

Contrarily, House units are on losing market-share in other regions (Figure 3.6b).

Figure 3.6b Property Type Breakdown per Region

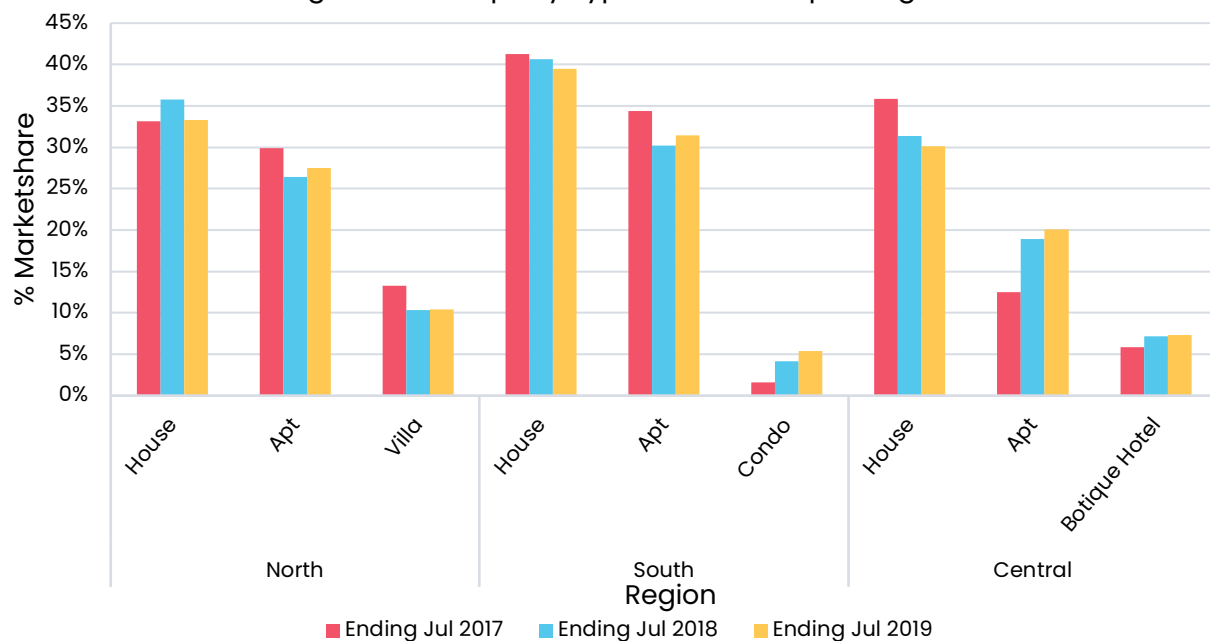


Figure 3.6b

4. Host Analysis

Host numbers also give the Puerto Rican market reason to feel positive. Often, as host numbers grow, occupancies fall. However, while host numbers have continued to climb (even without much of a hurricane-related dip), Occupancy Rates have not taken significant hits. This perhaps suggests that demand for tourism and subsequent available vacation rentals is driving the increase in hosts and properties.

Also based on the upward trend seen in the Unique Hosts by Region graph (Figure 6.1) it would seem that the Puerto Rico market is not controlled by wealthy property owners that buy up numerous properties for short-term rent, but rather is shared evenly across a growing host population.

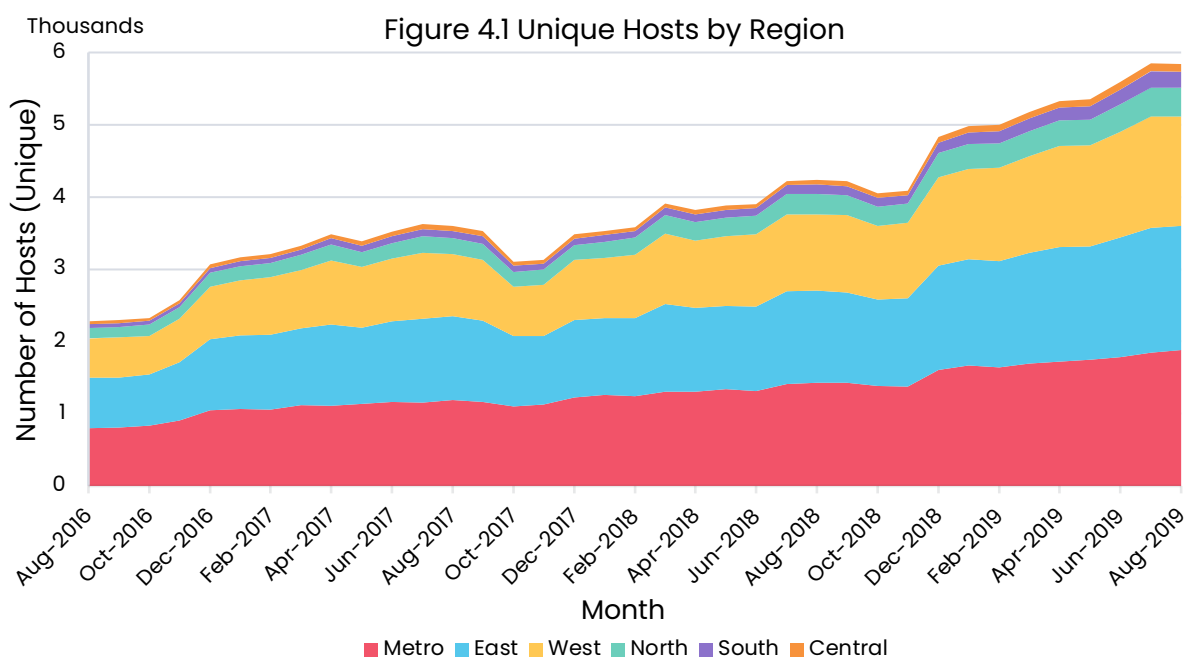


Figure 4.1

Prior to Hurricane Maria, Puerto Rico saw excellent growth in monthly host additions, with a total increase of nearly 1,300 new unique hosts entering the vacation rental market in the prior year (Figure 4.2). The months immediately following the hurricane saw really the only significant decrease in hosts, theoretically for lost homes and lack of stable infrastructure as well as a steep decrease in tourism demand. Despite the dip, that year host numbers still triumphantly finished on the positive side.

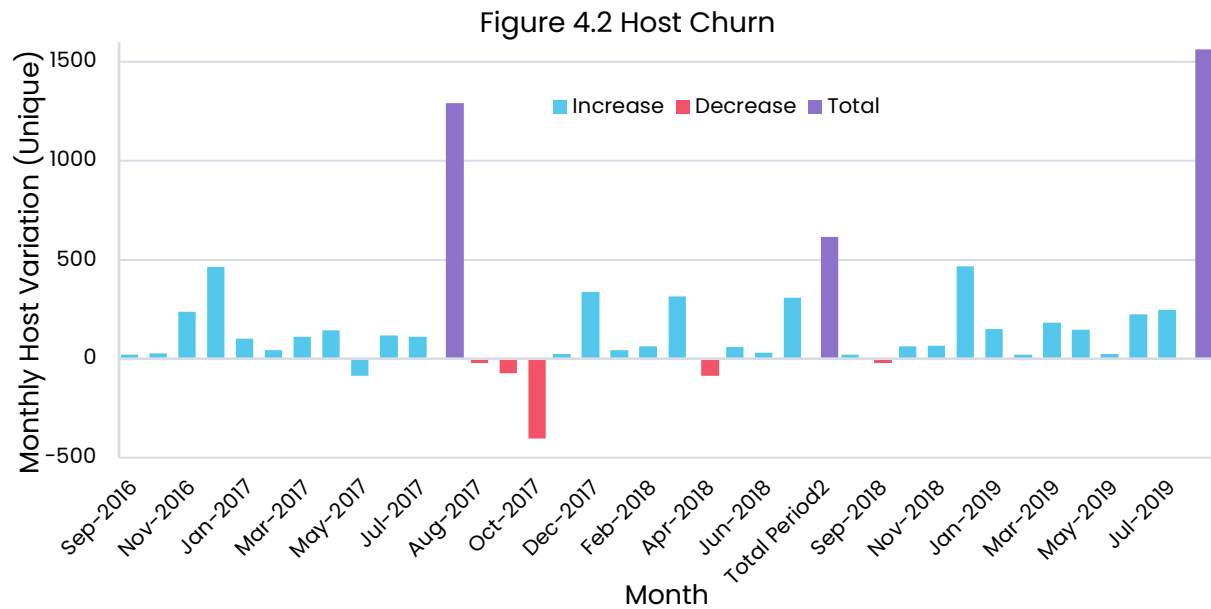


Figure 4.2

While host gains and low churn rates are a good indicator of property and revenue distribution amongst many hosts, there are signs that this could be reaching a plateau in some regions. While the listings to host ratio in the Metro region has maintained a healthy equilibrium, in the south and central regions the has increased slightly throughout the last year (Figure 4.3).

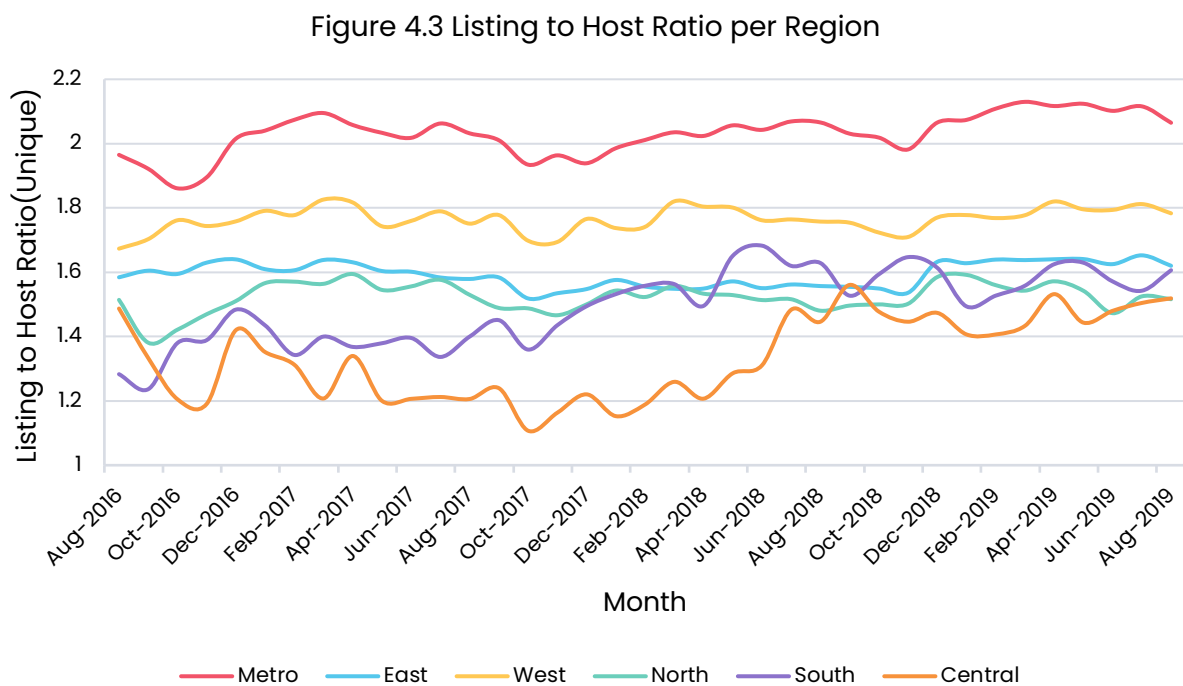


Figure 4.3

When this happens, it can be an indication that there a small number of owners or property managers buying multiple properties with the idea of using them solely as vacation rentals. This can shift distribution of properties among hosts and skew the ratio high. This may be worth monitoring to see if it becomes a trend and also to assess the impact on housing affordability in the future.

However, host rates may change, being a vacation rental host is putting good money in the pockets of Puerto Rican property owners. Airbnb, Puerto Rico's most popular booking platform, reported that last year, the more than 5,000 hosts earned, on average, more than \$7,200 in additional income.

5. Puerto Rico Guest Demographics

As for where these travelers are coming from, 90% of all those who stayed in a Puerto Rican vacation rental last year were either from within Puerto Rico or from the United States – over 70% were from the U.S. Demographic information for the visitors from the continental U.S shows a clear disparity between male and female travelers across all age groups (Figure 5.1).

Figure 5.1 U.S Traveler Profile

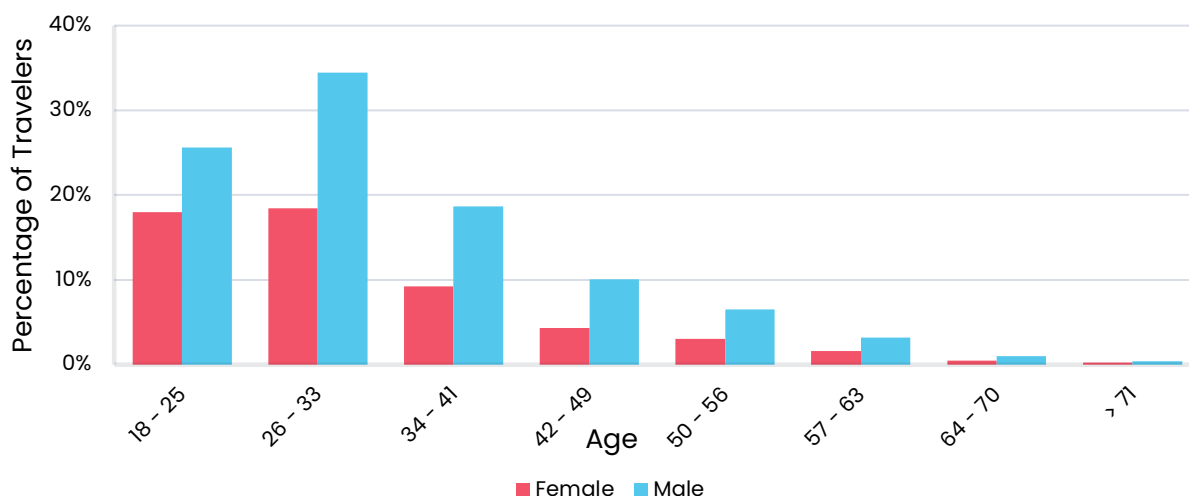


Figure 5.1

The two most represented states were, unsurprisingly, New York and Florida (Figure 5.2 representing, 20% of all renters. California, Texas, and Massachusetts round out the top five.

Figure 5.2 U.S Travelers by State Origin

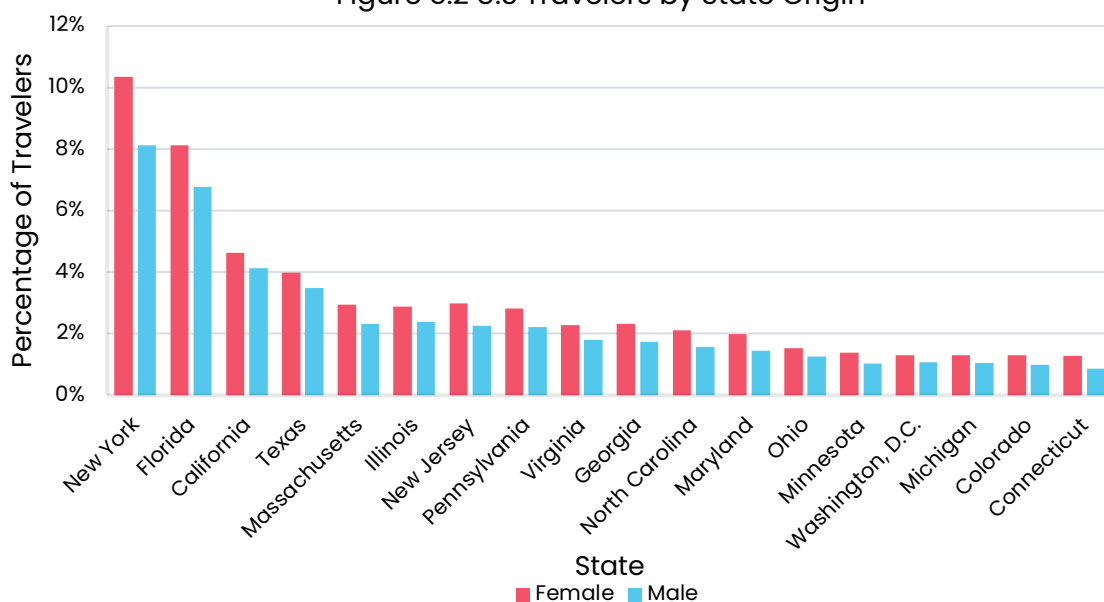


Figure 5.2

The other major generation in the market, Baby Boomers (~55-75 years old), accounted for barely 10% of the total incoming guests. These sharp generational divides seem to be not so much an estimate of who is coming to Puerto Rico, but rather an interesting view of older generations' preference for more traditional booking channels, as well as the younger generations' preference for vacation rentals as an accommodation choice. This, of course, is an encouraging indicator of the potential of the Puerto Rican vacation rental market for years to come. Additionally, the generation behind Millennials, Gen Z, has begun to come of age and into the pool of potential customers (most online booking platforms do not allow rentals to be booked by anyone under 18).

The breakdown of U.S. travelers to the island differs slightly than that of Puerto Ricans electing for a staycation. Whereas males dominate the age brackets from the U.S., most Puerto Rican Millennial travelers booking vacation rentals are women (Figure 5.3).

Figure 5.3 Puerto Rico Traveler Profile

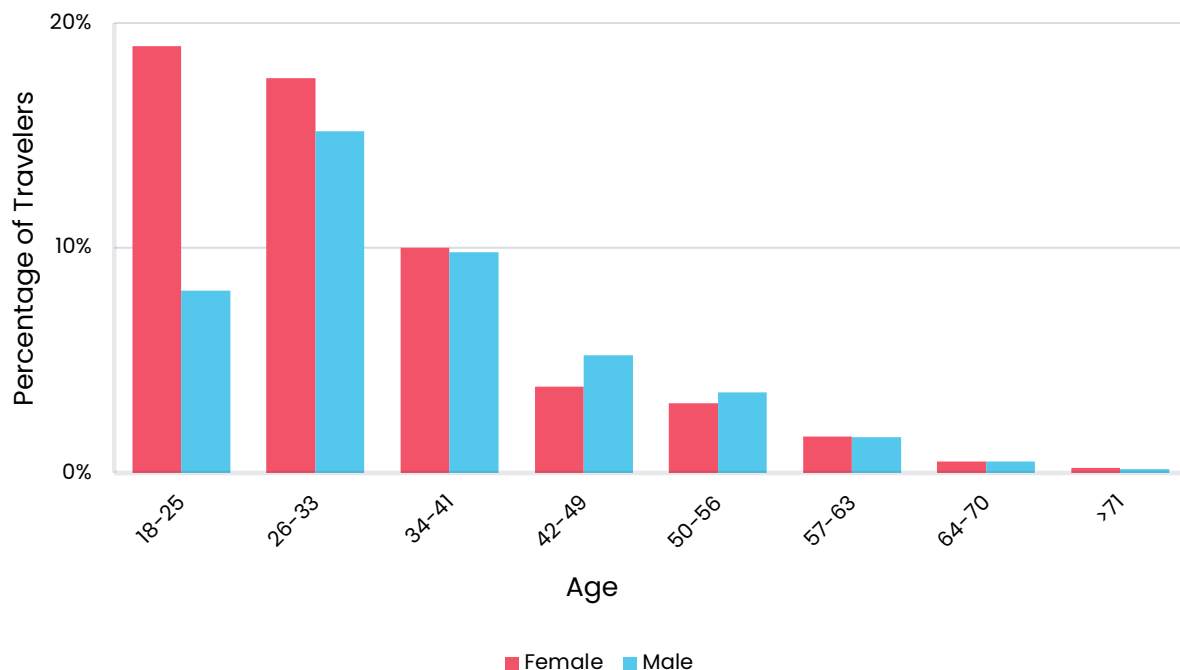


Figure 5.3

Another telling characteristic is that Puerto Rico's target demographic is not just stereotypical traveler profiles. Many people come to Puerto Rico to visit family. Currently, there are nearly twice as many people who identify as Puerto Rican in the United States as there are in Puerto Rico. And while the island's population has been trending downwards, that could mean more money in the pocket of hosts as the demand for places to stay from people visiting their homeland increases.

6. The Impact of Hurricane Maria

The emotional and physical impact that Hurricane Maria had on Puerto Rico can not be understated. But what did it do to vacation rentals? Despite an initial dip in earning and occupancies, the catastrophe may not have been completely detrimental to business in the vacation rental space. As of 2019, most vacation rental statistics have recovered and reached all-time heights, confirming Puerto Rico was in fact able to recover from Hurricane Maria and Hurricane Irma (which hit a month earlier).

Yet, what these statistics do not account for is the potential earnings and growth that could have taken place had the Hurricane, and resulting issues with power and water, not happened. Using AllTheRooms' predictive analytics, Puerto Rico's pre-storm revenues were compared to those of similar destinations (Hawaii, Jamaica, The Florida Keys, and Aruba) and used to calculate what revenues could have looked like if Hurricane Maria had not hit Puerto Rico.

As evident from the graph below (Figure 6.1), the true value of the hurricane's impact is massive. In total, Hurricanes Irma and Maria cost the vacation rental market over \$52.5 million in potential revenues. The main source of the economic loss came from the popular East and West regions where tourists often venture for beach vacations.

Revenue Impact After Months	Date	Puerto Rico	North region	Metro Region	East Region	South Region	Central region	West Region
1	2017-10-05	-1,786,126	-77,460	-553,775	-564,904	-23,354	-17,241	-549,392
3	2017-12-05	-8,855,719	-374,131	-1,932,080	-3,474,649	-67,089	-94,340	-2,913,431
6	2018-03-05	-20,767,656	-680,781	-3,878,077	-9,079,850	-68,833	-94,340	-6,965,775
12	2018-09-05	-30,567,569	-587,965	-3,344,017	-14,937,000	89,922	-276,716	-11,511,793
18	2019-03-05	-44,955,570	-627,139	-4,293,248	-22,279,330	56,729	-198,436	-17,614,145
24	2019-09-05	-52,533,184	372,909	-2,902,653	-27,435,098	412,040	5,912	-22,986,294

Figure 6.1

Despite these potential losses, vacation rentals and the larger tourism umbrella have been major contributors in the recovery of Puerto Rico. Airbnb specifically has invested a lot of time and effort into Puerto Rico in hopes of helping the island's population, as well as encouraging responsible tourism. Airbnb launched what is known as their Office of Healthy Tourism, which has targeted opportunities in Puerto Rico since Hurricane Maria.

In 2015, Airbnb partnered with NGO *All Hands, All Hearts* and looked to them to assist rebuilding Puerto Rico after the hurricane. The OTA began by donating \$200,000 in travel credit to the NGO. Later, Airbnb donated all of their trip fees from both Puerto Rican rentals and Experiences during a three-month period to *All Hands, All Hearts*, and other local recovery nonprofits. Volunteers from *All Hands, All Hearts* then contributed 25,000 hours dedicated to recovery projects.

In June 2018, Airbnb assisted with the foundation of the first Home Sharing Club in San Juan. To celebrate the launch, Airbnb organized a day of service where volunteers painted homes and installed solar-powered street lights in underserved areas of San Juan, some of which were still feeling the effects of the hurricane.

Airbnb also conducted an email campaign and built a landing page on the website encouraging users to visit Puerto Rico. Having the backing of a major tourism site, and arguably the largest booking platform in tourism, significantly improved Puerto Rico's visibility and perception - an area of growth [marketing efforts from Discover Puerto Rico](#) have already focused on.

7. Puerto Rican Vacation Rental Regulations

As vacation rentals have become a major part of the tourism sphere, there are many places looking to control the success. Across the United States, major markets like Los Angeles, San Francisco, and Boston, amongst others, have been steadily introducing regulations against online booking platforms like Airbnb. These regulations often are manifested through additional taxes, required registration, and specific business licenses, all of which, if not properly acquired or paid, can result in heavy fines for hosts. Many of these regulations come in response to citizens or local governments worrying about housing affordability and/or neighborhood dynamics.

While Puerto Rico and San Juan do have some requirements for their vacation rental hosts, the short-term regulations are far from strict when compared to some of the markets on the mainland.

For one, all business owners in Puerto Rico must acquire a Merchants Registration Certificate from the Puerto Rico Treasury Department. All for-profit businesses, including vacation rentals, are required to obtain this certificate 30 days prior to the opening of said business. For a vacation home, this means the certificate must be in the possession of the host 30 days before the first booking. These certificates are not hard to obtain, as every new business on the island is required to have one.

Airbnb's website also lists a number of other requirements, although they are primarily directed at those who operate Airbnb Experiences, rather than vacation rental hosts. Despite this differentiation, both hosts and Experience leaders may need to pay the Municipal License Tax. These are paid directly to the municipality in which the business is operated, but any business that makes under \$5,000 USD in revenue per year is exempt from the tax. Additionally, if a business is operated as a partnership or corporation then it must also be registered with the Puerto Rico Department of State. Also worth knowing is that certain municipalities have requirements like Use Permits, Health Permits, and Fire Prevention Permits. To confirm municipal-specific rules, hosts need to consult either the Puerto Rico Management Office or the Puerto Rico Tourism Company.

Prior to Hurricane Maria, Puerto Rico passed a law requiring Airbnb owners to pay Room Tax. However, under a separate legislative act passed in cooperation with the Room Tax measure, there are built-in exemptions for those who are new residents to Puerto Rico, people who use their listing as passive income, and those who are foreign owners of a property. This exemption, known as Act 22, is designed to encourage property investments from outsiders. Foreigners using a Puerto Rican property as a vacation rental to earn a passive income could pay 0% in taxes -

significant in comparison to the 30% being levied in various parts of the US. With that in mind, Puerto Rico does require an Occupancy Tax through online platforms. To date, Airbnb has collected \$5 million in occupancy taxes, which goes to the Puerto Rico Tourism Company.

Meanwhile, in May 2018, a bill was filed in the San Juan Municipal Legislature aiming to limit the expansion of short-term rentals in the area of Old San Juan. Unlike many regulations proposed in the United States, the focus was not on affordability in the area but rather to preserve the community's "character" and the "historical-cultural environment". The bill was immediately opposed, and continues to be opposed by the Puerto Rico Tourism Company. The tourism department worries that not rejecting the bill will create a strained relationship with Airbnb - a company that has invested in the growth of Puerto Rico - and will greatly diminish tax revenues from current properties. In 2017, the state brought in \$3.5 million in lodging taxes. Only five months into 2018, when the bill was first filed, the Puerto Rico Tourism Company had already collected \$4.6 million, a clear sign of growth, as well as recovery from Hurricane Maria. The bill has yet to be enacted.

The lack of taxes for some foreign investment, plus belonging to the United States market has been incredibly beneficial to Puerto Rico when comparing it with other islands. When compared to similar island getaways, Puerto Rico's Gross Revenues are the highest (Figure 7.1). At its peak, Puerto Rico still earns \$25 million less than Hawaii but performs as the best in the Caribbean, above places like The Bahamas, Jamaica, and Cuba.

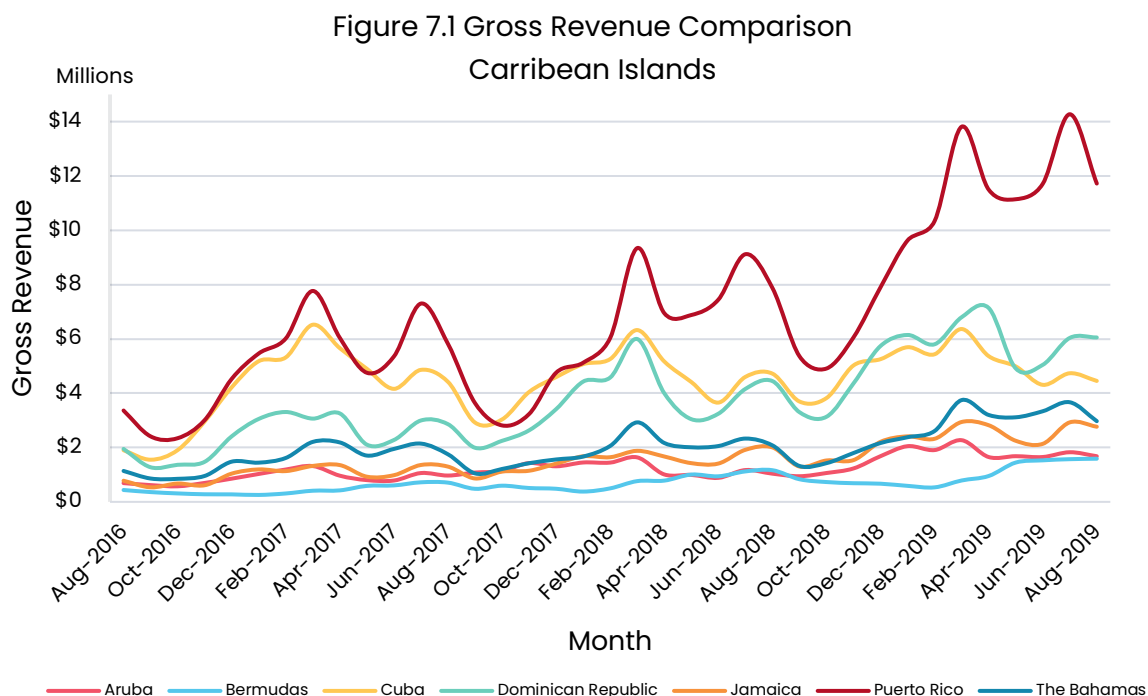


Figure 7.1

Puerto Rico's lead in the Gross Revenue charge in the Caribbean is encouraging. As vacation rentals increase in popularity, occupy more of the market, and growing supply numbers stabilize, especially in San Juan, the competition will be able to drive ADR up and should generate more Gross Revenue. This will only separate Puerto Rico further from the rest of the Caribbean pack. Meanwhile, if regulations are introduced to San Juan's VR market, it will have a longer-term impact on Gross Revenue; if that then leads to a decrease in supply, expect ADRs and Occupancy to immediately increase. While harsh regulations are unwanted, they are 1) unlikely to be introduced, and 2) if they are they may still have a positive impact.

8. Impact on the Hotel Industry in Puerto Rico

The vacation rental industry is no longer just a thorn in the side of hotels but rather a very real threat. ADRs are nearly on par with global hotel averages. Additionally, the hotel industry lost \$400 million in revenue solely to Airbnb in 2016, the first year statistics were taken for our study. The numbers have since increased.

On the surface, hotels in Puerto Rico do not need to come up with contingency plans just yet. Multiple Caribbean tourism sources are reporting record-breaking numbers in Puerto Rico in 2019. After reaching pre-storm air traffic levels in early 2018, now in 2019, flight numbers are higher than ever. In February, the island's two international airports reported the arrivals of some 54,000 travelers, a record in a single month. The cruise ship industry is also estimating 1.7 million arrivals during the year, another record.

All of this appears to be good news for hotels. Places like the *Rincon of the Seas Grand Caribbean Hotel* and the *Wyndham Rio Mar* reported near 99% occupancy rates for weekends during the peak season of last year.

Although, upon deeper investigation, it would seem that some of this influx of tourism is being driven towards vacation rentals, specifically in the San Juan area. Guest arrivals have increased everywhere on the island, but despite the significant increase, the Puerto Rico Tourism Company has also reported that hotel occupancy levels in the Metro region are down by nearly 8% since last year, while ADR dropped about \$3 between June of 2018 and June of 2019.

Skeptics think that the island may have rushed to get the positive numbers out mid-year fearing that there would be tourism backlash due to recent governmental upheaval which saw the removal of multiple governors. The tourism data surrounding this recent political shift has yet to be processed. Some also argue that the hotel dip is hurricane-related. And while there are hotels that were still recovering even this year, the *Ritz Carlton* and the *Caribe Hilton* had yet to open, these major chains not being active in the market could drive ADR down, but with fewer rooms, this would not account for the decreased occupancy rates. Additionally, these data points were taken from 2018 to 2019, whilst the hurricane occurred in 2016. There has been an additional year of recovery and yet some hotel statistics are falling. While outlying resort areas have not seen the vacation rental impact just yet, the decrease in ADR and Occupancy in San Juan could lead to a vacation rental domination in the nation's largest city and may spread elsewhere in the coming years.

9. Conclusion

It's impossible to say just exactly where the vacation rental market in Puerto Rico would be had Hurricane Maria never hit. But despite the predicted losses of \$50 million in revenue, hosts, property managers, and investors should continue to look to Puerto Rico as a short-term rental market with a large amount of potential. This is evident from a generally speedy recovery that has surpassed pre-hurricane rates, all time highs in incoming tourist traffic, and an island that appeals to tourists and investors alike both from a destination and economic standpoint.

Moving forward, the key metrics to watch are if the San Juan market increases ADRs to meet the consistent increase in Supply and Demand, and if outlying resort areas see growth in their vacation rental markets. If these come to fruition, expect to see Puerto Rico further distinguish itself as a leader in the Caribbean and begin to climb the United States' rankings for successful tourism markets.

10. Contact Us

William Pearson

Chief of Staff

P: +1.646.759.5073

wpearson@alltherooms.com

Joe DiTomaso

Founder and CEO

P: +1.917.406.1213

jdito maso@alltherooms.com

Victor Bosselaar

Head of Data Partnerships

P: +1.203.561.9767

victor.bosselaar@alltherooms.com