Bob Gilbert (00:09):

Welcome to Tourism Heads and Their Tales, a podcast series that explores with traveling tourism leaders their take on key issues of the day. My name is Bob Gilbert, general manager for the tourism and destination marketing practice at the award-winning strategic marketing agency, Eddy Alexander, who are bringing you this podcast series. I have had the privilege to have worked with iconic global brands, including Disney Choice Hotels, Yosemite and Shenandoah National Parks, Kennedy Space Center Visitor Center, and Best Western International. Plus, served on the boards of the US Travel Association National Tour Association, and an elected commissioner for Visit California. Looking forward, I will be chatting with those that are helping shape the travel and tourism industry, all with unique tales to share that I know you will find both interesting and educational. So without further ado, let's get started. Welcome to Tourism Heads and Their Tales. Today we are gonna be introducing you to a company that I'm sure many of you have seen and noticed, uh, probably more recently, Air DNA and the Head of Tourism Solutions and Partnerships, Kellen Kruse. So welcome Kellen, uh, how you doing today?

Kellen Kruse (01:30):

Hey, Bob, thank you for having me. I'm doing great.

Bob Gilbert (01:33):

Excellent, excellent. Well, we normally start the podcast by getting a little bit personal. That is tell our audience your story. And I know that, uh, you grew up in Kansas and you're now living in, in Los Angeles. So tell me a little bit, uh, a as to that journey and how you got involved in the travel and tourism business.

Kellen Kruse (01:53):

Absolutely. It's a winding road, but I'll try to keep it short. You're right. So I grew up in a very small farm destination in Kansas, found my way to the University of Kansas for undergrad via scholarship, and kind of quickly figured out that business economics and and finance were a good path and initially worked in the aerospace industry for six or seven years before I went to graduate school at UCLA. And that kind of brought me back to Los Angeles After school, I had a friend got who founded Air DNA and he needed some help looking to kind of work with destination marketers. He had built a company, as you all know, air dna and was really trying to find a way to build a product and to speak to dmos. So about five years ago, I joined the firm to help build some tools and build ways to work together and help destination marketing organizations understand short-term rentals in their markets better.

Bob Gilbert (02:52):

So we, we touched upon your story. Tell me about the history of Air DNA and it's, it's kind of interesting because, you know, this industry is full of acronyms. STR actually could stand for Smith Travel Research, you know, you're very familiar with and of course short term rentals, and you could be described as the Smith Travel Research of the short term rental business. I hope that is acceptable and could you share how Air DNA got its start.

Kellen Kruse (03:22):

Absolutely. And you kind of took the words outta my mouth there. You know, Smith Travel Research has been a wildly successful company, and it was certainly a firm that we really looked to early on to understand how folks in the DMO world were viewing lodging data. And so, you know, the, at the outset of Air DNA, the goal was really to democratize short-term rental data for Airbnb hosts, VRBO hosts, anybody who's trying to kind of make fact-based decisions. And the interesting thing about Aird, my perspective is that we were truly a garage startup. Scott back in 2015 was living in Santa Monica, and he started to kind of do some hobby hosting on Airbnb and quickly realized there was no data source, no source of truth to help compel people to price their properties, to pick out where to choose their next investment. And kind of stumbled into, you know, the fact that DMO were an industry that, um, would likely need to understand this data along with financial services firms, you know, hedge funds, banks, et cetera. And then of course hosts themselves, investors. And so, you know, again, what we really wanted to do was build a set of tools to help all of those different kind of industry partners better understand the data behind it and again, just have a source to be able to make better fact-based decisions.

Bob Gilbert (04:43):

So I guess you, you launched more as a service for the owners, the, the renters, and then morphed into understanding that there was data rich data that you were able to, to get hold of, and then that became an opportunity there for the DMO world. Is that more or less how that got started?

Kellen Kruse (05:03):

Yeah, it, that's, that's a hundred percent true.

Bob Gilbert (05:06):

You know, data rules, right? And everybody should be driven by data. Two questions. What is your relationship like with Airbnb and VRBO VRBO and how do you get your data?

Kellen Kruse (05:21):

Yeah, great questions. You know, the relationships with VRBO and Airbnb, which are key sources, it's quite complimentary. I would even say symbiotic initially, I'll just be really honest. We scraped the data from both of those platforms, which has, you know, legal precedence, but early on in the firm it was certainly a point of contention both with our clients and internally trying to forge better relationships and forge good relationships with those firms, with the, the concern that there might be some sort of a problem with them or us gathering the data. And what we've built over time is, is really a great working relationship with both of those firms, both from a client standpoint because they're each looking to, to gather data on the industry, gather trends, you know, sometimes firms like that don't, uh, do a great job of eating their own dog food, if you will. And we've found really good ways to partner with them, both from a community development standpoint and even the client development standpoint, just to better understand and and even provide data to both of those firms on an annual basis.

Bob Gilbert (06:23):

Yeah, and I guess that, you know, you like Smith Travel Research, uh, are agnostic. The data is the data and you offer different solutions to dmo and as we know, not all DMO are created equally. You may have a state dmo, you may have a San Francisco, Santa Monica, you know, pretty large destinations, and then you have more rural destinations like in the middle of Montana, big Sky up in Northern California. You have a different kind of profile, if you will, and a different number of short term rental units. How do you offer your services and what kind of different options do you have for these various destinations?

Kellen Kruse (07:09):

Yeah, I think there's two pieces to this. You know, I think one piece is really looking at the client individually, having a really in depth conversation and you know, a discovery call to understand what they're looking to achieve. And as you said, rightly every destination has its own uniqueness. What we've really tried to do is to listen to our clients and get a sense of how we can help them democratize that data to achieve their results. A few ways that we do that, really the value proposition is to help them be the voice of authority. So no matter how big or small the client is, no matter how big or small the DMO is or how many short term rentals there are, it's very vitally important for us to be able to monitor inventory and help them track supply and demand, you know, uncover meaningful trends, you know, whether it's pre covid or whether it's post covid.

Kellen Kruse (08:04):

And also there's a huge tax revenue, transient occupancy tax or hotel tax component that funds many of these organizations. So our revenue collection and revenue calculations and our algorithm really help our DMO clients to really size up the market and understand by zip code or neighborhood or by region how these short term rentals are impacting their destination holistically and, and down to the granular level. And you know, the last thing I'd say is our data is really helpful in understanding the seasonal impact. As you know, many destinations have shoulder seasons and they don't all fall in the same timeframe and especially across the world. And so what we try to do is help folks measure their marketing campaigns and really measure visitors coming into market. And we really do that with, you know, essentially one package, it's called, called a destination package that looks at trends. So firstly, just historical trends, you know, going eight years back to 2015, we offer a visual dashboard that shows people visually kind of what the market looks like, heat maps, et cetera. We look at future data, so we're, we offer all of our DMO clients at pacing view of now what do bookings look like compared to last year, compared to 2019 pre covid. And then lastly, we, we track the origin of gas when they come into the market and stay in a short term rental.

Bob Gilbert (09:27):

So that last piece is probably something that I'm not aware that Smith Travel offer, but certainly the other data is pretty much the same, which is good, you know, because again, you know, it's a, it's a different market and one that is certainly getting a lot of attention. So let me ask you this, the short term rental market became a hot potato, meaning that, and I think really because tot, that for a while the communities or the destinations from a legislative standpoint didn't quite know how to view and to to manage these, the short term rentals and they were kind of flying under the radar screen, yet they became a very important part of the accommodation mix. A lot of that driven or accelerated by covid, by the pandemic. How has that leveled out and become more standard? What are you seeing from a destination standpoint in terms of to t and and how are those collections being made? And is that something that you assist in that process? So a bunch of questions in there.

Kellen Kruse (10:36):

All great questions.

Bob Gilbert (10:38):

I hope you were taking notes there Kellen, <laugh>,

Kellen Kruse (10:40):

I took mental notes. If I miss anything, we can certainly,

Bob Gilbert (10:43):

I'll come back. I'll come back. Circle back.

Kellen Kruse (10:45):

Yeah, its a super important topic and I, and I'm glad that you touched on it. Um, and I'm gonna go back a little bit, you know, and tell a quick story. First, you know, DMO conversation that we had, you know, being at Santa Monica Silicon Beach startup, we got a call from Wendy Keel,

Bob Gilbert (11:02):

A good friend of Tourism Heads and Their Tales.

Kellen Kruse (11:05):

Yeah. And Wendy was the first person that called us the time she was working at the LA tourism in convention board or Discover LA. And she knew and was way ahead of the curve knowing that this was gonna be a part of tourism. There's a huge component of Asian and southeast Asian travelers and, and of course domestic travelers that come to LA and we're starting to stay in these popup properties. And this goes back many years, but when Airbnb came on the scene, there was a bit of an explosion of course in your top 10, you know, urban markets and LA being one of the first to see that rise. And she had reached out, she had found us online and had reached out and wanted to, to talk about how we gather data and, and how we think about this data and if we could provide a report.

Kellen Kruse (11:53):

So I do have to go back to that story because she brought to my attention and our attention the importance oft OT and the county of Los Angeles was way ahead of the curve. They had put in a TOT collection policy and signed a voluntary collection agreement of VCA with Airbnb and were one of the first to do that. And so, you know, I think in her initial outlook that year, she had, you know, using our data, she had made a, an assumption that they might collect 10 million in revenue and it might have been eight, I can't remember the exact number, but their actual collection either doubled or tripled that. And so that was the first insight we had that this is gonna be an outcome that many destinations are gonna be looking for. And so we really focused on that in our reports and in our destination package to ensure that folks could get a good revenue estimate to be able to compute what their collections would be.

Kellen Kruse (12:48):

And for, for Wendy, she was looking very specifically at certain regions within LA and LA County, you know, west Hollywood, Santa Monica, the beaches, Venice Beach, et cetera. And the reason I tell that story is that every time I talk to or someone on my team talks to a destination marketing organization, there's typically gonna be a conversation about tax collection because it's an incredibly important part of the funding of DMO and Airbnb, you know, which is now a publicly traded company. You know, I heard in one of their investor calls recently, they collect taxes in 30,000 destinations. And I literally remember when that was less than 10. And, and that's in a five year period. So I think you have to give a lot of credit to community leaders to DMO and to the platforms, uh, you know, VRBO and Airbnb for really leaning into that. And, you know, November 8th election, I know there were a number of ballot measures in California and across the, the United States, and I think a vast majority of those past to increase or to start collecting taxes in a similar way.

Bob Gilbert (13:54):

So how do the tot rates compare to those of, um, hotels?

Kellen Kruse (14:02):

Yep. So many times it looks exactly the same. And, and I won't speak for all destinations, you know, I think it depends, you know, the, the classic, uh, business case study answer is it depends on the destination. But generally speaking, when these voluntary collection agreements go into place and many destinations collect the taxes on their own, which is totally fine as well, many times it's replicating the same tax that the hotels are charging as well. And you know, many years back, you know, many of the hotel lobbies were pushing for a level playing field, and I think it's safe to say that they got what they asked for.

Bob Gilbert (14:40):

So what are the trends that you are seeing in terms of urban versus more rural areas, but those areas that have high demand in the summer, more rural and a lot of the destinations and the short term rental units could be second homes. Um, and I'm guessing that many of them are, does that cause friction, you know, within those particular destinations where you are taking inventory out of a resell market really and then, you know, putting it into a rental pool,

Kellen Kruse (15:13):

Certainly, and it does go back, you know, really is dependent upon the location. You know, Santa Monica or Eureka is gonna look a lot differently than Coachella Valley, right? So the key point there is, you know, being able to, to track the inventory of these properties, you know, independently or from a third party standpoint and have a source of truth really allows destinations to make important decisions based on what the growth looks like. And I think it's important to look back, you know, let's go back to 2015 or 2014, the Pope visited Philadelphia and there was a huge surge. And and you'll see this for Super Bowls, you'll see it for NCAA events.

Bob Gilbert (15:56):

As long as you're not gonna tell me the pope stayed in a, an Airbnb

Kellen Kruse (16:00):

<laugh> <laugh>, I, you know, I think he was probably staying a little bit more secure location.

Bob Gilbert (16:04):

Yeah.

Kellen Kruse (16:06):

Probably, probably the Ritz. But because the Pope was coming and because there was a huge surge coming into the destination, what Airbnb properties acted as in that timeframe, you know, pre 2019 was an overflow valve. And so it created an opportunity for more guests to come into the destination because quite frankly, the hotels were completely booked and packed. And so initially, I think, like I said, pre 2019, I think there was a lot of growth and surge and growth for big events that certainly got a lot of attention. Rural destinations were quite a bit behind on this trend. But even for, you know, Kane County Utah, who has a balloon fest every year, they started to see these trends too. Especially as we moved into c the, the difficulty of having a new type of lodging in your market is not knowing what you don't know. And so, you know, for Visit Philly or you know, visit southern Utah, it was a similar problem with a different outlook and a different timing. But that similar problem was that they needed to have data to understand and support future decisions around funding, future decisions around marketing. And, you know, the, the data side of that has really helped compel destinations big and small to understand it and make fact-based decisions around lodging and marketing.

Bob Gilbert (17:29):

So with, with the data you are providing, and, and again, I think it's fair to say it's relatively new data, it's, it's a new science. I mean it's obviously driven by us, the consumer as to where we want to be able to to stay, whether in a short term rental unit or you know, in a hotel. Is the training you provide similar, I, let me rephrase my question. So if, if I'm very familiar as a volume user of Smith Travel research data and I know my way around how that works, would I then similarly have a very easy software learning curve with understanding your data?

Kellen Kruse (18:15):

Yes. What we've tried to do, and I think we've been relatively successful in this, there's kind of a few things that we offer clients and, and in one of those is a trend report and it's truly meant to look at lodging data, you know, traditional lodging data similar to how we now look at, at short term rental data. You know, with a few minor edits or a little bit of editorial context, it is quite similar. The key difference between short term rental lodging and traditional hotel lodging is the occupancy and the, the supply, right? And I use that Philadelphia example to explain supply can shift measurably very quickly with short term rentals. And we certainly saw that in a lot of rural destinations during covid. And when that supply shift happens, we only account for the properties that are available each day of each week of each month. And then to calculate the occupancy, we count the days booked divided by the days available. So if a property's only available for a week out of the month because the, the host is living in the property, that's a owner block, we take that out of the calculation mm-hmm. <affirmative> and rightly so because, uh, short term rental is not always available 30 nights per month, whereas a hotel is.

Bob Gilbert (19:35):

Right. So that is kind of like a false positive reading <laugh>. So.

Kellen Kruse (19:40):

Yeah. And it can be, it can be viewed sometimes as, um, you know, occupancies are higher or might look higher, but the, the true reality is our algorithm accounts for owner blocks and by doing so, we're able to truly tell you what percentage of nights available are actually booked. And so I think we really made, and you know, early on I think the founders made a really, really good estimation and a good calculation on that, you know, and to intuitively look at this in a way that can actually be compared to, to your traditional lodging data.

Bob Gilbert (20:15):

So where are we in terms of, uh, 2022? We're well into the fourth quarter. What results have you seen from, not from an DNA standpoint, but from a, a vacation rental outlook? What would that report look like in q4?

Kellen Kruse (20:34):

Yep. And I'll plug our latest outlook report that's on our website and, and it does a much better job explaining this than I will. But to give a quick kind of summary, going back to early 2020, we saw a huge down tick in urban short term rental lodging. And of course, you know, hotel lodging kind of overall urban was shifting to rural and, you know, medium sized destinations and also resort destinations cuz that's where guests felt comfortable going, that's where they felt comfortable traveling with family and really trying to stay safe during covid. So we saw a big shift in rural lodging supply, you know, basically non-urban now that we're moving back, you know, we're back in 2022, we've got the covid vaccine launched and, and people are feeling safe traveling to cities and even traveling international again, we've started to see supply shift back in even the urban destinations in most, it's still not caught up to, to the 2019 levels, the pre covid levels.

Kellen Kruse (21:41):

But because of that shift and because hosts in general across the US brought more supply into the market, we have the highest level of inventory and supply in the US that we've ever had with almost 1.4 million properties available. And typical economics says that as supply expands and shifts, price has to meet that right? We've also got a recession in some inflation coming into the economic outlook. You've got a war in Ukraine that has caused hardship in travel and generally gas prices going up. So as we've seen supply shift, we're also now starting to see price come down a little bit in some of those markets. And really the willingness to pay by guests because now they have more choice is becoming a little bit lower. And so what we've seen kind of on the host side and on the investor side is a difficulty to garner bookings if a property is kind of your middle level run of the mill property.

Kellen Kruse (22:42):

So the luxury, the upscale, the kind of unique type of bookings and unique type of homes are still able to garner bookings and still kind of capture rates that they were getting during covid. Whereas in, you know, some of these rural destinations where there's a lot of choice now and even urban destinations, which is catching up in terms of supply, again, the, the prices are meeting that supply and it's gonna be really interesting to kind of see what happens with inflation and you know, how that kind of relates to outcomes as we get into the, the end of this year and early next year.

Bob Gilbert (23:17):

So I'm sure like yourselves, you kind of put a big old asterisk against the pandemic years and you go back and measure against a normalized year 2019 and you measure against that particular timeframe. But what are you seeing as you look into your crystal ball? What does pace look like as we move into 2023 for, you know, the key Easter months, the key bookable timeframes of of 2023? Are you able to share any of that information?

Kellen Kruse (23:51):

Absolutely. So, you know, Knight's book for future travel, we're up 19.3% year over year when we look it up. By

Bob Gilbert (23:59):

The way, I'm just to understand when you share your numbers, are you looking at this from an a DNA global perspective or North America?

Kellen Kruse (24:08):

Yeah, great question. So looking at the US short term rental perspective mm-hmm. <affirmative> and, and that's kind of where I've focused this conversation. Yes, bookings were up in September and it is based on location. It's gonna be different for a, an urban destination than a rural destination. But we do see some strong booking trends overall going into q4. It's important to note that destinations will differ from each other, but there are strong bookings going into q4.

Bob Gilbert (24:35):

Are you seeing the pace differ between a city, you know, an urban destination versus, um, you know, more of the, um, the Idaho, Montanas, Northern Californias, um, the more rural areas where people wanna get away from the Madden crowd?

Kellen Kruse (24:54):

Yeah, it's, it's mixed. So, you know, using an example of Coachella Valley, you know, a place that's, that's kind of a getaway for Angelina's like myself mm-hmm. <affirmative>, um, pace is certainly down compared to what it was in 2021, you know, that it was still a time when many people weren't able or weren't comfortable traveling abroad. And I use that example because it was a really hot market, it was kind of a covid centric market. So for a place like that, and I think this relates to a lot of destinations that saw surgeon travel due to covid, many of those places were booking out even more in advance than they had. Uh, typically they were booking at higher prices and higher rates. And I think some of those hot markets will see a bit of a downturn in terms of total bookings in price as we go into Q4 in, in Q1 of next year. Um, whereas some of these urban markets are pacing, you know, up because people are now comfortable, business travel is returning group travel is returning to some level, you're seeing a surge and an uplift compared to last year because there is that kind of shape shift happening in the way people are traveling. We're not as, you know, destined to go to our old hat kind of vacations for Thanksgiving and Christmas. We might be a little more willing to, to go and stay in a, in a more urban setting. And we're certainly seeing that.

Bob Gilbert (26:17):

So it it's not necessarily regional or are there regional trends within that?

Kellen Kruse (26:23):

So, well, I don't know if I would, if I would say there's regional trends and you know, I would probably leave it to our research department to do a better, uh, analysis of, of the regional view. What I would say is from the standpoint of location type, I think it's pretty easy to designate that there, there are some some key trend differences and you know, when we look at our data, we break it down by urban versus suburban and rural versus MidCity. And then we also look at coastal and mountain destinations as their kind of own category mm-hmm. <affirmative>. And we certainly see a defined difference between how those markets have reacted to Covid and how those markets are now kind of shifting and changing in the landscape of, um, a post covid environment with also, you know, the, the understanding that that there's some inflationary pressure things are generally getting a little bit more costly, especially gas to, to get to these drive markets. And so like I said, it's, it's certainly different by location. There could be some regional trends, but I won't speak outta turn in in going into those, those details. I'll leave it to the, uh, to the outlook

Bob Gilbert (27:34):

For it. Are you seeing the trend driven by gas prices that, you know, you have the ability to determine where guests come from, obviously where they stay. Are you seeing that distance becoming more, um, within a, a gas tanks drive or is that not necessarily being reflected?

Kellen Kruse (27:56):

Yeah, so we actually did a report on this last year looking at, you know, during 2020 how far did guests on average travel to get to a destination? And that was certainly different last year and different in 2021 than it is in 2022. We're certainly seeing a bit of a shift in how far people are willing to travel by car. And so these drive to markets that we're surging during c you know, I think the impact of, uh, inflation and having higher gas cost is and, and is certainly going to continue to bring that destination distance to travel down.

Bob Gilbert (28:34):

Yeah. Which, which makes sense. So final couple of questions. One, how hot is the commercial real estate market? So the businesses that, uh, investment companies, is that a growing market for those businesses who are coming in and buying up a bunch of properties to put them into short term rentals?

Kellen Kruse (28:58):

Yeah, I think during covid that became a really important trend both for individual investors and you started to see some institutional money move into the space mm-hmm <affirmative> and quite frankly, you still see that happening. I think it really depends on, you know, interest rate for a lot of people, for companies that have cash ready to go and don't have to worry about lending rates. There's certainly continuing to be, you know, investors that are investing smartly, you know, using data to find the markets that still have room to grow, whereas individual investors who, you know, would need to borrow that money to make their, you know, second and third investment purchase are certainly gonna have a little bit more difficulty underwriting that, you know, given that the costs of lending money and the cost of capital is going up,

Bob Gilbert (29:48):

Would that be an opportunity for economic development folks or is that a little bit too sensitive an area to go cultivate?

Kellen Kruse (29:56):

That's a great question. I actually think, you know, given, you know, the conversations I've had with economic development folks, you know, across the country, I think there's a great opportunity to, you know, think smartly about how you want your, your destination to look, right. And the, the word that most people use is zoning. I actually think about it as just destination development. Looking at your market and looking at and understanding your destination and knowing like which areas need growth and which areas would, you know, be vitalized by having some commercial property development or having investment. That's a really important place. I would say that, that the future holds, uh, for economic development experts and economic development folks is to really think differently about what you want the future of your destination to look like. And short term rentals and short term rental investment is certainly very important to that study.

Bob Gilbert (30:51):

Right. It comes under that big umbrella of destination stewardship, which is a whole other topic. But last question and it's kind of two in one. From an a DNA standpoint, what does success look like? How would you describe success and what are you thinking about for the future of AD 2023 and beyond?

Kellen Kruse (31:13):

Great question for Aird. We operate in a lot of different markets and, and I've mentioned a few of those from financial services to individual hosts who are certainly our biggest client base by number and of course vital to our growth is destination marketing organizations. And for me, I'll kind of focus this on the, the DMO side. Mm-hmm. <affirmative>, you know, what success looks like is to continually help DMO be assertive in their marketplace and provide them with the vital tools to be a voice of authority, help them understand key trends, help them have a seat at the table in their communities, and really helping shape what their future destinations look like. You know, you might expect me to say we want to see a lot of growth in short-term rentals. I actually think about this a little differently. You know, cuz I love tourism. I want to help my clients and I want to help them make smart decisions, make, uh, use facts and data to make their destination what they want it to be in the future. I think dmo know more than anybody and have more insights and tools to really understand what their guests and what their local communities are looking for and, and what they need to be successful. And what success would look like to me is if Air DNA is able to provide data to all of those folks to make them feel good about, uh, what their future destination looks like. That's really what I'm trying to achieve.

Bob Gilbert (32:40):

Excellent. Well, Kellen, you've been a great guest on Tourism Heads and Their Tales. Really appreciate your time and, uh, your insight and thank you so much.

Kellen Kruse (32:50):

Thank you, Bob. It's been a pleasure.

Bob Gilbert (32:52):

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