Sonder Holdings Inc. Fourth Quarter and Full-Year 2021 Earnings Transcript

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Operator
Thank you for standing by, and welcome to Sonders Fourth Quarter and Full Year 2021 Financial Results Conference Call. (Operator Instructions) Please be advised that today's call may be recorded. (Operator Instructions) …I would now like to hand the call over to Nicolas Chammas, VP of Strategic Finance and Investment Analysis.

Nicolas Chammas ***Sonder Holdings Inc. - VP & Head of Strategic Finance and Investment Analysis***
Thank you, operator. Good afternoon, ladies and gentlemen. Thank you for joining us to discuss Sonder's fourth quarter and full year 2021 financial results. Joining me on the call today are Francis Davidson, Co-Founder and Chief Executive Officer; and Sanjay Banker, President and Chief Financial Officer.

Full details of our results and additional management commentary are available in our fourth quarter and full year 2021 shareholder letter, which can be found on the Investor Relations section of our website at investors.sonder.com.

Before we start, I'd like to remind you that the following discussion and the Q&A session at the end contain forward-looking statements, including but not limited to, Sonder's market opportunities and future financial and operating results that involve risks and uncertainties that may cause actual results to differ materially from those discussed here. Additional information about the factors that could cause our actual results to differ from those expressed or implied in any forward-looking statements can be found in Sonder's periodic and other SEC filings.

The forward-looking statements and discussion of risks in this conference call, including responses to your questions, are based on current expectations as of today, and Sonder assumes no obligation to update or revise them, whether as a result of new developments or otherwise, except as required by law.

Also, the following discussion contains non-GAAP financial measures. For a reconciliation of these non-GAAP financial measures to the most directly comparable financial measure calculated and presented in accordance with GAAP, please see our shareholder letter posted to our Investor Relations website.

Now I'll turn the call over to Francis Davidson, Sonder's Co-Founder and CEO.

Francis Davidson ***Sonder Holdings Inc. - Co-Founder, CEO & Chairman of the Board***

Thanks, Nick. Good afternoon, everyone, and thank you for joining us today for our inaugural earnings call. I'm very pleased to be reporting on our strong fourth quarter and full year 2021 results. We ended 2021 with great momentum and became a NASDAQ-listed company in January. We're really excited about reaching this milestone and entering 2022 with a strong balance sheet that will allow us to lean into the travel recovery and capitalize on the opportunities it opens up for our disruptive model.

Despite another very challenging year for the hospitality sector, we accelerated year-over-year revenue growth 3 quarters in a row from 151% in Q2 to 155% in Q3, and we finished the year with Q4 revenues growing 204% versus the prior year. In addition, our free cash flow burn improved meaningfully year-over-year from 173% of revenue in Q4 2020 to 61% of revenue in Q4 2021. We're encouraged by the progress we've made here as we continue on our path to profitability.

Our mission is to instill a revolution in the world of hospitality. Travelers, in particular, millennials and Gen Z, love our tech-enabled design-forward accommodations and high-quality, consistent guest experience. We believe that a better, more modern and more affordable guest experience, paired with efficient operations and powered by proprietary technology is the way to win in this nearly $1 trillion industry.

Throughout 2021, we pursued our ambitious growth strategy while focusing on 5 key levers, which we believe will drive long-term value for our shareholders.

Our first lever is delivering an incredible guest experience. We have a relentless focus on improving the guest experience through inspiring design, modern service and consistent quality. Technology enables us to consistently deliver an exceptional guest experience even as we rapidly scale our global footprint.

We made great strides in 2021 including rolling out new features in the Sonder apps such as improved messaging to enable seamless communication with our guests, as well as an automated in-app early check-in and late checkout request. We also successfully rolled out metrics for internally tracking guest satisfaction, and we're encouraged by early results.

One metric we track as a proxy for the strength of our brand and guest loyalty, our direct bookings on sonder.com. Despite minimal marketing spend, sonder.com continues to be our largest single channel for bookings and accounted for 44% of total bookings in Q4 and 45% of total bookings in 2021. We believe delivering a better guest experience will translate to more direct bookings and increase customer loyalty, resulting in lower customer acquisition costs, higher lifetime value, improved RevPARs and higher cash flows to Sonder.

Our second lever is securing high-quality properties at attractive economics. One of the major drivers of our top line growth is our ability to source, sign and open high-quality apartments and hotels and desirable locations with superior unit economics. In 2021, we added over 70 new properties to our live unit portfolio across more than 25 U.S. and international markets and top tourist destinations, including New York City, Nashville, Miami, Dubai and Mexico City. Our total portfolio grew by over 6,000 units, and we ended the year with 18,100 units, representing 51% year-over-year growth. Our pipeline of prospective deals also continues to improve and grow as a result of our unique value proposition to real estate owners who partner with us to better monetize their assets. Through 2021, we've scaled the size of our real estate team and have put new processes and systems in place to enable us to capture supply at an even faster clip in 2022 and beyond.

Our third lever is our capacity to generate strong RevPARs. In the near term, our RevPAR growth will benefit from travel market recovery tailwinds as well as our own initiatives to enhance guest demand generation and monetization. These pursuits include innovative revenue management tactics, improved distribution capabilities, expansion into new demand pools like corporate travel and ancillary revenue opportunities, such as monetizing in-unit upgrades and interstate cleanings.

In the fourth quarter, we achieved RevPAR growth of 92% year-over-year to $142 per night. This was a major milestone as we surpassed pre-pandemic RevPAR levels for the first time since the onset of the pandemic. Even more exciting is the runway still ahead of us on RevPAR growth given the broader market still lags pre-pandemic levels.

According to one of our key performance benchmarks tracked by Smith Travel Research, in 2021, U.S. upper upscale hotels recovered only 58% of 2019 RevPARs. Meanwhile, we reached 82% of our 2019 RevPARs in 2021. We attribute this outperformance to our unique value proposition and the success of our RevPAR improvement initiatives, combined with the stronger market dynamics for leisure travel. Importantly, we expect the overall market recovery to fuel our RevPAR growth as STR projects comparable hotels to grow RevPAR by 56% in 2022.

Despite strong sequential quarter-over-quarter momentum in travel demand during 2021, we acknowledge that the ever-changing macro environment has the potential to make the overall travel recovery and our corresponding growth trajectory uneven. For example, we experienced dampening effects from Omicron beginning in late November 2021 and into Q1 of this year. More recently, however, we've been encouraged by a resurgence of free Omicron booking patterns.

Our fourth lever is to continue driving operating efficiencies. Our core philosophy has always been to use technology to cut inefficiencies from our operations. This efficiency mindset allows us to increase service levels which boost RevPAR or directly reduce our cost structure. In 2021, we introduced several initiatives with the goal of improving property-level cost efficiency.

For example, we piloted a re-architecture of our back-of-house operations to improve our room turnover productivity. We also expanded our rollout of internet-connected thermostats, and we further shifted various guest support functions to lower-cost geographies. The rollout of additional self-service features on our mobile app has also increased app adoption and utilization by Sonder guests, which has improved our service efficiencies.

Our fifth and final lever is our people and culture. We firmly believe that the people who work at Sonder and the culture that defines how we work sets the tone for our innovation and execution. The onset of the pandemic tested our resolve, but our team bounced back impressively in 2021. Our frontline teams are key to delivering our exceptional guest experiences around the world, and we're committed to initiatives that support engagement and retention among those teams. Our most recent internal surveys reveal a highly engaged team, ready to meet historic pent-up demand for a successful 2022.

One notable change to our human capital strategy in 2021 was our formal move to what we call our Work Choice model. It means that we allow our non-frontline employees to work from anywhere they choose. At the end of the day, we care about results and trust that our team will do what's best for them and in turn bring their best selves to work at Sonder, plus allows our team the opportunity to explore additional Sonder markets and work directly from our spaces, the trend of nomadic work we are very excited about and are uniquely suited to serve. We believe our Work Choice model also broadens our talent pool as recruiting is no longer geographically constrained, which we believe will enable us to better attract and retain employees.

In addition to executing against our 5 key levers, we also took important steps in 2021 to strengthen our governance. We appointed Janice Sears, formerly a Managing Director and Western Region Head at Bank of America Merrill Lynch to our Board as Audit Committee Chair. And we also named Gilda Perez-Alvarado, Global CEO of the Hotels and Hospitality Group of JLL to our Board. Both of these women are phenomenal leaders who bring highly relevant industry and public company experience to our business.

We're really proud of what we accomplished in 2021. We entered 2022 with a great guest experience, the supply and growth engine that's coming, demand generation capabilities that have consistently beat our benchmarks. Technology that allows us to operate more efficiently, and an engaged team ready to make this year a knockout success.

And with that, I will turn the call over to our President and CFO, Sanjay Banker, to provide you with further details on our recent financial performance and an update on our growth outlook.

Sanjay Banker ***Sonder Holdings Inc. - CFO & President***
Thank you, Francis. I'd also like to welcome all of you, and I look forward to working with you now that Sonder is a public company.

We're so proud of our record results for the fourth quarter and full year 2021, all while working tirelessly to enter the public market, which took place on January 19. This was both an important milestone in Sonder's journey and a major funding event in which we secured approximately $400 million of fresh capital to strengthen our balance sheet, enabling us to pursue our ambitious plans to revolutionize hospitality.

Turning to our fourth quarter and full year 2021 results. Our key operating metrics including live units, total portfolio, bookable nights, occupied nights and RevPAR improved meaningfully year-over-year and versus prior quarters. This is a testament to our differentiated offering, proprietary technology and operational excellence.

In the fourth quarter 2021, we delivered our third consecutive record revenue quarter with $87 million in total revenue, representing an increase of 204% year-over-year. For the full year 2021, our revenues more than doubled versus the prior year to $233 million, and increased 63% versus 2019. Our growth was fueled by the ongoing rebound in global leisure travel, strong live unit growth driving a large increase in bookable nights and early traction from various RevPAR improvement initiatives, such as our mid-2021 corporate travel launch. In addition, our adjusted EBITDA margin improved year-over-year from a 207% loss in Q4 2020 to a 67% loss in Q4 2021.

On the supply side, our year-end 2021 live units and total portfolio grew year-over-year by 69% and 51%, respectively. We consider total portfolio growth to be our most important supply side metric as it provides the best forward-looking view of contracted future supply. Our total portfolio grew to 18,100 units as of December 31, which we believe will drive strong live unit growth over the next 2 years. In addition, we ended 2021 with over 7,600 live units, which our best can and increasingly do book directly on the Sonder mobile app or website or on our OTA partners sites. As a result of our live unit growth, our Q4 2021 bookable nights increased by 59% year-over-year and contributed to over 2 million bookable nights in 2021.

On the demand side, we saw strong occupancy rates of 69% in Q4 and 68% for full year 2021, representing a 300 basis point improvement from full year 2020. In addition, our Q4 average daily rates, or ADRs, were $206, an 89% increase versus the prior year. Our strong occupancy rates and ADRs led to RevPAR of $142 in Q4 2021, representing an increase of 92% year-over-year. Importantly, Q4 RevPAR reached a 112% of our Q4 2019 levels and was fueled by market recovery, our outperformance versus the market and the traction we're seeing with a RevPAR improvement initiative. Lastly, our full year 2021 RevPAR increased 55% year-over-year to $115.

As Francis mentioned, we did see some measurable Omicron impact very late last year and into Q1 of this year. The impacts of Omicron on our business were greater in geographies affected by new travel restrictions, suggesting that the inability to travel played a larger role than consumers' unwillingness to travel. Despite the surge in Omicron cases in December, pent-up travel demand was evident in our New Year's eve performance, while we exceeded 2019 levels in both ADR and RevPAR and nearly doubled the ADR and RevPAR we delivered on the same day in 2020.

We maintained a 5-night average length of stay in the fourth quarter, which was in line with 2019. In addition, our 30-day-plus extended-stay bookings helped us offset typical seasonality and slower leisure travel recovery in markets like New York, Dubai, London, Minneapolis, Chicago, Boston and Houston.

In terms of profitability, our fourth quarter property-level loss improved by $13 million versus the prior year to a loss of $6 million. Our fourth quarter adjusted EBITDA loss improved by approximately $1 million year-over-year to a loss of $58 million.

In addition, our free cash flow burn as a percentage of revenue improved meaningfully year-over-year from 173% in Q4 2020 to 61% in Q4 2021. These improvements were primarily fueled by strong RevPAR recovery and revenue growth combined with improved operational efficiency. For full year 2021, property level loss improved by 32% to a loss of $42 million, driven primarily by RevPAR improvement.

Our RevPAR for full year 2021 was $115, a 55% improvement versus 2020, but still meaningfully below pre-pandemic levels. Our 2021 adjusted EBITDA loss was a loss of $217 million, which represented a 3% decline compared to 2020, despite an increase in preopening costs associated with the rapid expansion of our live unit portfolio, additional guest experience investments and the incremental costs required to operate as a public company.

Total costs and expenses increased by 64% year-over-year to $155 million in Q4 2021, inclusive of $5.1 million of stock-based compensation expense in the quarter. Total costs and expenses were driven by additional investments in research and development, primarily focused on enhancing the Sonder app for our guests, additional investments in sales and marketing as we build out our corporate travel capabilities. G&A expenses related to our ongoing needs as a public company and operations costs related to the rapid expansion of our live unit portfolio.

Moreover, our global headcount increased 60% year-over-year to almost 1,600 employees, to support the rapid growth of our live unit portfolio and prepare for our expected growth in 2022 and beyond.

As of December 31, 2021, we had $70 million of cash and restricted cash. Subsequent to year-end in conjunction with taking the company public in January, we raised approximately $400 million in net proceeds. Our current balance sheet gives us the confidence to continue to invest in improving the guest experience through technology, while growing prudently with the goal of generating consistently high free cash flow for our shareholders.

Turning to our outlook. We entered this year with strong momentum, and we are optimistic about our trajectory and the large market opportunity ahead of us. In the first quarter of 2022, we anticipate revenue of more than $75 million, representing 138% year-over-year growth versus $32 million in the first quarter of 2021, primarily due to growth in bookable nights and live units as well as improved RevPAR.

In terms of RevPAR seasonality, the first quarter is typically our weakest due to less leisure travel at the start of the year. Moreover, we expect the first quarter of this year to be further impacted by a temporary slowdown in bookings due to Omicron related concerns and travel restrictions. Specifically, we began to experience some impact from Omicron in late November 2021 where we saw a slowdown in forward bookings.

The impact on revenue, however, wasn't felt until January and February, which are typically our weakest seasonal months. As a result, we expect Q1 2022 RevPAR to decline versus Q4 2021, but still meaningfully improved year-over-year versus Q1 2021. We also, therefore, expect adjusted EBITDA losses to increase in Q1 to a loss of approximately $90 million as RevPAR remains in recovery mode and as we continue to rapidly expand our live unit portfolio and scale our G&A and operations functions, to support our expected portfolio growth this year. This represents an expected improvement in our adjusted EBITDA loss margin from 167% in Q1 2021 to 120% in Q1 2022.

As a reminder, our presentation of adjusted EBITDA straight lines the upfront benefits we received in the form of initial rent abatement periods and owner-funded CapEx allowances over the life of the lease in accordance with GAAP. These benefits can be substantial and result in landlord payments lower than GAAP rents during periods of live unit growth. Therefore, as a management team, we take into account the rent abatement and owner-funded CapEx allowance in the period where we actually receive the benefits when calculating our internal measure of adjusted EBITDA as we believe it presents a closer approximation of cash from operations. These factors are accounted for by adding back our GAAP rent to landlord payment adjustment and FF&E allowance realized adjustments. We expect a positive benefit from these adjustments in the first quarter of 2022.

Turning to our full year 2022 outlook. We're encouraged by the positive trends we saw over the last several quarters, specifically the rebound of leisure travel and its impact on ADR and RevPAR. However, forecasting several quarters out remains challenging, given continued COVID-related uncertainties. We're cautiously optimistic that favorable macro trends will continue. And combined with our visibility on growth in live units and bookable nights, we expect to increase full year revenue by between 100% to 110% as compared to full year 2021. In terms of adjusted EBITDA, we're implementing a number of new revenue and cost improvement initiatives in 2022. So the magnitude of impact from these efforts is uncertain and will, in part, be driven by the pace of COVID recovery. It is therefore challenging to forecast full year 2022 adjusted EBITDA with sufficient precision.

That said, we expect full year 2022 adjusted EBITDA losses to be lower than 2021 on a percentage of revenue basis, so higher on a dollar basis. We expect both cost of revenue and property-level costs will be meaningfully higher versus 2021 on a dollar basis and will increase roughly in line with our expected unit growth as cost of revenue is mainly comprised of GAAP rent to landlords, which is directly related to increases in live units.

Finally, we expect our other operating expenses, which include preopening costs related to opening new units to be meaningfully lower in 2022 on a percent of revenue basis, albeit higher on a dollar basis. More specifically, preopening costs are expected to grow generally in line with increases in live units, where we expect to benefit from significant operating leverage in both G&A and operations expenses, which we expect will increase at a meaningfully slower pace than our expected revenue increase as we benefit from economies of scale.

I'll now pass the mic back to Francis before we open the call to questions.

Francis Davidson ***Sonder Holdings Inc. - Co-Founder, CEO & Chairman of the Board***
Thank you, Sanjay. Before concluding my prepared remarks, I wanted to thank all Sonder employees across the globe who work tirelessly every single day to ensure seamless stays for our guests across all our properties. I'd also like to thank our real estate partners everywhere for their trust and confidence in our business as well as both historic and new investors who partnered with us to support our long-term growth as a public company. Our mission to revolutionize hospitality is ambitious, but we're strongly positioned to continue innovating by driving amazing guest experiences through tech-enabled spaces that inspire.

Sonder is the future of hospitality, and we have every confidence in our ability to drive sustainable, long-term value for our shareholders as we enter our next phase of growth.

Operator
(Operator Instructions) Our first question comes from the line of Jed Kelly of Oppenheimer.

Jed Kelly ***Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst***
Great. Great. And congrats on becoming your public company and your first earnings call. So you spoke earlier on the call to your occupancy and RevPAR outperformance through the pandemic versus peers, noting that this was driven largely by internal initiatives. Can you speak to the key initiatives implemented and how this growth in RevPAR flows through your property-level margins as well?

Francis Davidson ***Sonder Holdings Inc. - Co-Founder, CEO & Chairman of the Board***
Yes, absolutely. Thanks so much for your question, Jed. RevPAR is probably the most important variable to look at when it comes to the profit potential of this business. And as you mentioned, we've done a lot over the last couple of years to outperform the market. I think the first thing I want to highlight is our extended stay campaign. So early in the pandemic, this is something that's actually really amazing on the part of our teams.

In mid-March, we launched sales initiatives and a landing page and a wave methodology for us to be able to generate strong extended stay demand. Given that there was substantially less back in March 2020, short-term demand in the market. And so we thought, "Hey, 14-day-plus stays is going to be a source of demand for us to fill our properties." And what we didn't realize at the time that initiative was very successful. It allowed us to get back to pre-pandemic levels of occupancy.

But really, the realization came afterwards that this is a really important capability for the business and something that goes much beyond a moment of difficulty in the industry, but something that could bolster our demand generation capability even in a fully recovered environment. So corporate housing as an example or internships, relocations, those are all sources of demand that are additive to what we were capable of doing prior to the pandemic. So extended stay that first piece that's been really crucial for our success.

The second piece is revenue management. So we've built really impressive technology in order to be able to price algorithmically our properties and maximize the yield that we can generate off of these available units. So of course, this is pricing and elasticity tests that we've run to understand this trade-off between occupancy and price and seeing how we can get a disproportionate benefit in one of the 2. There's other things that we've done on revenue management such as rate plan, nonrefundable rates, fully flexible, fully refundable rates, a little bit more subtlety when it comes to pricing differentially by length of stay. So a series of initiatives there that we've done that really make us feel great about the innovation that has occurred over the last couple of years, even though we see quite a lot of ideas that could be bear fruit in the coming years as well.

The 30% is -- sorry, the third piece I want to mention is the corporate travel demand. So we've launched in mid-2021, like Sanjay mentioned earlier, a corporate travel program, right, with 100 partners. We are live now in all the GDS systems. And this is all incremental revenue, more eyes looking at our supply, more people invited to the auction, so to speak. And we think there's going to be a lot of change in the corporate travel sector going forward post-pandemic. And we're uniquely positioned to answer some of these changes and we are very nimble and adapt ourselves. I think particularly workforce that isn't tethered to an office, folks that can work from anywhere, there's going to be a lot of important changes, and we're ready to take advantage of them as the market recovers.

Last thing I want to mention is the monetization of add-ons. So those are things like monetizing early check-ins or late checkouts, mid-stay cleanings or upgrades, things that require very little if no expense at all to service, but accrued to the top line revenue that we can generate first day while enhancing the quality and guest experience.

So the second part of your question, though, on how this ties into the property-level profit margins. I'll hand it over to Sanjay to kind of break that down.

Sanjay Banker *Sonder Holdings Inc. - CFO & President*
Thanks, Francis, and thanks, Jed, for the question. So for the second part of the question about how RevPAR filters down to PLP margins, as Francis has pointed out, RevPAR is obviously the key for us to get to our long-term full potential PLP margins. And within RevPAR, market recovery is the biggest driver for which we're cautiously optimistic given the expected travel rebound in 2022. But there are many ways that we can outperform market RevPAR, as Francis has outlined, and as we've also demonstrated over the last several quarters.

For the past few quarters, most of our RevPAR growth has come through ADRs. And the benefit there, obviously, is it mostly drops through straight through to PLP, but there's also occupancy growth, which drops through net of marginal direct costs. Given this dynamic, we evaluate all of our prospective RevPAR-enhancing initiatives based on their potential profitability impact and not just their RevPAR impact. And so all RevPAR levers are evaluated based on the impact they can have on our margins.

It's also worth reiterating what I mentioned a few minutes ago that our PLP margin is shown on a GAAP basis, which requires us to straight line the upfront benefits of rent abatements on our new leases as well as straight line the impact of future annual rent escalations. As a result, our cash rents are much lower and a more accurate reflection of our PLP would add back the adjustment for GAAP to cash landlord payments.

Jed Kelly ***Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst***
Got it. And then just -- can you talk about, one, how is March RevPAR trending maybe relative to the 4Q as you kind of -- we kind of got past this Omicron wave. And then can you talk about your property pipeline outlook for 2022 and how we can kind of tie it back to how you were thinking about it may be back in November?

Francis Davidson ***Sonder Holdings Inc. - Co-Founder, CEO & Chairman of the Board***
Yes, absolutely, Jed. Thanks for the follow-up. So Q1 ADR, we see us being down quarter-over-quarter but up year-over-year meaningfully, right? And the quarter-over-quarter dynamic is explained by Q1 being just generally a weaker seasonal quarter for us. And secondly, the effects of Omicron that we've mentioned, where we saw booking patterns start to slow down end of November, mainly hitting the P&L and stays that occur in January and February, though like you mentioned, the March bookings are seeing a stronger surgeons, right? And so the Omicron wave was -- the case counts increased really rapidly, but decreased just as rapidly. And travel behavior, booking behavior on our platform and our channels has been made that trend.

On the second question on the property pipeline. So yes, we saw a really strong expansion of our pipeline. This is the reason why we've managed to grow our portfolio, our total contracted units by such a meaningful amount in 2021. And so there's a few things that result in the growth of our pipeline.

The first is what we call the flywheel effect for -- on the supply side, right? The more properties we have to show for, the more properties we have to tour, to case studies, the financial improvements and guest experience improvements that we've been able to deliver for these assets, the easier it is to then go across the street and convince another property owner to work with us. The stronger, of course, our balance sheet is and the more into the recovery we are, the stronger financial performance of the business, the larger the set of guests that we have, the easier it is us to make the case that working with Sonder the best -- highest and best use of that asset.

And then the second driver is really just a straightforward is growing our real estate team, right, having more boots on the ground. It turns out that there's a lot of real estate a lot more than we can handle.

And so part of generating supply growth for us in 2021 has been adding more folks to our real estate team and ensuring that they remain productive and so these 2 things combined really give us a lot of optimism when it comes to our capacity to keep adding high-quality supply to our portfolio.

Jed Kelly ***Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst***
Got it. And then I guess just one more. any change? I mean, I saw you guided for, I guess, 100%, 110% revenue growth for 2022. Any change to the 5-year outlook you provided at your Investor Day back in the fall or how we should be thinking about it?

Sanjay Banker ***Sonder Holdings Inc. - CFO & President***
Yes. Thanks, Jed, for that question. So obviously provided 2022 outlook. In terms of longer-term outlook, I'd say we remain confident, optimistic the continued market recovery and all the levers that we're pulling to do better than the market, both this year and beyond.

I'd add that our book of signed not yet live properties and our deep pipeline of prospective properties that will deliver in 2023 and beyond, make us very excited about the future growth prospects. But of course, we're not going to provide outlook for 2023 or future years as yet.

Operator
Our next question comes from Andrew Boone of JMP Securities.

Andrew M. Boone ***JMP Securities LLC, Research Division - Director & Equity Research Analyst***
I want to go back to the 2022 revenue guide. You guys provided a really helpful bridge to investors during the November update of contracted units, new units and then RevPAR initiatives to get to 2022 revenue. Can you talk about just what changed between November and now? Is that just new unit slipping in terms of units coming online? Is there any change in the pipeline? Or is RevPAR just weaker because of Omicron and it's just conservatism? So just help us with that bridge.

Sanjay Banker ***Sonder Holdings Inc. - CFO & President***
Yes. Thanks for your question, Andrew. Yes, the bridge is directionally similar. The majority of the change is due to timing of delivery of expected forthcoming buildings, plus the impact in Q1 of the Omicron and the fact that it will take time to recover back to the expected RevPAR trajectory that we had planned to be on. And it's a combination of those 2 factors. On the former -- it's really a timing issue. We still have those signed properties that will go live, but the schedule at which they go live evolves partly due to the well-documented supply chain and labor shortage issues that have led to building deliveries being slowed. But we still expect those buildings to go live, but the changes in those calendars and schedules are what drive changes to the volume forecast. Nonetheless, I'd say we're still -- I'd underscore that we're still incredibly excited about 100%-plus year-on-year revenue growth, which is a remarkable annual revenue growth target and one that we're very proud of all of our teams to help deliver.

Andrew M. Boone ***JMP Securities LLC, Research Division - Director & Equity Research Analyst***
That makes sense. And then let me try a different kind of macro question that's related. But given the very strong rental market within apartments as well as a rising interest rate environment, how do we think about those things impacting developers and their ability to work with Sonder?

Francis Davidson ***Sonder Holdings Inc. - Co-Founder, CEO & Chairman of the Board***
Yes, thanks so much. Francis here jumping in. The value proposition still holds right across the board for both are the independent hotel owners that choose to work with us and also the property developers that are building new buildings, specifically for Sonder. And what's really important to understand here is how they make the economic calculation of whether it's worth it to work with us. And the benefit of our model is really our capacity to operate at meaningfully lower cost structures and deliver really strong net operating income at the asset level. And so the technology that we've built, the manual labor that we've managed to streamline and the fact

that this doesn't come at the compromise of our capacity really strong revenue. That kind of combination makes it extremely attractive for an owner to work with us, right?

It's important to understand as well that the market is moving in lockstep right? In markets where there is strong rent growth, there's also really impressive RevPARs, right? And so the question for us is are we capable of capturing these RevPARs as demand comes back. And I think we've shown that we've been able to outperform even the market. And so as you see, this has translated in a really strong total portfolio growth even as those dynamics that you mentioned have been at play for the last several months.

Operator
Our next question comes from Stephen Grambling of Goldman Sachs.

Stephen White Grambling ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***
On the growth in the contracted rooms, how do the markets in underwritten RevPAR compared to the core as we think about the mix impact in 2022?

Francis Davidson ***Sonder Holdings Inc. - Co-Founder, CEO & Chairman of the Board***
Sorry, Stephen, thanks so much for your question. Maybe I'll ask you to repeat the question on the mix in the core. I just want to make sure that we touch on the right points here.

Stephen White Grambling ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***
Yes. As we think about the contracted rooms, are those generally in markets that are similar to the core and so RevPAR should be comparable? Or is there -- could there be a tailwind or a headwind from RevPAR for what's being signed? And maybe as a related follow-up, how do these deals compare contrast to the existing as we think about the structure of the contracts, specifically RevPAR being as abatements versus history or other CapEx nuances.

Sanjay Banker ***Sonder Holdings Inc. - CFO & President***
Yes. No, it's a great question, and thank you for that, Stephen. So on the first point about mix effects, there are a couple of different mix effects, and you highlight one of them, which is what we'll call market mix. Generally speaking, while market mix quarter-to-quarter, it can vary, generally speaking, the market mix is moving in our favor, meaning we are increasingly getting to better higher RevPAR markets. And it's a concerted strategy as well as we become a more sophisticated counterparty, a better capitalized counterparty, we're also more effective in landing and closing deals in those what we call internally -- we call our A markets.

And so we think market mix has got a really attractive tailwind as we moved towards markets. Also, as we increase the mix towards Europe, which is not as big as our North American portfolio, that is also a tailwind to market mix in terms of weighted average RevPARs.

The other driver of market mix is the balancing effect of multifamily versus hotels and as we balance towards hotels, while they tend to have like-for-like lower RevPAR than a comparable multifamily unit, they tend to also be in the better markets, the higher RevPAR markets. And so in that sense, I'd say it's a push.

And then the last driver is building quality. And that is every year getting better and better. And so we're signing better quality deals, which can generate higher RevPARs. And so I'd say for all 3 of those reasons, our mix is improving over time, it should be a tailwind to RevPAR.

The second part of your question is the deal quality. We're seeing our track record, as Francis mentioned earlier, more ability to show proven case studies to our prospective property owner partners is helping us get better deals. This transaction itself has allowed us to create more visibility, transparency, confidence in the company, which allows us to get better deals. And so period-to-period, quarter-to-quarter, sort of the market zeitgeist may emphasize different things, but we're seeing a broad tailwind, and that's what Francis described as a flywheel effect.

Stephen White Grambling ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***
And maybe one other clarification. On the delays that you're seeing in terms of the contracted rooms or contracted units. Is that primarily because of new builds? Or is there also just procurement issues with gain FF&E or other things that are impacting that?

Sanjay Banker ***Sonder Holdings Inc. - CFO & President***
Yes, it's a good question. I'd say it's probably the spectrum, but that spectrum obviously skews more towards the new build. But as it happens, heavy renovations -- and the decision with the heavy renovation and a new build can be maybe a decision would have a difference in terms of this point. And then light renovation is much less of an issue. And there are definitely assets that we take over more or less as is we keep a stock of FF&E supplied. And so that shouldn't be the main delay. It's much more around construction and building materials than it would be around FF&E.

Operator
At this time, I'd like to turn the call back over to Francis Davidson for closing remarks. Sir?

Francis Davidson ***Sonder Holdings Inc. - Co-Founder, CEO & Chairman of the Board***
Well, thanks so much, everyone, for tuning in today on our inaugural earnings call as a public company. So really appreciate the engagement of the question. I just want to close off with a huge thank you to our team that's worked tirelessly to make this business a success to date, and it couldn't be happier to be working alongside you to revolutionize hospitality. So thanks so much for everyone who called in and for all of our employees for making Sonder great.

Operator
And this concludes today's conference call. Thank you for participating. You may now disconnect.