

At Home around the World

The Short-term Rentals
Handbook for Guests, Hosts,
Neighbors, and Governments

by Robert Rosenstein
and Peter L. Allen

At Home around the World explores the short-term rental industry from the point of view of every stakeholder—hosts, guests, neighbors, and even governments. Regardless of who you are, where you live, how you like to travel, or which platform you prefer to book with, you'll find that this resource provides all the information you need—and more!

—Olivier Grémillon,
Vice President of Booking Home
Booking.com

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and Peter L. Allen**

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This handbook is a must-read for anyone interested in the vacation rental industry. Not only does it provide best practices for hosts and guests, it gives a full, 360-degree view into how the industry continues to evolve. The book is based on facts from industry leaders and references many of the top brands that any traveler or owner should familiarize themselves with.

—**Jeff Manheimer,**
COO and Co-founder, Tripping.com

Rob and Peter have put together the definitive guide to vacation rentals. Comprehensive and engaging, this guide is a must for all interested in upping their game in the sharing economy. The vacation rental handbook presents all sides of the arguments and issues surrounding this fast growing industry and presents practical and detailed ideas to ensure travellers, hosts, communities, and local governments can all get the best possible outcomes.

—**Dan Lynn, Co-founder,**
ZUZU Hospitality Solutions

As an international member-driven trade association focused exclusively on vacation rentals, VRMA is constantly pushing to raise the bar for our members and the entire industry. The only way to accomplish that is through increased collaboration, heightened professionalism, and a clear unified message. Robert and Peter have compiled some incredibly valuable information here that does just that. No matter what you call vacation rentals, they are no longer alternative accommodations. They're here to stay, and the more we can get this type of information out there to all relevant stakeholders, the better.

—**Mike Copps,**
Executive Director, Vacation Rental
Management Association (VRMA)

The authors of this book have produced an in-depth analysis of the opportunities and challenges faced by today's vacation rental industry and offer a very realistic view of its future. It answers a myriad of questions not only from the bird's eye view of global market trends, but also with excellent practical advice for both guests and hosts. A must-read for those looking to enter this booming industry as well as those with a foot already in it!

—**Vanessa de Souza Lage,**
Co-founder and CMO, Rentals United

About the Authors



Robert Rosenstein,
Co-founder and Chairman,
Agoda Company Pte. Ltd.

Robert Rosenstein is the co-founder and chairman of online travel giant Agoda Company Pte. Ltd., one of Asia's first homegrown unicorns. He was behind the conception and launch of Agoda in 2005, and served as both president and CEO for more than a decade.

Rosenstein also serves as strategic advisor to the CEO of Booking Holdings Inc. (formerly known as Priceline Group), the world's largest travel company by market value, and sits on the company's global management board. Rosenstein focuses on Asia-Pacific investment and operating strategies for Booking Holdings, which acquired Agoda in 2007, and owns KAYAK, Priceline.com, Rentalcars.com, Booking.com, Rocketmiles, and OpenTable.

Rosenstein was elected to the Web in Travel (WIT) Hall of Fame in 2017, and has been honored as one of the industry's biggest influencers. He speaks and writes regularly on the topic of entrepreneurial leadership culture at large enterprises.

Rosenstein has spent nearly two decades living and traveling in the Asia-Pacific region. He holds a B.A. from Hamilton College.

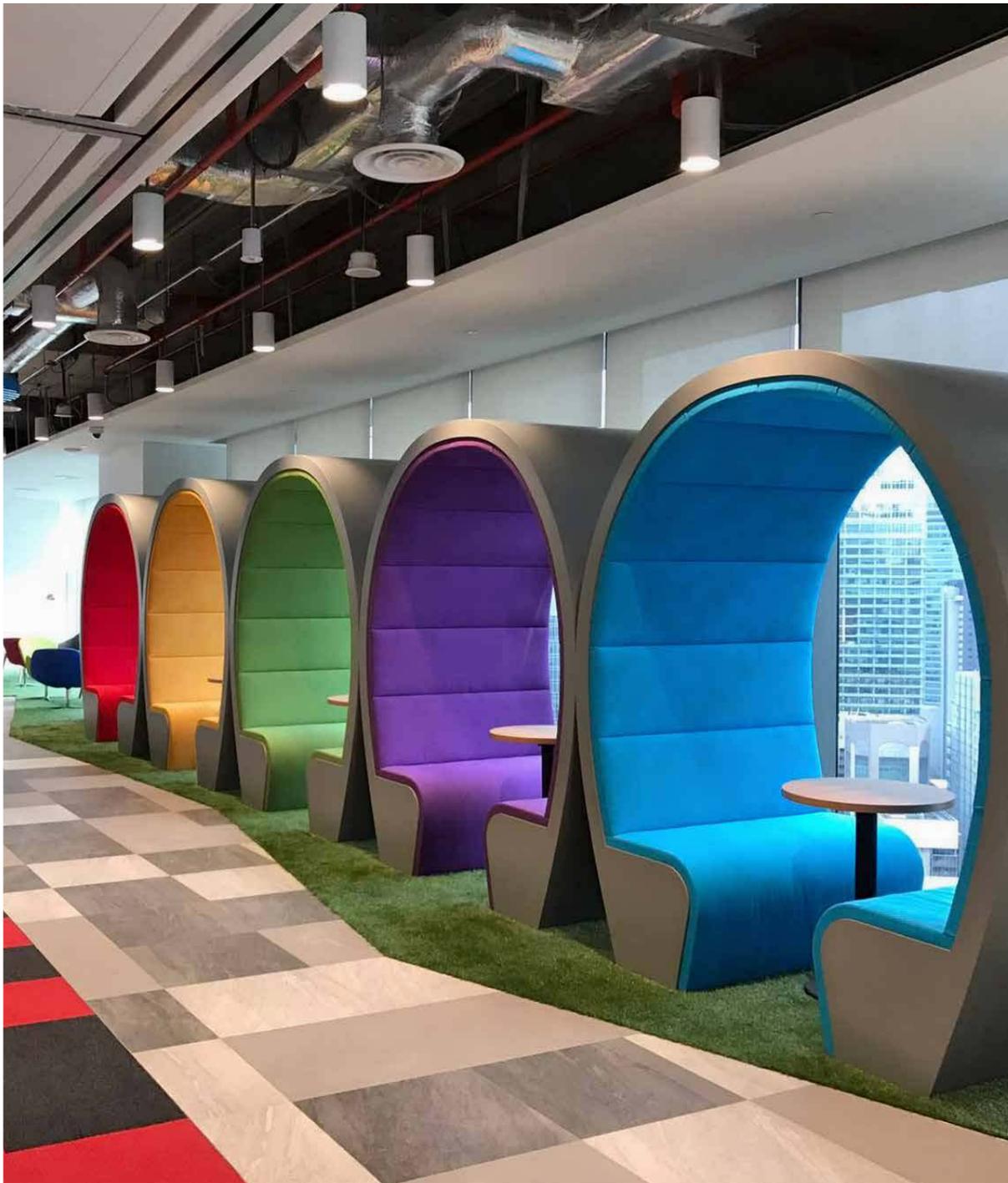


Peter L. Allen,
Managing Director,
Agoda Outside

Peter L. Allen leads Agoda Outside, Agoda's outreach and public affairs department. Allen's career has spanned academia and business, focusing on building organizations, developing people, and increasing knowledge in both business and academic fields, including travel and tourism.

Allen holds degrees from Haverford College, the Université de Poitiers, the University of Chicago (Ph.D.), and the Wharton School (M.B.A.). He has taught at Princeton University, Pomona College, the University of Chicago, and Nanyang Business School (Singapore). He has worked at McKinsey & Company as a consultant and member of the strategy practice, and at Google, where he founded and led Google's first central learning and development program. He has received numerous fellowships and awards and has also served as advisor and board member to academic and nonprofit organizations.

As the managing director of Agoda Outside, Allen works extensively on travel and tourism issues across Asia. He is an advisor to the World Travel & Tourism Council (WTTC) and co-chair of the government and regional affairs committee of the American Chamber of Commerce of Singapore. His publications include books from the University of Pennsylvania Press and the University of Chicago Press; articles in numerous publications, including the *McKinsey Quarterly*; and position papers and white papers published by the Asian Trade Centre and other organizations.



About Agoda Outside

Agoda Outside is a new undertaking from Agoda, a company that provides online accommodations for travelers around the world. Agoda's business is built on ideas, innovation, experiments, and technology—combined with a love of travel.

Agoda's founders wanted to create ways to make travel easier, more efficient, and more accessible. Agoda has become one of the world's largest travel companies; from our roots in Southeast Asia, our accommodations network now reaches around the world. Agoda's success has come from exceptional people, great ideas, innovation, experimentation, hard work, strong partnerships—and no small amount of good fortune. Consumers believe that travel is very important to their happiness. Those of us who have had the opportunity to work at Agoda believe that technology and travel can work together to change the world for the better.

Agoda Outside focuses on ideas, research, exchanging information, philanthropy, and outreach. We want to engage other organizations that can help us find ways to make the world a better place. In particular, we focus on how technology and design are creating the future, how travel helps us rethink the world, how big ideas make a difference in business, and what science and experiments can teach us about human behavior.

More information can be found at the Agoda Outside website at <https://outside.agoda.com>. Please sign up for Agoda Outside's monthly travel and technology newsletter at www.surveymonkey.com/r/X7Q5RTR.

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Preface

ABOUT THIS BOOK

Like the sharing economy, which connects people with the goal of meeting mutual needs, this book is written with four groups of readers in mind: **travelers** (whom we'll refer to as “guests”) who are new to staying in local host rentals; **hosts**—property owners who are evaluating whether and how to rent their private rooms or homes; **neighbors**, who live in communities with local host rentals; and **governments** that are trying to make sense of the impact that this rapidly changing industry is having in their communities.

You can read the whole book to understand how all the stakeholders fit together in this new and important industry or just pick the chapter that you feel is most relevant. Given that the sharing economy is most successful when it operates in a network, however, we recommend that you read more than just the chapter that's written specifically for your role. After all, a good guest needs to take stock of his or her host's priorities and be conscientious about neighbors, and vice versa. Furthermore, given how fluid the sharing economy is, a reader who is a guest today may soon also be a neighbor, a host, or someone who is involved in developing policy for his neighborhood, city, or town. And all of these people are constituents for governments, which need to take every perspective into account.

Why is this book needed? We believe that local host rentals have positively transformed the global travel industry, and will continue to do so. Local host rentals are here to stay; in fact, it's possible that they will become the standard travel accommodations for many travelers—for example, millennials and families—and a frequent option for others. More broadly, they are part of a larger trend in which traditional lines between customers and businesses are becoming blurred.

The following is a summary of the book's chapters:

The Introduction lays out all you need to know about the market context of the sharing economy and local host rental industry.

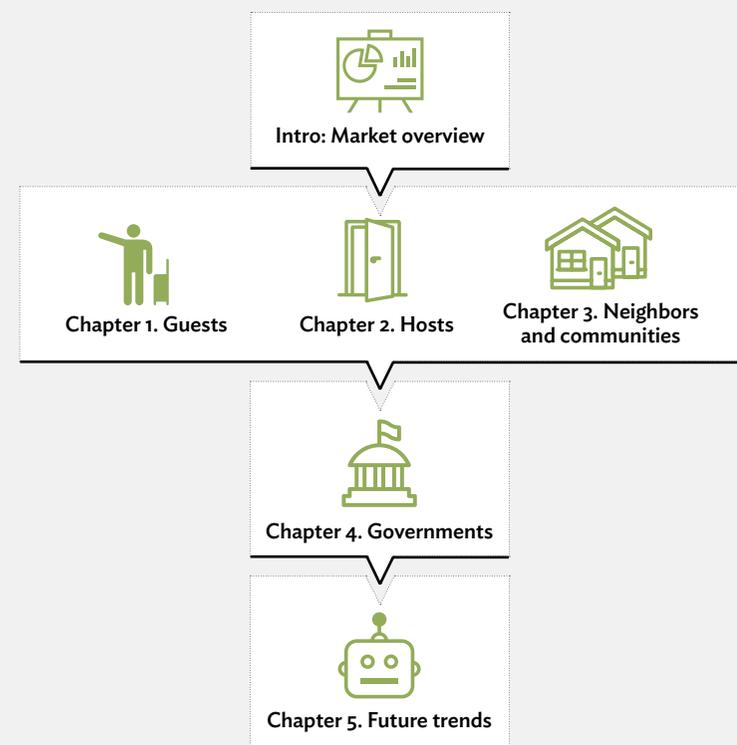
Chapter 1 starts with guests, the people who power the market, explaining how they can get the most out of the experience of staying with people they don't know.

Chapter 2 turns to hosts, emphasizing that the business of local host rentals is indeed a business, and guiding them through the basics of what they need to know to be successful.

Chapter 3 looks at neighbors and local communities, who often lead the charge against local host rentals, but who, in fact, frequently stand to benefit from this new development.

Chapter 4 speaks to governments and local policy makers who are trying to evaluate the industry's pros and cons. In a field evolving this quickly around the world, and with money, jobs, and the public interest at play, regulators can feel overwhelmed. One reaction is to try to prevent all change. We believe, however, that such an approach is not only futile but self-defeating. The key to success for cities and towns is to regulate local host rentals wisely and efficiently, in ways that benefit everyone.

And Chapter 5 looks at the future. We believe that local host rentals are bringing about change not only for hosts and guests, but to the entire accommodations industry and, ultimately, to the real estate market as a whole. This chapter shares perspectives from companies and experts from different areas about how this change will affect both residential and commercial real estate markets—all the spaces in which we live and work.



To help you keep track of essential points, each chapter concludes with a summary of key takeaways, and at the end of the book is a resources section with helpful additional information, including a summary of service providers, suggestions for further reading, a list of websites and published sources, and an index.

A NOTE ON LOCAL HOST RENTALS

Often referred to as “vacation rentals,” “short-term rentals,” or “short-term accommodations,” these properties offer guests an appealing and cost-effective avenue of travel that differs from hotel offerings in a number of compelling ways. Whether it’s a bedroom rented in a host’s apartment or an entire villa, this book refers to this kind of accommodation as “local host rentals.”

The term local host rentals encapsulates two key traits: first, the fact that guests are staying in accommodations that are situated *within a community* (as opposed to tourists staying at hotels); and second, that they are staying *in someone’s home*. Local host rentals are based on a relationship between the guest and the host. This relationship is the foundation of the sharing economy.

The foundation of local host rentals is the relationship between the guest and host.

To sum up, guests, hosts, and community members all need to understand the benefits, risks, and implicit rules of this dynamic marketplace. Every stakeholder needs to understand the fundamentals of how local host rentals work, so that guests can enjoy local travel experiences, hosts can earn income from renting their homes, neighbors can find effective ways to voice their needs, and regulators can protect and improve the public welfare. Each player also needs to understand how his or her actions affect others. Looking toward the future (a future that is arriving as we write), we seek to empower readers with the knowledge they need to make the most of the local host rental market’s remarkable possibilities—no matter who they are, or where in the world they may be.

SOME LEGAL REMINDERS

This book is intended to provide general information only. The authors and publisher are not qualified to provide legal, financial, or tax advice, and that’s not what we’re intending to do. Before you make business decisions about topics covered by this book, you should seek independent professional advice.

The authors and publisher have made every reasonable effort to ensure that the information in this book is correct as of the publication date, but unfortunately, we can’t guarantee that it’s 100 percent accurate and complete; this is a fast-moving area that is subject to frequent change.

When we refer to money—potential revenues for hosts, currency conversions, and the like—the examples are based on information available at the time of publishing, for illustrative purposes. Business and revenue models of different players in the field may change over time.

We refer to several brands, trademarks, and other intellectual property in this book. We have a lot of respect for these brands, but we are not making or claiming an endorsement by mentioning them. Brands, trademarks, and other intellectual property mentioned remain the property of their owners.

The book does not necessarily represent the views of Agoda or any of the quoted companies. Neither the authors nor the publisher will be liable for any direct or indirect loss caused, even if caused negligently, by a person’s reliance on information contained in this book. Thank you for understanding that we cannot be responsible for decisions you make.

Names and other details of certain individuals mentioned in this book have been changed to protect their privacy.

A CAVEAT ABOUT CHANGE

As you read, it is important to keep in mind that the local host rental landscape is evolving so fast that there will be changes and developments virtually every day—not all of which can be captured in the text. To the best of our knowledge, all statements are correct at the time of writing, but it is inevitable that changes will continue to occur after we publish. (It’s also worth noting that we have compiled information and data from many different sources, each of which may categorize or count differently.) Please make sure that information you are relying on is up to date before you book a stay, begin operating a local host rental, or take action regarding local host rental community issues or regulatory policies.

Now, enjoy the book!

Introduction

Local Host Rentals: The New Frontier



[W]hat ultimately keeps this economy spinning—and growing—is trust. It's the elixir that enables us to feel reassured about staying in a stranger's home or hitching a ride from someone we've never met.

—PwC, *The Sharing Economy*¹

THE BUSINESS OF SHARING

The sharing economy is changing everything. In the past—and the past wasn't that long ago!—people saw business as straightforward and stable. A business was a profit-oriented organization with a physical location, employees, managers, registered sellers, specialized knowledge, a customer base, fixed prices, rules, and laws, with a clear distinction between goods and services. Customers purchased goods and services from businesses according to these fixed rules.

But those days are gone: the sharing economy blurs all these lines. In the sharing economy, most providers *don't* sell from brick-and-mortar storefronts. Buyers and sellers *aren't* always different—the same person can be both a buyer and a seller, changing roles daily. Peers sell to peers. A seller may not be an expert—the same person may sell used furniture one day on Carousell, rent out a room on Airbnb the next, and catch a ride (or offer one!) on Uber or Lyft or Didi Chuxing (or get from place to place on Ofo or Mobike) in between. She is neither a merchant nor a customer—she is a person, doing things that are part of her daily life.

What, exactly, is the sharing economy? Often called by other names (e.g., the collaborative, peer-to-peer, or trust economy), the sharing economy is defined by the Brookings Institution as “the peer-to-peer based activities of obtaining, giving, or sharing access to goods and services coordinated through community-based online services.”² In other words, people buy, rent, swap, share, and donate goods and services to one another directly, rather than through merchants. Technology is both the enabler and the market maker.

THE SHARING ECONOMY IS...



peer-to-peer



sharing, renting, selling, or giving goods, turning them into services



transacted online



a highly efficient way of creating value from underused assets.

PricewaterhouseCoopers (PwC) further defines one of the sharing economy's most important and revolutionary aspects: "Individuals and groups . . . make money from underused assets. In this way, physical assets are shared as services."³

Transactions like this are not new, but in the past, they took place informally and on a very small scale—within networks of friends and family, or perhaps through a notice pinned to a bulletin board in a supermarket, community center, or university student center. Advances in technology, however, have helped these marketplaces grow immensely bigger, more powerful, more visible, and more accessible.⁴ And as the marketplace has become bigger, it has also become more profitable. As e-commerce services have grown and increased their capabilities, the range of transactions has expanded exponentially. A consumer in Tokyo can rent his home to a tourist from New York, book a taxi in Bangkok, donate to a community project in Buenos Aires, and do work for a business in Europe through an online platform based in India. By aggregating all these transactions, services connect millions of users worldwide, drastically reduce operating costs, and generate significant profits and savings for the parties involved—and for themselves.⁵ As users share or sell underused resources (such as their home, their time, or space in their car), markets expand enormously, with limited investment of resources.



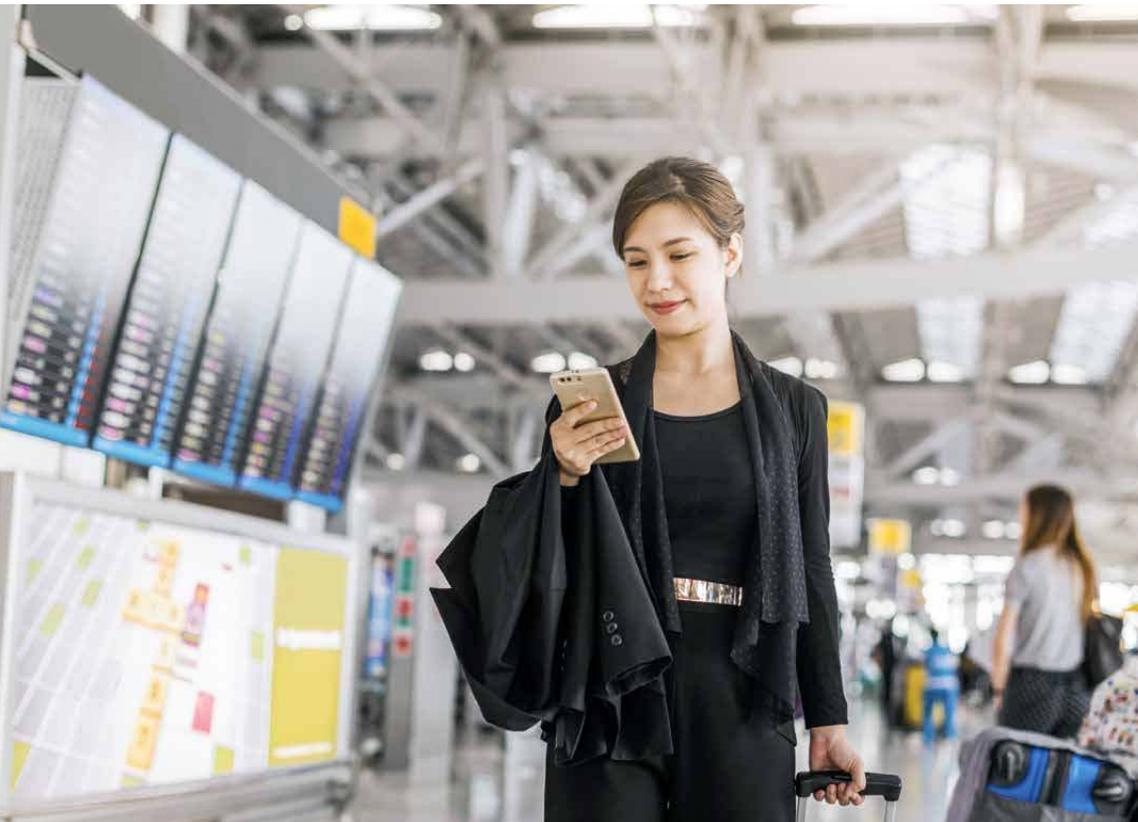
"Sharing has the potential to reshape product design."

—Boston Consulting Group

The sharing economy has often been described as "disruptive" because it provides a compelling set of alternatives to established businesses, ignoring or breaking standard rules by which companies have traditionally operated. If everyone can rent out bedrooms, what does this mean for hotels? If everyone can share a ride, what happens to taxis? As demand for services grows, what started as alternatives eventually pass a tipping point and *become* the mainstream. In doing so, they transform the market as a whole, redefining the norm.⁶

The change doesn't stop there. Just as a falling domino triggers a chain reaction, disruption triggers a reaction of motion, building in momentum and impact. In the sharing economy, disruption magnifies opportunities for innovation in technology and services. Thanks to network effects and economies of scale, what emerges as an innovation in one industry rapidly transfers to another. "Sharing has the potential to reshape product design," as the Boston Consulting Group (BCG) has observed.⁷

One striking example is cars: ride sharing can reduce the number of cars on the road. According to the Brookings Institution, "the goal of companies like Uber and Lyft is to make ride sharing so inexpensive and convenient that they become more economical than owning a car."⁸ The *Wall Street Journal* has forecasted that the entire transportation sector is transforming in such a way that "the entire model of car ownership is being upended—and very soon may not look anything like it has for the past century."⁹ And the arrival of autonomous vehicles will only accelerate this trend. BCG has estimated that by 2030, shared, self-driving cars will account for one quarter of all miles driven in the United States.¹⁰ There are



others who believe that this change will happen even sooner and more broadly: Aarjav Trivedi, CEO of Ridecell, a software company focused on car sharing, has predicted that by 2022 or 2023, “the majority of transportation in urban cities with temperate weather will be on demand, shared, and likely autonomous.”¹¹ Economically, the shift makes sense; according to Deloitte Consulting, the cost of personal car ownership in the U.S. currently averages 97 cents per mile, but shared, self-driving cars could reduce the price of travel by two-thirds.¹² Owning and driving a car—a distinguishing feature of middle-class life in the twentieth century—may well become an inconvenient and expensive rarity.

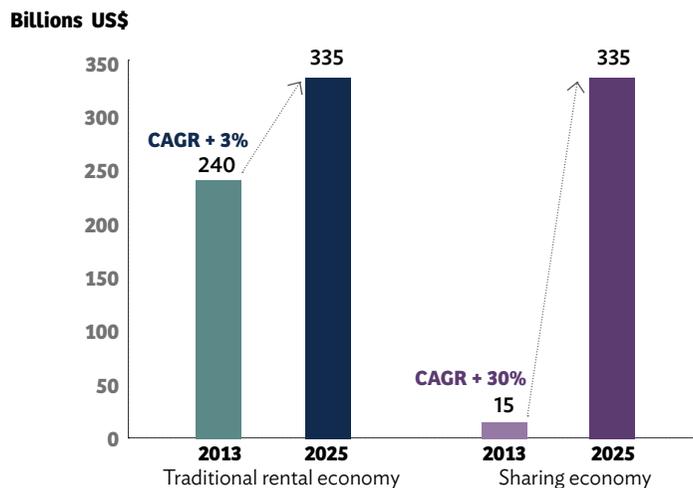
Overall, BCG has this advice: “Executives should not assume that sharing tomorrow will be the same as sharing today, any more than traditional rental businesses foreshadowed the modern sharing economy.”¹³ In other words, the changes we have seen to date are just the beginning.

HOW BIG IS IT? OVERVIEW OF THE SHARING ECONOMY MARKET

Given that the majority of platform providers are privately owned, estimating the total size of the sharing economy is difficult. To get a sense of its scale, researchers look at metrics like investment and employment, in addition to estimates of revenues by sector. In 2017, a BCG report showed that approximately US\$23 billion in venture capital had been invested in the sharing economy since 2010.¹⁴ Meanwhile, McKinsey has reported that the sharing economy employed up

FIGURE 1

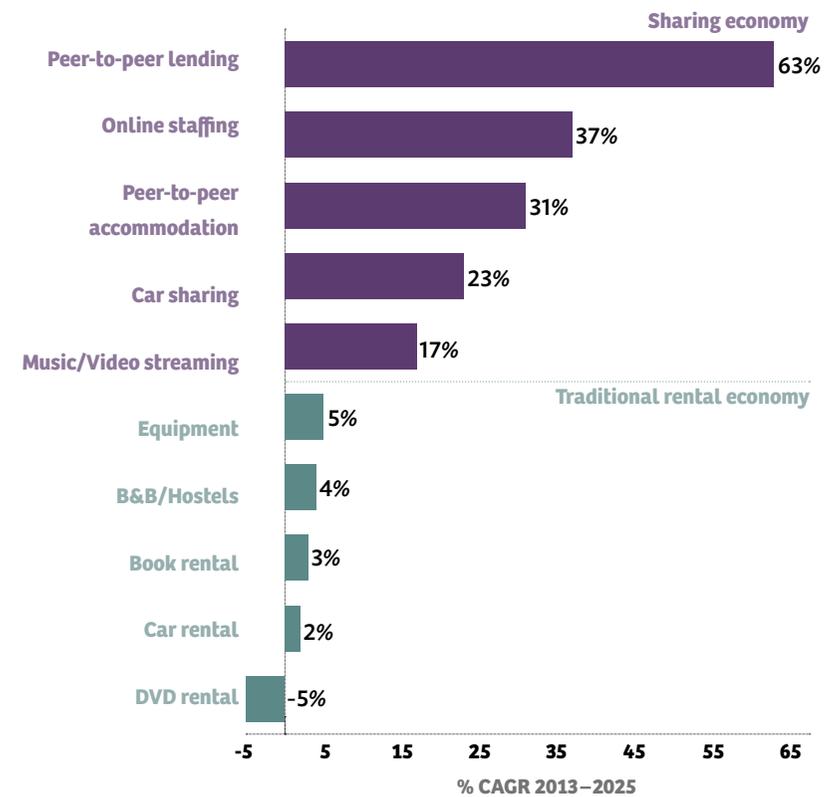
By 2025, the sharing economy will grow to equal the size of traditional rental markets



SOURCE: Data from PwC.

FIGURE 2

Five key sectors drive growth in sharing economy



SOURCE: Data from PwC.

to 162 million people as “independent workers” in the U.S. and Europe—approximately 20 to 30 percent of the working age population (based on 2016 data).¹⁵ As we will discuss later, China’s sharing economy had more than 700 million participants by 2017, an increase of 10 million over 2016.¹⁶ These numbers will only continue to grow.

To date, the most comprehensive attempt to size the global sharing economy was compiled by PwC in 2014. Called the Consumer Intelligence Series: *The Sharing Economy*, it continues to be the most frequently cited estimation of market size and global growth. The report has estimated that by 2025, revenues from the global sharing economy will grow to US\$335 billion—up exponentially from US\$15 billion in 2013.¹⁷ Furthermore, Rob Vaughan, an economist at PwC, has forecasted that the sharing economy will grow 30 percent annually until at least 2025.¹⁸ This rate of growth is dramatically higher than that of the “traditional rental market” (defined as equipment rental, B&Bs and hostels, book rental, car rental, and DVD rental) for which PwC has predicted a compound annual growth rate (CAGR) of only 3 percent.¹⁹ (See Figure 1.)

PwC has identified five key sectors that drive the sharing economy’s global growth: car sharing (ride sharing), peer-to-peer accommodation (local host rentals), finance (peer-to-peer lending/crowdfunding, online staffing, and media streaming (music/video streaming)).²⁰ (See Figure 2 on page 23.) When the report was written, these five sectors had generated only 5 percent of total revenues of the 10 sharing economy sectors analyzed; but PwC has calculated that these five sectors will constitute up to 50 percent of all revenues by 2025.²¹

At a macro level, PwC believes that the sharing economy will follow the traditional “S-curve” shape of the traditional economy: low volumes at first, then rapid growth, ultimately leading to stabilization. During the period of rapid growth, as a “breakthrough company” accelerates in each segment, the new market grows rapidly, while the old markets decline.²²

KEY PLAYERS IN THE SHARING ECONOMY

By now, the names of these breakthrough companies are well-known brands across the globe. In a relatively short time, they have grown to become economic giants in their industries and influential market makers in business. Let’s look at recent success metrics of some of these key players in Figure 4 (See pages 26–27).

The growth rates of these companies are astounding; Lyft alone reported in July 2017 that ride sharing growth had exceeded 100 percent year over year for the previous 48 consecutive months.²³

Beyond the top players, the sharing economy is also accelerating growth in a wide range of industries, making room for innovation in virtually every sector in which on-demand needs are met. In a survey of more than 4,700 Americans, Pew Research measured the highest penetration rate in second-hand goods.²⁴ Craigslist, which was founded in 1995 to “connect the world for common good,” operates 700 sites in 70 countries, with more than 60 million users per month in the U.S. alone.²⁵ Its estimated 2016 revenues were US\$690 million; its estimated valuation is US\$3 billion.²⁶ Meanwhile, in Southeast Asia, Carousell’s marketplace for used and new consumer goods doubled in 2016 to 95 million listings, and reported that its 2017 gross merchandise volume—the total value of goods sold across the platform—was US\$5 billion.²⁷

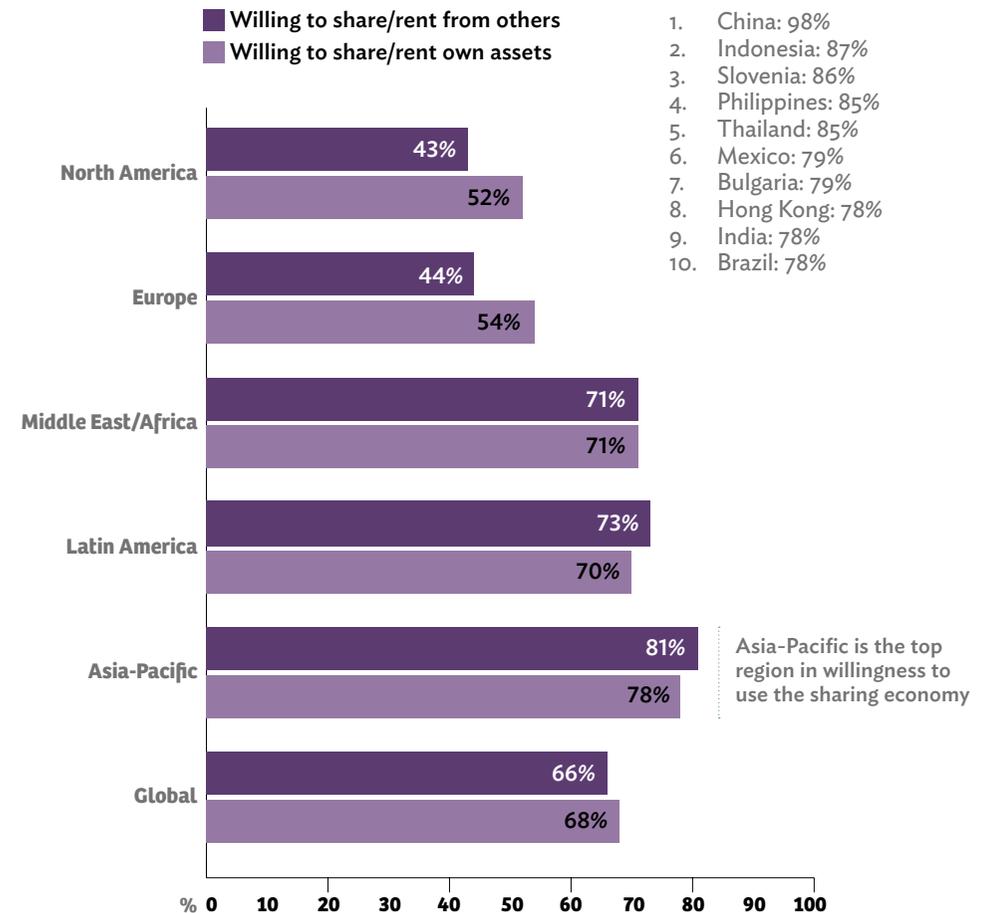
In short, the sharing economy is now mainstream.

CUSTOMER USAGE AND SEGMENTS

Nielsen surveyed over 30,000 customers across 60 countries for a global study of customer usage and attitudes towards the sharing economy—the most extensive and recent study of its kind. Entitled *Is Sharing the New Buying? Reputation and Trust Are Emerging as New Currencies*, the 2014 report found that around the globe, 68 percent of all those surveyed were willing to share or rent their own assets or services, while 66 percent were likely to use products or services within the sharing economy.²⁸ (See Figure 3.)

FIGURE 3

Regional willingness to participate in sharing economy across the globe



Top 10 countries most likely to share/rent from others:

1. China: 98%
2. Indonesia: 87%
3. Slovenia: 86%
4. Philippines: 85%
5. Thailand: 85%
6. Mexico: 79%
7. Bulgaria: 79%
8. Hong Kong: 78%
9. India: 78%
10. Brazil: 78%

Asia-Pacific is the top region in willingness to use the sharing economy

SOURCE: Data from Nielsen.

FIGURE 4

Sharing economy key players at a glance^a

Segment	Company	Value (US\$)	Markets	Customers
 Peer-to-peer lending	Lufax	18.5 billion as of January 2016	China-wide as of July 2017; opened a Singapore office in June 2018	33 million registered users as of January 2018
	Qudian	Market value of 7.9 billion as of October 2017	China-wide, as of January 2018	65 million registered users as of May 2018
	GoFundMe	5 billion raised since 2010, as of October 2018	Donors from 19 countries have donated to over 2 million campaigns since 2010, as of January 2017	50 million donors as of January 2018.
	WeLab	1 billion as of early 2016	Hong Kong and China as of November 2017	25 million registered users as of November 2017
 Peer-to-peer accommodation	Booking.com	Acquired by Priceline (now Booking Holdings) in 2005 (value not public)	Over 5.6 million listings in 230 countries as of October 2018	Average of 1.5 million room nights booked daily, as of August 2018
	Airbnb	31 billion as of May 2017	Over 5 million listings in 191 countries, as of October 2018	400 million guest arrivals since company was founded in 2008, as of September 2018
	HomeAway	Acquired by Expedia in 2015 for 3.9 billion	2+ million listings in 190 countries, as of September 2018	Data not public
	Tujia	Valued at more than 1.5 billion as of October 2017	Over 1 million listings in 300 Chinese cities and global locations, as of May 2018	90 million users served in 2017.
	Agoda	Acquired by Priceline (now Booking Holdings) in 2007 (value not public)	1.1 million properties ^b globally as of October 2018	Data not public

SOURCES: Data from Agoda; Airbnb; Booking Holdings; Carousell; Channel NewsAsia; China Daily; CNBC; Crunchbase; DMR; Financial Times; Forbes; Fortune; Gizmodo; GoFundMe; Go-Jek; Grab; HomeAway; Jakarta Globe; Lyft; Marketing; New York Times; Ofo; Qudian Inc.; Recode; Reuters; South China Morning Post; Statista; Straits Times; TechCrunch; The Verge; Tnooz; Today; Uber Estimator; VentureBeat; Vickers; WeLab.

^a Data reflects values reported at the time of writing. All numbers are subject to change and should be viewed as indicative only.

^b Agoda reports number of properties, not listings. Note that terminology is not consistent across platforms. Typically, a “property” (for example, a hotel) may include multiple rooms, whereas a “listing” (for example, a short-term rental apartment) is more likely to be a single rental.

Segment	Company	Value (US\$)	Markets	Customers
 Ride sharing	Uber	Valued at 62 billion as of May 2018	More than 760 cities in 84+ countries	Completed its 1 billionth ride in 2015; serves 75 million riders per month as of January 2018
	Didi Chuxing	56 billion as of March 2018	400 cities across China and Mexico, with plans to expand into Australia, as of June 2018	450 million registered users as of March 2018
	Lyft	11 billion as of October 2017	350 cities in more than 40 states in the U.S., with Canada expansion, as of November 2017	500 million rides, as of October 2017; providing 1+ million rides daily, in geographic areas where 95% of the U.S population lived as of July 2017
	Grab	Valued at 10 billion as of June 2018	217 cities across 8 Southeast Asian countries, as of June 2018	1 billionth ride as of October 2017; providing 2.5 million daily rides as of June 2018. App had been downloaded on 68+ million mobile devices
	Go-Jek	5 billion as of February 2018	50 cities across Indonesia. Go-Jek announced plans to expand into Singapore, Vietnam, Thailand and the Philippines, as of May 2018	15 million weekly active users as of December 2017
	Meituan-Dianping	30 billion as of October 2017	2,800 cities across China, as of October 2017	280 million active annual users as of October 2017
 Online marketplace	Carousell	Gross merchandise value of 5 billion, as of October 2017	Carousell had 144 million listings in 9 countries, as of June 2018	Data not public
	Craigslist	3 billion as of April 2018	700 sites in 70 countries, as of January 2017	60 million U.S. users per month as of January 2017
 Bike sharing	Mobike	3 billion as of October 2017	200 cities globally across 13 countries, as of November 2017	200 million registered users as of December 2017
	Ofo	2 billion as of March 2018	Operating in 250 cities across 22 countries, as of June 2018	200 million registered users as of June 2018

THE SHARING ECONOMY IN ASIA

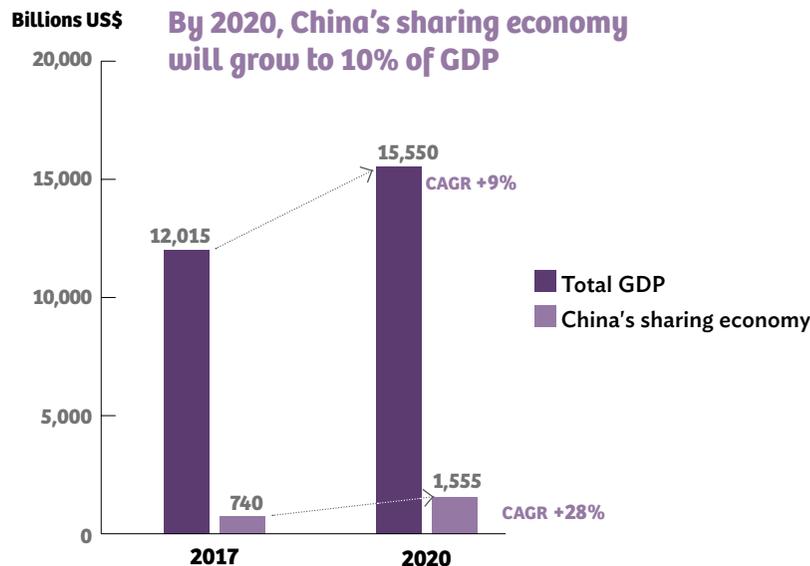
“The digital economy and the sharing economy are taking the world by storm.... We cannot afford to act like onlookers.”

— Xi Jinping, President of the People’s Republic of China²⁹

In Asia, where fast-paced economies and technologically savvy customers shape business trends, the sharing economy is a game changer. China dominates the news about the sharing economy’s impact on both daily life and business. China’s Sharing Economy Research Center of the State Information Center reported that the country’s sharing economy reached a market turnover of US\$740 billion in 2017, and is forecasted to grow at an annual rate of approximately 30 percent for the next five years, according to *China Daily*.³⁰ (See Figure 5.) *Forbes* magazine, citing data from the same information center, has stated that “at least half of China’s 1.4 billion population used online sharing services at least once.”³¹ Meanwhile, Singapore’s *Straits Times* newspaper has forecasted that by 2020, China’s sharing economy will grow to represent “one-tenth of China’s gross domestic product and provide 100 million jobs, of which 20 million can be considered full-time employment.”³² (See Figure 6.)

FIGURE 5

Growth of China’s sharing economy



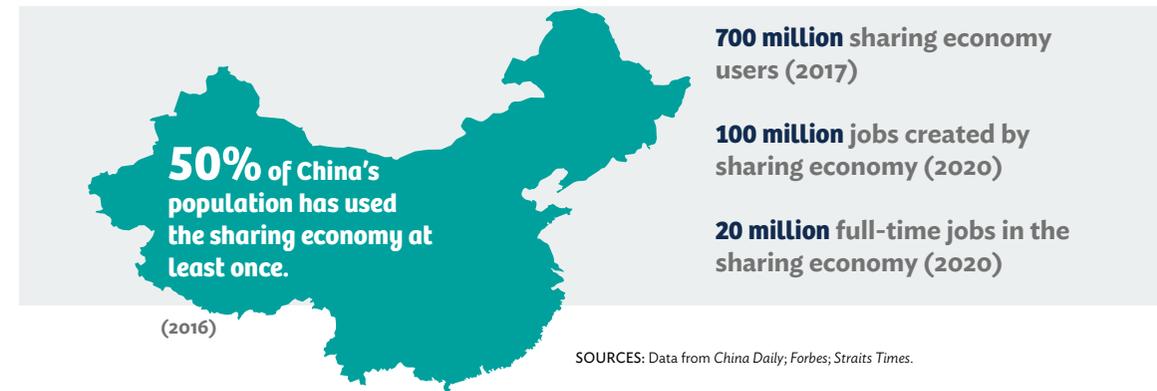
SOURCES: Data from *China Daily*; *Forbes*; IMF; *Straits Times*.

Overall, Nielsen found that Asia-Pacific residents were the most willing “to share their own goods (78 percent) and likely to rent from others (81 percent),” compared with the global averages of 68 percent and 66 percent, respectively.³³ On average, only 22 percent of Asia-Pacific consumers were “unwilling to share or rent their personal assets, compared to 32 percent globally.”³⁴

Within Asia, the Southeast Asian region stands out as the most receptive to sharing. Nielsen has reported that consumers in “four of the top five markets prepared to share or rent their personal assets for financial gain hail from Southeast Asia.”³⁵

FIGURE 6

China and the sharing economy



Demand for the sharing economy in Southeast Asia will only grow. According to a recent report on e-commerce by Google and Singapore-based Temasek Holdings, Southeast Asia is the world’s fourth largest internet market; as of May 2016, the region had 260 million users online, adding 3.8 million users every month in the next five years—approximately 124 thousand new users per day.³⁶

DISRUPTING MARKETS AND TRANSFORMING TRAVEL

The sharing economy is transforming not only basic business actions like buying and selling, but also the ways in which humans interact; the strength of these new approaches may be tied to a more fundamental

Asia-Pacific consumers are the most willing to use the sharing economy in the world.

cultural shift. Supporting the facts we have just reviewed, the Organization for Economic Co-operation and Development (OECD) has affirmed in its *Tourism and the Sharing Economy* report that people are “more open to the idea of sharing resources, flexible work opportunities, [and] digital experiences and transactions.”³⁷

This is especially true in travel. Airbnb and HomeAway are some of the best-known accommodation examples from the West, and there are many more worldwide. Why is this happening? From the demand side, travelers want more individualized trips; they want to feel that their experiences are customized, authentic, or even unique; they want to connect with locals. In terms of supply, many locations that are attractive to travelers lack traditional hotel accommodations but have excess or unused capacity of private residences. Whether because of regulation (for example, in some protected natural settings, homes are permitted but commercial properties are not) or because of cost (for example, in dense urban centers, where building hotels is economically infeasible), traditional accommodation supply is not keeping up with customer demand. All these factors together bolster the travel sharing economy.

Sharing platforms for accommodations and transportation address these needs, while also often offering lower cost and greater convenience. As a result, mainstream brands are innovating to meet these market developments—e.g., Starwood’s Design Hotels, which advertise “a handpicked portfolio of one-of-a-kind hotels” that allow you to “immerse yourself in the local culture.”³⁸

LOCAL HOST RENTALS

According to a 2016 survey by TripAdvisor, 67 percent of global travelers intend to rent homes or properties on their travels—up from 59 percent in 2015.³⁹

If you ask a typical consumer about local host rentals, he or she may say, “Oh, it’s this new way to travel”—but the model has actually been around for ages.⁴⁰ The earliest forms of this type of hospitality took shape hundreds, even thousands, of years ago and have slowly but steadily evolved and expanded ever since.

Let’s look back a little to understand the historical context of local host rentals. This will help us see that



what looks like a new phenomenon is just a modern adaptation of a kind of travel that’s been part of human experience for a very long time.

In ancient Greek and Roman culture, hospitality was viewed as an almost divine right for travelers and a corresponding obligation for hosts.⁴¹ In the European Middle Ages, members of various religious sects often invited European travelers into their monasteries as guests, especially along pilgrimage routes. In Japan, the *ryokan*, a type of traditional Japanese inn, has existed since the eighth century A.D. to offer respite to travelers along Japan’s major roads.⁴² Many of the earliest *ryokans* were located along the Tokaido Highway, which connected the capital city of Edo (now Tokyo) and the Imperial Palace in Kyoto.⁴³ Indeed, the world’s oldest continuously operating hotel, the Nishiyama Onsen Keiunkan, is located in Japan. It has existed for more than 1,300 years and is managed by the founder’s 52nd generation descendants.⁴⁴ Traditions of hospitality abound in many—if not in most—of the cultures of the world.

So-called coaching inns sprang up across Europe starting in the mid-1700s, giving root to today’s hotel industry. In colonial-era America, where inns were rare, travelers stayed in the homes of people they met on the road.

During the 1800s, large and wealthy European families

67% of global travelers intend to use local host rentals while traveling.

—TripAdvisor

began investing in and sharing vacation estates, with different parties using them at different times of the year.⁴⁵ (These might be called the earliest examples of what we now consider timeshares.) Unlike today's instant-booking platforms, however, travelers had to confirm availability, make reservations, agree to payment terms, and understand what to expect through the exchange of letters and telegrams—not an easy task, and certainly not a setup that allowed for instant booking.

Bed and breakfasts (B&Bs) became more and more prevalent across Europe during the nineteenth and early twentieth centuries, and by the 1950s print ads for “vacation rentals,” billed as a new alternative to hotels, began popping up in newspapers across the United States.⁴⁶ In 1985, the Vacation Rental Management Association (VRMA) was founded to connect the country's growing number of owners and professionalize the business overall. The internet's arrival paved the way for local host rental services like VRBO (Vacation Rentals by Owner), which debuted in 1995, and CouchSurfing, a home-sharing service that launched in 2004 to connect adventurous, budget-minded travelers with homeowners willing to host them for free. The internet soon helped local host rentals reach a global scale. For example, HomeAway arrived in 2006 and immediately began snapping up competitors like VRBO to expand its inventory by the hundreds of thousands. In 2007, two roommates in need of extra cash began renting out an air mattress in their living room in accommodation-poor San Francisco. One year later, as TripAdvisor bought a majority stake in FlipKey, those enterprising roommates and a friend formally launched AirBed & Breakfast, today simply known as Airbnb. A decade later, of course, Airbnb has become the industry's de facto poster child and one of its biggest success stories,⁴⁷ with over 5 million listings in more than 191 countries as of October 2018. Airbnb announced in August 2017 that it had more listings than total rooms in the top five global hotel chains combined.⁴⁸

From there, the industry took off. In 2011, more players entered the market with entries like 9flats and Wimdu in Europe and Zizaike and Tujia in China. At around this time, technological innovation began to fuel growth.⁴⁹ In

2015, Expedia made a big splash when it purchased HomeAway. Hotel-booking sites like Booking.com and Agoda have greatly increased their local host rental offerings, as well. Today, local host rentals are no longer considered “alternative accommodations.” They are a mainstream way of travel—just like inns, *ryokan*, and B&Bs before them.

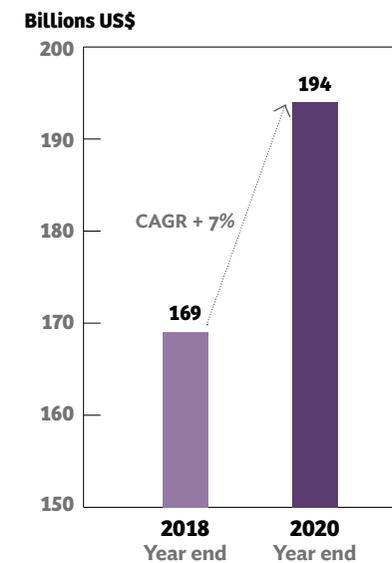
LOCAL HOST RENTALS TODAY: MARKET OVERVIEW

According to the 2017 market analysis report by travel industry experts Skift, total global revenues from the local host industry will reach US\$169 billion by the end of 2018. Skift has also estimated the total U.S. local host market to be valued at US\$30 billion and total supply of listings in Europe and North America to range between 2 to 3.5 million properties. (Sizing the global market is difficult because of such inherent challenges as fluctuating accommodation stock, diverse ownership structures, and geographic discrepancies.)⁵⁰

The technology market-research firm Technavio has forecasted that the industry will grow 7 percent per year between 2017 and 2021, by which time it is expected to reach approximately US\$194 billion.⁵¹ (See Figure 7) This growth rate is almost double the average growth rate of 3.6 percent cited by an IBISWorld study of the “holiday rental

FIGURE 7

Total local host rental market will be worth US\$194 billion by 2021



SOURCES: Data from Skift, Technavio.

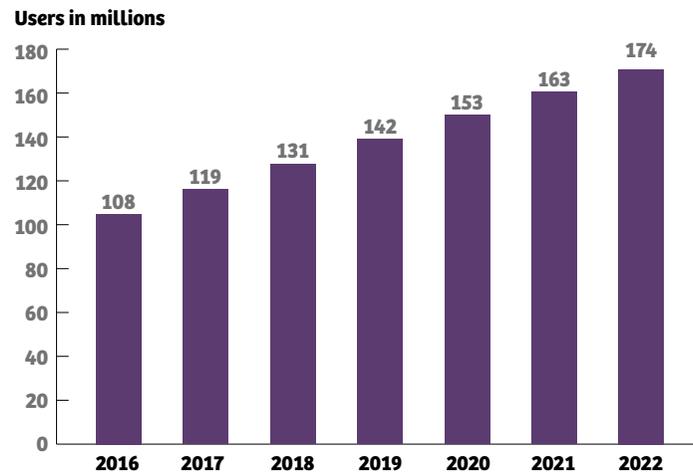
industry” between 2011 and 2016.⁵² Executives at HomeAway’s 2017 annual summit have estimated that the overall local host market was growing at two to four times as fast as the global economy.⁵³ Meanwhile, Skift has reported that in the first quarter of 2016 alone, startups in the local host rental industry had captured almost US\$100 million in investments, primarily in U.S. and European markets.⁵⁴

Some industry experts say that this growth is coming less from an increase in the supply of properties than from a shift caused by demand. In many markets, housing supply is stagnant or even shrinking, and large property-management companies are acquiring properties for use as local host rentals.⁵⁵ This is true in Europe, where one-third of total inventory is controlled by management companies, rather than by private owners.⁵⁶

Statista has estimated total users at 131 million in 2018, projecting growth to 174 million by 2022. Penetration (the percentage of paying customers out of total population) is 2.5 percent, and is expected to hit 3.3 percent by 2022.⁵⁷ (See Figure 8.) Travel industry market-research company Phocuswright has identified the main demand growth as coming from customers between ages 18 to 44.⁵⁸ Overall, local host rental guests appear to be satisfied customers; HomeAway reported in September 2017 that 82 percent of current users plan to stay in local host rentals again.⁵⁹

FIGURE 8

Projected global local host rentals’ growth in users



SOURCE: Data from Statista.

Total global supply of hotels is 16.5 million rooms. In cities like Paris, New York, and London local host rentals had 10% of total hotel bookings

— WTTC, *Travel & Tourism: Global Economic Issues 2017*

Let’s step back and compare these numbers with those of the hotel market. The World Travel & Tourism Council (WTTC) stated in its *Travel & Tourism: Global Economic Impact & Issues 2017* report that the total global supply of hotel rooms was approximately 16.5 million rooms, with the total local host rental supply estimated at “several million”;⁶⁰ in key cities like New York and Paris, WTTC has estimated that local host rentals make up 10 percent of total hotel bookings.⁶¹

A key point to remember is that local host rentals are both *competitors* to hotels and traditional travel accommodations and *complements* to them, expanding the market. Indeed, local host rentals have been successful in many cases because they have tapped into unmet market needs (in key areas like choice, flexibility, and desired traveler experience) to expand the overall tourism pie. Hotels are responding to the growth of local host rentals (as we will see in Chapter 5) as part of the natural dynamics of the accommodations market. Local host rentals are spurring innovation, which benefits all players in the travel ecosystem.

Even though it is hard to provide precise figures for total market stock and revenue, the numbers show what we know to be true: the local host rental market is more diverse than the traditional hotel market, and growing at a faster pace. It may also be more profitable. As Skift has pointed out, “In comparison to the hotel industry, the number of rentable [local host rental] units is much lower. Yet local host rentals generate more revenue than a single hotel room, given their size and appeal to family and group travel.”⁶² (As mentioned, however, we do not believe that LHRs will displace hotels; more on the future of the travel ecosystem in Chapter 5.)

INVESTMENTS IN LOCAL HOST RENTALS

A quick scan of recent investments in local host rentals and related services across the globe reinforces the growth trends described above. Skift’s 2017 global report—a review of the investment landscape since 2014—has that the local host rental sector had attracted

more than US\$2 billion in investments by 2015. It has continued to draw investments in the following years, with the majority of these investments going to large players. And this investment trend shows no sign of abating. Andrew Dowell, CEO of Rented.com, a market place for homeowners and property managers, has described the market as a “gold rush.” According to Dowell, “There are a ton of new people pouring in and a ton of investment pouring in” as well.⁶³

In December 2017, Brookfield Property Partners LP agreed to invest up to US\$200 million in a joint venture between Airbnb and Niido, a real estate developer, to fund a new brand of residential complexes called “Niido Powered by Airbnb.”⁶⁴ This venture is structured to facilitate home sharing. Tenants may rent their units out for up to 180 days per year, and each property will have a “master host” monitoring the maintenance of the apartments and checking in of guests. The projects will also contain shared common spaces and keyless entry.⁶⁵

Asia—and particularly China—are areas of investment growth. Tujia, a leading Chinese player, announced US\$300 million in investments as of October 2017, from Ctrip, All-Stars Investment, China Renaissance’s

New Economy Fund, Glade Brook Capital, and G Street Capital. At the time of writing, Tujia had more than 1 million listings in 300 Chinese cities and global locations. With a valuation of more than US\$1.5 billion as of October 2017, Tujia targets outbound Chinese travel markets, especially Korea and Japan.⁶⁶ In November 2017, Jack Ma’s Yunfeng Capital invested US\$120 million in Xiaozhu, another local host rental platform in China, alongside other investors such as Capital Today and Morningside Venture Capital. By the end of 2017, Xiaozhu had raised US\$270 million in a total of five rounds of financing⁶⁷ and was valued at more than US\$1 billion, attaining “unicorn” status.⁶⁸ Xiaozhu has 500,000 listings, as of October 2018,⁶⁹ and 20,000,000 registered users, as of March 2018.⁷⁰

Likewise, investments in ancillary services and related industries are accelerating. As Skift reported in December 2017, “Venture capital has awoken in a big way to the potential of vacation rental property managers.”⁷¹ For example, vacation rental management platforms saw a surge in funding in 2017, with Pillow, Turnkey Vacation Rentals, and Sweet Inn raising US\$13 million, US\$21 million, and US\$22 million, respectively.⁷² In particular, Pillow funded the launch of Pillow Residential, a management platform tailored especially for local host rentals in multi-family residences, where hosts must not only manage bookings, but also pay close attention to neighbors and regulation.⁷³ In October 2017, Hong Kong-based Klook—a startup that connects tour providers with travelers, primarily in Asia—announced a US\$60 million Series C investment from Goldman Sachs, Sequoia Capital, and Matrix Partners, almost double the amount of its US\$37 million raised since 2014.⁷⁴ At the time of writing, Klook was offering more than 30,000 travel activities across 120 destinations, and had 1 million bookings monthly; the latest investment will fund global expansion focused on inbound and outbound travel to Asia.⁷⁵

Another trend in investment is consolidation. The largest example was in 2015, when Expedia acquired HomeAway for US\$3.6 billion. The following year, hotel group Accor entered the market in 2016 by purchasing Onefinestay, a luxury property management company, for US\$168 million.⁷⁶ Moving into new market segments is always risky: Accor has recently taken a US\$288 million loss on Onefinestay and another investment.⁷⁷

For a snapshot of the ever-changing local host rental industry and some of its key segments, see Appendix 9.

FIGURE 9

Examples of investments in local host rental key players

Company	Investment (US\$)	Select Investors	Location	Date	Purpose
Airbnb (JV with Niido)	200 million	Brookfield Property Partners	U.S.	December 2017	Launch of co- branded residential apartments “Niido Powered by Airbnb”
Tujia	300 million	Ctrip.com International Ltd All-Stars Investment New Economy Fund Glade Brook Capital G Street Capital	China	October 2017	Global expansion for outbound Chinese travelers
Xiaozhu	270 million	Yunfeng Capital Joy Capital Morningside Ventures Capital Today	China	November 2017	Compete for Chinese market share

SOURCES: Data from China Daily; Forbes; Fortune.

KEY PLAYERS IN SHARED ACCOMMODATIONS

As we've previously mentioned, Airbnb alone had more than 5 million listings in almost 200 countries as of October 2018. Agoda and Booking.com, both members of Booking Holdings Inc., are offering increasing numbers of homes among their listings; Agoda had 1.1 million properties⁷⁸ and Booking.com was the industry leader, with 5.6 million listings as of October 2018.⁷⁹ As of September 2018, HomeAway and VRBO offered more than 2 million listings;⁸⁰ Skift's *State of the Global Vacation Rental Market 2017* reported that the two companies have merged their inventories.⁸¹ Tripping.com, which serves as the world's largest aggregator for local host rentals, had over 12 million listings as of May 2018,⁸² including properties from Booking.com, HomeAway, and others, excluding Airbnb.⁸³

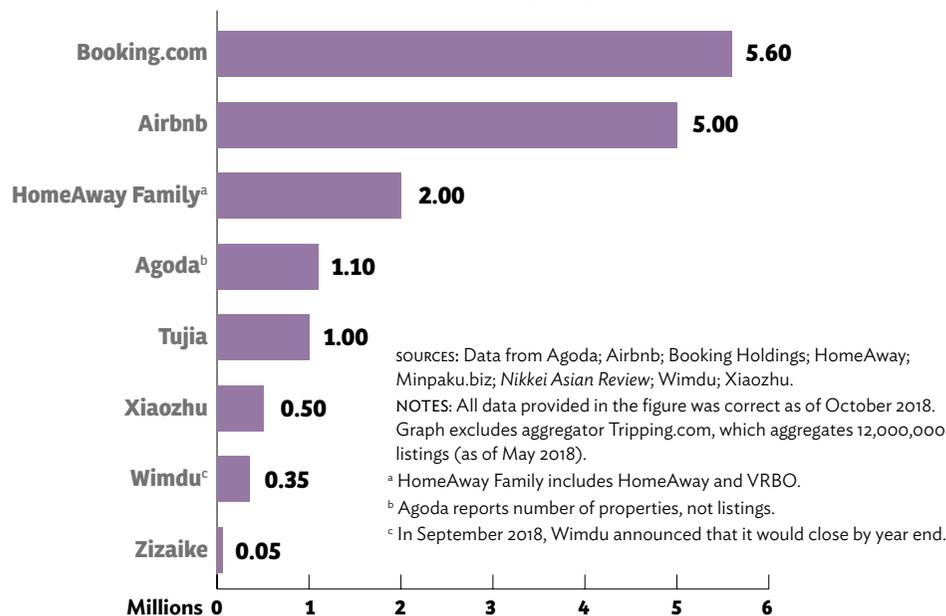
Online businesses have their ups and downs, and these often occur in faster cycles than those of traditional businesses. Despite substantial funding, Wimdu announced in September 2018 that it would close by year's end,⁸⁴ and Tripping.com, at time of writing, has laid off a number of staff.⁸⁵ These changes are part of the industry's life cycle, and the fortunes of any individual organization do not necessarily reflect those of the industry as a whole. (See Figure 10)

For a summary of facts and offerings from the major players mentioned in this book, see Appendix 1.



FIGURE 10

Total local host rental offerings by key service providers



GLOBAL IN SCOPE; GROWING IN ASIA

Geographically, local host rentals are thriving on every continent—including some listed for Antarctica! Yet despite global appeal, Skift has asserted that “the European and U.S. markets are still the key regions for the industry.”⁸⁶ A quick glance at the top 25 global destinations for local host rentals on Tripping.com in 2017 reflects this distribution; 68 percent were in North America and Europe (eight in each), 6 percent in Latin America (of which Mexico had four), 8 percent in Asia (Singapore and Mumbai), and 8 percent in the Middle East/Africa (Cape Town and Dubai).⁸⁷ According to the BBC, as of August 2017, only about 15 percent of Airbnb's total listings are in Asia.⁸⁸

Yet Asia is growing fast, and local host rental service providers want to figure out how to win there. Six of 2017's top 10 Asian destinations for Tripping.com customers were in India, and three in the Philippines.⁸⁹ According to a 2017 Travel Wire Asia article on HomeAway's strategy, “tapping into the Asian market means in large part tapping into China and India's colossal demand.”⁹⁰

Japan is entering a new and promising phase for local host rentals. A new *minpaku* law that legalizes local host rentals went into effect in June 2018 (although not everyone is happy with the 180-day-per-year cap it imposes: we'll discuss further in Chapter 4). The market, which was valued at US\$120 million in 2015, is expected to be 15 times that size by 2020, topping US\$180 billion.⁹¹

Japan has three elements that strongly favor its local host rental market growth. The first is supply. It is estimated that the country has 8 million empty houses. The second is demand. Existing hotel rooms are heavily booked: In Tokyo, Kyoto, and Osaka, hotel occupancy rates can reach up to 80 percent.⁹² McKinsey & Company has estimated that these three cities may face a 50 percent shortage in accommodations by 2020⁹³—the year in which Japan will host both the Olympics and the Paralympics. And third, travelers to Japan are open to staying in local host rentals. Indeed, a survey conducted by the Japan Tourism Agency in 2017 revealed that some 12.4 percent of foreign travelers had already used local host rentals during their stays. Even though local host rentals were not yet fully legal in Kyoto, 1.1 million people stayed in them in 2016 alone.⁹⁴ For Airbnb, Japan was the most popular Asian destination between 2016 and 2017, with 5 million guest arrivals.⁹⁵ The new *minpaku* law affected every company's presence in this market, and, as everywhere, the situation continues to evolve. We will discuss these changes further in Chapter 4.

At the same time, local host rental service providers have their eyes on China as an inbound and outbound market for Southeast Asia and North Asia. The BBC, citing 2016 data from the United Nations World Tourism Organization (UNWTO), estimated that the number of China's outbound travelers had risen 6 percent to 135 million.⁹⁶ According to an article by Asia-based management service Breezybnb in August 2017, Airbnb's Asia-Pacific regional director reported 700 percent growth in outbound bookings from the area.⁹⁷

The level of demand is very high. According to Airbnb, Asia was home to nine out of the top 16 travel destinations that were trending during 2017's peak summer months (June–August). Of the 45 million global guest arrivals, 7.5 million originated from the Asia-Pacific region. In previous years, the highest growth of guest arrivals was also in Asia, particularly in China—home to the top three cities with the greatest growth in demand (Hangzhou, 495 percent; Chongqing, 388 percent; and Wuhan, 371 percent).⁹⁸ According to the WTTC, 60 percent of the top 10 cities for tourism growth in the Asia-Pacific region in 2017 were in China; in fact, the top five were all Chinese.⁹⁹

As is the case in many industries, China is the market that the global leaders want to win—but in which local players are definitely leading.

Bloomberg reported that Airbnb had approximately 200,000 listings in China as of May 2018.¹⁰⁰ Tujia, according to the *South China Morning Post*, had around 700,000 (out of approximately 1 million global listings),¹⁰¹ and Xiaozhu around 500,000 listings, as of October 2018.¹⁰² In March 2017, Airbnb released a new, easier-to-pronounce Mandarin name for the Chinese market—Aibiying (爱彼迎).¹⁰³ As Tech in Asia has noted, “Tujia serves that need and dominates the Chinese market; it has developed its own model, adapted for China, in a way that Airbnb has found hard to do.”¹⁰⁴ (See Figure 11 on page 42.)

Two success factors critical to local host rentals in Asia are meeting unique customer preferences and navigating a complex and patchy regulatory environment that is as varied as the countries and cultures in the region. Prashant Kirtane, vice president (Asia) for HomeAway, told Travel Wire Asia that “consumers in China and India are very different to those from the West and vacation rental players are still figuring out how best to cater to their needs.”¹⁰⁵ Meanwhile, policy frameworks towards local host rentals are evolving continuously. (We will talk more about the driving issues and provide a summary of different policy approaches in Chapter 4.)

HOW LOCAL HOST RENTALS ARE REVOLUTIONIZING TRAVEL

It may be true that, as the saying goes, “if you build it, they will come,” but a much stronger bet in business and entrepreneurship is to build something your customers already want.

The common thread running through the centuries-long rise of local host rentals is that the industry has grown in response to travelers' needs. Local host rentals are particularly appealing to those visiting expensive, crowded urban cities or searching for accommodations during major events.

Local host rentals solve a variety of travel challenges:

Expensive urban markets. Airbnb's founders offered an air mattress in their living room as an alternative, affordable place to sleep in pricey San Francisco. Local host rentals have also helped address hotel-room

9 out of the top 16 trending global travel destinations in summer 2017 were in Asia. China led the top 3 cities to visit.

—Airbnb

FIGURE 11



Spotlight on China: What global giants can learn from Tujia

	China Market	Tujia Business Strategy
Demand	Total tourism market: US\$275 billion (2016); 2nd largest globally	Valuation: US\$1.5 billion (2017)
	Outbound travelers: 135 million tourists spent \$US261 billion (2016)	More than 1 million listings in 300 Chinese cities and global locations (May 2018)
	30% population are millennials	Regional expansion: SE Asia, Korea/ Japan/Taiwan (40,000 + listings)
Supply	No surplus stock of “spare rooms” in private residences	Partner with real estate agents, property managers/developers to manage and rent empty properties on demand
	Stock of 50 million vacant furnished apartments (investment properties that owners don’t live in)	430,000 China properties (2017)
Customer Preferences	No B&B or room-sharing culture	All-in-one service (Chinese-speaking staff, check-in, laundry, cleaning)
	Expect hotel-like services	Modern design, furnishings, and tech
	Travel in groups for extended stays	2/3 of all bookings are made within 10 minutes (2017)
	Value new properties: modern & clean matters more than peer reviews	Add-on services: property management /inspection for property owners
	Amenities; the affluent prefer luxury	Launched upmarket Tujia Mansions (2017)
Price	Won’t pay for “extras”; value discounts	All-inclusive prices
	Pay using mobile apps: total mobile payment market US\$9 trillion (2016)	Direct payment through platforms like WeChat Pay/Unionpay/Alipay

SOURCES: Data from Goldman Sachs; Skift; *South China Morning Post*; Tech in Asia; Tech Wire Asia; *Travel Daily Media*; *Wall Street Journal*; WTTC; WTO.

shortages in places like Philadelphia,¹⁰⁶ which legalized local host rentals in 2015. Japan legalized local host rentals in 2017.¹⁰⁷ Regulations continue to evolve around the world on a very frequent basis.

Special events. In 2013 and 2017, demand for local host rentals skyrocketed in Washington, DC, for the presidential inauguration ceremonies, in part because hotel rooms were in short supply.¹⁰⁸ Likewise, local host rentals have plugged the supply gap during significant tourism events such as the winter and summer Olympics in Japan, Brazil, and Korea.¹⁰⁹ And in 2017, as hotel prices spiked for Canada’s 150th birthday celebration in the country’s capital city (and availability dried up), rental offerings doubled in Ottawa in advance of Canada Day.¹¹⁰

Underdeveloped infrastructure. In Cuba, local host rentals have helped provide supply in a destination where a recent influx of foreign visitors has heavily taxed an underdeveloped tourism infrastructure that includes an insufficient number of hotels.¹¹¹

Family travel. Groups of friends and parents traveling with children, weary of cramming into single hotel rooms or paying for multiple rooms, are increasingly turning to local host rentals that may better fit their needs. Families who rent an entire home or apartment can benefit from more space, adjoining rooms, greater privacy, laundry facilities, and fully equipped kitchens, which allow for cost-effective and child-friendly at-home meal preparation.

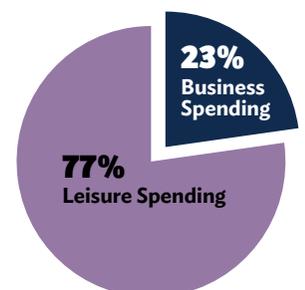
BUSINESS TRAVELERS WANT TO WORK FROM THE COMFORT OF HOME, TOO

Leisure travelers aren’t the only ones driving the growth of local host rentals; business travelers are adopting these alternative accommodations as well. According to the WTTC, 23 percent of all global travel spend in 2016 was for business purposes.¹¹² (See Figure 12.) At the same time, the UNWTO estimated that 161 million people traveled for business in 2016—13 percent of all international tourist arrivals.¹¹³

Like serviced apartments, local host rentals offer

FIGURE 12

Percentage total global travel spend by segment in 2016



SOURCE: Data from WTTC.

**2 in 5
international
travelers use
the sharing
economy on
business travel.**

—International SOS

business travelers a range of amenities and benefits—especially where supply of traditional accommodations is scarce. Many properties now offer high-speed Wi-Fi, a workspace, and other business-friendly amenities for far less than the price of a hotel room. For example, in 2017 Paul Rennie, the managing director of New Zealand-based corporate travel provider Orbit World Travel, stated that his company booked around 10 percent of its clients into Airbnb homes because of high hotel prices and low availability during peak seasons in places like Auckland and Wellington.¹¹⁴

In its 2016 white paper “Business Travel in the Age of Sharing Economy,” International SOS—the world’s largest medical and travel services company—reported that two in five international travelers used the sharing economy (e.g., services such as Uber, Airbnb) when traveling for business.¹¹⁵ On average across the globe, International SOS forecasted that 20 percent of business travelers expected that this usage would increase in the future.¹¹⁶ Meanwhile, Forbes—citing a 2016 Hipmunk survey—reported that 74 percent of US millennial travelers had used a local host rental service while traveling for work—an indication that this trend is one to watch.¹¹⁷

Companies like Airbnb and Booking.com are well aware of the business travel potential. In 2015, Airbnb launched filters to help guests find “Business Travel Ready” accommodations and currently offers account credit for users if they add their work email address and make a booking under that address.¹¹⁸ Alvan Aiau Yong, head of Airbnb’s business travel for the Asia Pacific region, has told Travel Wire Asia that “Business Travel Ready” listings were growing globally at a rate of 1.65 times per year.¹¹⁹ On Booking.com, business travelers can check a box on the local host rentals search page that prioritizes and displays listings with business-friendly amenities like Wi-Fi and free parking in the property results.

In short, whether it’s for a family vacation, a national event, or a business trip, local host rentals are changing the way many types of travelers stay.



**MILLIONS OF ACCOMMODATIONS,
COUNTLESS COOL PLACES**

Beyond choice and practicalities, local host rentals offer a “wow factor” in quantity and uniqueness that many traditional hotels haven’t been able to match (though that’s beginning to change—see Chapter 5 for more information on this important trend).

From luxury beach villas to private mountainside cabins, the extraordinary range and flexibility of local host rentals give travelers a wealth of opportunities for unique experiences. “If we’re with friends, we’ll book a local host rental,” said BJ Yasuda, a senior product owner at Agoda. “We can hang out together, have a kitchen and a living room, and then instead of going to separate rooms at night we’re just in the same place. It’s just so much nicer for families and groups, and a refreshing way to travel.”

Local host rentals offer travelers the chance not only to “live like a local” in the heart of an exciting city, and to be under one roof with groups of friends or family—but also to experience the reality of staying somewhere that’s just really cool. Travelers can book a castle in Galway, Ireland, for example, or a 150-year-old fort transformed into a luxury getaway in Jaipur, India. One can sleep in a windmill in Amsterdam, a repurposed shipping container in the prairies of Montana, a deluxe tree house in the Thai jungle, or an igloo in Finland. Needless to say, in



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—BJ Yasuda, Senior Product Owner, Agoda

the era of Instagram, Facebook, Pinterest, and image-rich social media, these properties offer endless opportunities for travelers to share, marvel, and show off.

You can find a place to stay in one of Tokyo’s iconic capsule hotels; in a retired and refurbished resting in small-town France; or in a posh Hollywood mansion, where the magician Houdini once purportedly lived (no word, however, on secret rooms and trap doors). In Cottonwood, Idaho—population 918—you can even book a stay in a one-room local host rental shaped like a giant beagle.¹²⁰

As the local host rental sector has grown, professionalized, and diversified, travelers can find companies that focus on different styles and segments of travel. Companies like Airbnb, 9flats, and Roomorama allow residents to rent or share their primary residences from time to

time. FlipKey, HomeAway, Tujia, and HouseTrip let owners rent out their vacation homes or investment properties. Onefinestay is situated at the luxury end of the market; CouchSurfing, at the other extreme, offers free stays. In between, properties offer an array of diversity, value, space, and facilities rarely found in hotels.

And, of course, technology has turbo-charged the local host rental market. Platforms open vacation rentals to millions of potential customers, and their payment mechanisms provide critical security for both hosts and guests. Reputation systems, like identity verification and public reviews, help parties who have never met establish enough trust to share space with strangers.

The result of these advances: immense growth, and far more choice for travelers.

THE GOOD NEWS

The expanding local host rentals market offers good news for many parties. For destinations, local rental hosts offer more choices, which can attract more visitors and help provide accommodations in areas that don’t have enough hotel rooms to meet demand. This can reduce price pressure, as it has in Paris.¹²¹ The expanded market can make destinations more attractive to travelers, a fact not lost on tourism officials, who have argued that local host rentals “help keep customers

in the city when traditional rooms are fully booked, leaving a good impression of the city and making [them] more likely to return.¹²² Value-oriented local host rentals expand the traveler base, allow visitors to stay longer, and let them spend more on items other than accommodations, including food and drink, local transportation, shopping, entertainment, and more.¹²³ A survey in Los Angeles found that over one-third of visitors said that they would not have been able to travel for an extended period of time without local host rentals.¹²⁴

Local host rentals also help destinations spread the wealth that tourism brings. Because most are residential properties, they are typically located outside of traditional tourist zones. This means that travelers spend more widely, bringing more revenue to local businesses.¹²⁵ This revenue helps hosts and local companies earn more and get more out of existing resources, such as spare bedrooms.¹²⁶ This brings real economic benefits for people and small businesses that may need the help.

NOT WITHOUT DIFFICULTIES

Any new business model brings complications and risks as it tries to fit into—or alter—the existing landscape. This is, of course, true of local host rentals as well. While these issues will be explored in detail in Chapter 4, let’s just look at a few to set the context.

Here is one of the fundamental questions that hosts need to address: *Is it legal to rent out a home where I live?* In many places, there is no simple answer to this question. The local host rental market has changed much faster than the rules that apply to real estate and accommodations sectors. In the sector’s early years, some companies adopted a policy of seeking forgiveness rather than asking permission. While this approach created progress in some areas, it has also caused a significant backlash, as cities such as San Francisco and New York sought to limit local host rentals or even ban them outright.

This backlash is evident in a quick review of recent news headlines about local host rentals. For example, in the time between the initial research, writing, and publishing of this book, it was hard to ignore the barrage of “disaster,” “nightmare,” and “horror stories” that appeared in conjunction with the rise of regulatory reviews and public

discourse about local host rentals.¹²⁷ For example, *The Guardian*’s August 2018 piece “What Happens When Airbnb Goes Wrong?” chronicled how guests had to seek legal help to recoup refunds for cancelled bookings or had incurred large fines for damage they did not cause.¹²⁸ In July 2017, *Outside* magazine investigated the local host rentals’ impact on communities in an article with the provocative title “Did Airbnb Kill the Mountain Town?” The article concluded that the local host market had reached a “tipping point that causes idyllic outposts like Crested Butte, Colorado, to lose their middle class altogether—and with it, their soul.”¹²⁹

Sometimes, the news about local host rentals unveils deep and troubling issues that are already plaguing communities, such as racial profiling. Unfortunately, in April 2018 this occurred in the U.S., when a Caucasian woman in Rialto, California called the police, telling them that she suspected three African-American Airbnb guests leaving a home with luggage were burglars.¹³⁰ Within minutes, seven police cars surrounded the women, the neighborhood was put on lock-down, and a police helicopter hovered overhead.¹³¹ One guest was quoted in *The Independent*: “‘At first we joked about the misunderstanding,’ she said, but added that ‘it escalated almost instantly. Their sergeant arrived... he explained they didn’t know what Airbnb was. He insisted that we were lying about it and said we had to prove it.’”¹³² According to a press release issued by the Rialto Police Department, the local host rental had been an “unlicensed Airbnb.”¹³³ Such incidents reinforce the need for hosts, guests, communities, and regulators to work together to ensure that the local host experience is not damaged by prejudice.

Bit by bit, however, the tone of the discussion is changing. Some of this has happened because companies, particularly Airbnb, have worked hard and spent significant amounts of time, money, and resources in lobbying for favorable regulation. But more importantly, cities, tourism officials, and local host rentals are sitting together at the negotiating table, trying to work out solutions that make sense for all parties.¹³⁴

One of the thorniest issues is the impact of local host rentals on the long-term rental market. An apartment that moves from the local rental market to the local host rental market can contribute to housing shortages, price increases, and gentrification. For example, in Los Angeles, data collected in 2014 revealed that 64 percent of Airbnb properties were never occupied by their primary leaseholders, but were run as full-time rentals; in some cities, rents in areas with high proportions of Airbnb units increased as much as one-third faster than in other areas.¹³⁵ The good news is that some tourism and city authorities have begun to introduce regulations that successfully balance the growth of the local host rental sector with the needs of those who depend on the local, long-term housing market.

Among other significant problems that have arisen are trust, safety, and diversity. Local host rental services rely on a series of reputation systems to create trust among potential customers, including social networks, photos, and reviews. These tools provide information and build a property's brand. Increasingly, however, it has become apparent that this approach favors members of some groups much more than others, reinforcing existing biases. Local host rental services and owners need to make sure their activities benefit all travelers. And destinations can support this goal by legislating in ways that help to fight discrimination and spread the new wealth to all residents—not just some.

A BALANCED PERSPECTIVE

Dramatic headlines do not accurately reflect the complexity of the issues at hand. As we remind readers throughout this book, change is hard. One of the core tenets underlying this book is the conviction that local host rentals are neither inherently good nor bad, but can—and should be—viewed through a pragmatic, objective lens. Guests, hosts, community members, and regulators should be cautiously skeptical of worst-case-scenario headlines that paint a black-and-white picture of local host rentals. Good news tends not to make the front pages as frequently, but it is important to know there are many positives—from the many hosts who are able to stay in their homes because of the income they get from renting out a spare bedroom, to the communities that benefit when they collect additional tax from local host rentals. Local host rentals have also spurred entrepreneurial innovations for the public good: CareRooms, for example, is a UK health-care startup that provides recuperating hospital patients with an alternative to rooms in an overcrowded national health system; trained hosts provide three daily meals and support.¹³⁶

LOCAL HOST RENTALS AND SUSTAINABLE TOURISM

Another potential benefit of local host rentals is sustainability. UHERO—the Economic Research Organization at the University of Hawaii—explained that focusing on sustainability means “that we need to look after the well-being of the current generation and at the same time not jeopardize opportunities for future generations.”¹³⁷ As a guiding principle for businesses, this means taking into consideration how operations affect social, environmental, and economic outcomes.

Peer-to-peer businesses that create value from underused assets can offer sustainable solutions to economic, social, and environmental problems at a larger scale and lower cost than many traditional businesses can. As we have noted, ride sharing means that vehicles are used more efficiently. If individual ownership decreases and there are

Local host rentals increase sustainability in 2 key areas



1. Efficient use of resources

Create value for guests, hosts, and communities from underutilized assets



2. Smaller environmental footprint

Consume less energy, water, and produce less waste than hotels

fewer cars, traffic and pollution can be reduced, while car manufacturers have an incentive to design cars that more efficiently meet the needs of ride sharing. Communities benefit too. Ride sharing helps create full-time or part-time jobs for people who might otherwise be underemployed or between jobs. And with fewer cars, less land is required for parking; emissions, congestion, and noise pollution decline, as well.

Broadly speaking, sharing existing resources creates less financial and environmental waste than owning, purchasing, or producing new goods. In a talk on the sharing economy, Steve Cohen, director of Columbia University's Earth Institute, explained that “the sharing economy shows that we can embrace sustainable consumption without curtailing economic growth.”¹³⁸ As Lucía Hernández from OuiShare, a French nonprofit that writes and conducts research on trends related to sharing and collaboration, has said: “The sharing economy is based on the values of sustainability, ethics, and the distribution of wealth among its members.”¹³⁹

Local host rentals support sustainable tourism by expanding the supply of accommodations from existing housing stock as they generate value for guest, hosts, and communities from unused or underused assets. The UNWTO defines sustainable tourism as “tourism that takes full account of its current and future economic, social, and environmental impacts, addressing the needs of visitors, the industry, the environment, and host communities.”¹⁴⁰ With this definition in mind, local host

“The sharing economy shows that we can embrace sustainable consumption without curtailing economic growth.”

—Steve Cohen,
Earth Institute

rentals support sustainability in two key ways: compared to hotels, they use existing resources more efficiently and have a smaller environmental footprint.

According to Catherine Tilley, a doctoral researcher at Cambridge University who specializes in sustainable development, local host rentals incentivize an efficient use of resources—especially if guests share a space with a host.

In your own home, you are responsible for your own use of resources. You run your home more efficiently than a hotel. In a hotel you might use a ton of towels; the property might use different cleaning products. In a hotel you're less concerned about the water efficiency; you might leave the lighting on. You wouldn't do that at home.... The principle is that the homeowner—especially one living in that home and is not directly passing along costs to the guests—has incentives to run it efficiently.¹⁴¹

The benefits are less clear for units that are fully rented out, but even these rentals are more likely to follow the consumption patterns of homes rather than those of hotels. The UNWTO's and United Nations Development Programme's (UNDP) 2017 report, *Tourism and the Sustainable Development Goals—Journey to 2030*, states that the accommodation industry accounts for approximately 20 percent of the global tourism sector's carbon emissions and an estimated total of 1 percent of all global carbon-dioxide emissions, primarily through heating, air conditioning, and other energy-using services.¹⁴² According to global data published in January 2018 by Statista, hotel rooms sit empty on average 34 percent of the time,¹⁴³ yet still consume energy resources when unoccupied.¹⁴⁴ Local host rentals have lower environmental impact. According to a 2017 report on sustainability by Airbnb and Ellevate, a global professional women's network, "preliminary research suggests that Airbnb properties consume less energy, use less water, and generate less waste than hotels. In a recent survey, 72 percent of Airbnb guests said that the 18 environmental benefits of home sharing were of some importance in their choice of Airbnb."¹⁴⁵ According to Airbnb, local host rentals consume 12 percent less water

than traditional hotel accommodations per guest night in North America and 48 percent less in Europe; at the same time, because most guests shop for and cook their own meals, and most local host rentals are not stocked with individualized toiletries or minibars, Airbnb reported that for 2014 in North America, waste (food and trash) was reduced per guest night by 32 percent.¹⁴⁶

Further aspects of sustainability, such as the social and economic benefits to communities, will be addressed in Chapters 3 and 4.

A DYNAMIC FUTURE

In the first few years of this sector's development, local host rentals did not seem to pose a major threat to existing tourism infrastructures. But this is no longer true. Local host rentals have expanded faster than anyone could have imagined, and they are here to stay. Airbnb has announced that as of August 2017 "on any given night, 2 million people are staying in other people's homes around the world" through their services alone.¹⁴⁷ New, large platforms are affecting the ways in which travelers, providers, and destinations think about and plan for travel. They are making traditional providers pull up their socks and innovate.

This will not be easy for every stakeholder, but it is an immensely powerful wave of change that nobody can disregard. All players need to cooperate in ensuring that these developments work to everyone's benefit. Destinations need to work with tourism authorities, platforms, and other players to ensure that regulations and other systemic changes are positive, supportive, sustainable, and sensible. If they do so, they will be able to reduce the problems faced as this new sector evolves, and share in the benefits of this new and exciting way to travel.

Sustainable tourism:

"Tourism that takes full account of its current and future economic, social, and environmental impacts, addressing the needs of its visitors, the industry, the environment, and host communities"

—UNWTO

Local host rentals have expanded faster than anyone could have imagined, and they're here to stay.

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