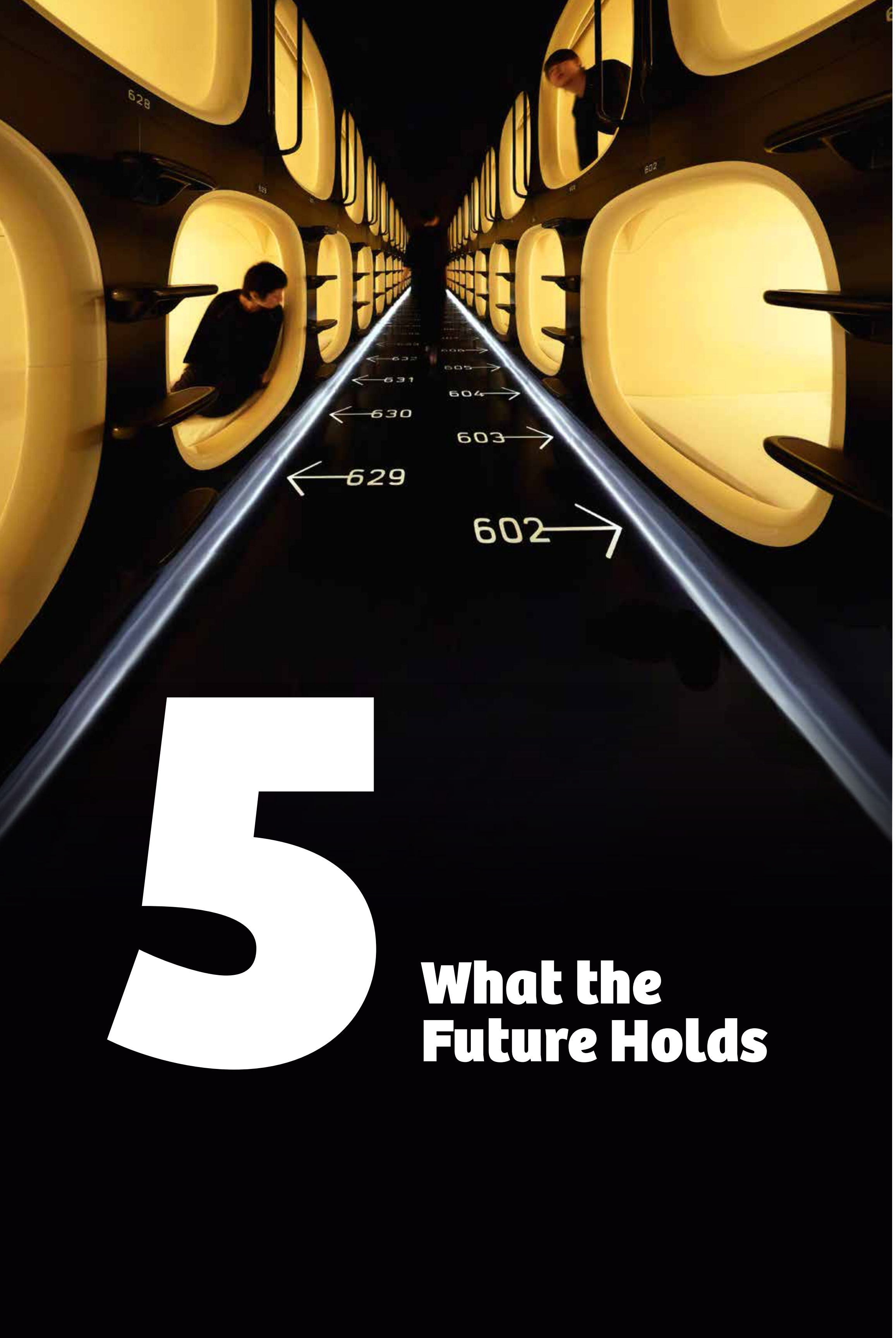


5 What the Future Holds

"The future is already here— it's just not very evenly distributed."

—William Gibson
science fiction author[1]

As society's expectations for travel, work, leisure, and living space evolve, predicting with absolute certainty the future of these topics—once disparate, but now increasingly linked—is challenging. But we can make educated guesses about what the future holds because, as William Gibson noted, tomorrow's trends are already taking shape today. If we look closely at current events and developments and use what knowledge we have to forecast trends, we can gain some useful insights into what's coming down the pike.

And what's coming—which several industry experts will help illuminate in this chapter—is a sea change to many traditional business models, from how apartments are rented and commercial spaces leased, to how—and where—travelers book a place to stay. Indeed, significant changes to the architecture of everyday life are well underway.

"It's a big wave—a tsunami—that's coming, and you have to recognize, acknowledge, and manage it, rather than try to prevent it," said Dr. Francis S.C. Yeoh, Professorial Fellow in Entrepreneurship at the School of Computing, National University of Singapore (NUS). Dr. Yeoh further warned: "It is futile to try and fight this."[2] Rajeev Menon, Marriott COO for Asia Pacific (excluding Greater China), agreed: "This is a business model that's here to stay."[3]

As we've seen, short-term rentals have expanded faster than most could have imagined and will continue to proliferate in greater numbers and in more destinations. New online services operating on a global scale like Airbnb, Agoda, Booking.com, and HomeAway have significantly changed the ways in which travelers, providers, businesses, regulators, and destinations think about and plan for travel. They have disrupted tradition, forcing established industry players to pull up their socks and innovate—while the disruptors themselves continue to evolve, find ways to raise their game, and adapt to a changing landscape.

"There will be businesses that step in between the customer and the homeowner to improve the service of the local host rental experience," said Errol Cooke, vice president for Global Partner Services at Agoda. "A lot of owners have limited time and don't have the industry experience to get the best return on their investment, so there will be an opening for more and more businesses to take over the management of the shared property, as we've seen in North America and Europe, and make it more professional."[4]

Many of the ancillary service providers and companies that Cooke was describing can be considered part of the so-called sharing and gig economies, which will continue to develop alongside the traditional accommodations market. (We'll explore these two concepts in more detail just a few pages from now.) These companies will borrow and broaden practices and ideas from these local host rental services and apply them to their own new endeavors in real estate and small business.

"It's a big wave—a tsunami—that's coming. You have to recognize, acknowledge, and manage it, rather than try to prevent it."

—Dr. Francis S. C. Yeoh, Professorial Fellow for Entrepreneurship, School of Computing, NUS

EYE ON MILLENNIALS

"One big driving factor is the rise of the millennials. There are 1.2 billion of them around the world, more than half of whom are in Asia," said Turochas T. Fuad, founder and CEO of Spacemob and now Managing Director at WeWork Southeast Asia. "The millennials are doing things differently, and that has changed the paradigm of work to more collaboration. If you ask WeWork's 150,000 members, the majority say they're working there because they want to make a change in the world, regardless of industry."[5]

Travel news is filled with reports on how millennials are redefining industry norms. (See Figure 29.) For example, as recently as March 2018, *Forbes* cited a 2016 study by FutureCast and Barkley—two marketing consultancies that focus on millennial trends—that valued the millennial travel market at more than US$200 billion.[6] Moreover, a 2017 Nielsen study on millennial travelers, which cited data from China Internet Watch, has estimated that China alone is home to 400 million millennials—and that

FIGURE 29

Millennials move the market: 1.2 billion globally, over half in Asia

Market opportunity

As of 2016, millennial travel market is valued at **more than US$200 billion**

Will spend **US$1.4 trillion** on travel by 2020

400 million millennials in **China alone**

Travel preferences

88% travel **1–3 x per year**

86% would rather spend money on **exploring a new culture** than partying or shopping

2/3 want **personalized** travel services

Local host rental habits

74% have used local host rentals for work

60% don't want to share rental space with owners

48% are most likely to rent with friends

Consumer habits

Use **multiple devices** for booking

Book **in advance,** longer trips

Use **aggregators** and online travel agencies for deals

Rely heavily on **reviews** and research

Willing to share **personal data** for customized services

SOURCES: Data from BCG; Expedia; *Forbes*; Hipmunk; HomeAway; Nielsen; Topdeck Travel; Tripping.com; Turnkey.

"74 million travel-ready students will graduate from Chinese universities over the next decade."[7]

Traveling and seeking out new experiences is very important to millennials. A Topdeck Travel 2016 survey of more than 31,000 millennials (across 13 countries) found that 88 percent of millennials traveled overseas between one to three times per year, *Forbes* has reported.[8] Also from the same survey, 86 percent of millennials would "rather experience a new culture" to partying (44 percent) or shopping (28 percent).[9] This is definitely a new generation!

Nielsen has reported that millennials "have distinct approaches to travel, largely because they want to control their experiences."[10] It's a view that's notably different from those of older travelers, who are "more likely to allow brands to drive their travel experiences."[11] A survey by Expedia in 2016 has discovered that three-quarters of millennials want travel to deliver personalized experiences.[12]

As we've highlighted in Chapter 2, local host rentals are a great fit for millennials. Tripping.com has noted that 48 percent of millennials are most likely to rent with friends,[13] while Hipmunk has reported that 44 percent prefer local host rentals to hotels.[14] Which type of local host rental do they prefer? According to 2017 research by Phocuswright, most (60 percent) prefer to rent whole spaces rather than share with owners.[15]

Also of note, seven in 10 millennials have expressed interest in staying in local host rentals for business travel, wrote *Condé Nast Traveler* in March 2017,[16] and this number is only expected to grow. Expedia has reported that 62 percent of them are willing to extend travels after a business trip to experience local travel.[17]

As stated in a Nielsen report,

> Millennials don't simply represent another generation of travelers. Their preferences and lack of predictability make them different from their older counterparts. At the same time, this uniqueness means that the travel industry will need to adjust in order to meet their specific needs and desires.[18]

For companies, this means changing the way services are bundled, sold, and marketed. Mobile, for example, is key as millennials use multiple devices while booking and traveling.[19] According to BCG, millennials plan ahead and travel for longer periods than older consumers. They look to aggregators, online travel agencies, and metasearch engines for deals and rely heavily on peer recommendations and reviews. Overall, as millennials seek out memorable, individualized experiences, there is no longer one authoritative source for all their travel needs.[20] For companies that want to capture the millennial market, innovation is the name of the game.

INCREASED CONSUMER DEMAND FOR SUSTAINABLE TOURISM

Another key travel trend, linked in no small way to millennials, is the rise in consumer demand for sustainable tourism. Citing research on consumer behavior by Nielsen and Deloitte, Credit Suisse has stated in its *Global Investor 1.17* report that millennials are "the most sustainability-conscious generation."[21] Importantly, trends are "pushing millennials to adopt new consumer habits"—of which the biggest change is "sharing instead of consuming" through peer-to-peer economies.[22]

The *Chicago Tribune*, citing a 2017 TripAdvisor survey, wrote that "nearly two-thirds of travelers plan to make more environmentally sound choices over the next year."[23] As evidence of this shift, Airbnb launched its Sustainability Advisory Board in the same year. In 2016, the company also partnered with the United Nations Environment Program (UNEP) to publish a checklist for travelers on "how to be more sustainable while traveling,"[24] and in 2017, they released a data-filled report entitled *Advancing Sustainable Tourism through Home Sharing*, authored by U.K. -based sustainability experts at Elevate Strategies.

Around the globe, local host rentals are responding to the surge of interest in sustainable tourism by marketing properties as eco-friendly (e.g., highlighting off-the-grid features, proximity to nature, or experiences like organic farm stays). A quick online search for "sustainable travel" leads readers to such articles as *Architectural Digest's* "7 Stylish Eco-Friendly Airbnbs for a Sustainable Vacation."[25] In March 2017, Skift predicted that "at the current trajectory, in 10 years, all tourism will have to be responsible and sustainable."[26]

EMBRACING CHANGE

By and large, change will not be easy, but as Dr. Yeoh of NUS has noted, the immense momentum behind local host rentals is a powerful wave that should not be underestimated or ignored. All players in the travel industry must cooperate and innovate to ensure that current developments work to everyone's benefit, both now and into the future. Destination governments must work with tourism authorities, services, and other stakeholders to ensure that regulation and other systemic changes are positive, supportive, and reasonable. When done the right way, regulators can anticipate and mitigate problems raised by this new and exciting way of traveling—and share in its many benefits.

"Regulations are mostly out of date and struggling to keep up with the extent of customer demand," said Adrian Currie, senior vice president of Booking Holdings.[27] And there will be plenty more complications as this marketplace develops further.

> There are some big and sensitive issues. Politically, there's tension in every country and every city between people who own a property, [who] benefit from tourism, or participate in the shared economy, and those—often younger—people who feel they've been left behind, experience over-stretched resources, who have a life committed to renting, and who have fewer assets than previous generations. It's a real tension. For those who work in this industry, the opportunities are large but can quickly be lost if you don't keep moving forward and adapt to new situations.

Of course, businesses and regulators aren't the only ones who must learn to understand and embrace change better. Travelers, renters, and workers—ordinary citizens, in short—need to adapt to a rapidly shifting global community, too. "Millennials are fearless, but older consumers need to get over the fear of the unknown. For example, [older consumers] know it will be safe at a Hyatt or Marriott, but…once they've tested local host rentals they always come back," said Jeff Manheimer, co-founder and COO of Tripping.com.[28] Manheimer went on to illustrate this point with a story about his mother—a longtime employee of the Hyatt Hotels Corporation—and her recent trip to Italy.

> When I asked her to try Tripping.com instead of staying in a hotel, she said that she was inherently nervous about staying in a local host rental. But she took the chance, and afterwards said she didn't think she'd ever stay in a hotel in Florence again. She was blown away by all the space, the great location—the whole experience. And after that first apartment, she checked into another rental that was so nice she was willing to pay *more* than she would have for a hotel.

As we will see, however, the boundaries between local host rentals and hotels are blurring, and they will continue to do so as similar transformations permeate our living and working spaces. Indeed, the only thing we do know for certain is that the changes caused by what is sometimes called today's "disruption economy" is inevitable.

HOW TODAY'S TRAVEL TRENDS COULD SHAPE TOMORROW'S FUTURE

"The sharing economy has often been called disruptive because it doesn't play ball with how things are supposed to be done today—that is what makes it so interesting," said Fuad. "If you look at Uber, for example, it changes how transportation works because it doesn't play ball with the taxi and limousine services. But if you look at the similarities of the sharing economy, it boils down to what human beings want and what we need."

As we have demonstrated in previous chapters, the local host rental market today includes the different but interlinked wants and needs of its various players. Travelers are in search of a more personalized and local experience and are increasingly turning to alternative ways of staying in and exploring foreign destinations. They are also looking for accommodations that better cater to their specific life or travel situations. Parents with young children, for instance, are in need of more space and facilities than many hotels can provide, and local host rentals with their kitchens, washing machines, microwaves, full-sized refrigerators, and separate bedrooms are a godsend on the road. People who need help covering their rent or mortgage, or who wish to supplement retirement income by renting out a spare bedroom (or entire home) are joining local host rental services and becoming hosts. City officials and regulators, seeking to maximize tax revenue in their communities, are working with services, hosts, and residents to develop fair, forward-looking regulations that can help shore up budgets and generate brand-new revenue streams.

History tells us, however, that accommodation wants and needs are not static, as Mario Hardy, CEO of the Pacific Asia Travel Association (PATA) reminds us.[29]

"When Holiday Inns were first created… the company realized that what people wanted was the same level of service and standard in every Holiday Inn, regardless of where in the world it was located, so they came up with the idea that every single Holiday Inn would look exactly the same," Hardy said.

People want "a sense of place and to be recognized not as a number, but as an individual."

—Mario Hardy, CEO, PATA

"It worked for decades, but it doesn't really work anymore because people want to have a sense of place. When I'm in Istanbul, my room should look like Istanbul. That's why a lot of boutique hotels gained popularity—that need for a sense of place and to be recognized not as a number, but as an individual."

DISRUPTION IN THE DISRUPTION ECONOMY

As hotels continue to grapple with travelers' shifting needs and expectations—some of which have been spurred by the industry-changing rise of short-term rentals—the disruptors themselves have to brace for their own inescapable periods of upheaval. Following the normal ebb and flow of any nascent industry, more services and companies will enter the space, increasing competition in both mainstream offerings and the sector's more niche-oriented corners. Companies will expand, shrink, consolidate, and fail. They will test-drive new products, some of which will flop spectacularly, while others will succeed beyond expectations. And like many hotel brands, they will increasingly focus on targeted curation to differentiate themselves from others and better cater to specific traveler demographics.

In short, they will learn, get smarter, hone their brands, and evolve.

"There will be consolidation in the sharing economy. We've already seen some of these accommodation-sharing companies that have strength in a certain market get acquired," said Agoda's Cooke. "Eventually it may be a handful of large, global brands that control the space, especially those with deep pockets for buyouts, marketing, and additional revenue streams like hotels, concierge service, and communities."

More, indeed, often leads to less. In 2015, U.S.-based travel company Expedia, for instance, acquired HomeAway, which itself, had previously acquired an array of local host rental companies that include Dwellable, Stayz Australia, Travelmob, and VRBO.[30] Tujia (sometimes called China's answer to Airbnb) has acquired Ctrip's and Qunar's homestay businesses to expand reach and inventory.[31] Airbnb has made a number of notable acquisitions as well, among them the Montréal-based Luxury Retreats International.[32]

As these and other services weigh future strategic moves and partnerships—and not just with fellow rental providers, as we'll discuss later in this chapter—it's clear that there will be some degree of copycat behavior as companies seek to compete and get ahead.

"Airbnb is looking at the China model, Tujia, which is one of the first services to offer a check-in crew, cleaning services, and hospitality professionals. It's all merging," Fuad said. "Disruption is like a pendulum: it swings far to the right, then swings back left and disrupts the new order, as well."

"Disruption is like a pendulum: it swings far to the right, then swings back left and disrupts the new order, as well."

—T. Fuad, Managing Director WeWork Southeast Asia

LOCAL HOST RENTAL SERVICES DIVERSIFY

As disruption reaches local host rental services, it will drive these companies to take more control of their brands and, in some cases, carve them up into sub-brands. Disruption, in other words, will spur product and overall brand diversification as services explore new revenue and marketing opportunities.

One key example is Airbnb's Experiences, which launched in November 2016. Experiences enhances the hosting model by enlisting local experts to function as quasi-tour guides who can further localize and personalize a guest's interaction at a destination. As of November 2017, Experiences hosts had earned US$5 million in total revenues (within a year),[33] with 91 percent of total bookings rated 5 stars.[34] (According to Airbnb CEO Brian Chesky in October 2017, fewer than 80 percent of local host rental bookings are rated 5 stars.)[35] In January 2018, Airbnb announced that Experiences had grown 500 percent in one year.[36] At that time, the company offered 4,000 experiences across 50 cities globally, including 1,000 in the United States. With an investment of US$5 million, Airbnb aims to expand Experiences to 200 cities in the U.S. by end 2018.[37] The average price point is surprisingly high (Experiences' average price is US$91),[38] and Airbnb charges hosts a service fee of 20 percent—higher than the combined rates for guest and host fees with local host rentals.[39] At the same time, Experiences appeals not just to travelers, but locals as well—which opens up a path to new customers. As a trend, expanding services to include experiences is a move which other key players are likely to adopt, or at least look to for innovation.

"We're starting to see more hosts taking the extra step by offering not only accommodations, but also services in their locality," said Cooke. "They're doing things like guided tours, at-home cooking classes, meet-and-greets with locals, and sports game outings. These are all additional avenues hosts will use to expand their local host rental business into other areas."

PATA's Hardy agrees. "People are trying to up the value of where you stay so they can charge you a little more by providing ancillary services that make your stay more enjoyable," said Hardy.

In some ways, services will increasingly resemble well-rounded, full-service travel agencies. Agoda, for instance, has added flight-booking searches to its service through a partnership with KAYAK. At Airbnb, which aims to earn US$3 billion in profits by 2020, Chesky has asserted that its core rental business will generate less than 50 percent of the company's revenue in the near future, and that he wants the company "to one day redefine how we fly."[40] Nobody knows exactly what that means, and it may just be pie-in-the-sky bluster, but as Cooke has noted, companies with deep pockets will have the means, and perhaps the impetus, to explore and experiment with such big ideas.

But why stop at flights and host-led activities? How about, say, a Booking.com-branded restaurant staffed with local chefs specializing in regional cuisine, or an Agoda spa staffed by local therapists trained in native massage techniques? After all, Booking.com and Agoda are part of Booking Holdings, which owns the restaurant-booking service OpenTable, and Booking Holdings' mission is "to help people experience the world." That's a broad vocation.

In the near future, local host rental services will attempt to plan (and capitalize on) each guest's door-to-door trip, extrapolating key information from personal

profiles, preferences, and prior bookings to offer highly personalized recommendations and branded services that could range from airport transfers that meet specific needs (e.g., a wheelchair-friendly van for someone who requires one or a budget car rental for a business traveler) to restaurant reservations, spa appointments, and other things appropriate to each traveler. Indeed, while commenting on Airbnb's US$13 million investment in restaurant reservations app Resy, Chesky mentioned that "helping people find and book incredible local restaurants is a key part of us moving beyond just accommodation to focus on the whole trip."[41]

In the future, local host rental services will capitalize on door-to-door services to offer a one-stop-shop for customized travel experiences.

	Arrival	Accommodation	Experience
Services	Flight bookings Car sharing	Local host rentals for target segments (e.g. business, family, luxury)	Restaurant bookings Activities tailored to interests
Examples	Agoda partners with Kayak	Tujia launches Tujia Mansions	Airbnb invests US$13 million in Resy

SOURCES: Data from *China Daily*; CNBC; TechCrunch.

OPPORTUNITIES FOR LOCAL HOST RENTALS IN BUSINESS TRAVEL

A streamlined, more consistent experience will be part of this diversification, as well, particularly as services increase efforts to woo the lucrative business traveler demographic away from hotels.

According to the Global Business Travel Association (GBTA), the total spend of all business travelers globally

By 2021, total global business travel spend will grow to US$1.7 trillion.

—GBTA

is US$1.3 trillion, as of 2016.[42] GBTA has forecasted that total business travel spend will grow between 6 and 7 percent annually until it reaches US$1.7 trillion in 2021—a growth rate that business travel experts say have not been reached since 2011.[43] Local host rentals are poised to take advantage of this opportunity. However, for this goal to be reached, services must understand and cater to business travelers at the right time and in the right way. Recent research by the GBTA and American Express has found that convenience comes before cost when business travelers make decisions about their travel plans; in fact, they are willing to pay a premium for convenience.[44] *Business Travel News* pinpointed the heart of the issues that local host rentals must tackle: "It is no easy task to take a diverse group of homeowners and establish a reliable level of consistency from one property to the next, but consistency is exactly what business travelers expect."[45]

"If she is going to NYC for two nights and has loads of business meetings, the business traveler wants a known commodity—things like working Wi-Fi, parking, clean sheets, and room service," said Manheimer. "But longer stays are where I see business travelers starting to get more comfortable with staying in a private rental. Business travel in local host rentals is still in its infancy, but it will gain momentum over the next five years as the experiences in these places become more standardized."

As we saw in the Introduction, business travelers are using the sharing economy on work trips and in their personal lives. However, according to *Business Travel News*, unlike Uber, which it claims is the most expensed service in business trip receipts, Airbnb accounted for only 1 percent of accommodation expenses as of April 2017.[46]

How should local host rentals adapt to cater to business travelers? David Holyoke, Airbnb's global head of business travel, stated that, as of May 2017 more than 150,000 global Airbnb listings are equipped with business amenities and more than 250,000 companies in over 230 countries are enrolled in the service's program that directly services corporate clients. [47] This is tremendous growth from the 250 companies that began when the program launched in 2015.[48] (See page 271 for listing criteria.)

But equipping properties with amenities and making searchable listings easy to find are not the only pieces of the puzzle. To ease the process, Airbnb enabled "one-click expensing" so bookings can be billed directly to companies, and launched a third-party booking tool so that both the business traveler and corporate employee who sets up travel can communicate with hosts and manage bookings.[49] Meanwhile, Airbnb is building an ecosystem of partners for business travel. American Express Global Business Travel claims that it was one of the first business-travel management companies to form a partnership with Airbnb: "Our customers want to provide their travelers with options beyond traditional hotels; however, travel managers have valid concerns around safety and security, cost, licensing and taxes, employment practices, and data."[50] Given that corporate travel policies can be a barrier to entry, American Express Global Business Travel now integrates Airbnb data into reports and traveler tracking "that supports duty of care responsibilities."[51]

American Express understands that one key driver behind the corporate demand for short-term rentals is millennials. In The Atlas piece "How Millennials Are Shaping the Future of Business Travel," American Express forecasted that by 2020, millennials will make up 50 percent of the global workforce.[52] The Brookings Institution has predicted that by 2025 this number will grow to 75 percent.[53] "For millennials, the line between their personal and professional lives is often blurred," reported The Atlas.[54] This blurring of lines—which permeates all the trends that are emerging from the sharing economy—has given rise to a phenomenon that syncs perfectly with local host rentals known as "bleisure," the blending of business and leisure travel.

As David Holyoke had said to South Africa's *Business Report* in May 2017: "The lines between business and leisure travel are blurring; more and more of us are combining business trips with weekend stays." According to Holyoke, in 2016 more than 50 percent of business trips booked on Airbnb included a Saturday night.[55] In June 2017, the GBTA released findings from a report on bleisure travel trends in North America; 48 percent of millennials "extended a work trip for leisure"—more than Gen-Xers (33 percent) and Baby Boomers (23 percent).[56]

AIRBNB FOR WORK LISTING CRITERIA

Entire home/property

Allergen-friendly: No smoking or pets allowed on premises

Amenities: Wi-Fi, laptop-friendly workspace, 24/7 self-check-in (lock box, doorman, etc.)

Safety features: Smoke detector and carbon monoxide detector

Home essentials: clean linens, toiletries, iron, clothes hangers, hair dryer, etc.

Reviews: Rated at least three times with 60% of listings' primary reviews and cleanliness rated 5 stars

Host response rate: At least 90% of requests responded to within 24 hours in past year

Cancellation terms: Must be "moderate" or "flexible" policy

—Airbnb

Work + Play: The Rise Of "Bleisure" Travel

48% of millionials extended a work trip for leisure

50% of business trips booked on Airbnb include a Saturday night

SOURCES: Data from *Business Report*; GBTA.

Thus, as local host rentals vie for business customers, millennials are a key segment to target. "With 75 percent of the global workforce projected to be millennials by 2025—and many of them freelancers who can work from anywhere—it's clear that the business travelers of tomorrow will increasingly want this unique type of work travel experience," said Alvan Aiau Yong, head of business travel, Airbnb (Asia Pacific) to Travel Wire Asia.[57] According to a March 2017 article in the *Condé Nast Traveler,* seven in 10 millennial business travelers expressed interest in staying in local host rentals, compared to four in 10 of other age groups. Their reasons include wanting to feel at "home away from home" (50 percent), to stay someplace "unusual" (42 percent), and to "stay with locals in their neighborhood" (41 percent).[58] (See Figure 30.)

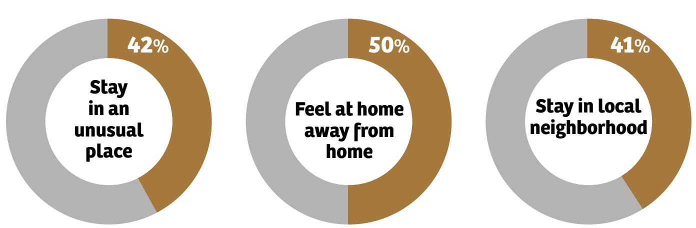
The business travel segment holds strong potential for local host rentals in Asia. Globally, the Asia Pacific region is the largest travel region in the world, accounting for 42 percent of global business spend in 2017.[59] According to

> **By 2025, millennials will make up 75% of the global workforce.**
>
> —Brookings Institution

FIGURE 30

Seven in 10 millennial business travelers want to stay in local host rentals.

These are the reasons why:



SOURCE: Data from *Condé Nast Traveler.*

the GBTA, business travel has more than doubled in Asia since 2000.[60] By 2018, Asia's business travel growth will have surpassed Europe (by two times) and North America (by four times).[61]

How well do the needs and habits of Asian business travelers sync with local host rentals? Very well, it seems. As of time of writing, Asia is home to 1.9 billion internet users,[62] approximately 60 percent of the world's millennials,[63] and an online travel market that is expanding at 17 percent per year, almost three times as fast as regional travel overall.[64] In 2015 the STB published a report focused on business travelers from five countries (China, India, Indonesia, Japan, and Singapore) that together account for 68 percent of Asia's population and more than 78 percent of Asia's business travel spend.[65] In it, three of the five key findings bode well for the future of local host rentals: flexibility, a focus on travel experience, and the opportunity for disruption.[66]

1. **Flexibility:** 74 percent of Asian business travelers have some choice when it comes to travel accommodations; there's either a preapproved list or no restrictions at all. Equally significant, "business travelers appear to be gaining even greater autonomy, particularly as companies adopt digital applications" and travel decisions are moving away from managers to "controlled choices made by employees."[67]

2. **Travel experience:** 56 percent of Asian business travelers view travel as a job perk (especially true for Indonesians—76 percent, Indians—61 percent, and Chinese—59 percent); 48 percent are open to "extending business trips for leisure." Overall, Asian business travelers are twice as likely as Europeans to include weekends in trips.

3. **Disruption:** For booking, online and mobile channels are 28 percent more popular than traditional travel agents. Seventy percent were familiar with local host rentals and 40 percent would consider using them for business travel. Of these, millennials were 11 percent more likely to consider local host rentals than non-millennials. Meanwhile, cultural preferences were stark: Indonesians (41 percent) and Chinese (38 percent) expressed the highest interest in using local host rentals on work trips, while Singaporeans (20 percent) and Japanese (10 percent) were less open.[68] (See Figure 31)

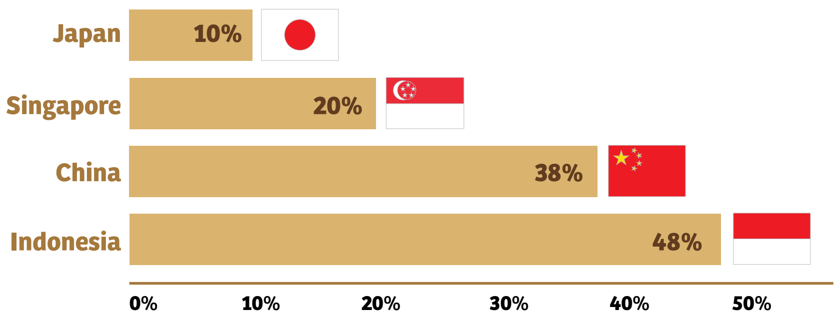
According to the STB report, the primary reason given for the interest in local host rentals was "greater value for money, although several respondents also cited experiencing local culture and previous-positive stays."[69]

FIGURE 31

Asian business travelers' demand for local host rentals

70% of Asian business travelers are familiar with local host rentals.

40% will consider using them for business travel.



SOURCE: Data from STB.

A Travel Wire Asia article reported that between 2016 and 2017 Airbnb's bookings for business guests quintupled in Asia—a rate even higher than the global growth rate of this segment (4.3 times). "Of the 250,000 companies that have signed on to use Airbnb for Work, 53,000 are based in Asia," said Yong to Travel Wire Asia.[70]

"As Asian business travelers have their expectations and preferences shaped by their consumer and leisure travel experiences, the business travel industry is primed for disruption by the same forces at play in the leisure market," stated the STB report.[71] From the look of things, that is a pretty accurate prediction.

THE GIG ECONOMY GOES MAINSTREAM

Local host rentals are becoming increasingly familiar, and will soon become as commonplace as traditional hotels—but the model isn't actually new. In beach communities like Fire Island in New York, Phuket in Thailand, and Bali in Indonesia, homeowners have been renting out and sharing their vacation homes for decades. To subsidize costs, owners would buy houses and condos and rent them out during high tourism seasons or on weekends. Local communities and businesses, including transportation services, restaurants, and shops, are built around this practice and it has worked well, in general.

What has changed, however, is the scale and efficiency in which shared and whole dwellings in urban areas are being rented out through online services. Rental services, which in the past would have operated manually on a small, local level, have suddenly become semi-automated multibillion-dollar businesses. Renting used to be what some homeowners did in certain places, at certain times; today, it's something that anyone can do anywhere and at any time (absent local regulations that may limit one's ability to do so).

"The fundamental thing is that many travelers want this experience—to travel like a local and meet locals—so in the long run that's a big force for change," said Booking Holdings' Adrian Currie.

As we have seen, both the potential, and perhaps even the necessity, of utilizing underused assets is growing. In Japan, for example, Rakuten LIFULL STAY launched in mid-2017 with the goal of connecting owners of vacant homes and rooms with those seeking accommodations.[72] (Continuing the trend of boundary blurring, LIFULL STAY recently partnered with China's Tujia, Booking.com, and Agoda for distribution of local host rental listings.)

"We build everywhere. How many of these offices and apartments are often left empty? I have faith in the new generation to realize that the way society moves at the moment is not sustainable," said PATA's Hardy. "Owning a car is pointless because the car loses value three seconds after you've bought it. People want to share—and not just houses and cars and accommodations, but things like skis and surfboards, too."

Today, anyone can rent, anywhere, anytime.

Indeed, as mentioned in the Introduction, a 2014 Nielsen study showed that 68 percent of global online consumers were open to renting or sharing personal belongings in exchange for payment.[73]

In a 2017 article entitled "What's Next for the Sharing Economy?" by the BCG Henderson Institute, the authors posed the question: "Could the current sharing economy be just an intermediate phase between a past of traditional ownership and a future of *everything as a service* (XaaS)?"[74] Judging by the trajectory and speed of disruption thus far, the answer could soon be "yes."

EXPANDING THE GIG ECONOMY

When the sharing economy thrives, the interrelated gig economy does, too. To clarify, the "sharing economy" refers to the companies (primarily online) that act as the go-between for buyers and sellers of a given product or service, while the "gig economy" usually refers to the workers or service providers that perform limited-term jobs and tasks. For example, Agoda (through its Homes product), Uber, and Deliveroo are three companies driving the sharing economy; a freelance local host rental cleaner, Uber driver, and Deliveroo delivery person are the workers who perform the gigs, or jobs, from the sharing economy in which they participate.

Sharing economy:
Companies serve as middlemen between buyers and sellers of a product or service—usually online

Gig economy:
Workers or service-providers are hired to preform on-demand jobs

The sharing and gig economies are rapidly growing in size and scope, and will continue to do so to meet consumers' and businesses' needs and wants—both inside and outside the travel sector. In 2013, entrepreneur Ross Bailey founded Appear Here, in London, with the goal of creating a service that could be the "Airbnb for retail."[75] Inspired by the growing trend of pop-up shops and restaurants, and recognizing rising vacancies on high streets across the city—in part caused by inflated rents with long lease terms—Bailey connected the dots. Appear Here facilitates relationships between landlords of these vacant spaces and startup business owners interested in short-term lets, which would allow them to build brand awareness without investing a potentially crippling financial commitment to long-term rent. Three years later, the company has opened 4,000 stores across London, founded offices in Paris and New York, and raised more than US$20 million in funding.

The gig economy is on the rise in experiential travel, too, with more and more niche-oriented services launched around the world to connect locals with visitors. Services like Eatwith and BonAppetour, for instance, focus on "social dining" by offering home-cooked meals, food tours, classes, and other food-related experiences. Withlocals aims to help users "enjoy a city like a local" by offering a vast array of tours, classes, and other activities with everyday local experts. And in Vietnam, Triip differentiates its similarly localized activities by focusing on the positive impact the company makes on communities, particularly in developing nations.[76] According to the service, 70 percent of its "local experts" are "women from low-income countries."[77]

We have even seen these economies expand to one of humanity's most basic—and sometimes most pressing—needs. Offering "the most unexpected VIP e-ticket in town," an app developed by Rockaloo helped users locate bathrooms in New York City restaurants, bars, and venues, then book them for fees ranging from US$0.99 to US$8.99—inclusive of a place at the front of the line.[78]

LOCATION, LOCATION, REGULATION

In travel, you've undoubtedly heard the phrase "location, location, location," hotel chain founder Conrad Hilton's memorable reference to the importance and convenience of an accommodation's geographic address. For the local host rental industry, the phrase is "location, location, regulation."

"Lawmakers need to adapt, take some risks, and think outside the box a little bit," said Tripping.com's Manheimer. "One possible analogy is the legalization of marijuana. Some people are adamantly against it but then you see where, in other cities like San Francisco and Denver, the tax revenue it's generating is phenomenal. Plus, there've been no issues, no violent crime—no major shift in how officials run these cities because of it."

"Lawmakers need to adapt, take some risks, and think outside the box a little bit."

—Jeff Manheimer, Founder and CEO, Tripping.com

Though local host rentals will continue to become more mainstream, they will not be the same everywhere. Regulators in some destinations will be firm holdouts, doing everything possible to prevent the proliferation of local host rentals. This will most probably happen in places where there are powerful hotel lobbies, labor unions, well-to-do property owners, or very conservative neighborhood associations that wield significant sway over governments and benefit more from the status quo than from any change.[79]

This is a possible path for destinations, but a risky one for several reasons.

Most fundamentally, it is risky because millions of travelers around the world have shown that they want and need this option, and, as we have noted earlier, it is

unwise to try to resist something that large numbers of people demand. Attempts at regulating short-term rentals out of existence will certainly prevent *some* hosts and guests from doing business, but others will simply go underground. As a result, those that do exist may not be as safe as they could be, since there will be no recourse for hosts or guests who encounter injury, danger, or other calamities. Illegal rentals also cannot be taxed, so these communities will suffer a loss of potentially lucrative tax revenue. Homeowners and communities will miss out on substantial income and, in some locales, property value appreciation, as well.

We can already see this differentiation. In the very complex New York City real estate market, for example, individually owned units mostly fall into one of two categories: condominiums and co-operatives. Condominium owners tend to have more freedom, typically being allowed to rent their units after satisfying some relatively limited approval procedures. Co-ops, on the other hand—an older ownership model dating back at least to the 1880s—are much more restrictive. Typically, co-op owners (who are technically shareholders in the building as a whole, rather than the owners of individual units) may rent out their units for a maximum of two consecutive years, and must go through a major board approval process.

Indeed, co-ops are famous for their restrictions. Some, for example,

may require owners to buy with 50 percent cash—even for multimillion-dollar units—or have multiples of the unit value in liquid funds. Co-ops can turn down prospective buyers for any reason, without explanation, and can impose substantial "flip tax" transfer payments when owners sell their units. Co-ops are generally more exclusive, maintain a clubbier feel, and provide a more controlled community in which to live.

Some people prefer this kind of arrangement, but it is condos that have the higher value—10 percent more than co-ops in Manhattan—and the difference is growing.[80] Essentially, the freedom to rent a unit has real cash value to those who own it; the same principle will apply to buildings and communities that restrict or refuse local host rentals.

Other communities—the smarter ones, we think—will embrace change and develop creative ways to make this change work for everyone. They will recognize that accepting local host rentals helps attract travelers and the financial and cultural benefits they bring—not only to hosts, but to taxi drivers, grocery stores, restaurants, bars, and a host of small ancillary businesses that provide services that travelers need, and that can and will grow to meet those emerging needs.

These communities will gain a competitive advantage over other destinations that drag their heels. Whether they are developing economies that already thrive on tourism or up-and-coming neighborhoods that are eager to flourish, or even rural or industrial communities that have lost population over decades but still have appeal to travelers, forward-looking communities will work hard to make themselves friendly to local host rentals. They will create regulations that make it easy and attractive for hosts to register their properties, undergo safety inspections, and pay appropriate taxes. (A word of advice to regulators: Businesses tend to invest more in areas with lower taxation, so make sure to get the balance right. Your community will reap the rewards.)

"Regulations are needed, but if they're too rigid and impair the model, the model will find a way to exist without them, which has been happening anyway," said Ianic Menard, vice president of Sales, Marketing, and Distribution for Upper Southeast Asia, AccorHotels. "They have to make sense enough that hosts who do the right thing receive a reward that is greater than the risk. They must make hosts think that 'if the regulations are not a nuisance, I will comply.'"[81]

These taxes will fund community platforms such as fire, police, and education. They can be invested in arts and cultural services that benefit both residents and visitors, and they can be allocated to destination marketing efforts to attract more tourists. We already see these things happening in places like San Francisco, Los Angeles, and Florida.[82] As the trend of traveling for local experiences becomes the norm, these communities will benefit, grow, and thrive in ways not previously possible.

Sensible regulations can help protect destinations, too, as sharing economy entrepreneur and expert Alex Stephany explained.

> In a totally unregulated market, lots of capital would gravitate to short-term lettings, so that the downtown San Franciscos, New Yorks, and Venices of the world would just become in part distributed Airbnb hotels. That's what the free market would create, but regulation is preventing it.
>
> I don't think the average Venetian wants all of central Venice to be Airbnbs, of course, and nor does Brian Chesky, the Airbnb CEO. Regulation needs to be locally informed and data-driven, because it will look different for every city. For example, in London they're clamping down on the professional Airbnbs. The 90-day rule [forbidding LHRs for more than 90 days per year, per unit] prevents that type of activity, and I don't think that type of setup was in the original vision of Airbnb, anyway.[83]

Time limits can help where the risks are high. As we have discussed, London now has a rule that forbids local host rentals from being rented out for more than 90 days per year. This limit allows owners to make some additional income by renting out a spare room or a full flat occasionally, but makes it unprofitable for investors to buy units and rent them out as if they were one-room hotels. Regulators need to understand the needs of individual neighborhoods and design rules that make sense for them.

THE BLURRING IDENTITIES OF WORK, HOME, AND TRAVEL

In China, services like Zhubaijia and OneHome function as both real estate agencies and short-term accommodation providers, offering multiple rental properties across destinations that the companies manage themselves or with the help of a partner agency. In the U.S., Seattle is home to one of the latest proving grounds for the rapidly diversifying WeWork, which began in 2010 as a company specializing in the design and management of shared workspaces, and is now expanding its model into the residential, education, and fitness sectors.

"We have just acquired a building in Seattle that will have about 36 floors of WeLive and WeWork combined. The existing buildings have both a WeWork and a residential component," said WeWork's Fuad. "That's our way of taking a leadership role in changing how people live, work, and play."

Looking beyond just local host rentals, the sea change sweeping through our global society is turning vacation, living, office, and other spaces into more permeable, less distinct concepts. As we will see, in some ways hotels and local host rentals are becoming more like one another; office buildings are doubling as residential facilities. Boundaries are blurring as businesses adapt, evolve, and innovate.

LOCAL HOST RENTALS ARE HERE TO STAY—BUT WILL EVOLVE

"This type of travel is obviously becoming more mainstream, and that is a challenge for organizations," Stephany said. "The more mainstream travelers treat local host rentals more like hotels. As we move through the adoption curve, some hosts talk about the good old days, whereas others who are, say, less interested in things like washing up after guests, see it as a hotel."[84]

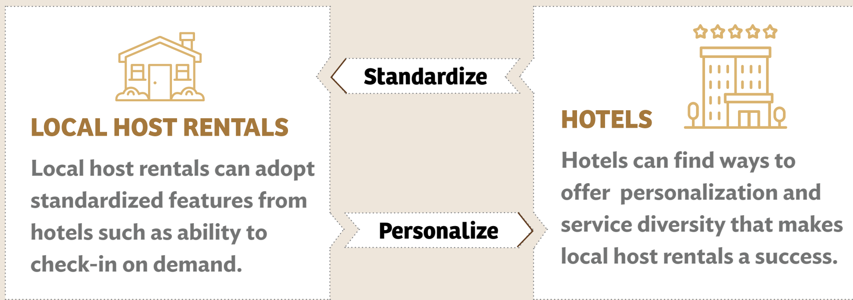
In some ways, hotels and local host rentals are becoming more like each other.

Local host rentals are here to stay, but as Stephany hinted, they are constantly evolving. Everything about them is dynamic, from the relationships between hosts and guests to their locations, management, and even ownership. We've seen this in a number of Airbnb's recent real-estate ventures and partnerships.

As part of its Friendly Buildings Program at Neptune Waterpark Condominiums in Toronto, for example, Airbnb extends primary property insurance to hosts and extended liability insurance to the building to cover the common areas.[85] Residents can go online to see Airbnb guest activity in the building, and the service is working with building management on rules regarding things like pets and parking. In exchange, management receives a percentage of every booking. Some argue the arrangement effectively turns the building into a hotel; Airbnb believes that it simply puts better guidelines and control over the kind of situation that already exists.

As we've noted earlier in the book, Niido "Powered by Airbnb" is a partnership between Airbnb and the Newgard Development Group, which permits leaseholders in a 324-unit Florida apartment building to rent out rooms or entire units for up to 180 days a year.[86] On-demand "MasterHosts" will manage day-to-day things like cleaning of these units, each of which will be equipped with keyless entry to facilitate short-term rentals. In the notoriously Airbnb-averse San Francisco, the service struck a similar deal with Veritas Investments, the city's biggest residential landlord. Tenants in—for now—five of Veritas' more than

As They Adapt, Local Host Rentals and Hotels Influence Each Other



200 buildings can legally rent out their units.[87] As part of the deal, tenants also receive access to the Pillow.com service, which helps hosts price their units in relation to their local market. As with Neptune Waterpark in Toronto, leaseholders share a portion of rental proceeds with their landlord.

The residents they surveyed had indicated a lot of interest in this "new aspect of the 'sharing economy'," said Veritas CEO Yat-Pang Au, in a statement. "Airbnb and Pillow can help our residents with economic empowerment and could further differentiate our properties."[88] Manheimer is predicting that such arrangements will become more frequent.

"As local host rentals become more standardized, and more and more people have great experiences, it will become a seamless process," said Manheimer. "You'll be really well-informed and trust the brand, and everything will be done on the mobile. You'll book online, get your confirmation number and a passcode, then scan your phone to get in when you show up. You won't even interact with the host."

> **"As local host rentals become more standardized, and more and more people have great experiences, it will become a seamless process."**
>
> —Jeff Manheimer, Tripping.com

Landlords aren't the only ones who stand to benefit from more flexible and innovative local host rental regulations. In Seattle, the startup Loftium partnered with Umpqua Bank in 2017 to help potential homebuyers with their down payment. In exchange, the buyer would have to rent out a portion of the new home on Airbnb and share some of the revenue with the company.[89] If the initial pilot program with 50 homebuyers is proven

successful, Loftium has plans to expand its model to other cities and lenders. "The goal is to ensure that cities don't become places where only the very, very wealthy can afford to own, that there's still this ability for middle-class people to be able to own a home," said co-founder Yifan Zhang.[90]

Local host rentals, indeed, are even blurring the role and archetype of property owner. "Local host rentals are attracting a younger, more tech-savvy individual as landlord," Stephany said. "These modern landlords have a higher-risk, higher-reward attitude, and are drawn to real estate because of their hopes for an equity-like return."

REINVENTING THE HOTEL

What about hotels? Though not all of them recognize it yet, their industry faces an era of massive disturbance that affects their entire ecosystem. Think of it as "business climate change"—which, like environmental climate change, is dangerous to deny. Indeed, a hotel that may at one time have dealt with a competitive set of a few neighbors—or, for luxury hotels, a few peers in the city—now could contend with thousands of more nimble competitors. The results could be catastrophic for those that do not prepare and adapt.

In general, as we've noted, we believe that local host rentals are a complement to the hotel market, rather than a competitor: the two segments offer different kinds of services, essentially to customers with different needs (or the same customers traveling under different circumstances—e.g., an executive traveling by herself on business, or on vacation with her husband and kids). But we must acknowledge that disruption is fundamentally, well, disruptive. If you run the only two-star hotel in a neighborhood, you're happy in your niche. If someone builds a competing hotel, you're significantly less happy. But if hundreds of local neighbors start offering spare rooms in their apartments and some of them offer their whole apartments on the market, all of a sudden you have a lot more competition. You're going to have to raise your game or lower your prices—or both. In general, local host rentals will create more competition at the lower end of the hotel market, because it's more difficult to replicate five-star properties, but it remains a fact that a large flood of new supply changes the market dynamics. Fundamentally, this is how commerce works—think of economist Joseph Schumpeter's famous phrase about capitalism, "creative destruction" (implying that the process of economic growth and change inevitably destroys some older business models). It is productive in the long run, but inevitably can make life harder for some players along the way.

As with communities, we will see a spectrum of responses. Some

CHANGE TO LOCAL HOST RENTALS CAN SPUR HOTEL INNOVATION TO MEET TRAVELER NEEDS

Communal Travel
People enjoy traveling with friends and family; they enjoy shared activities like cooking, watching movies, and relaxing together.

Local experience
Travelers want to meet locals and seek experiences that are unique to their destinations.

Personalization
People feel rewarded with personalized service.

hotels and hotel chains will be holdouts, trying hard to ignore what Dr. Yeoh described as the "coming tsunami." Some of these, by virtue of their unique positioning and features, will continue to do well, but some, particularly those operating in the lower- to middle-market sectors, may fail. Hotels must recognize that there is suddenly a large supply of low-priced, easy-to-access, and often differentiated products on the market, and that many travelers will vote with their mobile devices by choosing the local host alternative. This will become even more of an everyday reality as a greater variety of accommodations becomes more accessible, the barrier of unfamiliarity drops, and the local host rental experience becomes streamlined, nuanced, and more reliable.

"Accor is investing significantly in local host rentals; rather than ignore the trend, we're being a part of it," said AccorHotels' Menard. "For example, we've acquired Onefinestay, part of Squarebreak, and Travelkeys, and will bring all of them under the Onefinestay brand, giving us 10,000 homes around the world. We're looking to differentiate ourselves from Airbnb and others with a luxury offering that comes with some of the high-end services, but with the space and flexibility of having a private rental."

Indeed, the hotel industry will be forced to diversify and adapt its tried-and-true business model. In some cases, that means sharpening the model to build on its strengths. As Marriott's Rajeev Menon noted, hotels offer many advantages. A top hotel, he explained, "comes with great facilities that are purpose-built for that level of accommodation, and that goes from great gymnasiums to spas, restaurants, bars, and so on. With that, there is a very heavy focus on things like safety and security and hygiene and insurance cover, and all the other things a good business needs to do to protect its interest and the interest of its customers and associates as we grow." Increasing these strengths—and communicating them well—will be the key to the loyalty of some customer segments.

But hotels will also need to find ways to attract traveling families and groups of friends—people who want not just a row of doors on a long corridor, but a communal place where they can gather, cook meals together, watch a movie, and relax. They will want to attract business travelers, too, who are in town for a week or a month and need more than just a bed, a desk, and a television. They will also need to attract people who are simply tired of standardized fare and of being treated as anonymous strangers, who want to experience what it is really like to live in a place, participate in the local economy, eat locally, and meet people who have an interest in meeting them, too.

In short, hotels must find ways to attract a diverse range of travelers with varying, constantly evolving, wants and needs.

"If I had to tell a hotel how to compete with a local host rental, I'd say, 'Personalize your service to the degree that you know more about me than I do myself,'" said PATA's Hardy. "'If it's a large chain, you have my profile, you know what I like, what type of room I book. Personalize it so that you recognize me as an individual. People love the attention.'"

Hyatt Hotels CEO Mark Hoplamazian, for one, agrees with Hardy's assessment, and in a recent presentation credited services like Airbnb for helping make the Hyatt brand stronger. "Airbnb has demonstrated that people really do care about the interpersonal human experience," he said. "Their founding was about connecting individual travelers to real people, [and they have] actually expanded travel and they've inspired us to think about how we do business."[91]

And smart hotels are indeed changing the way in which they do business in order to meet their consumers' evolving needs and demands. In 2014, Marriott partnered with IKEA to launch Moxy Hotels, a small chain of midrange urban hotels in the United States and Europe that feature open communal spaces and in-room personal media streaming to an internet-ready television.[92]

Bidding for the millennial demographic, Hilton Worldwide is developing what CEO Christopher Nassetta calls "a hostel on steroids" and "urban micro brand" that will have "super-efficient spaces that are crazy flexible."[93] This announcement follows the launch of Tru by Hilton (which also targets millennials) and

> **"Personalize your service to the degree that you know more about me than I do myself."**
>
> —Mario Hardy, CEO, PATA

Curio Collection (a line of higher-end boutique hotels). The latter débuted in Washington, DC, with The Darcy, which features a pop-up flower shop, in-room delivery of artisanal cocktails from a professional mixologist, and a men's fashion program.[94] All of Hilton's new hotels, Nassetta said, must "have a very cool locally curated concept with a local partner in the food and beverage scene. It's got to have a bar scene. It's got to bring the community in."[95]

In New York, renowned boutique hotelier Ian Schrager launched the Public Hotel with the goal of "making luxury available to all" and entering the "select-service space."[96] With nightly rates starting at "just" US$150 (cheap for New York!), the design hotel includes a restaurant from Michelin-starred chef Jean-Georges Vongerichten, a trendy rooftop bar, a "progressive, avant-garde multimedia performance space,"[97] and tech-friendly rooms. YOTEL Singapore, which opened in late 2017, offers self-service check-in, communal work and leisure spaces, and robot butlers.[98]

"We have a new brand called JO&JOE, which helps travelers rent a small space that's very affordable and is about meeting and making connections with locals," said Menard. "From a product development point of view it's very specific. You can industrialize it, but it's more complex than, say, a Novotel because you have to create the atmosphere and make it evolve."

Adapting existing hotels will be expensive and time-consuming, but as hoteliers and hotel chains build for the future, these examples show that forward-thinking groups will introduce flexibility into their designs and models. They may, for instance, build groups of modular rooms that can be rented out singly or as larger units, perhaps with enhancements such as a shared kitchen, entertainment area, or even bar attached. Washing machines and the facilities for preparing simple meals may become common room amenities, just as some hotels in North America (and increasingly Asia) now offer in-room coffee machines and ironing boards.

A change in how traditional hotel services are offered—when they are offered at all—is underway, too.

The concept of room service can evolve from the current in-house standard (which typically offers limited menus and charges high prices, not to mention service fees) to include in-room delivery from local restaurants via online services

like Seamless, Uber Eats, or Deliveroo. The gig economy has a big role to play. In 2017, eight Meriton Suites properties in Sydney and Brisbane, Australia, partnered with Deliveroo by letting guests place orders through the guest services staff, which arranges the delivery and adds the cost to the guest's final bill.[99] If the pilot program goes well, Meriton Suites will expand it to other properties across the country.

Cleaning (including hotel linens) may be outsourced to local services, rather than managed by the hotel itself. Conversely, hotels may also seek greater connections with their local community by offering memberships to their gym, swimming pool, and other facilities, as some hotels in Asia already do. They may view and design food and beverage outlets with both tourists *and* locals in mind, as Nassetta has vowed to do with new Hilton properties.

A hotel, after all, is a bundled set of services. It's a piece of real estate with units available for short-term rental; a reservation service (now usually transacted online); food and beverage services; cleaning services; and sometimes additional choices like advice on local experiences (the concierge), laundry, exercise, shopping, and even gambling. These services have traditionally been grouped together under the hotel umbrella, but do not necessarily have to be. We anticipate that many of these services could be aggregated by providers (ones that are typically mobile-based) that can operate across hotels or even in multiple geographic locations.

We noted in earlier chapters that the rise of local host rentals has fostered the development of ancillary services such as room cleaning, providing employment to people based in the communities in which the rentals exist. Laundry services, too, could serve people in their homes and apartments, as well as hotels, possibly with increased personalization and ease of billing.

Concierge services, perhaps offered through credit card or local companies, or through mobile apps, can operate at scale and provide levels of assistance that customers want (and are willing to pay for), and which may vary from guest to guest and from stay to stay. These services could also be a more curated, though automated, experience. Virgin Hotels, for instance, gives guests access to Step Outside, which is a concierge-like online service that helps guests find activities to do near the hotel by choosing personalities and interests (e.g., "The Foodie," "The Artist," and "Fun & Adventures").[100]

Budget-conscious travelers could forgo amenities they don't need and save money; think of low-cost airlines that charge for optional things like advance seat selection and checked baggage. Parents could gain peace of mind by ensuring that the kinds of food, facilities, and amenities they need for their children are available every step of the way. Clients with special needs could be assured that these needs will be met with the help of, say, wheelchair-friendly transportation.

Together, hotels and the gig economy can redefine "service" for travelers.

All of these scenarios present substantial business opportunities at large and small scale. They can be optimized to increase service levels and profitability, and can be spread across a spectrum of specialist providers. We expect this diversification trend, influenced by the growth of largely mobile-based ancillary services, to increase significantly.

In many ways, as the sharing and gig economies and local host rentals grow in tandem, services that were provided by hotel concierges and in-house services can be outsourced to entrepreneurially on-demand local businesses. For example, LuggageHero offers travelers in New York, London, and Copenhagen a choice of 310 safe and certified locations to store their luggage at local stores, cafes, hotels, and more, for a low price while in transit; as of time of writing, travelers are paying US$1 per hour (plus a US$2 per bag handling fee) in New York.[101] FlyCleaners and Cleanly are two U.S.-based companies that provide on-demand pickup and delivery of dry cleaning and laundry for local host rentals in New York City, at a fraction of the cost of traditional hotel laundry services (we've seen prices of US$17 to wash and iron a shirt—not entirely surprising in a city where hotel parking can run to US$95 per night).[102] Guests in more than 65 cities in the U.S. and Canada don't have to worry about the high charges of in-room minibars, thanks to Drizly, an app on which customers can order beer, wine, and liquor from local liquor stores, either for delivery (often within an hour) or pickup.[103] If you crave pampering, with Zeel you can book same-day massages or spa treatments at your location (including hotel rooms) from licensed providers in 85

cities in the U.S.[104] or request delivered beauty services (makeup, hair, nails, etc.) from a range of on-demand providers like the Glamsquad in seven U.S. cities. Meanwhile, there's no excuse for not exercising while traveling thanks to apps like Handstand, through which you can stay fit while you travel, with local bike routes, music mixes for your run, appointments with local trainers, and online workouts that can (if you choose) fine you when you don't show up![105] Finally, parents don't have to stress about childcare in an unfamiliar environment thanks to Helpr, which provides screened childcare providers within three hours' notice, in numerous U.S. cities.[106] These are only a few examples that illustrate the potential of the gig economy to redefine how and where travelers are served.

In essence, the boundaries of what we have until now thought of as the "accommodations industry" will become more porous and more flexible. In fact, some hotels have even decided that if you can't beat them, you should join them: In August 2017, Chesky tweeted that there were 15,000 boutique hotels listed on Airbnb, a number that could more than triple in 2018 with new partnerships (discussed later in this chapter).[107] Similarly, platforms that traditionally offered only hotel rooms, like Agoda, now allow travelers to search through an inventory that contains both hotels and homes. Guests may well be open to staying either in a hotel or in a local host rental, and those that are will have a dramatically increasing freedom of choice.

Marriott's Menon has some advice for colleagues (and competitors) in the hotel business:

> The piece of advice from my side is that we can't live in denial. This is a reality, and it has great potential for growth. Like any other business, hoteliers need to play to our strengths and make sure that we continue to create memorable experiences while focusing and communicating our core business proposition that attracts the customer—for today, and for the future.

REDEFINING BOUNDARIES BETWEEN HOME AND OFFICE LIFE

"Steve Jobs used to say he created the iPhone not because people asked him to do it, but because people needed it," WeWork's Fuad said. "We look at the way people work, what millennials want, and what technology can do: if everything is in place, we will change the way people work and live. People want to stay connected, so we become the physical and digital space for them to do that."

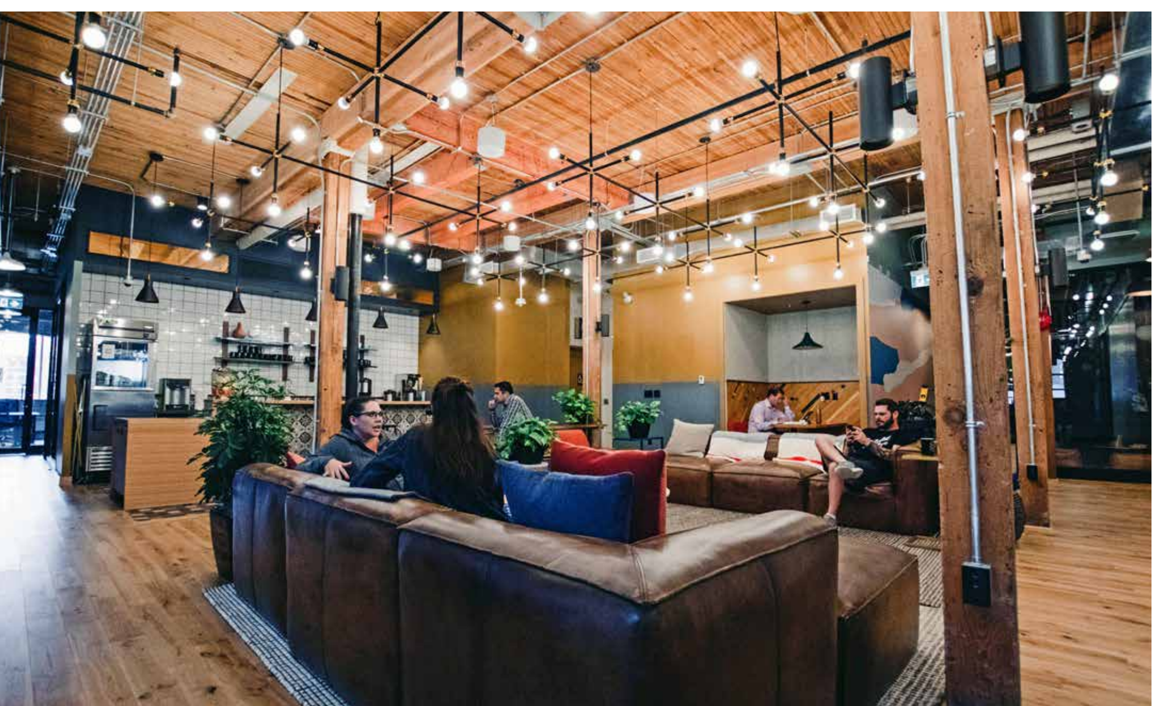
As the boundaries of hotels and short-term rentals increasingly blur, so do those of work and living spaces. In Korea, the "officetel" (a blend of "office" and "hotel")—urban buildings with residential and commercial units—has been around since the mid-1980s.[108] But coworking specialist WeWork is notably expanding and modernizing that basic concept of mixing work with play a few steps further. Launched in 2010 as an office design and management firm focused on fostering millennial-friendly work cultures—free beer and coffee, for instance—WeWork has recently announced a number of ambitious spin-offs into the residential, fitness, and education industries, each of them in tune with the company's core focus on community.

Most notable, perhaps, is WeLive, in which occupants of co-living residential buildings can participate in communal meals, movie nights, yoga classes, and other activities. The fully furnished units include internet and cable access, monthly cleaning service, and the ability to manage building services and events with a mobile app. The first WeLive building opened in New York in 2016, at which time the company aimed for WeLive to account for more than 20 percent of its revenue by 2018.[109]

"Products change; needs change. We're filling the void of what people are looking for."

—T. Fuad, Managing Director, WeWork Southeast Asia

"Not much has changed or evolved in terms of apartment living for a long time," said Fuad. "WeLive is like a traditional serviced apartment where you have a kitchen, linens, internet, and laundry all provided, but it also offers the shared space of communal living, with people hanging out together and just being a part of a communal society. People miss that."



"WeLive serves the segment that Airbnb and Agoda and Booking.com are targeting, but also the needs of people looking for an alternative to apartment living."

WeWork hopes to answer the needs of those seeking alternatives to education and fitness, as well. In May 2017 the company announced WeWork Wellness, which it positions as an alternative to gyms with "intimidating" environments by focusing on communal classes.[110] Six months later, news surfaced about WeGrow, which are grade schools located in WeWork facilities where business-oriented topics are mixed into more traditional instruction.[111] When the first WeGrow school opens in New York in 2018, students will receive instruction one day a week at a 60-acre farm, and occasionally attend presentations from WeWork employees.

"Products change; needs change," Fuad said. "We're filling the void of what people are looking for."

A VIEW OF THINGS TO COME THAT ARE ALREADY HERE

The distinction between hotels, local host rentals, apartments, and offices is gradually blurring as each entity learns and borrows innovative concepts from the others. This trend will accelerate.

Hotels, for instance, could offer free coffee and even craft beer in their communal areas, just as WeWork does in some of its managed offices. Some are starting to offer mobile check-in and keyless entry. Local host rentals will offer hotel-like amenities such as gym membership, professional cleaning services, and business facilities. In fact, in October 2017 Airbnb partnered with WeWork to give corporate users access to a desk at a nearby WeWork office during their local host rental stay.[112] In 2015, two German entrepreneurs launched Homelike, in Köln, to offer business travelers long-term, furnished accommodations with business-friendly amenities like VAT invoicing. "Similar to the shifts we are experiencing in transport and mobility, we believe that the rental market will develop towards a 'living-as-a-service model,'" said co-founder Dustin Figge.[113]

Local host rental services will not only more closely resemble hotels in terms of amenities. We see them following the lead exemplified by such hotel chains as

WE CAN SEE THE FUTURE

Hotels

Communal-collaborative spaces that blur the lines between work, play, and relaxation

Deliver services through **shared economy**

Local host rentals

Offer **hotel-like** amenities

Segment products to niche customers (e.g., luxury, family, business)

Housing

Co-living communities

Mixed developments that split rent between local host rentals and private residencies

AccorHotels, by whittling their brand down into multiple sub-brands to provide customers with more curated experiences. AccorHotels, for instance, offers boutique luxury via its Sofitel Hotels & Resorts line; its Ibis hotels cater to budget-conscious travelers with basic needs; and the Grand Mercure and Novotel hotels are somewhere in between, and as Menard explained, the brand is investing heavily in local host rentals, as well, to serve customers interested in that type of experience.

It's worth noting that combining local host rentals and hotel challenges on a single platform has both advantages and difficulties. For example, local host rentals—as we have noted—typically incorporate profiles of both guests and hosts; hotel reservations do not. Hotels have star ratings, often awarded by government agencies. To date, these ratings do not (and often *may* not) apply to local host rentals, so platforms are coming up with alternative ways to indicate different levels of amenities and comfort. Messaging systems are useful and are becoming more common, but communicating with individual hosts is quite different from communicating with the more complex management structures of hotels, and platforms will need to find ways to do both optimally. On the positive side, however, listing both hotel rooms and local host rentals side by side gives customers looking for a place to stay a much broader range of choices, and can help them recognize the advantages of local host rentals, which typically offer more space for the money than hotel rooms. For instance, a comparison between the average room price per night for hotels and Airbnbs in major cities in January 2018 showed that Airbnbs were cheaper across the board. According to a January 2018 article in *Forbes*, guests could save up to US$119 in New York, US$127 in Tokyo, US$38 in London, and US$53 in Moscow if they stayed in Airbnbs instead of hotels.[114]

As we look ahead, product segmentation will become more widespread in local host rental services as hosts, faced with growing competition, pursue ways to connect their unique properties with target travelers. In an example of how fast the market is changing, we had predicted some of these offerings in an earlier draft of this handbook, only to find out that Airbnb has actually made them real. In February 2018, on its 10th anniversary, Airbnb announced a "roadmap to bring magical travel to everyone" that included the launch of two new listing tiers, Airbnb Plus—a collection of 2,000 homes in 13 global cities "for guests looking for beautiful homes, exceptional hosts, and added peace of mind"[115]—and Beyond by Airbnb, the site's luxury offerings, that was planned to launch in spring 2018, but, as of writing, was still in development. Airbnb Plus homes are all verified in person against a 100-point checklist for "cleanliness, comfort, and design," and are marketing with professional photos under easy-to-search collections named for key features like "Poolside Homes," "Big Backyards," "Awesome Architecture" and "Knockout Kitchens."[116] In an interview with the *New York Times*, CEO Chesky projected that total Airbnb Plus homes will grow to more than 75,000 listings across 50 destinations by end 2018.[117]

At the same time, since we began our research, Airbnb has moved further along its path towards service diversification and the blurring of lines between traditional and alternative accommodations. As of March 2018, the company announced that it would open its platform to boutique hotels and small B&B's in partnership with a third-party platform, SiteMinder, which works with over 28,000 small hotels globally.[118] Previously, Airbnb permitted small hotels and B&Bs to list independently, but this large-scale partnership reflects a strategic shift; now, Airbnb looks more like a traditional online travel agency that aggregates listings, while managing transactions and payments. Staying true to Airbnb's positioning in the market, the hotels will be required to meet specific requirements (e.g., unique designs, emphasis on local experiences, access to common spaces, and high-quality photos). According to PhocusWire, this partnership for third-party distribution is "the first significant change to the core product in a number of years."[119] In the words of CNBC, Airbnb has taken "further aim at big chain hotels and online travel agencies, announcing a program… that would expand it beyond shared accommodations into something like a full-fledged travel company."[120]

We expect that by the time this book is published, more trends will come to light. For example, we are awaiting news about the new category of "Superguests," which Airbnb promises will open a "passport to new travel lifestyle" for guests.[121] Based upon what we have seen, we know that change won't take long. In fact, their pace is likely to accelerate.

The other area where we expect to see rapid transformation is in residential housing. We've already seen WeWork's approach with WeLive, one that is similar to Common, another co-living startup with buildings so far in New York, San Francisco, Chicago, and Washington, DC.[122] In San Francisco, HubHaus launched in 2016 with a related, but slightly different co-living model that places its residents, or "members," in private quarters located within shared multimillion-dollar homes outfitted with communal kitchens, pools, common areas, and other amenities.[123] The company hoped to provide 1,000 rooms by fall 2018.

These emerging living and membership concepts raise interesting possibilities. For example, instead of signing a one-year lease for a specific apartment or house, perhaps people will soon have membership options with a company that guarantees space in any of its facilities worldwide for a period of time—think of it as a quasi-timeshare for the twenty-first century. Such an approach could be applicable to hotels and local host rentals, as well, particularly as brands explore new ideas for fostering loyalty and repeat business in an increasingly crowded marketplace.

Co-living will not be limited to younger people, either. Imagine a five-unit house with a shared nursery and other family-friendly facilities catered to young budget-minded parents, or 10-unit homes designed to accommodate senior citizens; retirement homes of the future, in other words.

The shared economy will change real estate norms.

This fluidity of space will apply to commercial units, too, as businesses face many space constraints that the current market situation does not accommodate well. Because most commercial leases can range from three to 10 years (or even longer), periods inevitably occur when companies are forced to lease spaces that are too big for them (when they are renting in advance of future growth), or must crowd into spaces that are too small (since they've grown more quickly than expected but can't afford to move, or are unable to break their lease without suffering severe financial penalties). Similarly, the owners of commercial real estate face long periods of vacancy during which they are unable to collect any income.

Such problems need not continue.

Short-term commercial rentals can be highly appropriate ways to reduce the impact, inconvenience, and cost of such situations caused by the "lumpy" nature of leases. Just as the invention of calculus made it possible to determine the area under a curve by dividing it more and more accurately into smaller and smaller segments, so short-term rentals can dramatically reduce the impact of leases that are too short or too long and spaces that are too big or too small, at any given time. As we have noted, the sharing economy ultimately works because it puts idle assets to use, and this principle applies to far more parts of the real estate industry than those to which it has already been applied.

"Previously, being a landlord was about minimizing the number of voids [periods when the space was unoccupied]. Now a local host landlord can have 20 voids a year, but if each void is only for a couple of days, he can still massively outperform a traditional landlord," said Stephany.

As we've seen with Appear Here, owners and lessees could let spaces for periods of several months to companies in transition, startups, or overflow staff from overly crowded offices. Empty spaces could be rented at a discount, even with the décor from previous commercial tenants or with minimal fit-out: not every business or commercial tenant desires personalized space catered to long-term needs. Indeed, many could find it advantageous to take a shorter rental, and landlords could compete effectively with the very expensive serviced office providers, gaining income from tenants who would cheerfully pay less for less.

Just as shared bikes can be used for a single ride across town, and car shares can be available for an hour or half a day, flexible commercial space can meet diverse and specific needs, creating benefits to owners and renters alike.

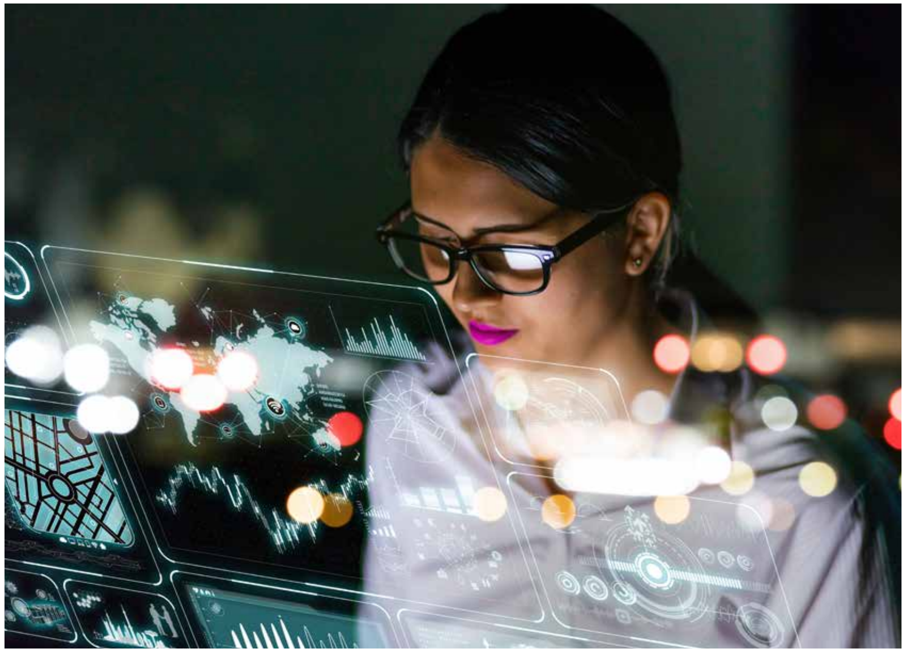
THE RISE OF BIG DATA AND ARTIFICIAL INTELLIGENCE

Big data and AI will help guests and companies personalize travel.

At Cornell University, students have created a tool called the Real Estate Advisor, which helps Los Angeles homeowners evaluate and compare revenue they could potentially generate by either selling their home or listing it on Airbnb.[124] The tool works by analyzing various real estate websites and the average rental prices on comparable houses listed on Airbnb.

This is just one example of how big data and artificial intelligence (AI) will play an increasingly pivotal role in the travel and housing markets. They will more accurately personalize search results for local host rentals, influence building designs, inform real estate decisions, and help brands know their customers more intimately.

Homelike, for instance, has claimed that the data it has—and continues—to collect will help it "vertically integrate further with developers" on new buildings designed to best meet its customers' needs.[125] Mike Curtis, vice president of Engineering at Airbnb, said the company uses AI to populate search results for each user with units that he or she is most likely to be interested in—and also most likely to review positively.[126]



"Data will come a lot more to the forefront. We see this already with occupancy-based demand pricing where, on certain websites, owners receive data that helps them get the best returns on their local host rental over certain periods," said Errol Cooke. "Moving forward, there will be increased data that helps hosts not just with pricing, but with how to create better overall experiences for their guests based on demographics, their guests' profiles, and their ratings trends."

Cooke's remarks are similar to Hardy's sentiments, suggested earlier in this chapter: data will lead to a personalized travel experience. "By the time you get wherever you're going you want your beer of choice waiting in your room," said Manheimer. "That's years away, but that's going to be the experience."

Hotels may not have yet figured out how to stock every guest's favorite beer, but they're getting close. Hilton Hotels, for instance, is testing "smart room" features that personalize various room features for repeat guests before they check in.[127] Starwood Hotels & Resorts can already preset room temperatures and television channels based on guest profiles.

Smart hotel rooms and predictive technology may sound like fairly rudimentary AI developments, and in some ways they are. But, as we've noted at the beginning of this chapter, these are elements of the future that are unevenly distributed today. They are glimpses of what's soon to come on a much larger scale.

IN CLOSING

Throughout this book, we have demonstrated that the move toward local host rentals is a global phenomenon that shows few signs of abatement. And as the sharing economy continues to expand, entire industries—accommodations, real estate, residential, and others—will change in ways that we can only begin to imagine today.

As the travel industry moves into a future in which short-term rentals are increasingly prevalent, we have attempted to prepare guests, hosts, regulators, and communities for this "coming tsunami." Each of these groups has different concerns, priorities, and opportunities, yet the fundamental issues are undoubtedly intertwined; and like the boundaries between accommodations, residential living, and office life, roles will inevitably blur. Guests may become hosts; so may neighbors. Regulators can help these groups advance their individual and common interests.

There is no question that the growth of local host rentals and the changes in all parts of the accommodations industry will disrupt existing norms. Adjusting to these changes will be difficult for some: There will be increased competition; business models that have worked for a long time will become less successful; expectations based on past experience will become less helpful as people try to understand the present and predict the future. Yet, there will be many benefits as well. Travelers will have a huge array of choices—no longer just one- to five-star hotels, but houses, apartments, hotel rooms, and villas. They will be able to select familiar experiences (a hotel that knows all their preferences and caters to them without special requests) or unfamiliar ones—local cuisine prepared to order, cultural or sporting events they might never have known about, airport pickups or school visits, dinners with neighbors, and new friends. Hosts will be able to increase their incomes when needed, meet new people, and travel more because paying guests will cover the rent. Communities will gain tax revenues and local businesses will grow and thrive. Some destinations—those that look forward and are willing to experiment—will gain revenues, interact more with the outside world, and become better able to meet their needs. Existing businesses will become more diverse, and new businesses will be born and thrive.

For all this to happen, it is necessary that all parties in this ecosystem understand one another and look out for their shared interests; communicate, cooperate, and adapt. The future, of which we can catch many glimpses today, will not look like the past. It will in many ways be brighter, more varied, more personal, more creative, and richer. To get there, we need to learn more, keep an open mind, and be prepared to welcome and guide the innovations that are happening all around us today.

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