# Peer-to-Peer Travel Sites Attracting Investor Attention

Let's take a quick look at the investment merits of peer-to-peer travel booking companies HomeAway Inc. (NASDAQ:AWAY), which owns vrbo.com (vacation rental by owner), and Airbnb, Inc., the private company operating airbnb.com. If you haven't used one of these sites yourself in the last 12 months, you probably know someone who has. The two sites are similar in the sense that travellers use them to find and book short term property rentals. Airbnb also includes listings where the property owner continues to live in the property during the traveller's stay.

On the surface, these companies have great business models, and both could grow rapidly for many years. They are not capital intensive, and they carry no inventory. They are extremely scalable, as shown by their global reach. They have a long runway for growth, as the vacation rental industry is fragmented, and they are already in an online leadership position. Travellers like the wide variety of accommodations listed and, in some cases, the competitive pricing. Property owners are happy to generate revenue from assets that may otherwise lay dormant. These positives are somewhat tempered by the risks, including the fact that many owners are not complying with local regulations when they list their properties on these websites. Many jurisdictions prohibit homeowners from hosting paying guests for short stays. Many jurisdictions also require licenses, permits and inspections. Strata bylaws and leases often prohibit short-term rentals. There are valid reasons for all of these types of rules, including those relating to safety.

As a high-profile example of these issues, the State of New York is taking the position that Airbnb is illegal, and property owners using the site should have been paying the state's 15 per cent hotel tax. Some owners have apparently delisted their properties in response. Looking at our local requirements, Vancouver media reports on Airbnb state that short-term rentals contravene city bylaws, but the city only investigates individual properties in response to complaints.

As peer-to-peer travel bookings increase, we would expect to see heightened enforcement of current laws in some jurisdictions and legal amendments adapting to the trend in others. The hotel industry will probably start pushing for more regulatory enforcement to counter the competitive threat. According to **IBIS World**, the global hotel industry takes in around US$600 billion annually. In comparison, some sources peg the vacation rental industry as roughly a US$85 billion annual business. Unlike the tech industry, the hotel industry is not accustomed to facing disruptive competition.

If more and more travelers choose peer-to-peer travel bookings over traditional hotel rooms, the hotel industry will be forced to respond, probably through regulatory lobbying, and hopefully by also providing more value to travelers. Having considered the opportunities and risks, we will not be investing in these companies at this time. Airbnb is still private, but there is speculation that an IPO could occur sometime in 2014. Based on the little we know about their business, they are unlikely to rush to market.

As noted earlier, HomeAway is publicly traded in the U.S., but at present, we view its shares as overvalued. In our style of investing, identifying a good business is only part of the process — we also want to buy at undervalued prices to reduce risk and increase returns.

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