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Internet, Lodging, Leisure and Hotels

Global Insight: Who Will Airbnb Hurt More - Hotels or OTAs?

Our 4k person survey shows 12% of travelers have used Airbnb & adoption is rising despite awareness, privacy, and safety hurdles. We think investors overestimate Airbnb's threat to hotels – <50% of use cannibalizes hotels and hotels over-index corporate – but underestimate its threat to OTAs.

Airbnb traveler penetration already 12%...headed to 16-18%: Our AlphaWise survey suggests that 12% of leisure and business travelers have used Airbnb at least once, with penetration expected to rise for both groups next year (18% for leisure and 16% for business). While this could suggest most of Airbnb's impact has already been felt, we see room for more gains for both because **users are 90%+ satisfied** and because only 41% of our survey sample is currently aware of the service. **Among our sample group that is aware of Airbnb, 25% of them have tried it.**

Surprisingly, Airbnb users skew wealthier, though price matters most: Surprisingly, our survey also shows that Airbnb users skew wealthier than non-Airbnb travelers, **with ~66% of U.S. Airbnb users earning over \$75k/year.** This, in our view, contradicts the popular belief that Airbnb users are largely college students/millennials and individuals with lower incomes. That said, our survey shows price is the primary reason (55%) for using Airbnb. These data suggest to us that the service could have broader appeal.

Less than half of Airbnb demand coming at the expense of traditional hotels: Our survey shows that only 42% of Airbnb users are substituting away from traditional hotels. 36% switch from bed & breakfasts, 31% are using Airbnb rather than staying with friends and family, and ~20% are using Airbnb over vacation rentals. This, combined with the fact that only 7% of Airbnb users stay 1 night (vs 25% for traditional hotels), speaks to how **Airbnb (for now) is primarily focused on non-hotel, leisure, longer-duration stays, rather than corporate single-night stays.** We believe corporate travel will continue to be more difficult for Airbnb to penetrate given safety and privacy concerns holding back adoption, and the higher importance corporate travelers place on amenities (loyalty programs, business centers, restaurants, etc.).

We remain bullish on the hotel group as heavy corporate travel mix insulates Airbnb cannibalization risk. The differences between leisure and corporate travelers matter given the major hotel groups' corporate-heavy bookings mix (~70% of business from corporate demand). **Our survey shows how Airbnb leisure use is growing faster (+50% NTM increase) than corporate use (+33%).** Further, **our new hotel supply and demand model** shows that even if Airbnb reaches ~37% penetration of online travelers (our

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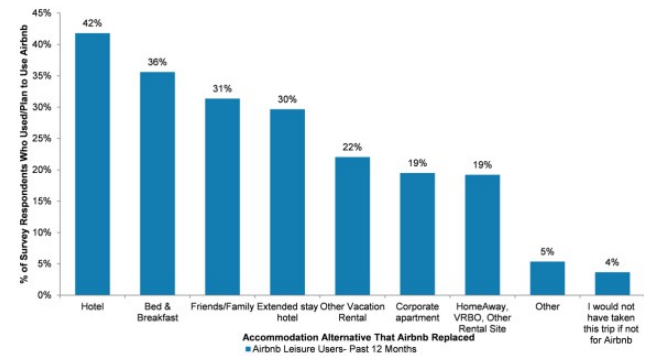
Airbnb bull case, assuming no let-up in annual penetration growth through 2020), we see the business having only a 20bp negative impact on annual hotel occupancies and a 70bp negative impact on annual RevPAR growth. **Our Airbnb base case assumes 10bp off annual hotel occupancies and 50bp off annual RevPAR growth**, quite immaterial on an annual basis...and could be lower if Airbnb's corporate penetration continues slowing. Of course, Airbnb could compound a cyclical lodging downturn if rising unemployment further increases supply on the site (as only 5% of survey respondents have listed on Airbnb) but **in our base case, we don't see Airbnb materially impacting the hotel industry, which leaves us bullish on the sector.** Some of our top Overweight picks are HLT, HOT, and SHO in the US, and IHG and WTB in Europe.

Remain cautious on OTAs as Airbnb is a larger leisure travel

competitive threat: Airbnb's threat to the OTAs is larger and multifaceted. First, the more hotel demand Airbnb cannibalizes – impacting occupancy and RevPAR – the harder it will be on the OTAs. **We don't believe hotels would turn to EXPE/PCLN if Airbnb causes more macro weakness than expected...**if anything they are likely to turn to Airbnb. Second, the fact that the **OTAs over-index toward leisure** (80%+ of EXPE/PCLN bookings from leisure demand) puts them in more direct competition with Airbnb. Third, Airbnb's cannibalization of non-hotel categories – like bed and breakfasts and vacation rentals – further impacts OTA demand. We acknowledge the OTAs have posted strong room night growth in 2015 even as Airbnb has ramped, but **longer-term we see the online travel players competing more directly** for online travelers' wallets, **which keeps us cautious on OTA long-term growth and earnings power...**and on the sidelines. Indeed, even **if only 20% of Airbnb's long-term (2020) room nights come at the expense of OTAs it would lead to a 7% downward revision** to our long-term OTA room night forecasts. We are Equal-weight PCLN and EXPE and look for incremental data points on Airbnb's adoption and cannibalization before getting more actionable.

Could Airbnb be a long-term positive for hotels and an even more direct competitor to the OTAs? It will also be important to monitor Airbnb's relationships with the major hotel groups, as if Airbnb ever decides to allow hotels to list properties on their site – a likely positive for Airbnb's user conversion and monetization – it would create a more comprehensive, faster growing, lower cost OTA competitor. Airbnb currently charges properties 3% on transactions...while OTAs charge hotels 12-18%. **Even if Airbnb offered the hotels a commission rate that is triple its standard 3% rate, it would be positive for hotels**, likely leading to lower average customer acquisition costs and giving the hotels more leverage against the OTAs. Suffice it to say, this would be a further negative to the OTA industry.

Exhibit 1: What accommodations are Airbnb users substituting away from? A variety of accommodations, with less than half coming from hotels.



Source: AlphaWise, Morgan Stanley Research



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Assessing the Airbnb Competitive Threat

AlphaWise Survey Methodology

The following note showcases our first AlphaWise survey around Airbnb usage. We use our proprietary survey of 4k+ consumers in 4 countries in order to track adoption trends by country and the key drivers and hurdles to growth. In November 2015 we surveyed 4,116 adults aged 18+ evenly distributed across the US, UK, France, and Germany. The sample is representative of the online adult population in terms of age, gender, income, and region in each country. We posed a series of questions around Airbnb, leisure /corporate travel, travel accommodation behavior, and demographic data. Conclusions based on the total sample have an estimated maximum margin of error of 3% at the 90% confidence level. Our findings are as follows.

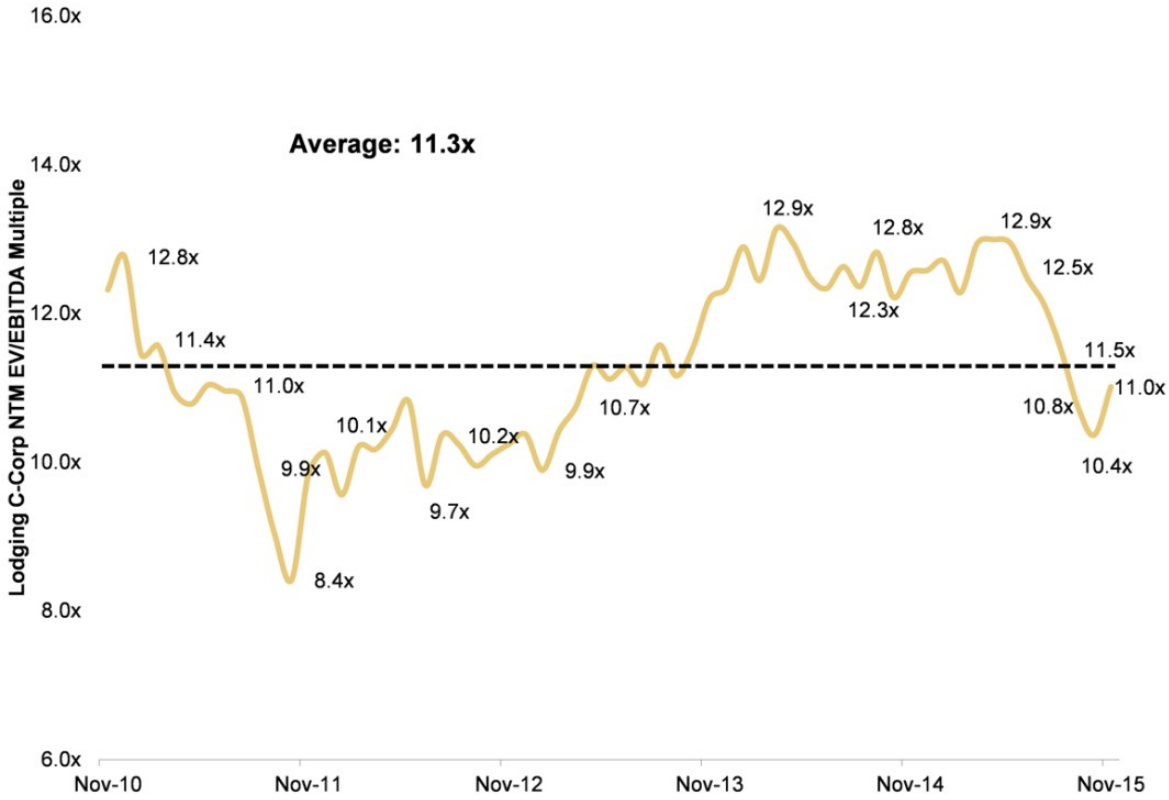
The market seems to think Airbnb is a material threat to the hotels but *not* the OTAs...we disagree on both fronts

Airbnb and its disruptive model have become top of mind for investors in both the lodging/hotel and online travel sectors. Yet, in our view, current consensus investor sentiment – that Airbnb is a material threat to the hotel and lodging group, but *not* a competitive threat to the online travel agencies (OTAs) – appears offside...and runs contrary to the conclusions we draw from our latest AlphaWise survey.

In the following note, we analyze our AlphaWise survey data of Airbnb's core use trends – who is using it, how they are using it, etc. – and attempt to quantify Airbnb's potential impact on the lodging and online travel industries. In all, **we see Airbnb as less of a threat to the hotel group (reinforcing our positive view on the group) but more of a threat to the OTAs (leaving us more cautious on the long-term competitive threats to EXPE and PCLN).**

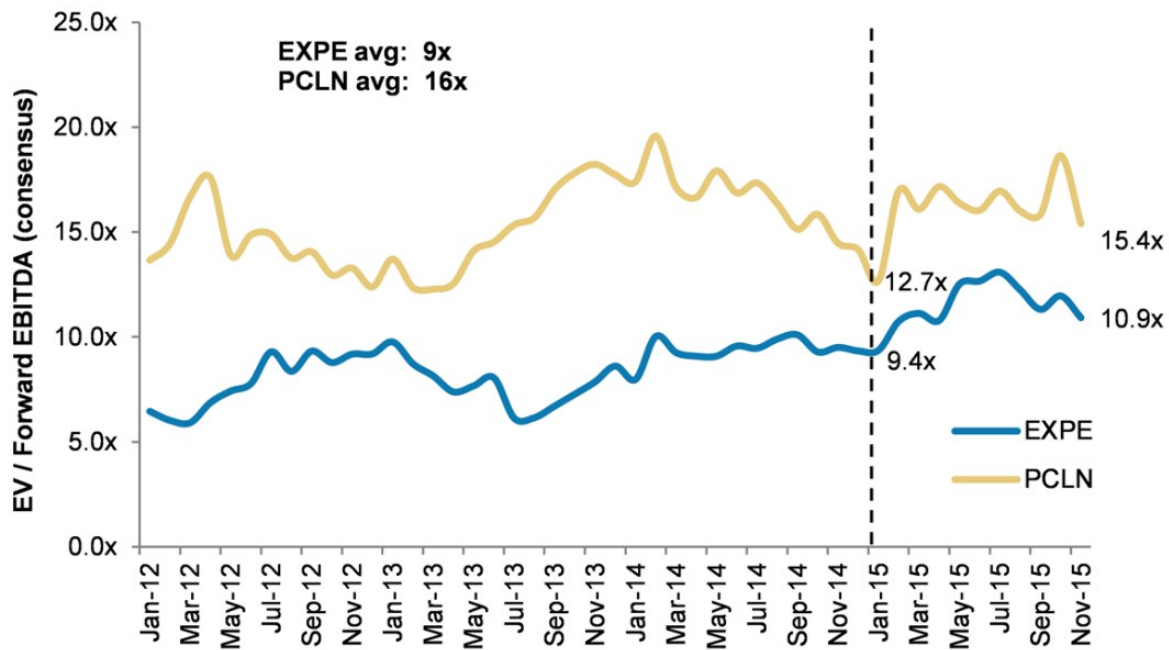


Exhibit 2: US Lodging Brand Companies' NTM EV/EBITDA multiples have compressed over the last 6 months as a result of business cycle and Airbnb concerns...



Source: Company data, Morgan Stanley Research

Exhibit 3: ...while OTA forward EV/EBITDA multiples have expanded through consolidation



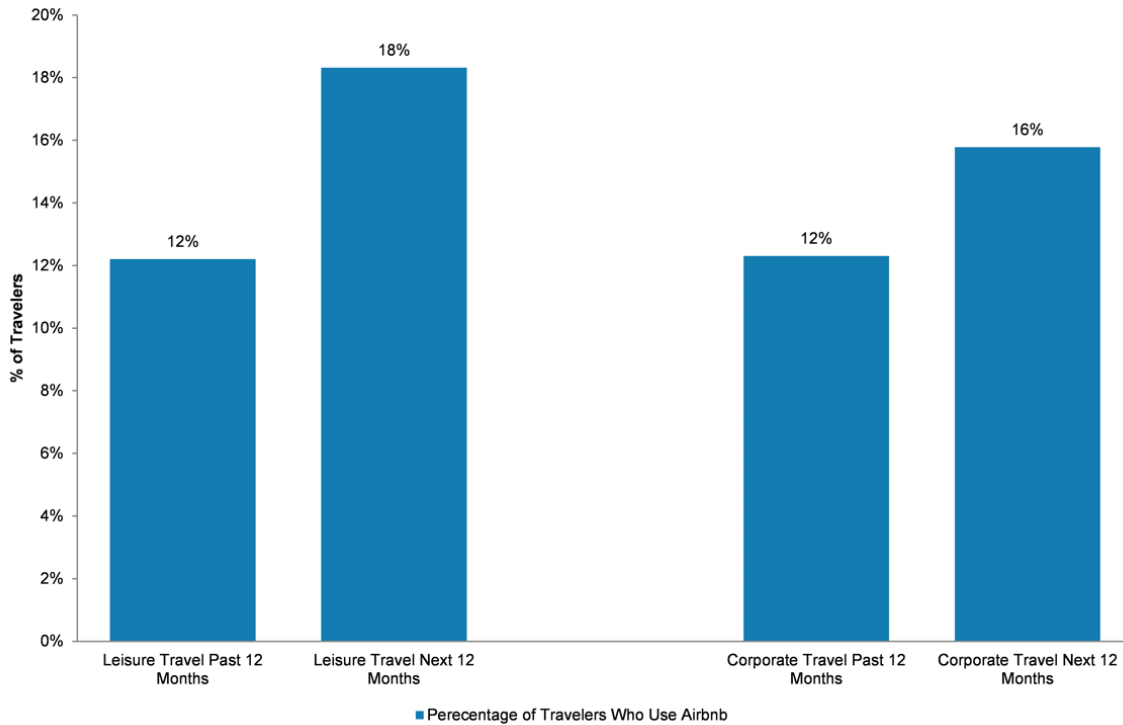
Source: Thomson Reuters, Morgan Stanley Research



What do our AlphaWise survey data show us about Airbnb user penetration and demand?

In all, our AlphaWise survey data show that **12% of leisure and business travelers have used Airbnb at least once**...and that both groups expect to use it more over the next 12 months (See [Exhibit 4](#)). We expect to see continued adoption, but believe **Airbnb will have to overcome awareness challenges** (which can be done through advertising), **safety, and privacy concerns** (See [Exhibit 5](#)). Note that while 12% of leisure and business travelers have used Airbnb, this is not representative of share of wallet...as one use would lead to a "yes" response. **Between 16-18% of travelers expect to use Airbnb in the next 12 months**, and while some may argue a meaningful share (12% / 17%) of Airbnb's impact has already been felt, we expect to see continued traveler experimentation and adoption beyond this.

Exhibit 4: According to our AlphaWise survey, 12% of leisure and corporate travelers have used Airbnb in the last 12 months...with both expected to rise over the next 12 months

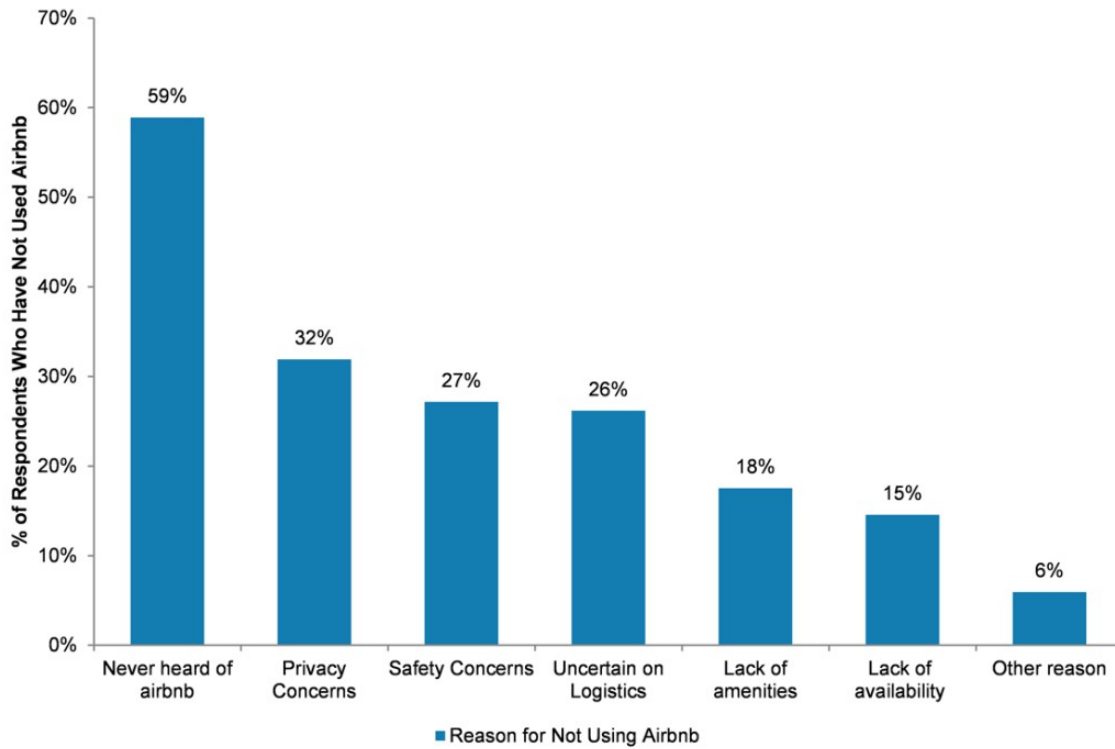


Source: AlphaWise, Morgan Stanley Research



Exhibit 5: Awareness, privacy, and safety were the main reasons why respondents did not use Airbnb

Question: You have stated you have not used Airbnb, and do not plan to; please indicate the main reasons below in order of importance.



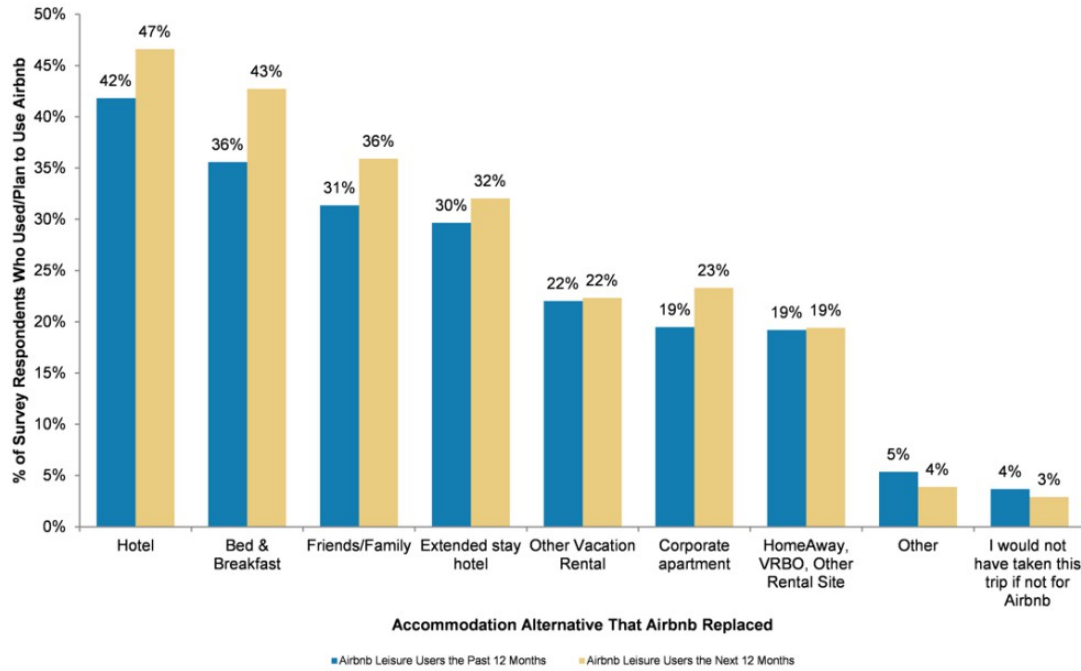
Source: AlphaWise, Morgan Stanley Research

We are often asked by investors whether or not Airbnb's demand is entirely coming at the expense of hotels; our survey suggests not as **only 42% of Airbnb demand is coming at the expense of traditional hotel demand** (See [Exhibit 6](#)). This, combined with the fact that (See [Exhibit 7](#)) only 7% of Airbnb users stay 1 night (vs 25% for traditional hotels), speaks to how **Airbnb (for now) is primarily focused on non-hotel, leisure, longer-duration stays**, rather than corporate single-night stay segments. In addition, we believe corporate will continue to be more difficult for Airbnb to penetrate given the aforementioned safety and privacy concerns, as well as the higher importance corporate travelers place on amenities (loyalty programs, business centers, restaurants, etc.).



Exhibit 6: Airbnb users are replacing a variety of accommodations, with less than half of demand coming from hotels

Question: You stated that you have used Airbnb in the past 12 months; which of the following accommodation alternatives did it replace? Select all that apply.

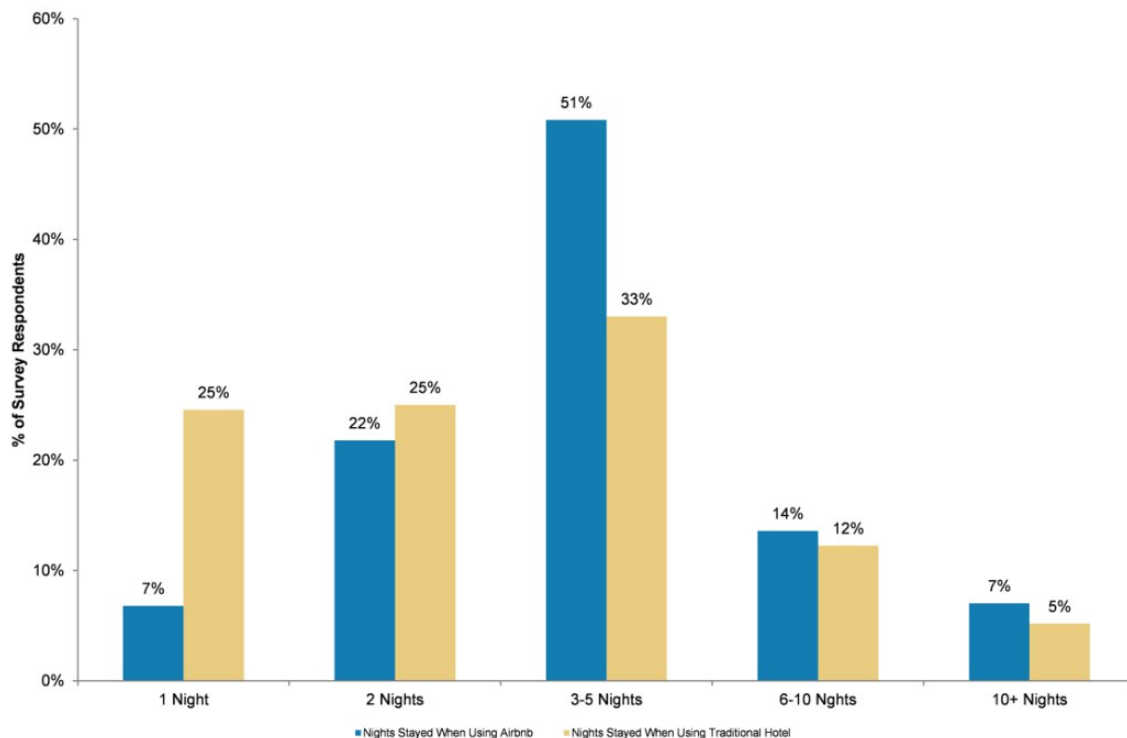


Source: AlphaWise, Morgan Stanley Research



Exhibit 7: Airbnb is much less focused on single night stays, which is where hoteliers are focused with their corporate demand

Question: When you booked on Airbnb or stayed at a traditional hotel, how many nights did you stay?



Source: AlphaWise, Morgan Stanley Research

Remain bullish on hotel group as heavy corporate travel mix insulates Airbnb cannibalization risk

These differences between leisure and corporate travelers matter given the major hotel groups' corporate-heavy bookings mix – around 70% of their business driven by corporate demand. We believe this will limit the potential cannibalization impact from Airbnb, as, by our math, **even if Airbnb reaches ~37% penetration of online travelers we see the business having only a 20bp impact on annual industry occupancy and taking 70bp off annual RevPAR growth by 2020** (See [Exhibit 8](#) and [Exhibit 9](#)). Our base case is for a much smaller impact, and would be lower still if we adjusted for Airbnb's lower expected corporate penetration. Material increases in Airbnb user frequency (more than the current 4 room nights per person), potential Airbnb material success in the corporate market, or a cyclical lodging downturn would likely have worse effects...**but in our base case, we don't see Airbnb materially impacting the hotel industry...which leaves us positive on the group. Some of our top picks are HLT, IHG, HOT, SHO and WTB.**

Exhibit 8: Scenarios for hotel industry occupancy under Airbnb Bull/Bear/Base case

Hotel Industry Occupancy	2015E	2016E	2017E	2018E	2019E	2020E
Traditional model (pre-Airbnb)	67.6%	68.6%	69.1%	69.3%	69.3%	69.3%
Airbnb Bull Case	67.6%	68.4%	68.7%	68.6%	68.4%	68.2%
<i>Average annualized change from traditional model</i>	<i>0.0%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.2%</i>
<i>Cumulative change from traditional model</i>	<i>0.0%</i>	<i>-0.2%</i>	<i>-0.4%</i>	<i>-0.7%</i>	<i>-0.9%</i>	<i>-1.2%</i>
Airbnb Base Case	67.6%	68.4%	68.7%	68.7%	68.6%	68.6%
<i>Average annualized change from traditional model</i>	<i>0.0%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.1%</i>
<i>Cumulative change from traditional model</i>	<i>0.0%</i>	<i>-0.2%</i>	<i>-0.4%</i>	<i>-0.5%</i>	<i>-0.7%</i>	<i>-0.7%</i>
Airbnb Bear Case	67.6%	68.5%	69.0%	69.1%	69.0%	69.0%
<i>Average annualized change from traditional model</i>	<i>0.0%</i>	<i>-0.1%</i>	<i>-0.1%</i>	<i>-0.1%</i>	<i>-0.1%</i>	<i>-0.1%</i>
<i>Cumulative change from traditional model</i>	<i>0.0%</i>	<i>-0.1%</i>	<i>-0.1%</i>	<i>-0.2%</i>	<i>-0.3%</i>	<i>-0.3%</i>

Source: STR Global, MKG Group, Company data, Morgan Stanley Research


Exhibit 9: Scenarios for RevPAR growth under Airbnb Bull/Bear/Base case

RevPAR Growth	2015E	2016E	2017E	2018E	2019E	2020E
Traditional model (pre-Airbnb)	5.4%	5.4%	4.9%	4.2%	4.0%	4.0%
Airbnb Bull Case	5.4%	5.0%	4.3%	3.5%	3.2%	3.0%
Average annualized change from traditional model	0.0%	-0.4%	-0.5%	-0.6%	-0.6%	-0.7%
<i>Cumulative change from traditional model</i>	0.0%	-0.4%	-1.0%	-1.7%	-2.6%	-3.6%
Airbnb Base Case	5.4%	5.0%	4.4%	3.7%	3.5%	3.5%
Average annualized change from traditional model	0.0%	-0.4%	-0.5%	-0.5%	-0.5%	-0.5%
<i>Cumulative change from traditional model</i>	0.0%	-0.4%	-0.9%	-1.5%	-2.0%	-2.5%
Airbnb Bear Case	5.4%	5.3%	4.7%	4.0%	3.8%	3.8%
Average annualized change from traditional model	0.0%	-0.1%	-0.1%	-0.2%	-0.2%	-0.2%
<i>Cumulative change from traditional model</i>	0.0%	-0.1%	-0.3%	-0.5%	-0.7%	-1.0%

Source: STR Global, MKG Group, Company data, Morgan Stanley Research

Remain cautious on OTAs as Airbnb is a larger long-term competitive threat

Airbnb's threat to the online travel agencies (OTAs) is multifaceted, but also dependent on user penetration growth and frequency of use. First, the more demand Airbnb cannibalizes – impacting occupancy and RevPAR – the harder it will be on the OTAs given their dependency on a strong hotel market for growth. Our Airbnb base case calls for a fairly muted macro impact, but bear in mind, the **OTAs over-index toward leisure** (80%+ of Expedia and Priceline's business stems from leisure demand) which puts them in more direct competition with Airbnb. In addition, as shown above in [Exhibit 6](#), Airbnb is also cannibalizing non-hotel categories – like bed and breakfasts and vacation rentals – that the OTAs also serve. As such, **we believe Airbnb's demand cannibalization risk is likely higher for the OTAs.**

To be fair, the OTAs have posted strong room night growth over the past year even as Airbnb (we believe) has doubled its room nights from ~40mn to ~80mn global room nights. That said, we question whether this can continue over the long-term (given limits to the pace of online travel penetration growth and potential increased head-to-head competition). For perspective, **if 20% of Airbnb's 183mn 2020 room nights (in the U.S. and Europe) in our base case came at the expense of OTAs, it would lead to a 7% downward revision to our long-term OTA leisure room night forecasts** (See [Exhibit 10](#)). **This keeps us cautious on the OTA long-term growth and earnings power...and on the sidelines.** We look for incremental data points on Airbnb's adoption and cannibalization before getting more actionable.

It will also be important to monitor Airbnb's relationships with the major hotel groups because if Airbnb ever decides to allow hotels to list properties on their site – a likely positive for Airbnb's user conversion and monetization – it would create a more comprehensive, faster growing, lower cost OTA competitor. Airbnb currently charges properties 3% on transactions...while OTAs charge hotels 12-18%. **Even if Airbnb offered the hotels a commission rate that is triple its standard rate, it would be positive for hotels**, likely leading to lower average customer acquisition costs and giving them more leverage against the OTAs. Suffice to say, this would be a further negative to the OTA industry.



Exhibit 10: If 20% of our base case long-term Airbnb room nights (in the U.S. and Europe) come at the expense of OTAs, it would reduce our long-term OTA demand estimates by 7%

Base Case 2020E Airbnb Room Nights, US and EU (mn)	183
OTA 2020E Leisure Room Nights, US and EU (mn)	563

US & EU (mn)	Airbnb Cannibalization of OTA Demand				
	<u>10%</u>	<u>20%</u>	<u>30%</u>	<u>40%</u>	<u>50%</u>
Leisure Room Nights Cannibalized by Airbnb	18	37	55	73	92
<i>% of OTA Demand</i>	3%	7%	10%	13%	16%

Source: STR Global, MKG Group, Company data, Morgan Stanley Research

Please see the [Appendix](#) for our full Airbnb demand model.



Key Debate #1: How Big is Airbnb and Who is Using it?

Market View:

Airbnb is a small but growing platform for booking leisure accommodations online. It is mainly used by college students, millennials, and lower-income travelers...while corporate travel remains an opportunity for Airbnb.

Our View:

Our AlphaWise survey data indicates Airbnb has already been used by 12% of both leisure and corporate travelers. This may seem high now, but Airbnb awareness is still low (less than 50% of survey respondents had heard of Airbnb) which speaks to its potential forward growth opportunity. Awareness, safety and privacy are concerns to the long-term pace of adoption. While the majority of respondents booked on Airbnb for its "lower prices," Airbnb users skewed wealthier in the US, UK, and Germany.

Where We Could Be Wrong:

Our user penetration data do not take into account share of wallet (those indicating they used Airbnb may have only used the platform one time), so this penetration could just speak to experimentation rather than recurring use.

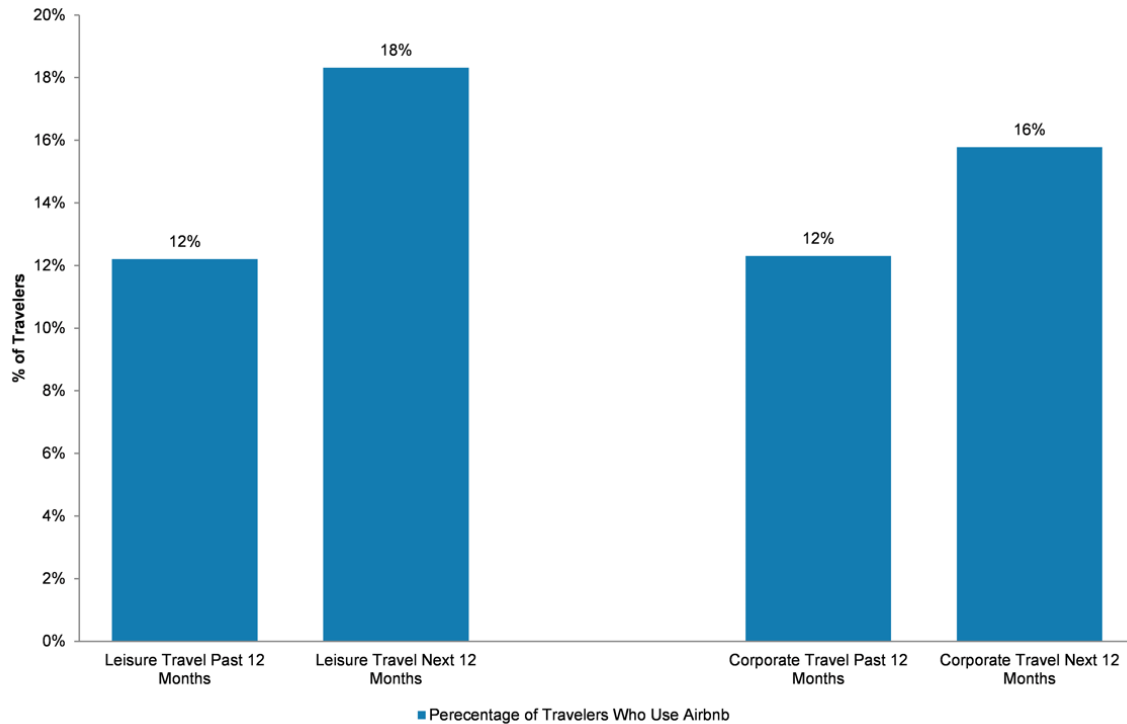
Airbnb Travel Penetration Already at 12%...Expected to Rise to 16-18% over the Next Year

Our AlphaWise survey data suggest that Airbnb has already been used (at least once) by a double digit percentage of leisure and business travelers. In all, **12% of leisure and business travelers have used Airbnb at least once over the past 12 months.** Use is expected to rise further, with leisure user adoption expected to increase by 50% over the next 12 months to 18%, and business user adoption is expected to rise by 33% to 16%. **These data speak to current and rising Airbnb experimentation** across both traveler cohorts, **but it is important to remember that these metrics do not represent share of wallet** (as travelers responding "yes" may have only used Airbnb one time). Going forward, user adoption and trends around frequency of use will be particularly important to monitor. **If 16-18% of travelers expect to use Airbnb in the next 12 months, and 12% already do, this could suggest a meaningful share (12% / 17%) of Airbnb's impact has already been felt.** However, we expect to see continued traveler experimentation and adoption such that these levels increase.



Exhibit 11: According to our AlphaWise survey, 12% of leisure and corporate travelers have used Airbnb in the last 12 months...with both expected to rise over the next 12 months

Question: Please indicate which of the following channels you have used/plan to use for booking your trip when traveling for leisure/business in the following periods.



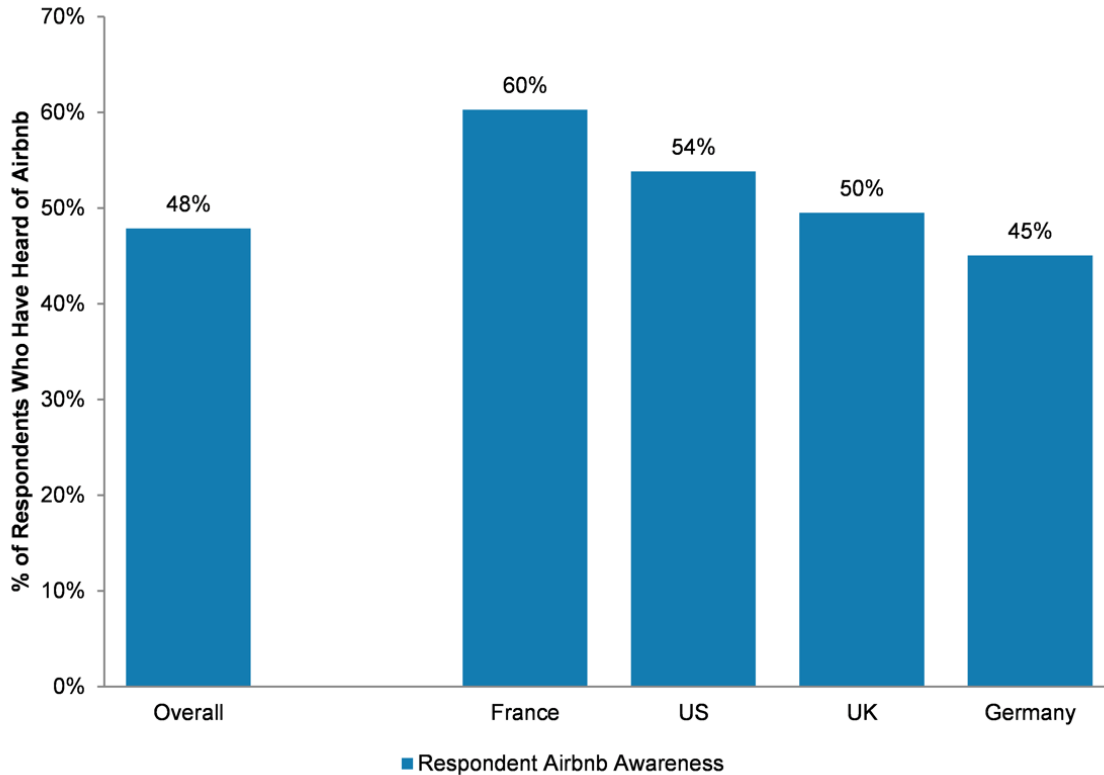
Source: AlphaWise, Morgan Stanley Research

But Respondent Awareness Still Under 50%, Speaking to Adoption Opportunity...

A low double digit penetration rate may seem high, but it is important to note that only 48% of overall survey respondents had heard of Airbnb (See [Exhibit 12](#)). As shown, the awareness ranged from 45% to 60% (with Germany the lowest and France the highest). This, in our view, speaks to Airbnb's growth opportunity as awareness continues rising...**as 12% user penetration with only 48% brand awareness implies that ~25% of travelers who know about Airbnb have tried the service at least once.** We would argue this is relatively high given this is a physical product with an emotional attachment where the user is renting someone else's property/home...usually for at least several days. Stepping back, user penetration is probably never going to be as high for Airbnb as it is for short taxi rides with Uber, or for other lower-touch services like using social media.



Exhibit 12: Airbnb consumer awareness is ~50% in our sample



Source: AlphaWise, Morgan Stanley Research

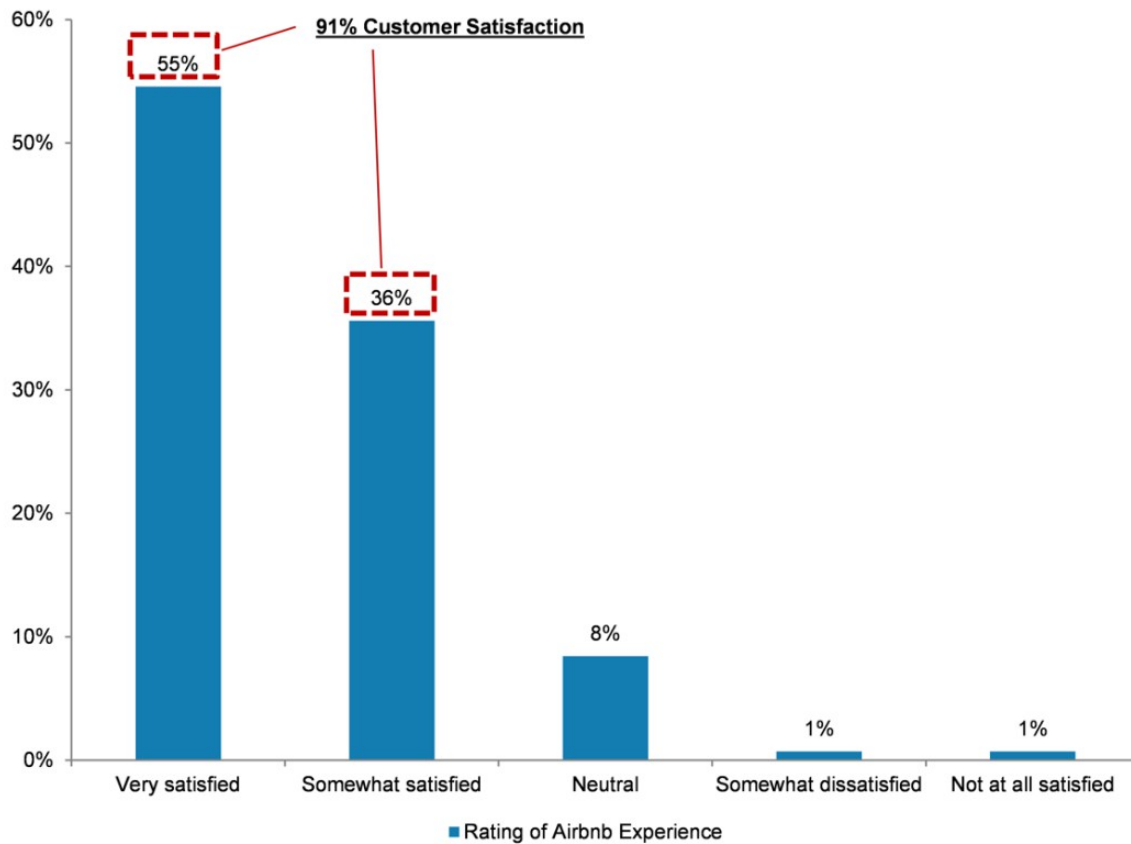
...and User Satisfaction is over 90%

Airbnb users in our survey were satisfied too, with 91% of Airbnb users responding that they were satisfied with the experience...and over half (55%) were "very satisfied." Only 2% of Airbnb users were not satisfied. We are admittedly a bit surprised by this high satisfaction given various negative press reports about Airbnb user stories and even the emergence of websites like www.airbnhell.com. It also seems a little inconsistent with surprisingly low repeat rate from our survey, with only 44% of existing Airbnb leisure users expecting to use it in the next 12 months. That said, if satisfaction stays this high, **we believe it will likely lead to repeat use, which, in our view, speaks to the opportunity for Airbnb to continue to grow share of travelers' wallets with its growing user base.**



Exhibit 13: 91% of survey respondents who used Airbnb in the last 12 months were satisfied with their experience.

Question: Please rate your experience with using Airbnb.



Source: AlphaWise, Morgan Stanley Research

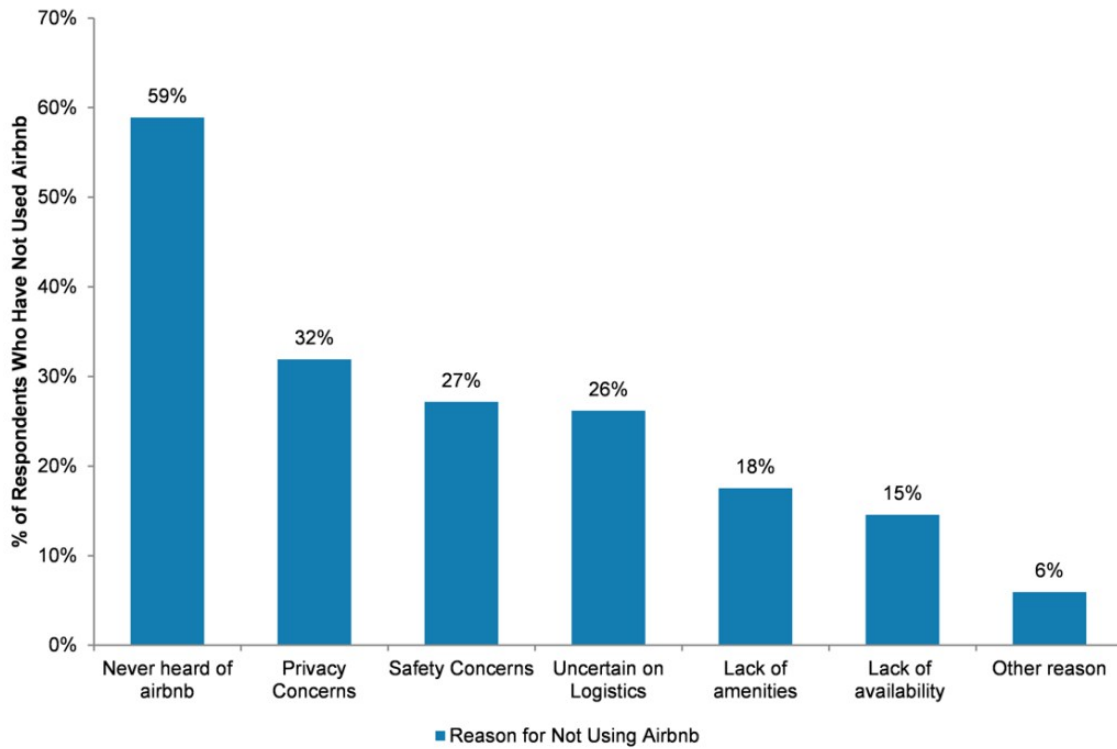
That Said, Increasing Awareness and Overcoming Privacy and Safety Concerns Will be Critical to Driving Forward Growth and Adoption.

The top reasons why people in our survey are not using Airbnb are lack of awareness (59%), privacy concerns (32%), and safety concerns (27%). Said another way, 59% of people who have not used Airbnb in our survey had never heard of the site. Awareness can grow over time (with increased advertising and availability, etc.), but in our view, the **privacy and safety concerns may be bigger challenges to long-term growth** given Airbnb's social sharing model. **This is particularly important for corporate users**, whose travel managers need to have safety and regulations in mind. This matches the results of our recent [Corporate Travel Survey](#), where 14% of corporate travel managers claimed to have already used Airbnb Business Travel; 66% of those who had not used it were "very unlikely" to use it, 9% were "somewhat likely", and none "very likely".



Exhibit 14: Awareness, privacy, and safety were the main reasons why respondents did not use Airbnb

Question: You stated you have not used Airbnb, and do not plan to; please indicate the main reasons below in order of importance.



Source: AlphaWise, Morgan Stanley Research

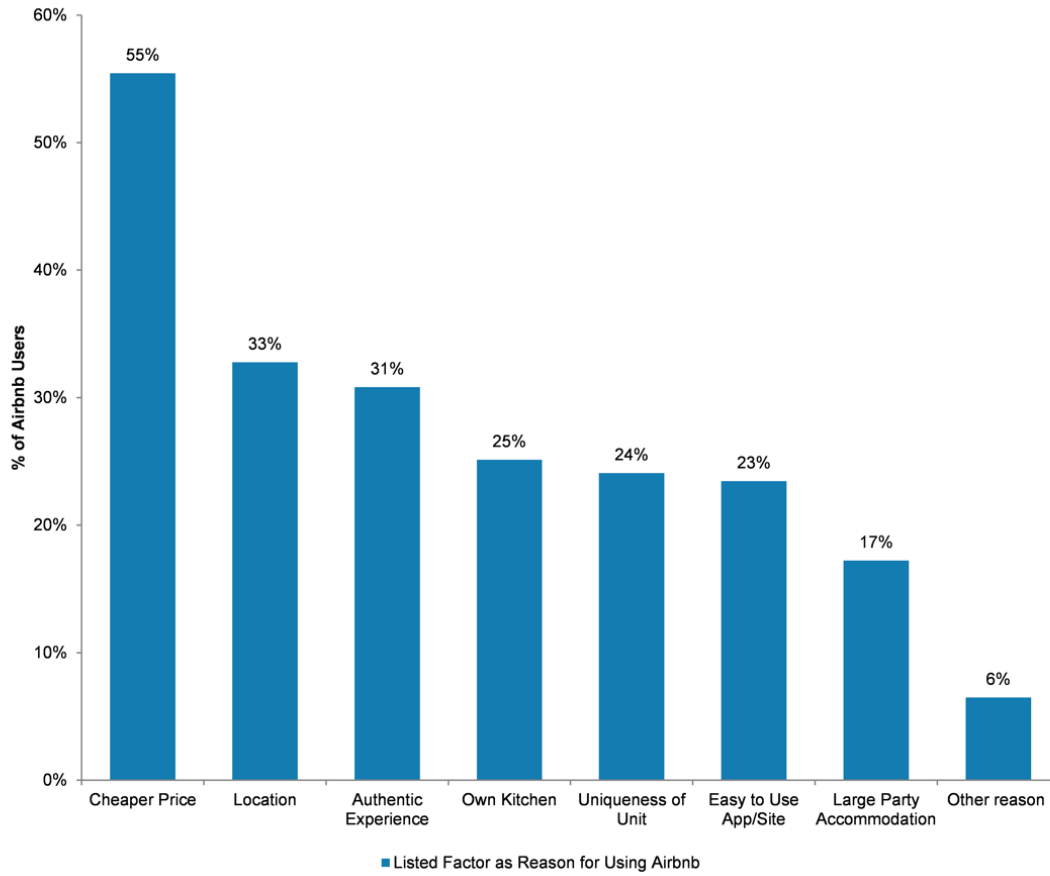
Price the Most Important Factor in Driving Airbnb Use

Price was the most important factor for consumers when deciding to use Airbnb. In all, 55% of respondents who either used or plan to use Airbnb said that "price" was one of the 3 most important factors that led them to use or plan to use the service. This is 1.7x larger than "location" (33%) and 1.8x larger than "authentic experience" (31%).



Exhibit 15: Price is the most important factor leading to Airbnb use

Question: What are the most important factors that led you to use Airbnb?

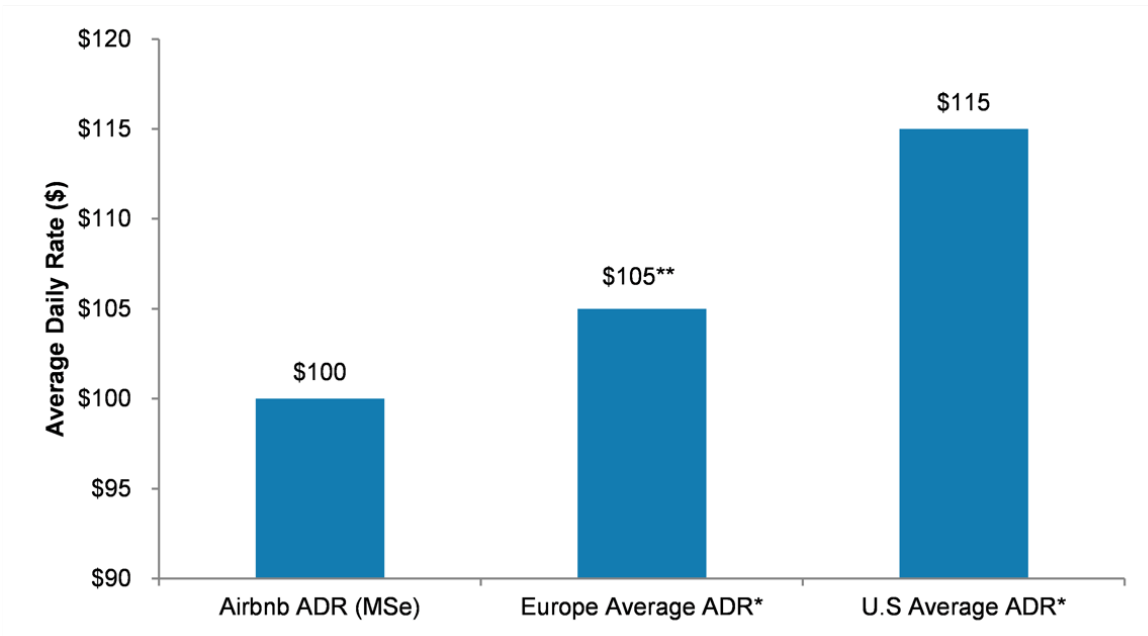


Source: AlphaWise, Morgan Stanley

This is not surprising given that (by our estimates) Airbnb’s global average daily rate (“ADR”) is anywhere from 5% to 13% lower than the regional hotel ADRs (See [Exhibit 16](#)). Note too that Airbnb’s large amount of lower-cost inventory in large cities (where hotel ADRs are even higher) is likely to make this price differential even more pronounced.



Exhibit 16: Airbnb global average daily rates ("ADRs") are about 5% lower than those in Europe and 13% lower than those in the U.S.



*2014 ADR

**Europe ADR €98, exchange rate of €1.00:\$1.07

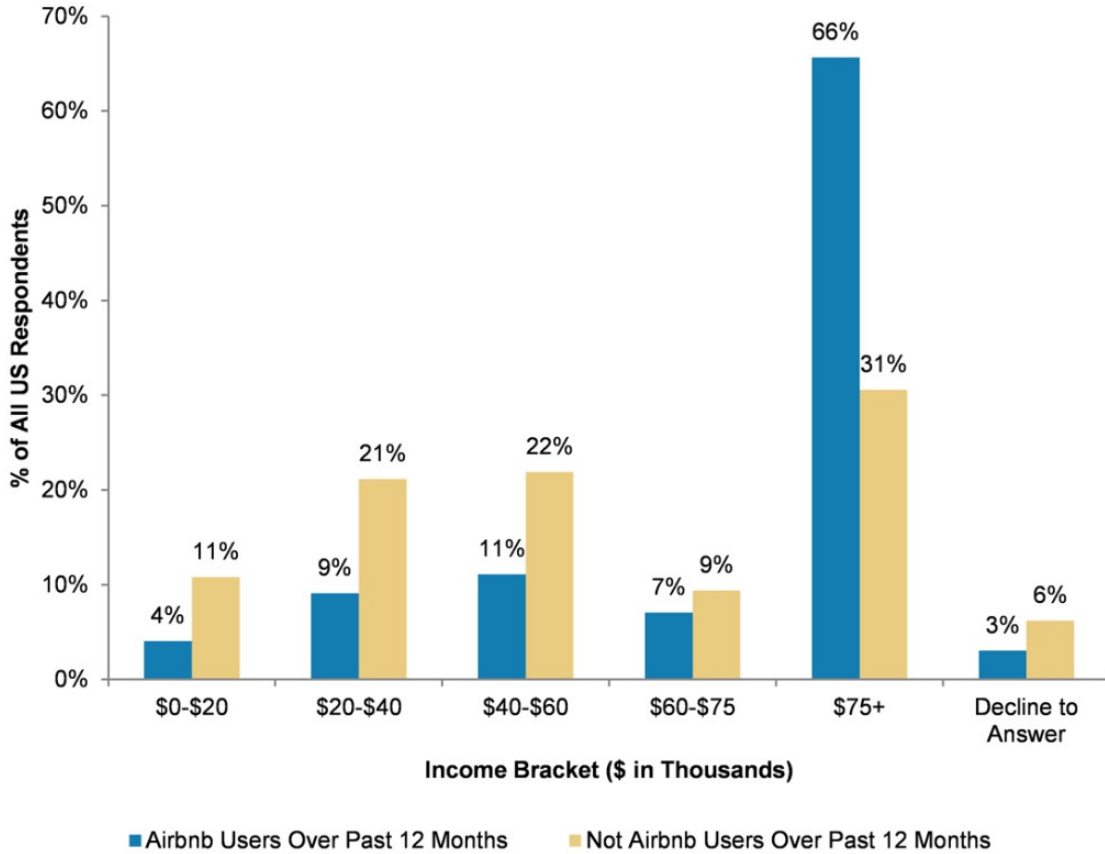
Source: STR Global, MKG Group, Morgan Stanley Research

It's Not Just College Kids, as Airbnb Users Skew Wealthier in the U.S., Germany and the U.K.

Although pricing was one of the most important factors leading consumers to use Airbnb, **roughly two-thirds (66%) of U.S. Airbnb users fall into in the \$75,000+ annual income bracket.** Given the average household income in the U.S. is ~\$50,500 this, in our view, contradicts the popular belief that Airbnb usage is largely college students, millennials, and individuals with lower incomes. Indeed, there was notable disparity in income levels in the U.S. between Airbnb users and non-Airbnb users, as only 31% of non-Airbnb users fell into the \$75,000+ income bracket.



Exhibit 17: US Airbnb users skew wealthier compared to non-Airbnb users

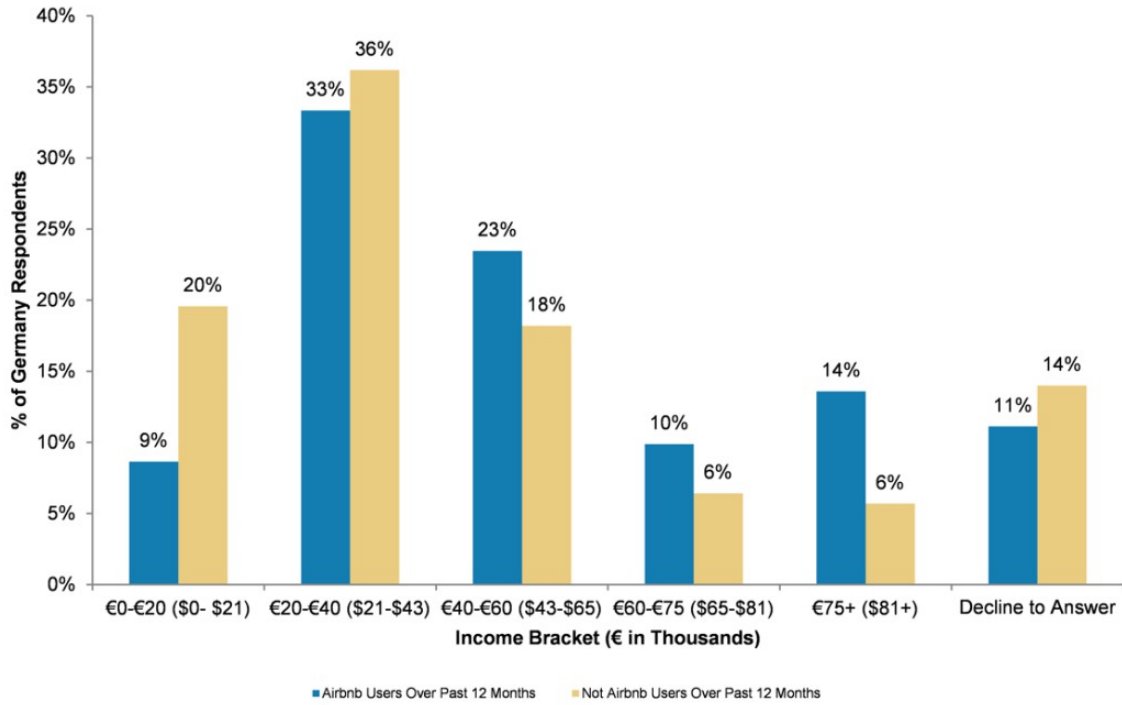


Source: AlphaWise, Morgan Stanley Research

We see similar income demographics in Germany and the U.K., with Airbnb users skewing wealthier than non-Airbnb users (See [Exhibit 18](#) and [Exhibit 19](#)). In Germany, 14% of Airbnb users fell into the highest income bracket (2.3X more than non-Airbnb users). The U.K. tells a similar story, with 23% of Airbnb users falling into the highest income bracket (1.9X more than non-Airbnb users).

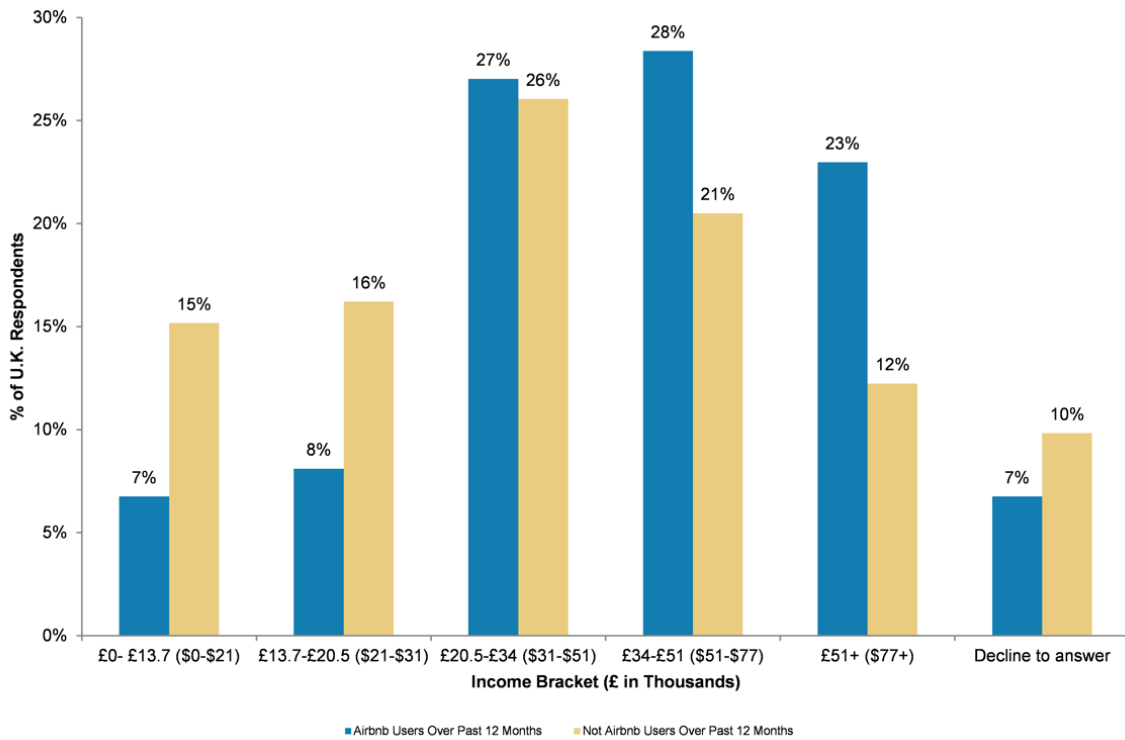


Exhibit 18: German Airbnb users skew more wealthy than non-Airbnb users



Source: AlphaWise, Morgan Stanley Research

Exhibit 19: U.K. Airbnb users also skew more wealthy than non-Airbnb users



Source: AlphaWise, Morgan Stanley Research



Key Debate #2: Where is Airbnb's Demand Coming From?

Market View:

Airbnb is mainly taking demand from traditional hotels, rather than creating new demand and "growing the total traveler pie."

Our View:

Less than half (42%) of Airbnb demand is coming at the expense of traditional hotels, as Airbnb is also replacing other non-traditional accommodations like bed & breakfasts, vacation rentals and stays with friends & family. The last segments make up around 60% of overnight accommodation, and are thus bigger than hotels. Moreover, Airbnb under-indexes on single-night stays and the average length of stay for an Airbnb user is much longer than that of a hotel user (only 7% of Airbnb users stay for 1 night, which compares with 25% of hotel users), which to us indicates Airbnb (for now) is primarily focused on the non-hotel, leisure, longer duration stay segments than on the traditional hotel, and corporate single-night stay segment.

It is true that Airbnb's incremental demand creation appears limited at this time (our AlphaWise data indicates only 4% of respondents would not have traveled if not for Airbnb), though substitution away from stays with "friend and family" is debateable.

Where We Could Be Wrong:

If Airbnb adoption increases and the product becomes more mainstream (especially on the corporate travel side), Airbnb cannibalization of traditional hotels could be materially higher long-term.

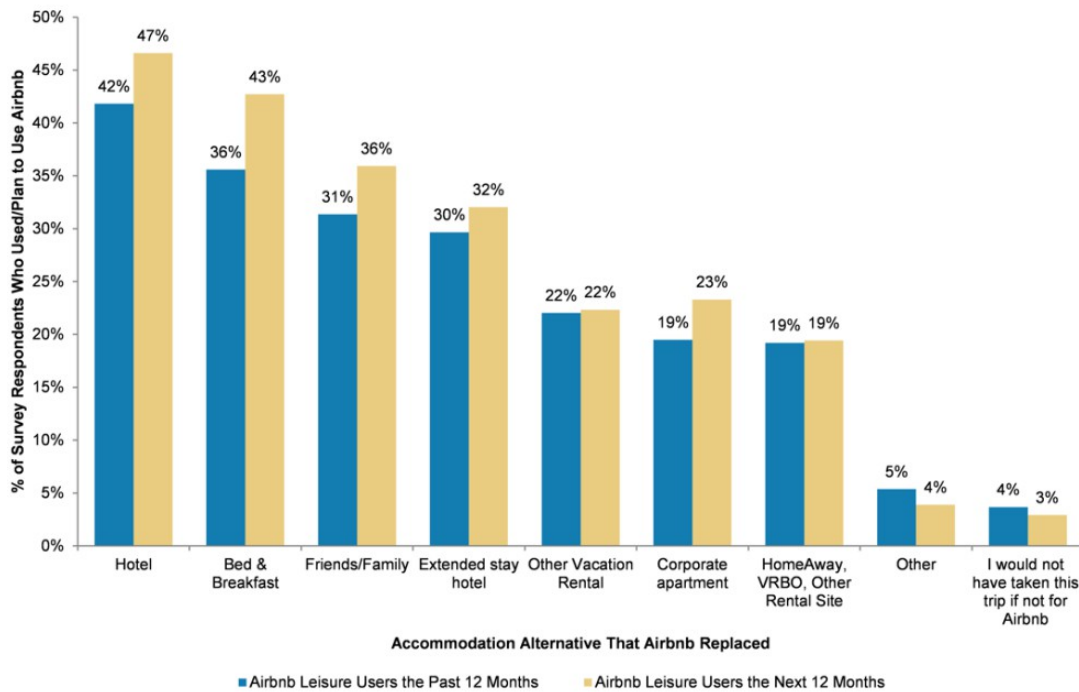
Less than Half of Airbnb Demand is Coming from Hotels, Although This May Be Growing

We are often asked by investors whether Airbnb is cannibalizing traditional hotel demand, or whether it is "growing the total traveler pie." **The market view seems to be that it is mainly taking share from hotels.** However, our survey respondents said that 36% of usage replaced bed & breakfasts, 31% replaced staying with friends/family, and 42% replaced staying in a traditional hotel (these are not mutually exclusive answers). Hence, **hotel replacement actually seems to be under 50%** (See [Exhibit 20](#)). We acknowledge that Airbnb hotel cannibalization is expected to rise (to 47%) based on our AlphaWise survey (which is something worth monitoring) but this, in our view, is still less than general market perception.



Exhibit 20: Airbnb users replace a variety of other accommodations, with less than half coming from hotels

Question: You stated that you have used Airbnb in the past 12 months; which of the following accommodation alternatives did it replace? Select all that apply.

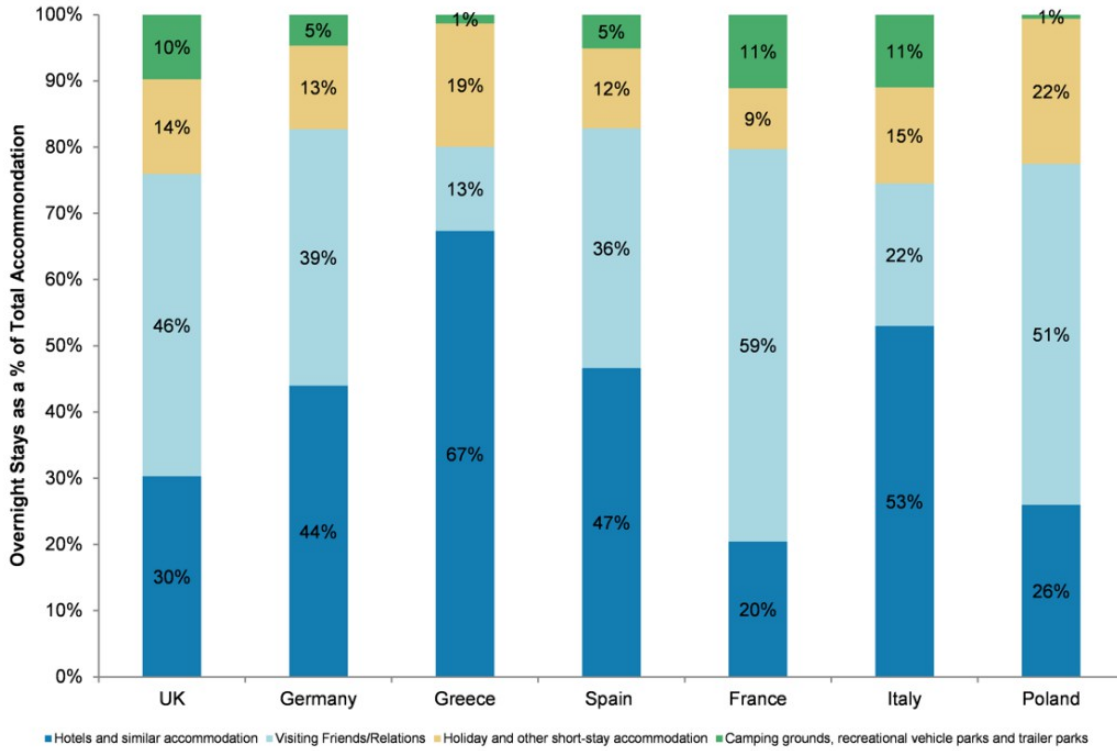


Source: AlphaWise, Morgan Stanley Research

This makes sense to us, as **there is little evidence in recent hotel data/earnings results of alternative accommodation channels having an impact on RevPAR** ("Revenue per Available Room"). US RevPAR grew by 8% in September and *STR* preliminary data suggests 5-7% in October, and by 4% in Europe and 6% in the UK in September (See [Exhibit 23](#)). Moreover, as we analyzed in our recent report, [Lodging: Is Airbnb's Impact on Hotels Being Overstated?](#) (22 Sep 2015), there have been twice as many compression nights (95%+ occupancy nights) year to date in Top 25 US lodging markets than in all of 2006 or 2007, before Airbnb was founded, and more than in 2013 or 2014 (annualized) when it was a smaller company, with the average rate premium still ~20%. In addition, we show in [Exhibit 21](#) that **hotels make up an average of only 40% of overnight accommodation in most markets**, which suggests that less than half of Airbnb demand is substitutable from hotels (and maybe much less if Airbnb creates demand).

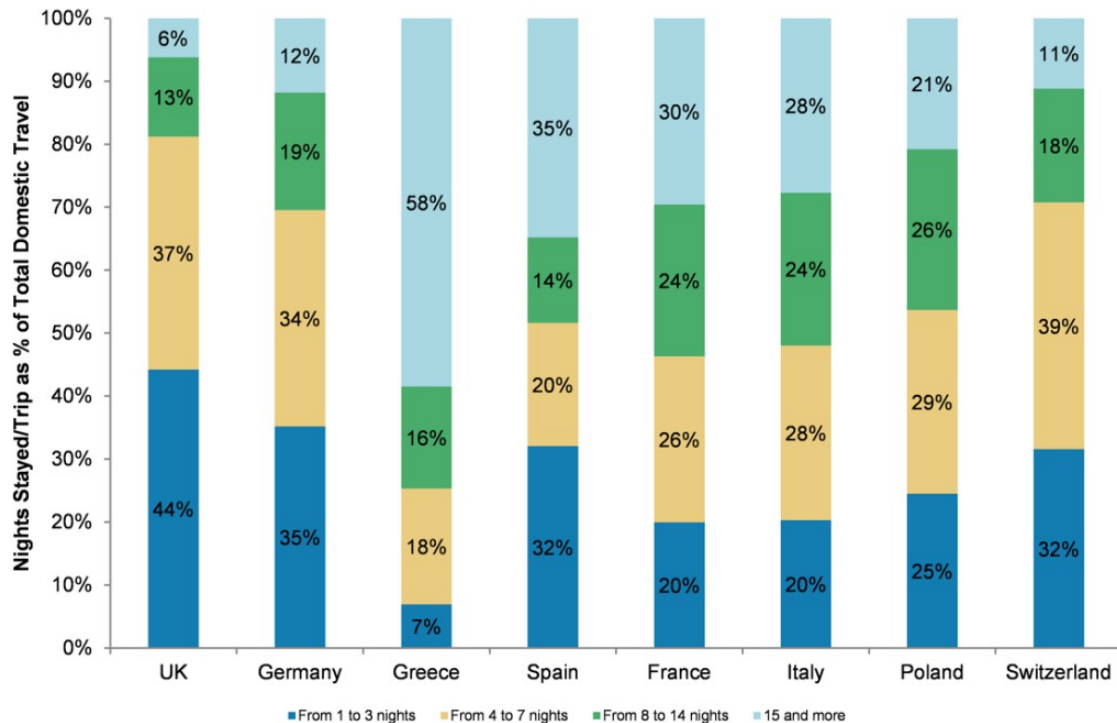


Exhibit 21: Hotels make up an average of ~40% overnight accommodation...



Source: Eurostat, Company Data, Morgan Stanley Research

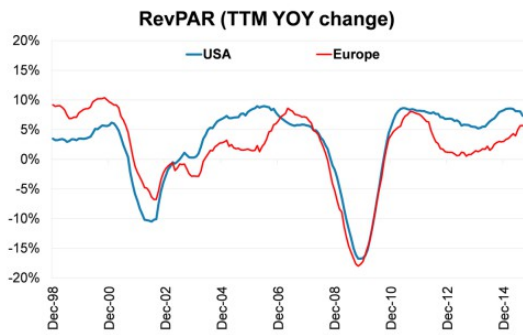
Exhibit 22: ...with 1-3 night stays averaging 30% of accommodation nights, which is where hotels are skewed the most



Source: Eurostat, Company Data, Morgan Stanley Research

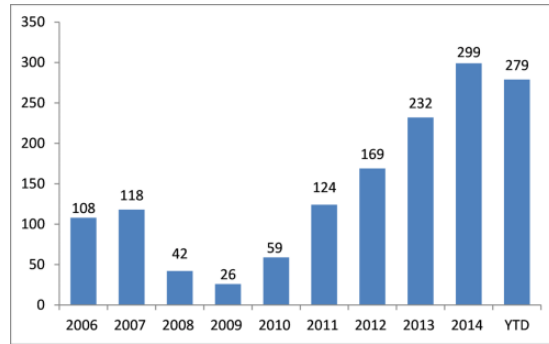


Exhibit 23: No sign of a slowdown in the US or European Hotel RevPAR figures



Source: STR, MKG. Note TTM is Trailing Twelve Months

Exhibit 24: Number of US Compression Nights in Top 25 Markets

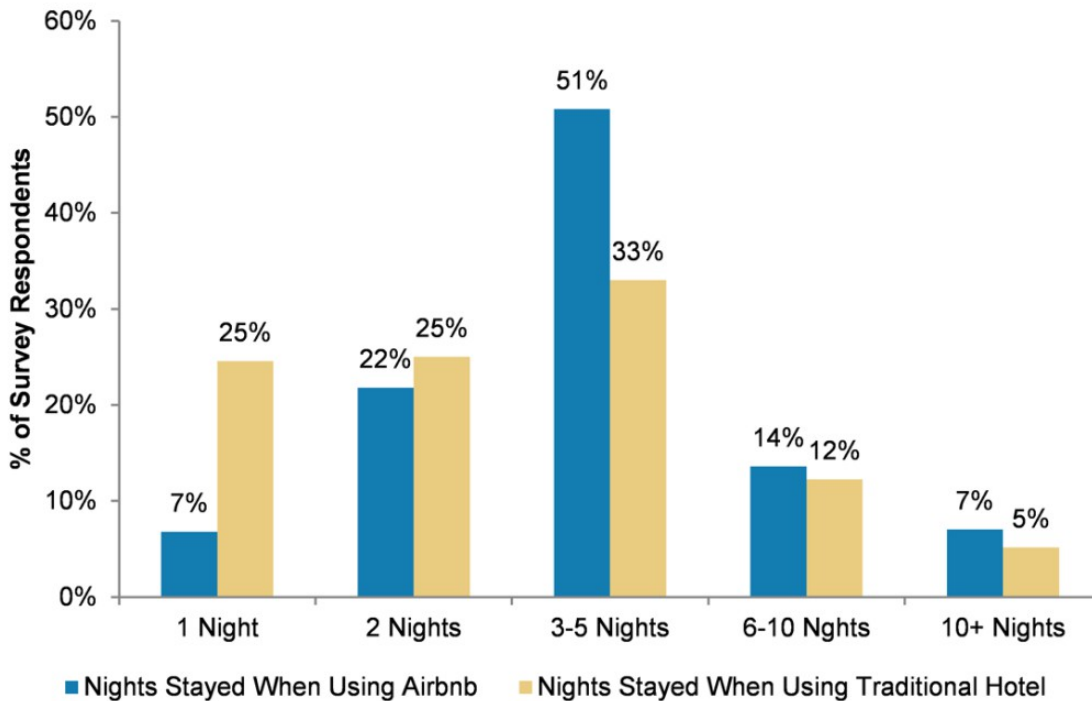


Source: STR. Note compression nights are periods of peak demand when market occupancies are >95%

Further, only 7% of Airbnb users stay for 1 night, which compares with 25% of hotel users (See [Exhibit 25](#)). This matches other data from Eurostat (See [Exhibit 22](#)) suggesting only 30% of overnight stays are for less than 3 nights. It is in this area that hotels play, but less so Airbnb, it seems. Hence, **Airbnb seems to be more focused on the non-hotel, leisure, longer duration stay segments than on the traditional hotel, and corporate single-night stay segment.** This is not to say the mix of Airbnb average length of stays won't (and can't) evolve over time, but, for now, we don't see a majority of their demand cannibalizing traditional hotels.

Exhibit 25: Airbnb is less focused on single night stays, which is where hoteliers are focused with their corporate demand

Question: When you booked on Airbnb/stayed at a traditional hotel, how many nights did you stay?



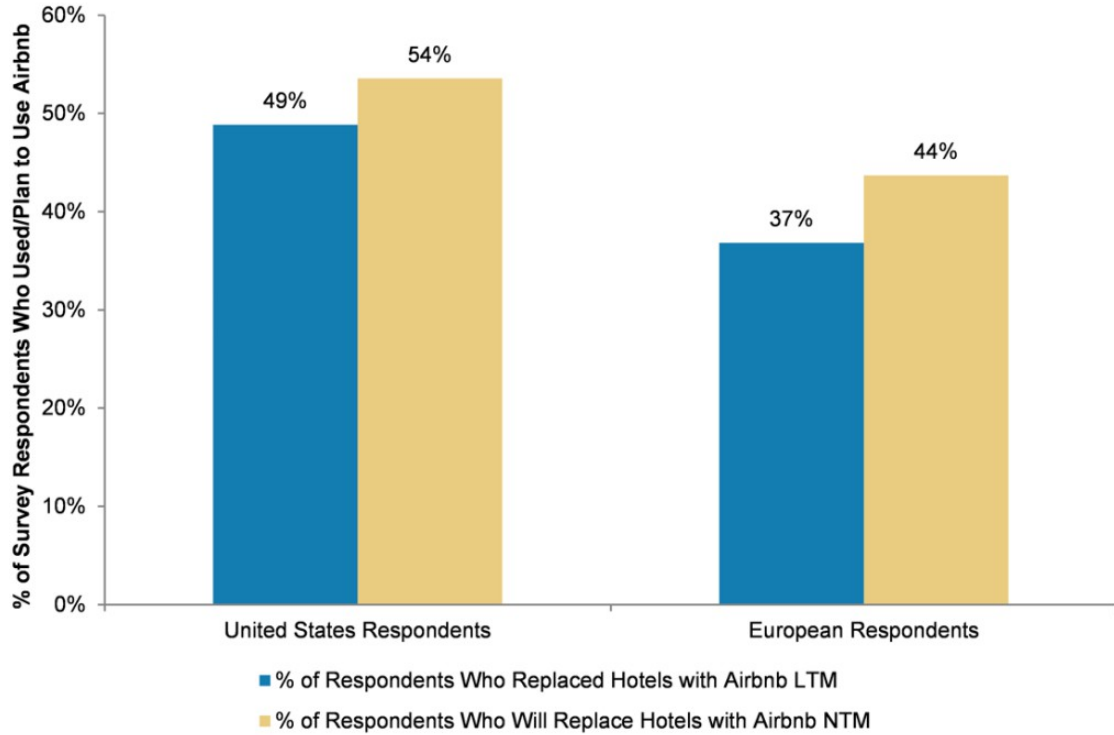
Source: AlphaWise, Morgan Stanley Research

It is notable that the branded hotel cannibalization was higher in the U.S than in Europe, with over 50% of U.S. Airbnb users expected to use Airbnb rather than a traditional hotel over the next 12 months (See [Exhibit 26](#)). That said, Airbnb cannibalization of bed and breakfast demand was higher in Europe, with 43% of European Airbnb users saying they intend to use Airbnb rather than staying at a bed and breakfast over the next



12 months (See [Exhibit 27](#)). This is not surprising given the differences in hotel room supply characteristics between the continents (with ~70% of U.S hotel inventory from chain hotels, compared to only ~30% of European hotel inventory from chains). At a higher level, these data again speak to how Airbnb demand is frequently – but not mostly, nor exclusively – coming at the expense of traditional accommodations providers.

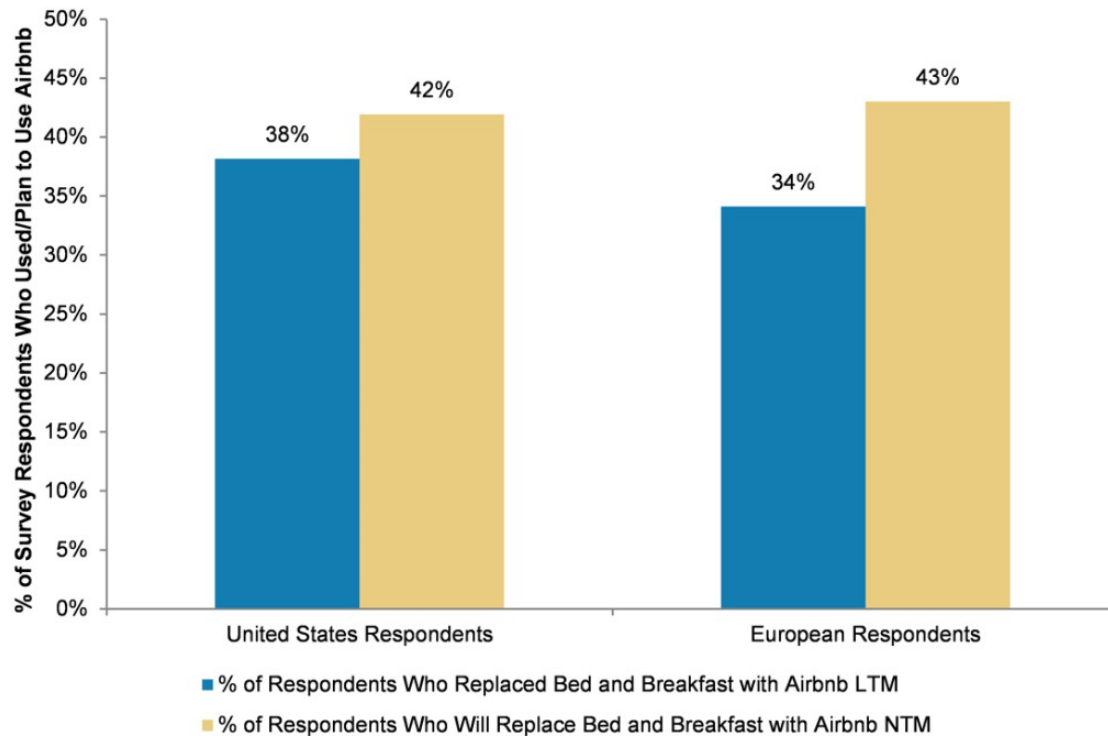
Exhibit 26: Nearly half of U.S. Airbnb users are using Airbnb rather than traditional hotels...



Source: AlphaWise, Morgan Stanley Research



Exhibit 27: ...while Airbnb cannibalization in Europe is having a larger impact on bed and breakfasts



Source: AlphaWise, Morgan Stanley Research

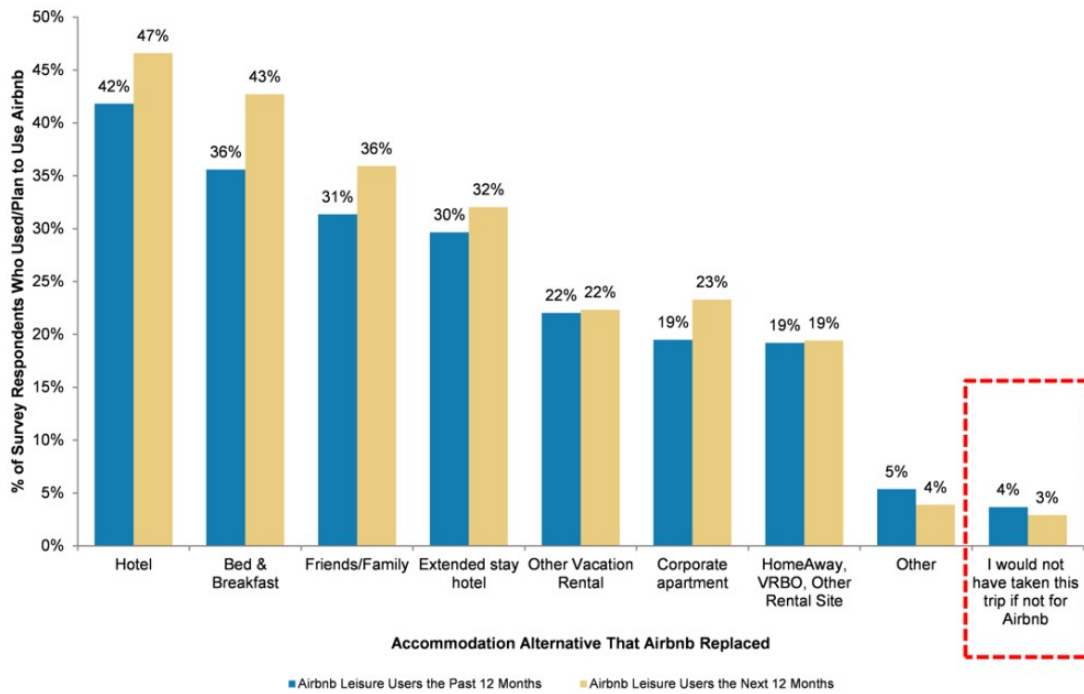
Airbnb Doesn't Seem to Be Creating Significant New Travel Demand

Our AlphaWise data (See [Exhibit 28](#)) also show that **the fully incremental Airbnb travel demand is limited, with only 4% of users saying they would not have taken the trip without Airbnb.** That said, one could argue that paying Airbnb travelers who are choosing to stay at an Airbnb unit rather than with friends & family (presumably free of charge) is one way Airbnb is growing the travel expenditure pie.



Exhibit 28: Only 4% of users say they would not have taken their trip without Airbnb

Question: You stated that you have used Airbnb in the past 12 months; which of the following accommodation alternatives did it replace? Select all that apply.



Source: AlphaWise, Morgan Stanley

Note too that **the cannibalization away from vacation rentals and HomeAway (for now) is only ~19%**. This marks a distinction between HomeAway and Airbnb's current offerings (i.e., type of inventory travelers are looking for, average length of stay, etc.). In our view, **this is a positive data point for HomeAway**. It will be important to monitor this over time as Airbnb (we believe) looks to grow into more locations (outside of the major cities) and as HomeAway works to increase its urban offerings (which it cited as one of the factors behind its pending sale to Expedia).



Key Debate #3: How Big a Competitive Threat is Airbnb to Hotels ?

Market View:

Airbnb is a material threat. Airbnb will gain most of its market share at the expense of traditional hotels. Further, since Airbnb is mainly used by college students and millennials, Airbnb's future impact could be materially larger as these users may stay with the "sharing economy" and therefore not book traditional hotel rooms as frequently as their current user base.

Our View:

Our survey data show that less than 50% of Airbnb demand is coming at the expense of traditional hotel demand. This, combined with the fact that only 7% of Airbnb users stay 1 night (vs 25% for traditional hotels), speaks to how Airbnb (for now) is primarily focused on non-hotel, leisure, longer-duration stays, rather than corporate single-night stay segments. The large hotels also over-index toward corporate demand (70% of bookings) which our AlphaWise data suggests will continue to be slower for Airbnb to penetrate given users' safety and privacy concerns, as well as the high importance corporate travelers place on amenities (business centers, restaurants, loyalty programs, etc.). As such, we expect Airbnb's impact on hotels to be limited, with long-term industry occupancy and RevPAR growth only impacted by 10bp and 50bp per annum in our Airbnb base case model.

Where We Could Be Wrong:

Increased Airbnb user frequency, Airbnb's ability to accelerate its penetration of the corporate travel market, or a cyclical leisure downturn is likely to negatively impact hotels more than we currently expect.

Sizing Airbnb's Addressable U.S. and European Markets

Using our AlphaWise survey data, we now turn to sizing the Airbnb opportunity...and potential competitive threat to the traditional hotel groups and online travel agencies. We start with the addressable user market. We acknowledge that Airbnb has a global presence, but given our survey is focused on the U.S. and Europe, we mainly focus on those regions. In all, we estimate that there are roughly 300mn people aged 18+ who travel across the U.S. and Europe and that roughly 44% of those people book accommodations online (based on comScore travel traffic data). In all, this implies a total Airbnb traveler addressable market of 40mn in the US and 93mn in Europe (or 133mn across the two continents).



Exhibit 29: Airbnb's Addressable U.S. and European Traveler Market

Airbnb Addressable Market (mn)	United States	Europe	Total
Total Population	320	738	1,058
<u>% of Population 18+</u>	<u>75%</u>	<u>75%</u>	<u>75%</u>
Population 18+	240	554	794
<u>% of Population Who Travels</u>	<u>38%</u>	<u>38%</u>	<u>38%</u>
18+ Population Who Travels	91	210	302
<u>% of Travelers Who Book Online</u>	<u>44%</u>	<u>44%</u>	<u>44%</u>
Airbnb Addressable User Market	40	93	133

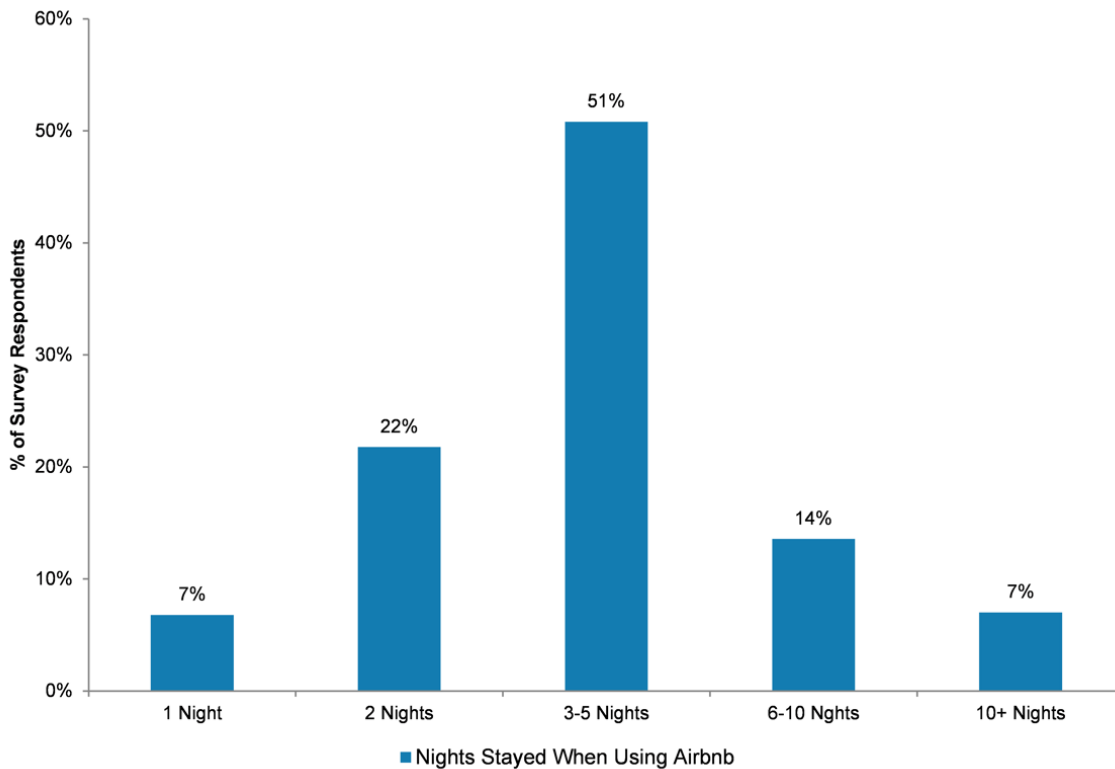
Source: Statista, Skift, Comscore, US Census Bureau, United Nations Population Division, AlphaWise, Morgan Stanley Research

We Expect Airbnb to Generate 64mn Room Nights in 2015 in the US and Europe...

Combining the 133mn addressable user pie, 12% Airbnb user penetration, and the average ~4 Airbnb nights booked per user per year, we arrive at a total estimated 64mn Airbnb room nights in 2015 (across the U.S. and Europe, see [Exhibit 31](#)). We note that in September 2015, press reports stated that Airbnb was on pace to "double its nightly bookings this year," growing to 80mn *global* room nights in 2015. We think our data is roughly consistent with these reports given our 64mn room night estimate only encompasses the U.S. and Europe...**implying Asia and Latin America will make up 16mn room nights... ~20% of Airbnb's total global business.** We believe this makes sense given Airbnb is still in the early innings of its expansion to Asia. This back of the envelope math compared to the press reported numbers and our survey data **give us increased confidence in the validity of our AlphaWise survey data.**

Exhibit 30: Airbnb users stay an average of ~4 nights per year

Question: When you booked on Airbnb, how many nights did you stay (over the last 12 months)?



Source: AlphaWise, Morgan Stanley Research



Exhibit 31: We estimate that Airbnb will generate ~64mn room nights in the US and Europe in 2015

2015E US & Europe Airbnb Room Night Calculation (mn)

Airbnb Addressable User Market	133
<u>Airbnb Penetration</u>	<u>12%</u>
Airbnb Users	16
<u>Airbnb Room Nights/User/Year</u>	<u>4</u>
Total Airbnb Room Nights	64

Source: AlphaWise, Morgan Stanley Research

What is Airbnb's Strategy in China?

Airbnb officially entered the Chinese market in August 2015. The company has created a localized platform and is focused on China's growing outbound travel demand. According to the company, outbound travel from Chinese guests through Airbnb has grown 700% in the past year, making it Airbnb's fastest growing outbound market. In addition to its focus on Chinese tourists traveling abroad, people in China are also starting to sign up to host international tourists and domestic travelers.

We believe Airbnb's impact on hotels in China will be limited in the near term. Luxury hotel operators we talked to in China believe Airbnb will not be a threat to high-end hotels, as they target different customer segments. This is substantiated by survey data from Penguin Intelligence (operated by Tencent.com), which indicates that only 2.5% of people are willing to pay more than Rmb500 per night for short-term vacation rentals, versus the average ADR of 5-star hotels in China of ~Rmb700. Economy hotel operators also believe that Airbnb will have a limited impact on their businesses in the near term, believing that Chinese people are less likely to rent to strangers, creating a further barrier for accommodation sharing models like Airbnb. In addition, the survey data from Penguin Intelligence show that over 45% of Chinese users will use short-term rentals for stays of at least 15 days, and only ~6% of them will consider short-term rentals for stays under 2 days, suggesting the short-term rental model is targeting different demand than traditional hotels. This is consistent with our AlphaWise findings in the U.S. and Europe.

We also believe safety and credit will be barriers to Airbnb's ability to grow in China. Unlike the U.S. and Europe, China does not have a personal credit system in place yet, which is likely to hinder the willingness from both property owners and users to use Airbnb's sharing model. We believe Airbnb is likely to face high regulatory hurdles in China too...similar to what Uber is facing now.

Airbnb also Faces Unique Competitors in China

Note too that China's short-term rental companies – like Tujia and Xiao Zhu Duan Zu – have different business models than Airbnb. These companies are adopting asset heavy strategies, collaborating with property developers and agents, and hiring people offline to perform sanitation work and cleaning. We believe the companies are doing this to meet the unique cultural differences and traveler demands in China. Speaking to the commonalities across the regions though, it is notable that only 85% of Tujia users are leisure travelers...again highlighting that these models over-index toward leisure demand and the higher hurdles in corporate travel.

...But How Many Users Could Airbnb Grow to and How Many Room Nights Would that Mean?

But that is only 2015. And the bigger question (for the hotel group and online travel agency earnings power and appropriate multiple) is: what happens over the next 5 years as Airbnb awareness and adoption potentially

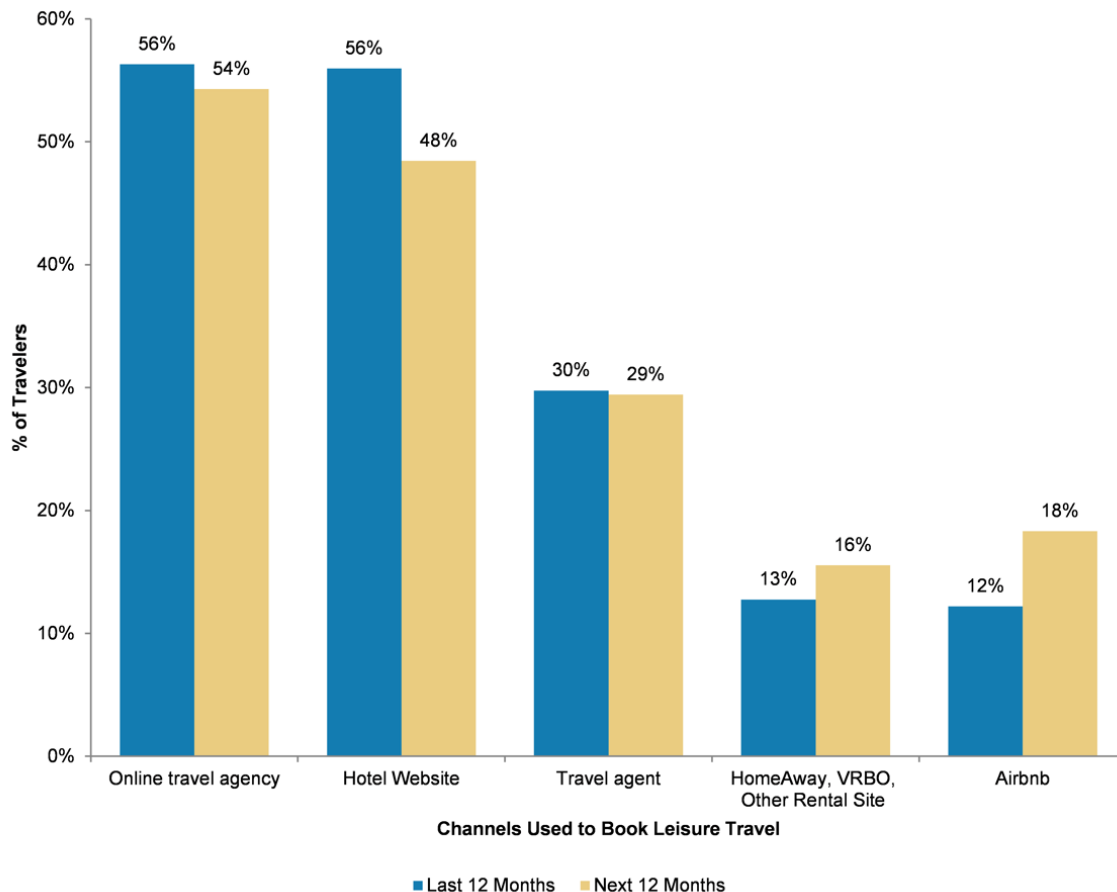


grow? **Airbnb's ability to grow its awareness and overcome safety and privacy concerns will be important in driving user adoption.** User adoption will drive room night growth, as will Airbnb's ability to grow share of travelers' wallets from the current 4 nights per user per year.

One way to analyze Airbnb's user opportunity is to look at the adoption of other major travel sites. As shown in **Exhibit 32**, our AlphaWise survey shows that **56% of people that travel use online travel agencies and hotels' websites**. This is 4.6x more than the 12% that are currently using Airbnb. We don't see Airbnb reaching this level of adoption (given the privacy concerns, safety issues, and differences in core product discussed above). That said, we see adoption rising over time. Looking at the data further, it is also **notable that HomeAway and other vacation rental sites (even after 10 years of HomeAway existence) only have 13% user penetration**. This, in our view, speaks to the potential "niche-ness" of the non-hotel accommodation space that could hold back Airbnb's user adoption.

Exhibit 32: Of the travelers in our survey, only 12% used Airbnb to book leisure travel in the last 12 months while 56% used OTAs or hotel websites

Question: Please indicate which of the following channels you have used/plan to use for booking your trip for when traveling for leisure/business in the following periods.



Source: AlphaWise, Morgan Stanley Research

Some Airbnb bulls may argue that Airbnb's "social nature" could make it into a "platform" story like Facebook or Twitter (with 82% and 24% Internet user penetration, respectively), **but we argue that travel sites (and their user bases) are more apples-to-apples comparisons based on Airbnb's business.** Airbnb is also a physical offering with an emotional attachment where the user is renting someone else's property/home...usually for at least several days. Stepping back, user penetration is probably never going to be as high for Airbnb as it is for short taxi rides with Uber, or for other lower-touch services like using social media.

A Path Toward ~250mn Total Room Nights in the U.S. and Europe



Incorporating a series of potential penetration curves and our room night per user data from our AlphaWise survey (See [Exhibit 33](#)), we lay out scenarios where Airbnb could generate anywhere from 81mn to 251mn room nights per year in the U.S. and Europe (the latter being our Airbnb bull case). At a higher level, this analysis shows that **if Airbnb can grow from 12% penetration of online travelers to 37% over the next 5 years, it would grow its U.S. and European room night base at a 31% CAGR from an estimated 64mn now to 251mn.**

Exhibit 33: Assuming a constant 4 room nights per user per year, Airbnb could grow to 3%-8% the size of the US and European room night demand

2020E US & EU Room Night Demand (mn)	3,224
2020E Addressable User Market (mn)	170

US & EU (mn)	Airbnb Penetration of Addressable Market				
	<u>12%</u>	<u>18%</u>	<u>25%</u>	<u>31%</u>	<u>37%</u>
2020 Airbnb Total Room Nights (mn)	81	124	166	209	251
% of 2020E US & EU Room Night Demand	3%	4%	5%	6%	8%

Source: AlphaWise, Morgan Stanley Research

Note that in the analysis above we are assuming that Airbnb's room nights per user per year stay at 4 , assuming gained wallet share from maturing users is offset by lower volume per user from new users as Airbnb moves down the adoption curve.

What does this mean for the traditional hotels?

~250mn of long-term Airbnb room nights may sound like big number, but (depending on the rate of hotel demand cannibalization) may not have a material impact on the traditional hotels.

We have built a model (fully detailed in the [Appendix](#)) using our current supply and demand for the combined U.S. and European hotel industries and incorporating different scenarios for Airbnb's user penetration and growth. We assume 42% cannibalization for all scenarios based on our AlphaWise survey results. The long-term (2015-2020) average annual impacts are summarized in [Exhibit 34](#). We note that the Airbnb "bull case" denotes the *worst* outcome for the hotels and the Airbnb "bear case" is the *best* outcome for hotels.


Exhibit 34: Airbnb 2020 Average Annual Bull/Bear/Base Scenario Analysis

Airbnb Scenario Analysis (mn, ex-per user data)	2015	2020		
		Bear	Base	Bull
Airbnb Addressable User Market	133	170	170	170
Airbnb User Penetration	12%	17%	27%	37%
Airbnb Room Nights Per User/Year	4	4	4	4
Airbnb Total Room Nights	64	115	183	251
Airbnb Hotel Cannibalization	42%	42%	42%	42%
Airbnb Room Nights as % of Traditional Hotel Demand	2%	4%	6%	8%
Airbnb Average Annualized Occupancy Impact on Hotels (2015-20)		-0.1%	-0.1%	-0.2%
Airbnb Average Annualized RevPAR Impact on Hotels (2015-20)		-0.2%	-0.5%	-0.7%

Source: Company data, Morgan Stanley Research

Getting into the details, our current forecasts call for a blended occupancy in the US and Europe of 67.6% in 2015, rising to 68.6% in 2016 and 69.1% in 2017. We see occupancy peaking in 2017 in the US and 2019 in Europe, so combined a peak in 2018. Assuming 4% room rate growth gives 5.4% RevPAR growth in 2016, 4.9% in 2017, 4.2% in 2018 and 4% thereafter.

Our base case is for Airbnb penetration to increase to 17% in 2016 (per our survey). As this would imply 5% higher penetration in 2016 (vs. 6% in 2015 as usage doubled), we assume the penetration growth decelerates every year but still grows to 27% in 2020. This implies 183mn room nights, up ~3x from 2015's 64mn level. This would mean hotel industry occupancy continues to grow, but at a slower rate, and peaks in 2017 rather than 2018 (so a year less of lodging stock outperformance but still a ways away). **Our Airbnb base case average annualized impact is 10bp off occupancy growth, and 50bp off RevPAR growth.** This is not immaterial, but would certainly be a much better outcome than many investors seem to expect. **By 2020 our Airbnb base case would yield a cumulative 70bp negative occupancy impact, with 250bps slower RevPAR growth in total.** The impact would be smaller still if we adjusted for Airbnb's lower corporate mix.

Our Airbnb bull case (37% penetration in 2020) would have a modestly larger impact on the hotel industry, with average annualized occupancy growth 20bps lower and annual RevPAR growth 70bps slower. This would likely be a more bearish outcome for the hotel group as a whole. Note that our analysis looks only at the impact of Airbnb – we have not assumed any changes in the hotel cycle beyond 2017 in order to isolate the Airbnb effect.

A more simplistic back of the envelope way of thinking about it. Airbnb is expected to grow from an estimated 40mn room nights in 2014 to an estimated 80mn this year. Let's say it doubles again, adding another 80mn room nights, and that 50% of those come from hotels, so 40mn additional hotel stock equivalent room nights. There are around 20mn hotel rooms globally, which at an occupancy of 65% is around 4.5bn room nights. Hence, this suggests Airbnb would take ~1% of total hotel demand away if it doubles over two years from here, or ~50bps off annual hotel occupancy, which is close to our bear case scenario.


Exhibit 35: Scenarios for hotel industry occupancy under Airbnb Bull/Bear/Base case

Hotel Industry Occupancy	2015E	2016E	2017E	2018E	2019E	2020E
Traditional model (pre-Airbnb)	67.6%	68.6%	69.1%	69.3%	69.3%	69.3%
Airbnb Bull Case	67.6%	68.4%	68.7%	68.6%	68.4%	68.2%
<i>Average annualized change from traditional model</i>	<i>0.0%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.2%</i>
<i>Cumulative change from traditional model</i>	<i>0.0%</i>	<i>-0.2%</i>	<i>-0.4%</i>	<i>-0.7%</i>	<i>-0.9%</i>	<i>-1.2%</i>
Airbnb Base Case	67.6%	68.4%	68.7%	68.7%	68.6%	68.6%
<i>Average annualized change from traditional model</i>	<i>0.0%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.1%</i>
<i>Cumulative change from traditional model</i>	<i>0.0%</i>	<i>-0.2%</i>	<i>-0.4%</i>	<i>-0.5%</i>	<i>-0.7%</i>	<i>-0.7%</i>
Airbnb Bear Case	67.6%	68.5%	69.0%	69.1%	69.0%	69.0%
<i>Average annualized change from traditional model</i>	<i>0.0%</i>	<i>-0.1%</i>	<i>-0.1%</i>	<i>-0.1%</i>	<i>-0.1%</i>	<i>-0.1%</i>
<i>Cumulative change from traditional model</i>	<i>0.0%</i>	<i>-0.1%</i>	<i>-0.1%</i>	<i>-0.2%</i>	<i>-0.3%</i>	<i>-0.3%</i>

Source: STR Global, MKG Group, Company data, Morgan Stanley Research

Exhibit 36: Scenarios for RevPAR growth under Airbnb Bull/Bear/Base case

RevPAR Growth	2015E	2016E	2017E	2018E	2019E	2020E
Traditional model (pre-Airbnb)	5.4%	5.4%	4.9%	4.2%	4.0%	4.0%
Airbnb Bull Case	5.4%	5.0%	4.3%	3.5%	3.2%	3.0%
<i>Average annualized change from traditional model</i>	<i>0.0%</i>	<i>-0.4%</i>	<i>-0.5%</i>	<i>-0.6%</i>	<i>-0.6%</i>	<i>-0.7%</i>
<i>Cumulative change from traditional model</i>	<i>0.0%</i>	<i>-0.4%</i>	<i>-1.0%</i>	<i>-1.7%</i>	<i>-2.6%</i>	<i>-3.6%</i>
Airbnb Base Case	5.4%	5.0%	4.4%	3.7%	3.5%	3.5%
<i>Average annualized change from traditional model</i>	<i>0.0%</i>	<i>-0.4%</i>	<i>-0.5%</i>	<i>-0.5%</i>	<i>-0.5%</i>	<i>-0.5%</i>
<i>Cumulative change from traditional model</i>	<i>0.0%</i>	<i>-0.4%</i>	<i>-0.9%</i>	<i>-1.5%</i>	<i>-2.0%</i>	<i>-2.5%</i>
Airbnb Bear Case	5.4%	5.3%	4.7%	4.0%	3.8%	3.8%
<i>Average annualized change from traditional model</i>	<i>0.0%</i>	<i>-0.1%</i>	<i>-0.1%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.2%</i>
<i>Cumulative change from traditional model</i>	<i>0.0%</i>	<i>-0.1%</i>	<i>-0.3%</i>	<i>-0.5%</i>	<i>-0.7%</i>	<i>-1.0%</i>

Source: STR Global, MKG Group, Company data, Morgan Stanley Research

The Hotel Groups' Corporate Business Shields them from Airbnb, to an Extent

The hotel cannibalization is admittedly an important factor in this model...and as such, it is **important to bear in mind that the traditional hotels – in our view – have a business mix that is relatively more shielded from Airbnb**. That is, the traditional hotels over-index toward corporate travel – roughly 70% of the groups' business is from corporate travel. And while 12% of business travelers in our survey have *tried* Airbnb, we still question the pace at which Airbnb will be able to ramp its corporate business given (we believe) the importance corporate travelers place on convenience, amenities, business centers, loyalty programs, etc. Hotel pricing may be impacted by Airbnb's material incremental supply creation (as detailed below) but, in general, **we don't believe Airbnb will be a direct material headwind to long-term hotel group demand unless 1) the company can overcome its privacy and safety concerns and drive faster user adoption or share of wallet growth and/or 2) Airbnb is able to materially penetrate the corporate travel business.**

Increased Airbnb User Frequency Will be Important to Monitor

While the scenarios above assume room nights per user per year remain steady at 4, it is notable that if Airbnb can increase its user adoption while also *materially* growing its share of wallet (more room nights per user per year), its disruptive impact would likely be larger. Indeed, as shown in the sensitivity table below (See [Exhibit 37](#)), Airbnb could grow to anywhere from ~180mn-460mn room nights in the U.S. and Europe over time if frequency picks up, assuming a base case 27% Airbnb penetration. Given Airbnb's 90%+ user satisfaction, this is indeed a trend worth monitoring.



Exhibit 37: If Airbnb can increase user adoption to 27% while also growing its wallet share from 4 rooms per user per year to 10 room nights, Airbnb could grow total room nights from 183mn to 458mn in the US and EU

Addressable User Market 2020 (mn)	170
2020E US & EU Hotel Demand	3,224

2020 Airbnb Total Room Night Sensitivity (mn)

		Airbnb Penetration of Travelers Who Book Online		
		17% Bear	27% Base	37% Bull
Room Nights/User/Year	2	58	92	126
	4	115	183	251
	6	173	275	377
	8	231	367	502
	10	289	458	628

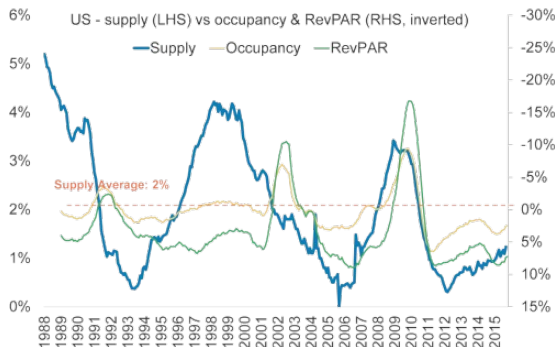
Source: STR Global, MKG Group, Morgan Stanley Research

When should the hotels get worried about incremental supply from Airbnb ?

Supply growth over 2% is a trigger point for Hotels. Our charts show the relationship between supply growth (LHS) and occupancy and RevPAR performance (RHS, inverted). Although looking at the relationship between supply and occupancy in this way fails to fully account for changes in demand (the 2008 recession being a notable example), **it is still possible to see the effect on occupancy when supply growth ranges above and below its long-term average.** In the US example ([Exhibit 38](#)), the decrease in supply growth in 1990-91 correlates with a positive trend in occupancy and RevPAR growth. Similarly, the fall in supply growth from around 3-4% to between 0-2% in 2002-08 and 2011-15 have been accompanied by favorable occupancy and RevPAR growth rates. In the UK example ([Exhibit 39](#)), occupancy declined between 2007-09 when supply was between 2-2.5% and in 2011-12 when supply growth ranged from 2-2.5%. **The post-recession fall in supply growth below 2% from 2012-15 has supported consistent occupancy and RevPAR growth.**

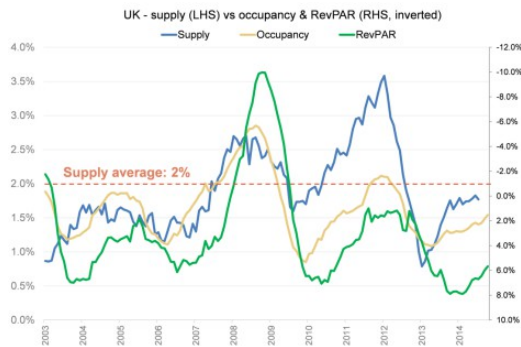


Exhibit 38: Occupancy and RevPAR growth rates are stronger when supply growth is below its historical average – the US



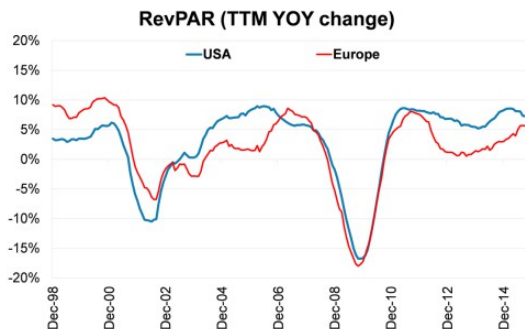
Source: STR Global, Company data, Morgan Stanley Research

Exhibit 39: Occupancy and RevPAR growth rates are stronger when supply growth is below its historical average – the UK



Source: STR Global, Company data, Morgan Stanley Research

Exhibit 40: No sign of a slowdown in the US or European Hotel RevPAR figures



Source: STR Global, MKG Group. Note TTM is Trailing Twelve Months

Bear in mind, Airbnb has *already* added supply to the hotel ecosystem. Indeed, the company already has 2mn+ global listings. If 80% of those are in the U.S. and Europe (consistent with demand) and the average listing is available even only 25 nights per year (which may be conservative) it would already be adding almost 90bp to total supply growth (See [Exhibit 41](#)). However, if only 40% come at the expense of hotels, this is more like ~35bps to supply growth.

Exhibit 41: Airbnb is already adding ~90bp to total supply growth

Airbnb Impact on Hotel Supply (mn)	2015E
Airbnb Listings (mn)	2
<i>% in US and Europe</i>	<i>80%</i>
US and Europe Listings	1.6
Nights per Listing	25
Incremental Supply	40
U.S and Europe Room Nights Supply (ex-Airbnb)	4,238
Airbnb Impact on Supply	0.9%

Source: STR Global, MKG Group, Company data, Morgan Stanley Research

But remember that this supply growth has already come into the hotel ecosystem...with (in our view) minimal impact on hotel performance. As a result, the Airbnb demand trends (and what demand they are cannibalizing) will still be more important to monitor.

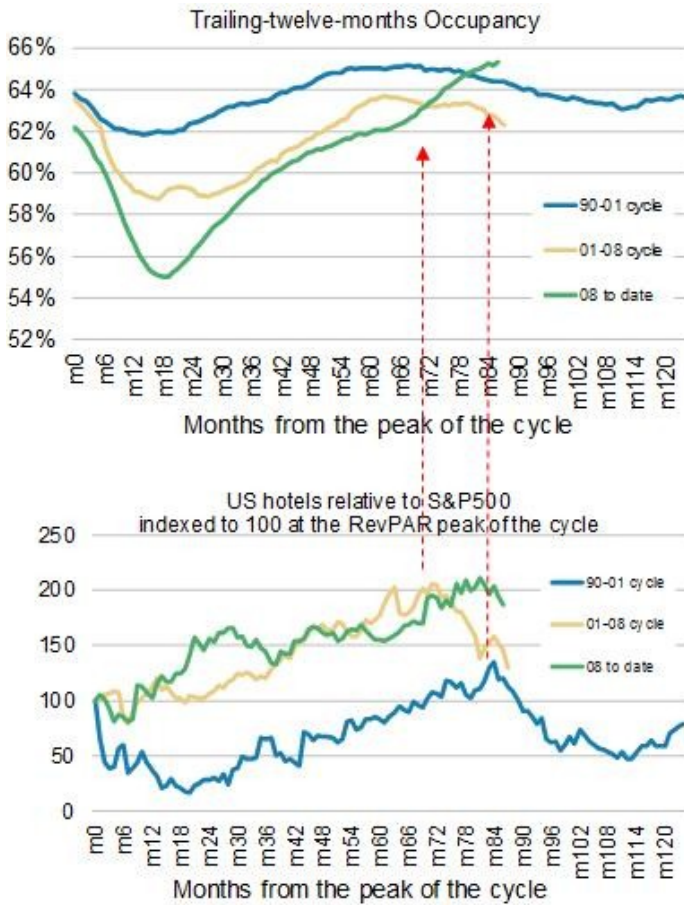
Occupancy growth key for hotel share price performance. Demand and occupancy are indeed the critical factor for hotel stocks. Hotel stocks have outperformed the S&P 500 in 7 of the last 10 years...tending to trade on peak multiples on peak earnings, and so tending to outperform while occupancy is rising. We have looked at US hotel performance relative to the S&P 500 and found that in

the 1990's cycle, lodging stocks peaked 15 months after occupancy had peaked, and in the 2000's cycle this was 8 months. This is on a trailing 12-month basis, meaning there are an additional 6 months between when we actually start seeing occupancy declines in the monthly data. **We have not seen any occupancy declines yet.**



Once we do start seeing them (at the earliest 12-18 months away, we think), then it could still be a year until we start to see stocks underperform. We therefore think hotel stocks have at least another two years of outperformance to come. We have also found that US stocks tend to outperform when RevPAR accelerates, which happened in 2014. US occupancy has just reached 65.0%, above the peaks of the last two hotel cycles. However, we think historical occupancy peaks are not necessarily caps in today's environment, as supply growth is still very low by historical standards (1.0% LTM versus 3-4% when occupancy peaked in previous cycles), demand is also growing by 4%, so well above supply growth, and US occupancy rates are much lower than other developed markets. We therefore think occupancy can continue to grow for two more years, suggesting hotel stocks can still perform.

Exhibit 42: Hotel stocks tend to outperform when occupancy is rising, and underperform around 12 months after occupancy peaks. In this cycle, occupancy is above the last two cycles but continues to grow



Source: Company data, Morgan Stanley Research

Could Airbnb actually be a benefit for hotels?

While most investors we speak with view Airbnb as a competitive threat to hotels, we argue that there are scenarios in which Airbnb could actually benefit the hotel industry. We can see three possible gains that could offset some or all of the headwinds we detailed above.

1. Airbnb could allow hotels to list on its site, which could bring down hotel distribution (OTA) commission rates. Currently, the large listed hotel operators sell 5-15% of their inventory through OTAs for commission rates that we estimate are in the 12-18% range. If Airbnb sold hotels on its site, it would arguably have a superior consumer platform than the OTAs...offering both its unique non-hotel inventory as well as standard hotel inventory. As we see in other e-commerce businesses (like Priceline and Amazon, among others), more selection often leads to higher traffic conversion, so this could theoretically increase Airbnb's user monetization as well. For the hotels, Airbnb's standard 3% host fee would represent a material savings on traffic and customer acquisition costs and give the hotels more bargaining leverage over the online travel agencies.



2. Airbnb is highlighting many of the services that hotels offer but are perhaps taken for granted by travelers. Hotels have to abide by health and safety regulations covering everything from fire protection (sprinkler systems, fire exits, extinguishers, fire resistant furnishings, etc) to security (CCTV, electronic door locks). They also tend to offer trained hospitality staff, have strict cleaning requirements for the bedrooms, and many offer lobbies, bars, restaurants, and health facilities. Many offer loyalty schemes. While staying in someone's home may have the advantage of a more "authentic" local experience, hotels do offer many amenities that Airbnb hosts may find hard to replicate.

3. Airbnb could be increasing the overall travel market. While only 4% of our AlphaWise survey users said they would not have taken the trip without Airbnb, one could argue that paying Airbnb travelers who are choosing to stay at an Airbnb unit rather than with the 31% who said they would have stayed with friends and family (presumably free of charge) is one way Airbnb is growing the travel expenditure pie. Indeed, in response to a recent report on Airbnb's impact on New York City hotels, Airbnb's spokesman said it was based on the false assumption that its guests would have otherwise stayed in a hotel room: "In fact, without Airbnb many of these travelers wouldn't be able to visit New York City at all or would have cut their trip short." (Bloomberg News, 10/30/2015).



Key Debate #4: How Big a Competitive Threat is Airbnb to OTAs?

Market View:

Airbnb is not going to negatively impact the OTAs. Airbnb is largely creating incremental travel demand and expanding the online travel addressable market. If anything, Airbnb will be a larger competitive threat to the traditional hotels than the OTAs. This could lead to a weaker hotel industry which would be positive for the OTAs (as hotels would become more reliant on OTAs to fill their room nights).

Our View:

Airbnb's competitive threat to the OTAs is larger than that faced by hotels. First, the more hotel demand Airbnb cannibalizes – impacting occupancy and RevPAR – the harder it will be on the OTAs. Second, the fact that the OTAs over-index toward leisure (80%+ of Expedia/Priceline bookings from leisure demand) puts them in more direct competition with Airbnb. Airbnb's cannibalization of non-hotel categories – like bed and breakfasts and vacation rentals – further impacts OTA demand.

The OTAs have posted strong room night growth in 2015 even as Airbnb has ramped, but longer-term we see these players competing more directly for online travelers' wallets. Indeed, even if only 20% of Airbnb's long-term (2020) room nights come at the expense of OTAs it would lead to a 7% downward revision to our long-term OTA room night forecasts.

We see further long-term OTA risk if Airbnb ever decides to allow the traditional hotels to list on its site.

Where We Could Be Wrong:

The overall online travel pie could grow faster over the long-term and the OTAs may not compete with Airbnb. In addition, both Priceline and Expedia have been building out their inventory of "non-hotel" accommodations (bed & breakfasts, chalets, apartments, etc). Priceline has been adding non-hotel inventory to its Booking.com site and has created a stand-alone site (Villas.com) for booking non-hotel accommodations. Expedia has recently announced its intention to purchase HomeAway, one of the largest global platforms for finding and booking vacation rental properties. This greater diversification makes the OTAs stronger competitors against Airbnb.

We See Airbnb as a Bigger Competitive Threat to the OTAs than the Hotels

Airbnb's competitive threat to the OTAs is multifaceted. First, as with the hotels, **Airbnb's competitive threat to the online travel agencies will be dependent on Airbnb's user penetration and frequency of use** (See [Exhibit 37](#)). The more hotel demand Airbnb cannibalizes – impacting occupancy and RevPAR – the harder it will be on the OTAs given their dependency on a strong hotel market for growth (See [Exhibit 43](#) and [Exhibit 44](#)).


Exhibit 43: Scenarios for hotel industry occupancy under Airbnb Bull/Bear/Base case

Hotel Industry Occupancy	2015E	2016E	2017E	2018E	2019E	2020E
Traditional model (pre-Airbnb)	67.6%	68.6%	69.1%	69.3%	69.3%	69.3%
Airbnb Bull Case	67.6%	68.4%	68.7%	68.6%	68.4%	68.2%
<i>Average annualized change from traditional model</i>	<i>0.0%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.2%</i>
<i>Cumulative change from traditional model</i>	<i>0.0%</i>	<i>-0.2%</i>	<i>-0.4%</i>	<i>-0.7%</i>	<i>-0.9%</i>	<i>-1.2%</i>
Airbnb Base Case	67.6%	68.4%	68.7%	68.7%	68.6%	68.6%
<i>Average annualized change from traditional model</i>	<i>0.0%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.1%</i>
<i>Cumulative change from traditional model</i>	<i>0.0%</i>	<i>-0.2%</i>	<i>-0.4%</i>	<i>-0.5%</i>	<i>-0.7%</i>	<i>-0.7%</i>
Airbnb Bear Case	67.6%	68.5%	69.0%	69.1%	69.0%	69.0%
<i>Average annualized change from traditional model</i>	<i>0.0%</i>	<i>-0.1%</i>	<i>-0.1%</i>	<i>-0.1%</i>	<i>-0.1%</i>	<i>-0.1%</i>
<i>Cumulative change from traditional model</i>	<i>0.0%</i>	<i>-0.1%</i>	<i>-0.1%</i>	<i>-0.2%</i>	<i>-0.3%</i>	<i>-0.3%</i>

Source: STR Global, MKG Group, Company data, Morgan Stanley Research

Exhibit 44: Scenarios for RevPAR growth under Airbnb Bull/Bear/Base case

RevPAR Growth	2015E	2016E	2017E	2018E	2019E	2020E
Traditional model (pre-Airbnb)	5.4%	5.4%	4.9%	4.2%	4.0%	4.0%
Airbnb Bull Case	5.4%	5.0%	4.3%	3.5%	3.2%	3.0%
<i>Average annualized change from traditional model</i>	<i>0.0%</i>	<i>-0.4%</i>	<i>-0.5%</i>	<i>-0.6%</i>	<i>-0.6%</i>	<i>-0.7%</i>
<i>Cumulative change from traditional model</i>	<i>0.0%</i>	<i>-0.4%</i>	<i>-1.0%</i>	<i>-1.7%</i>	<i>-2.6%</i>	<i>-3.6%</i>
Airbnb Base Case	5.4%	5.0%	4.4%	3.7%	3.5%	3.5%
<i>Average annualized change from traditional model</i>	<i>0.0%</i>	<i>-0.4%</i>	<i>-0.5%</i>	<i>-0.5%</i>	<i>-0.5%</i>	<i>-0.5%</i>
<i>Cumulative change from traditional model</i>	<i>0.0%</i>	<i>-0.4%</i>	<i>-0.9%</i>	<i>-1.5%</i>	<i>-2.0%</i>	<i>-2.5%</i>
Airbnb Bear Case	5.4%	5.3%	4.7%	4.0%	3.8%	3.8%
<i>Average annualized change from traditional model</i>	<i>0.0%</i>	<i>-0.1%</i>	<i>-0.1%</i>	<i>-0.2%</i>	<i>-0.2%</i>	<i>-0.2%</i>
<i>Cumulative change from traditional model</i>	<i>0.0%</i>	<i>-0.1%</i>	<i>-0.3%</i>	<i>-0.5%</i>	<i>-0.7%</i>	<i>-1.0%</i>

Source: STR Global, MKG Group, Company data, Morgan Stanley Research

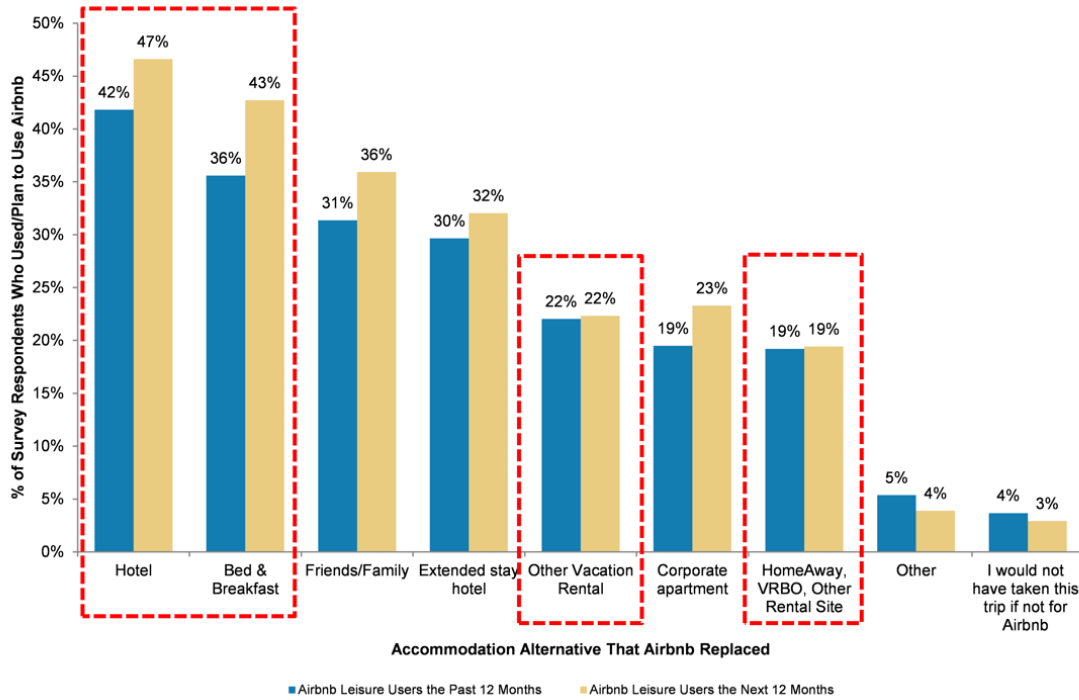
OTA bulls may counter that a weaker hotel industry (because of Airbnb) would be positive for the OTAs as hotels would become more reliant on OTAs and – as we have seen in other cyclical downturns – give them more rooms at lower commission rates. **We don't necessarily believe this would be the case** as this assumes 1) the OTAs are able to give the hotels the demand they need (i.e., that they are not being cannibalized by Airbnb) and 2) that Airbnb does not allow the hotels to list their properties on the site.

In addition, we believe that **Airbnb's demand cannibalization risk to OTAs is likely higher** than that of the traditional hotels given 1) the OTAs have a heavier mix of leisure business (we estimate 80%+ of Expedia and Priceline's total bookings are leisure) and 2) the OTAs serve multiple categories of accommodations – hotels, bed and breakfasts, vacation rentals, etc. – that Airbnb is cannibalizing (See [Exhibit 45](#)). This is particularly true for Priceline and its core Booking.com business (especially in Europe).



Exhibit 45: The OTAs serve multiple categories that Airbnb is cannibalizing

Question: You stated that you have used Airbnb in the past 12 months; which of the following accommodation alternatives did it replace?



Source: AlphaWise, Morgan Stanley Research

Speaking to limits on the pace of incremental online penetration, for demonstrative purposes, in [Exhibit 46](#) we show a bottom up US and European room night demand model. As shown, **if we hold our current OTA forecasts constant and we assume 50% of Airbnb's demand is cannibalistic away from OTA demand, "brand.com" (hotel websites) plus smaller OTAs will fall from 22% of online leisure demand to 7%.** This seems draconian for brand.com and it seems logical to us that the OTAs will likely feel some impact as well.



Exhibit 46: For now, we are assuming Airbnb's gains come at the expense of brand.com and smaller OTAs...

US/Europe Room Night Model	2014	2015E	2016E	2017E	2018E	2019E	2020E	14-17E CAGR	17E-20E CAGR
Total Room Night Demand (mn)	2,796.2	2,866.1	2,934.9	2,999.4	3,068.4	3,145.1	3,223.8	2.4%	2.4%
Total Leisure Demand (mn)	1,288.0	1,320.2	1,351.9	1,381.6	1,413.4	1,448.8	1,485.0		
% of Total Demand	46.1%	46.1%	46.1%	46.1%	46.1%	46.1%	46.1%		
Total Business Demand (mn)	1,508.2	1,545.9	1,583.0	1,617.8	1,655.0	1,696.4	1,738.8		
% of Total Demand	53.9%	53.9%	53.9%	53.9%	53.9%	53.9%	53.9%		
Total Online Penetration	34.2%	36.7%	39.0%	41.1%	43.1%	44.9%	46.6%		
YoY change in bp		250bp	225bp	210bp	200bp	180bp	170bp		
Online Room Night Demand									
Leisure Online	440.9	485.0	527.0	567.6	609.0	650.3	691.8		
Business Online	516.3	567.9	617.1	664.7	713.0	761.4	810.0		
Total Online Room Night Demand	957.2	1,052.8	1,144.1	1,232.3	1,322.0	1,411.7	1,501.8	8.8%	6.8%
Online Room Nights (US + Europe)									
Priceline	212.7	242.8	273.3	302.2	329.7	355.6	380.0	12.4%	7.9%
Expedia	149.2	192.3	233.6	262.2	285.0	305.7	323.4	20.7%	7.2%
Airbnb*	15.6	31.9	47.5	61.6	73.9	84.1	91.7	58.1%	14.2%
Brand.com/Other OTAs	579.8	585.8	589.8	606.2	633.3	666.3	706.7	1.5%	5.2%
Total Online Room Nights	957.2	1,052.8	1,144.1	1,232.3	1,322.0	1,411.7	1,501.8	8.8%	6.8%
Online Leisure Penetration**									
Priceline	39%	40%	41%	43%	43%	44%	44%		
Expedia	27%	32%	35%	37%	37%	38%	37%		
Airbnb	3%	6%	8%	10%	11%	12%	12%		
Brand.com/Other OTAs	31%	22%	15%	11%	8%	7%	7%		
Total Online Penetration	100%	100%	100%	100%	100%	100%	100%		

*assume 50% of Airbnb's demand is substitutive away from online demand

**assume Priceline / Expedia / Airbnb room nights are 80% / 80% / 90% leisure

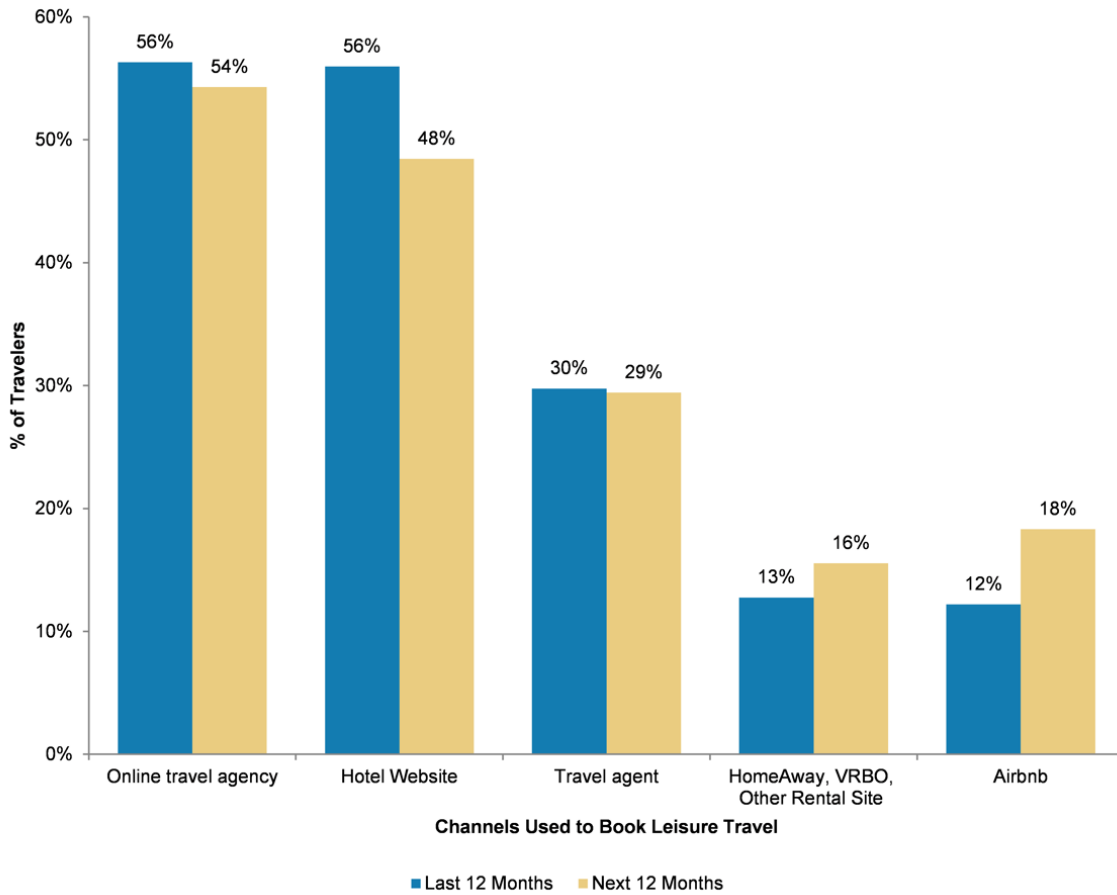
Source: PhoCusWright, MKG Group, STR Global, Company data, Morgan Stanley Research

Our AlphaWise survey data indicate you are starting to see some movement away from the OTAs and brand.com (see [Exhibit 47](#)), which would be consistent with this trend. **So while we are not cutting our long-term OTA forecasts now, we are closely monitoring other data points on substitution and where demand is coming from.**



Exhibit 47: The travelers in our survey indicated they plan to decrease their use of OTAs and hotel websites over the next 12 months...and increase their use of Airbnb

Question: Please indicate which of the following channels you have used/plan to use for booking your trip for when traveling for leisure/business in the following periods.



Source: AlphaWise, Morgan Stanley Research

Looking at things another way, in **Exhibit 48**, if we assume that 20% of our 183mn 2020 base case Airbnb room nights come at the expense of OTAs, it would shave off 7% of our estimated long-term (2020) total OTA leisure demand in the U.S. and Europe. This cannibalization factor may be conservative...and if 40% of Airbnb long-term demand comes at the expense of OTAs, it would reduce total demand by 13%. **These data, in our view, speak to the higher cannibalization risk the OTAs face from Airbnb...which leaves us cautious on the group.**



Exhibit 48: If 20% of our long-term Airbnb base case room nights (in US and Europe) come at the expense of OTAs, it would reduce our total OTA leisure demand estimates by 7%

Base Case 2020E Airbnb Room Nights, US and EU (mn)	183
OTA 2020E Leisure Room Nights, US and EU (mn)	563

US & EU (mn)	Airbnb Cannibalization of OTA Demand				
	<u>10%</u>	<u>20%</u>	<u>30%</u>	<u>40%</u>	<u>50%</u>
Leisure Room Nights Cannibalized by Airbnb	18	37	55	73	92
% of OTA Demand	3%	7%	10%	13%	16%

Source: STR Global, MKG Group, Company data, Morgan Stanley Research

What if Airbnb Allows the Hotels on its Platform?

In addition, we believe that **if Airbnb ever begins allowing hotels to list their inventory on its site, it will be an incremental negative for OTAs**...as Airbnb would offer a lower cost, rapidly-growing distribution alternative. As shown in [Exhibit 49](#), Airbnb's current 3% host commission rate is 9-15% less than Expedia and Priceline. This means that even if Airbnb tripled its commission rate for hotels (going from 3% to 9%) it would create a new channel that is 3-9% less expensive than the OTAs. In addition, if Airbnb charged the hotels a higher fee than it does other properties, it would give the company more flexibility to reduce its current consumer booking fees (ranging from 6%-12%) which, in our view, would likely be required if the company hopes to encourage consumers to book standard hotels (available to book without a consumer fee elsewhere).

For Airbnb, adding hotels to its platform would be a positive, as it would lead to increased selection (across multiple types of inventory), make Airbnb into more of a full-service online travel platform...and likely lead to higher user conversion and user monetization (as we see with other industry players like Priceline, Expedia and Amazon). The online travel pie is only so large and, just as we are seeing Expedia and Priceline diversify into new accommodation categories (like vacation rentals), over time, we expect to see Airbnb offer hotels and other unique offerings (like the recently announced "Airbnb Experiences") that will bring them into more direct competition with the OTAs .

Exhibit 49: OTA property commission rates are 9-15% more expensive than Airbnb's

2015 OTAs vs. Airbnb	OTA		Airbnb	
	<u>LTM</u>	<u>NTM</u>	<u>LTM</u>	<u>NTM</u>
User Penetration	56%	54%	12%	18%
Property Commissions	12%-18%	12%-18%	3%	3%

Source: Company data, Morgan Stanley Research

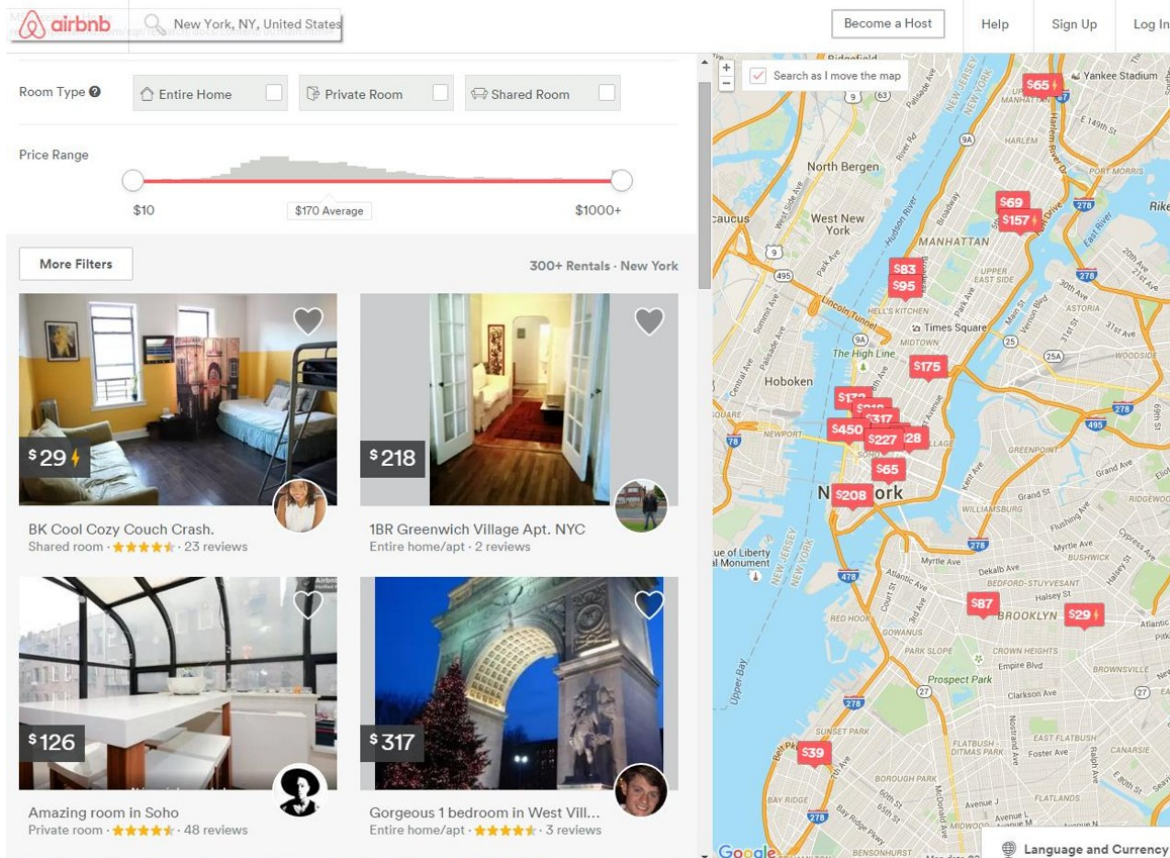


What is Airbnb?

What is Airbnb?

Founded in August 2008 and based in San Francisco, California, Airbnb is an online marketplace for people to list, discover, and book unique accommodations around the world. Airbnb offers more than 2 million accommodations in more than 34,000 cities and 190 countries. Airbnb is privately owned, and according to press reports, was most recently valued at \$25.5bn (The Wall Street Journal, 6/26/2015).

Exhibit 50: Screenshot of Airbnb website interface



Source: Airbnb.com

How does Airbnb make money?

Airbnb charges two separate fees: a host service fee and a guest service fee.

Airbnb charges hosts a 3% host service fee every time a booking is completed on Airbnb's online platform, based on the complete price of a reservation before any other fees have been added.

Airbnb charges guests a 6%-12% guest service fee every time a booking is completed on Airbnb's online platform, based on the complete price of a reservation before any other fees have been added. The exact percentage is determined by the size of the reservation, and declines on a sliding scale from 12% to 6% as the reservation cost increases.

Who competes with Airbnb?



Airbnb competes with most accommodation/lodging providers such as traditional hotels and motels, extended stay hotels, online travel agencies (OTAs), bed & breakfasts, and vacation rentals.

What differentiates Airbnb from competitors? Unique selection: One of Airbnb's main differentiating factors vs. competitors is its unique and broad selection of accommodation properties. Airbnb inventory ranges from the standard (entire apartments, entire homes, entire vacation rental property), to the extravagant (multi-million dollar mansion), to the most basic (a single room or a couch within a single room in an apartment).

Authentic experience: A key value proposition is the opportunity to have a travel experience that is more unique and culturally immersive than staying at a chain hotel. For example, an Airbnb user could visit a foreign country and stay in a local resident's home.

Low prices: Airbnb's average price per room night (\$100) is cheaper than the hotel average (\$115 in the U.S.).

What are the key controversies around Airbnb?

Rental regulations: In some U.S. states and international regions, it is illegal to rent out one's home/apartment on Airbnb. This could be a limiting factor on Airbnb's supply growth.

Safety: Airbnb is a marketplace that connects hosts and guests, and as such, disclaims liability for the conduct of individual hosts and the activities that occur at their properties. In contrast, hotels are subject to stricter safety regulations (i.e., required to have smoke/fire alarms) and are liable for the well-being of their guests.

Consistency: Airbnb is unique by design. Therefore, guests must rely on the description and pictures on the host's listing page for details about the property (size, amenities, cleanliness, noise level, etc.)...and they may not be exactly as advertised. Hotels offer more predictability and certainty.

Convenience: Renting on Airbnb can be a less convenient travel experience than staying at a hotel, from the logistics of the host/guest room key exchange to the absence of a concierge or front desk.

Reliability: Airbnb hosts can cancel a guest's reservation after it is confirmed.



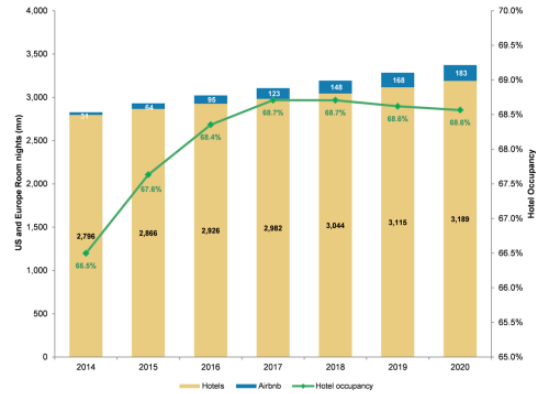
Appendix

Exhibit 51: Our Bear case scenario is that Airbnb gets to 115mn room nights in the US and EU in 2020



Source: Company data, Morgan Stanley Research

Exhibit 52: Our Base case scenario is that Airbnb gets to 183mn room nights in the US and EU in 2020



Source: Company data, Morgan Stanley Research

Exhibit 53: Our Bull case scenario is that Airbnb gets to 251mn room nights in US and EU in 2020



Source: Company data, Morgan Stanley Research


Exhibit 54: Morgan Stanley's Airbnb Base Case Room Nights and Booking Forecast Model

Airbnb Room Nights & Booking Forecast (mn, ex-Average Daily Rates)	2014	2015E	2016E	2017E	2018E	2019E	2020E	2015E-2020E CAGR
Total Room Nights	40	80	119	157	194	228	258	26%
% YoY Growth		100%	49%	32%	23%	18%	13%	
US/EU Room Nights	31	64	95	123	148	168	183	23%
% YoY Growth		105%	49%	30%	20%	14%	9%	
Asia/LatAm/Other Room Nights	9	16	24	34	46	60	74	36%
% YoY Growth		82%	50%	40%	35%	30%	25%	
Room Night Mix								
US/EU	78%	80%	80%	78%	76%	74%	71%	
Asia/LatAm/Other	22%	20%	20%	22%	24%	26%	29%	
Estimated Average Daily Rate (ADR)	\$100	\$100	\$104	\$107	\$111	\$115	\$119	
YoY Growth Rate			3.5%	3.5%	3.5%	3.5%	3.5%	
Total Bookings	\$4,000	\$8,000	\$12,337	\$16,830	\$21,467	\$26,128	\$30,615	31%
% YoY Growth		100%	54%	36%	28%	22%	17%	
US/EU Bookings	\$3,114	\$6,384	\$9,829	\$13,194	\$16,387	\$19,293	\$21,773	28%
% YoY Growth		105%	54%	34%	24%	18%	13%	
Asia/LatAm/Other Bookings	\$886	\$1,616	\$2,509	\$3,635	\$5,079	\$6,834	\$8,842	40%
% YoY Growth		82%	55%	45%	40%	35%	29%	
Bookings Mix								
US/EU	78%	80%	80%	78%	76%	74%	71%	
Asia/LatAm/Other	22%	20%	20%	22%	24%	26%	29%	

Source: Company data, Morgan Stanley Research

Exhibit 55: Airbnb users as a percentage of leisure and corporate travelers calculation

<u>Airbnb Users as % of Travelers Calculation</u>	<u>Airbnb Users as % of All Respondents</u>	<u>% of Respondents Who Do Not Travel</u>	<u>Airbnb Users as % of Travelers</u>
<u>Leisure</u>			
Past 12 Months	9%	30%	12%
Next 12 Months	13%	31%	18%
<u>Corporate</u>			
Past 12 Months	7%	46%	12%
Next 12 Months	8%	47%	16%

Source: Company data, Morgan Stanley Research



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INDUSTRY COVERAGE: Internet

COMPANY (TICKER)	RATING (AS OF)	PRICE* (11/13/2015)
Brian Nowak, CFA		
Amazon.com Inc (AMZN.O)	O (04/24/2015)	\$642.35
eBay Inc (EBAY.O)	E (04/23/2015)	\$28.19
Etsy Inc (ETSY.O)	E (05/11/2015)	\$8.69
Expedia Inc. (EXPE.O)	E (05/01/2015)	\$125.20
Facebook Inc (FB.O)	O (04/23/2015)	\$103.95
Google (GOOGL.O)	O (08/11/2015)	\$740.07
HomeAway, Inc. (AWAY.O)	E (11/05/2015)	\$35.77
IAC/InterActiveCorp (IACI.O)	E (06/26/2015)	\$65.00
LinkedIn Corp (LNKD.N)	O (02/25/2015)	\$243.00
Priceline Group Inc (PCLN.O)	E (02/25/2015)	\$1,297.75
Twitter Inc (TWTR.N)	U (10/21/2015)	\$25.18
Yahoo! Inc (YHOO.O)	O (03/26/2015)	\$32.19
Yelp Inc (YELP.N)	E (07/29/2015)	\$27.10
Dean J Prissman		
Groupon, Inc. (GRPN.O)	E (02/25/2015)	\$2.57
GrubHub Inc. (GRUB.N)	O (02/25/2015)	\$23.89
King Digital Entertainment PLC (KING.N)	E (11/10/2015)	\$17.86
RetailMeNot Inc (SALE.O)	E (07/13/2015)	\$8.99
Shutterstock Inc (SSTK.N)	U (07/13/2015)	\$35.67
TrueCar Inc (TRUE.O)	E (07/13/2015)	\$6.75
Zillow Group Inc (Z.O)	O (07/13/2015)	\$23.27
Zynga Inc (ZNGA.O)	E (07/13/2015)	\$2.46

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.



INDUSTRY COVERAGE: Leisure and Hotels

COMPANY (TICKER)	RATING (AS OF)	PRICE* (11/13/2015)
Anne M. Grube		
Europcar Groupe SA (EUCAR.PA)	E (08/05/2015)	€12.38
Jamie Rollo		
Carnival Corp. (CCL.N)	E (05/20/2014)	\$51.56
Carnival Plc (CCL.L)	E (05/20/2014)	3,471p
Compass Group (CPG.L)	E (04/02/2012)	1,027p
Enterprise Inns (ETI.L)	U (08/06/2015)	100p
Greene King PLC (GNK.L)	E (10/21/2015)	794p
InterContinental Hotels Group (IHG.L)	O (08/31/2010)	2,509p
Merlin Entertainments (MERL.L)	O (06/13/2014)	396p
Mitchells & Butlers (MAB.L)	O (01/05/2015)	341p
Royal Caribbean Cruises (RCL.N)	O (08/21/2013)	\$95.50
Sodexo SA (EXHO.PA)	U (01/05/2015)	€77.52
SSP Group PLC (SSPG.L)	E (01/05/2015)	295p
Thomas Cook Group (TCG.L)	E (03/18/2015)	107p
TUI (TUIT.L)	O (09/17/2014)	1,134p
TUI AG (TUIGn.DE)	O (04/07/2014)	€16.08
Whitbread (WTB.L)	O (06/16/2015)	4,452p
Vaughan Lewis, CFA		
888 Holdings Plc (888.L)	O (02/16/2015)	162p
Accor (ACCP.PA)	O (03/25/2015)	€41.48
Betfair Group Plc (BETF.L)	++	3,455p
Bwin.Party Digital Entertainment Plc (BPTY.L)	E (09/11/2014)	110p
Edenred (EDEN.PA)	U (01/05/2015)	€16.51
JD Wetherspoon (JDW.L)	U (01/05/2015)	699p
Ladbrokes (LAD.L)	++	109p
Melia Hotels International SA (MEL.MC)	E (07/07/2014)	€12.70
Millennium & Copthorne (MLC.L)	E (06/24/2013)	479p
OPAP (OPAr.AT)	E (01/05/2015)	€6.75
Paddy Power plc (PLSAI)	++	€112.40
Playtech Plc (PTEC.L)	O (07/09/2013)	879p
Rank Group PLC (RNK.L)	E (01/05/2012)	274p
Unibet Group Plc (UNIBSdb.ST)	U (05/14/2010)	SKr 801.00
William Hill (WMH.L)	E (07/01/2015)	334p

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* Historical prices are not split adjusted.

INDUSTRY COVERAGE: Gaming & Lodging

COMPANY (TICKER)	RATING (AS OF)	PRICE* (11/13/2015)
Thomas Allen		
Ashford Hospitality Prime, Inc. (AHP.N)	E (03/12/2014)	\$14.15
Ashford Hospitality Trust Inc (AHT.N)	E (03/12/2014)	\$6.39
Boyd Gaming Corporation (BYD.N)	E (09/10/2014)	\$19.90
Choice Hotels International Inc (CHH.N)	U (04/11/2011)	\$50.24
DiamondRock Hospitality Co (DRH.N)	E (03/09/2015)	\$11.15
Gaming and Leisure Properties Inc (GLPI.O)	++	\$27.67
Hilton Worldwide Holdings Inc (HLT.N)	O (05/07/2014)	\$24.42
Host Hotels & Resorts, Inc. (HST.N)	E (05/13/2015)	\$16.60
Hyatt Hotels Corporation (H.N)	E (01/17/2012)	\$49.53
La Quinta Holdings Inc (LQ.N)	O (05/13/2015)	\$14.69
LaSalle Hotel Properties (LHO.N)	E (10/26/2015)	\$28.58
Las Vegas Sands Corp. (LVS.N)	E (01/09/2015)	\$45.69
Marriott International Inc. (MAR.O)	E (05/07/2014)	\$72.74
MGM Resorts International (MGMN)	O (01/07/2014)	\$22.51
Penn National Gaming, Inc. (PENN.O)	U (05/08/2014)	\$17.05
Starwood Hotels & Resorts (HOT.N)	O (05/23/2013)	\$74.99
Sunstone Hotel Investors Inc (SHO.N)	O (05/13/2015)	\$14.21
Wynn Resorts, Limited (WYNN.O)	E (03/16/2015)	\$62.20
Xenia Hotels & Resorts Inc (XHR.N)	O (10/13/2015)	\$16.97

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* Historical prices are not split adjusted.



INDUSTRY COVERAGE: Hong Kong/China Leisure & Lodging

COMPANY (TICKER)	RATING (AS OF)	PRICE* (11/13/2015)
Lin He		
China CYTS Tours Holding (600138.SS)	O (07/03/2015)	Rmb21.03
China International Travel Service Corp. (601888.SS)	O (01/07/2015)	Rmb55.04
China Lodging Group, Limited (HTHT.O)	O (05/29/2010)	\$28.07
Home Inns & Hotels Management Inc. (HMIN.O)	E (09/14/2011)	\$29.88
Jin Jiang Int'l Hotels (Group) Company (2006.HK)	E (09/21/2015)	HK\$3.03
Jinmao Investments (6139.HK)	E (08/04/2015)	HK\$4.50
Shangri-La Asia (0069.HK)	U (01/16/2015)	HK\$7.68
Utour International Travel Service (002707.SZ)	E (07/03/2015)	Rmb52.62

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* Historical prices are not split adjusted.

INDUSTRY COVERAGE: China Internet and Other Services

COMPANY (TICKER)	RATING (AS OF)	PRICE* (11/13/2015)
Alvin Jiang		
Forgame (0484.HK)	U (09/10/2014)	HK\$13.42
Amanda Chen		
Autohome Inc. (ATHMN)	O (11/24/2014)	\$30.60
Bitauto Holdings Limited (BITAN)	E (11/24/2014)	\$27.84
Ctrip.com (CTRP.O)	O (08/05/2015)	\$97.25
Phoenix New Media (FENG.N)	U (09/24/2015)	\$4.71
Qihoo 360 Technology Co Ltd (QIHU.N)	E (09/24/2015)	\$62.30
Qunar Cayman Islands Ltd (QUNR.O)	O (09/24/2015)	\$39.95
Tuniu Corporation (TOUR.O)	E (09/24/2015)	\$14.30
Youku (YOKU.N)	++	\$26.51
Ben Lin		
58.com (WUBAN)	O (08/21/2015)	\$52.56
Baidu Inc (BIDU.O)	O (07/21/2014)	\$193.95
Changyou.com (CYOU.O)	U (09/24/2015)	\$21.00
NetEase, Inc (NTES.O)	E (09/24/2015)	\$148.11
Sohu.com Inc (SOHU.O)	U (09/24/2015)	\$50.38
SouFun Holdings Limited (SFUN.N)	E (09/24/2015)	\$7.57
YY Inc. (YY.O)	E (08/17/2015)	\$57.66
Robert Lin		
Alibaba Group Holding (BABAN)	O (10/29/2014)	\$75.85
Baozun Inc (BZUN.O)	O (06/15/2015)	\$6.13
Cheetah Mobile Inc. (CMCMN)	O (06/12/2014)	\$18.05
Dangdang Inc. (DANG.N)	E (10/29/2014)	\$6.67
JD.com, Inc. (JD.O)	E (08/10/2015)	\$26.75
Jumei International Holding (JMEI.N)	E (07/14/2015)	\$8.12
Momo Inc. (MOMO.O)	E (09/24/2015)	\$12.67
Tencent Holdings Ltd. (0700.HK)	O (11/11/2015)	HK\$152.20
Vipshop Holdings (VIPS.N)	O (10/29/2014)	\$13.60
Weibo Corp (WB.O)	E (06/09/2014)	\$16.54

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