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Luxury Travel's Next Phase Could Be in Vacation Rental Consolidation

Patrick Whyte, Skift –
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Skift Take: Luxury travelers are increasingly looking to vacation rentals for a different type of experience. This presents opportunities for both established players and newcomers.

— Patrick Whyte

Over the last year Airbnb has demonstrated its willingness to spend in order to get a bigger slice of the vacation rental market.

In February, it bought Luxury Retreats and last month it announced a deal for accessible travel business Accomable. Wyndham's European vacation portfolio is apparently also of interest.

And while Airbnb's peers were less acquisitive in 2017, they have spent money in the past. TripAdvisor bought HouseTrip in early 2016 and HomeAway purchased Dwellable in late 2015.

As vacation rentals grow in popularity, further consolidation is likely.

"From my perspective, the niche players are the ones that are the next version of Airbnb, they're the newcomers to the market that have the ability to get acquired," said Joseph DiTomaso co-founder and CEO of accommodation search engine AllTheRooms.

DiTomaso believes brands with a "unique twist and a captured audience" are the ones in "prime position" to be bought. "They're not going to be as big as Airbnb but if HomeAway wants to pick up another 150,00 to 200,00 units how do they do it? They go out and buy one of these smaller niche players," he said.

DiTomaso highlighted LGBT site Mister B&B as one interesting player and there are others catering to different audiences, including for cycling enthusiasts and pet lovers.

THE LUXURY SECTOR

Luxury travel, though, remains a particularly attractive niche

AccorHotels has been one of the most active buyers. Over the years, it has picked up a number of businesses before consolidating them all under the Onefinesay brand. Oasis Collections, which AccorHotels had previously invested in, now counts Hyatt as one of its shareholders.

Strategic buyers like AccorHotels, Hyatt and now Airbnb often make the best home for niche players because of their deep pockets and long-term outlook.

Onefinestay has yet to turn a profit, and by combining it with Travel Keys and Squarebreak, AccorHotels will be hoping increased scale can improve the bottom line.

"I still think this [the vacation rental sector] is a good opportunity for luxury groups because it answers a need from the consumer and the traveler to have a different experience than the traditional hotel," said Morgann Lesne, partner at investment bank Cambon Partners.

The growing interest among luxury consumers for vacation rentals is also prompting those at the fringes to take it more seriously.

Home exchange club ThirdHome is looking for outside investment of up to \$12 million as it attempts to grow its business.

The Tennessee-based company operates as an exchange marketplace. Homeowners are invited to place their properties on the site, and in return are given tokens that they can use towards staying at another member's property.

ThirdHome's management is planning to add a rental option, whereby owners can opt to let their properties for cash instead. There is also the intention to further open up its offering and allow non-owners to join the club, bringing it nominally into competition with the likes of Onefinestay, Airbnb and others in the luxury rental space.

“We started initially as an exchange club but we are now morphing our position to more of a luxury property and travel club,” said partner and president Giles Adams. This summer ThirdHome also added a concierge service, which includes transportation and activities.

Adams said ThirdHome was looking more for a partner than an acquirer.

“We think there is a huge opportunity for us within this segment, so at the moment we’re specifically looking for a partner, whether that’s a fund that particularly likes this segment and understands what we’re doing and can really get behind it or whether that is a strategic partner with a company that might take a stake and support us through our growth,” he said.

DIFFERENT APPROACHES

There are differences – some big, some small – between the many vacation rental companies.

Airbnb, takes an arms-length approach, operating only as a platform. Others like Onefinestay are much more involved and offer homeowners insurance, marketing, and management services.

Although operating at the luxury end, ThirdHome shares similarities with Airbnb in that it is mainly just a platform and lets the owners themselves look after their properties.

“With Onefinestay and other property managers, they have the relationship directly with the actual property so they manage the calendar 365 days a year, [which is] quite a human resource-, time-, and capital-intensive operation,” said Adams.

“They’re obviously very good and very successful at what they’re doing but that’s not an area of the business that we’re going to be getting into at all.”

There are those, however, that think the curation and management side is essential for luxury travelers

“[The] luxury segment is a much more complex segment to tackle and to make profitable than the mass market because in luxury travelers expect people on the ground and a real level of service. So it can’t be operated as a marketplace,” Lesne said.

The problem for AccorHotels and others is that being a full-service operator is expensive. Onefinestay has accumulated years of losses and is still not profitable.

All eyes will be on Airbnb to see what it does next in the luxury sector and where it made a wise decision in buying Luxury Retreats.