The rise of the sharing economy | The Economist



**Peer-to-peer rental** **The rise of the sharing economy**

**On the internet, everything is for hire** Mar 9th 2013 | From the print edition



LAST night 40,000 people rented accommodation from a service that offers 250,000 rooms in 30,000 cities in 192 countries. They chose their rooms and paid for everything online. But their beds were provided by private individuals, rather than a hotel chain. Hosts and guests were matched up by Airbnb, a firm based in San Francisco. Since its launch in 2008 more than 4m people have used it—2.5m of them in 2012 alone. It is the most prominent example of a huge new “sharing economy”, in which people rent beds, cars, boats and other assets directly from each other, co-ordinated via the internet.

You might think this is no different from running a bed-and-breakfast, owning a timeshare or participating in a car pool. But technology has reduced transaction costs, making sharing assets cheaper and easier than ever—and therefore possible on a much larger scale. The big change is the availability of more data about people and things, which allows physical assets to be disaggregated and consumed as services. Before the internet, renting a surfboard, a power tool or a parking space from someone else was feasible, but was usually more trouble than it was worth. Now websites such as Airbnb, RelayRides and SnapGoods match up owners and renters; smartphones with GPS let people see where the nearest rentable car is parked; social networks provide a way to check up on people and build trust; and online payment systems handle the billing.

**What’s mine is yours, for a fee**

Just as peer-to-peer businesses like eBay allow anyone to become a retailer, sharing sites let individuals act as an ad hoc taxi service, car-hire firm or boutique hotel as and when it suits them. Just go online or download an app. The model works for items that are expensive to buy and are widely owned by people who do not make full use of them. Bedrooms and cars are the most obvious examples, but you can also rent camping spaces in Sweden, fields in Australia and washing machines in France. As proponents of the sharing economy like to put it, access trumps ownership.

Rachel Botsman, the author of a book on the subject, says the consumer peer-to-peer rental market alone is worth $26 billion. Broader definitions of the sharing economy include peer-to-peer lending (though cash is hardly a spare fixed asset) or putting a solar panel on your roof and selling power back to the grid (though that looks a bit like becoming a utility). And it is not just individuals: the web makes it easier for companies to rent out spare offices and idle machines, too. But the core of the sharing economy is people renting things from each other.

Such “collaborative consumption” is a good thing for several reasons. Owners make money from underused assets. Airbnb says hosts in San Francisco who rent out their homes do so for an average of 58 nights a year, making $9,300. Car owners who rent their vehicles to others using RelayRides make an average of $250 a month; some make more than $1,000. Renters, meanwhile, pay less than they would if they bought the item themselves, or turned to a traditional provider such as a hotel or car-hire firm. (It is not surprising that many sharing firms got going during the financial crisis.) And there are environmental benefits, too: renting a car when you need it, rather than owning one, means fewer cars are required and fewer resources must be devoted to making them.

For sociable souls, meeting new people by staying in their homes is part of the charm. Curmudgeons who imagine that every renter is Norman Bates can still stay at conventional hotels. For others, the web fosters trust. As well as the background checks carried out by platform owners, online reviews and ratings are usually posted by both parties to each transaction, which makes it easy to spot lousy drivers, bathrobe-pilferers and surfboard-wreckers. By using Facebook and other social networks, participants can check each other out and identify friends (or friends of friends) in common. An Airbnb user had her apartment trashed in 2011. But the remarkable thing is how well the system usually works.

**Peering into the future**

The sharing economy is a little like online shopping, which started in America 15 years ago. At first, people were worried about security. But having made a successful purchase from, say, Amazon, they felt safe buying elsewhere. Similarly, using Airbnb or a car-hire service for the first time encourages people to try other offerings. Next, consider eBay. Having started out as a peer-to-peer marketplace, it is now dominated by professional “power sellers” (many of whom started out as ordinary eBay users). The same may happen with the sharing economy, which also provides new opportunities for enterprise. Some people have bought cars solely to rent them out, for example.

Incumbents are getting involved too. Avis, a car-hire firm, has a share in a sharing rival. So do GM and Daimler, two carmakers. In future, companies may develop hybrid models, listing excess capacity (whether vehicles, equipment or office space) on peer-to-peer rental sites. In the past, new ways of doing things online have not displaced the old ways entirely. But they have often changed them. Just as internet shopping forced Walmart and Tesco to adapt, so online sharing will shake up transport, tourism, equipment-hire and more.

The main worry is regulatory uncertainty (see *Technology Quarterly*article (http://www.economist.com/news/technology-quarterly/21572914-collaborative-consumption-technology-makes-it-easier-people-rent-items) ). Will room-renters be subject to hotel taxes, for example? In Amsterdam officials are using Airbnb listings to track down unlicensed hotels. In some American cities, peer-to-peer taxi services have been banned after lobbying by traditional taxi firms. The danger is that although some rules need to be updated to protect consumers from harm, incumbents will try to destroy competition. People who rent out rooms should pay tax, of course, but they should not be regulated like a Ritz-Carlton hotel. The lighter rules that typically govern bed-and-breakfasts are more than adequate.

The sharing economy is the latest example of the internet’s value to consumers (see Free exchange (http://www.economist.com/news/finance-and-economics/21573091-how-quantify-gains-internet-has-brought-consumers-net-benefits) ). This emerging model is now big and disruptive enough for regulators and companies to have woken up to it. That is a sign of its immense potential. It is time to start caring about sharing.