The Sharing Economy: Friend or Foe?

BY ERIC NEWCOMER, BLOOMBERG NEWS

“The sharing economy” is a sobriquet to warm hearts. Think of it as a claim that while grubbier businesspeople sell, buy and rent, the ones in the sharing economy collaborate, facilitate, build trust. Or so they say.

Sharing-economy flag-bearers like Uber, Airbnb and Homejoy give people easy, cheap access to products and services that would otherwise go unused, free of the burdens of ownership. Their fans say this brings social benefits like community building and diminished inequality. Skeptics predict that it’s more likely to lower wages, raise housing costs, undermine health and safety rules, and expose women to harassment and assault. A 2015 Harvard Business Review headline had this to say: “The Sharing Economy Isn’t About Sharing at All.”

The notion that sharing constitutes a distinct economy has been emerging at least since publication of a 1978 academic paper called “Community Structure and Collaborative Consumption,” about car sharing. So what’s new? Smartphones. Today’s sharing economy got its start in 2008, when Apple introduced its App Store. Suddenly, it was easy to summon a business partner in minutes. Expansion has been aided by innovations like cloud computing and by economic circumstances, notably more people looking for work in weak economies since the financial crisis.

Nowadays, it’s hard to find more exuberant sharing-economy enthusiasts than investors. Uber, the ride-hailing company, is raising $1.5 billion at a valuation of $50 billion — theoretically making the six-year-old business the equal of Target and Kraft Foods. Airbnb, for home sharing, is valued at $20 billion. Uber competitor Lyft is valued at $2.5 billion. Instacart, for grocery delivery, is valued at $2 billion and Postmates, another delivery service, is valued at $150 million to $200 million.

Valuation Bubble? Uber, Airbnb Go Mainstream

It’s hard to figure out if revenue is growing as rapidly at these closely held companies, but a leaked Lyft fundraising document showed that the company took in about $140 million in 2014. Meanwhile, Udemy, an online course company, has raised $120 million, having valued it at $150 million to $200 million. Airbnb claims more than 35 million guests since it launched in 2008 and 1.2 million listings; more than 600 are castles. Dogs can share homes too, on DogVacay, with 20,000 sitters on its platform.

Ideological opponents say the sharing economy creates employee-serfs who go without benefits like health insurance and job security, and that peer-to-peer transactions aggravate inequality. In big cities, for example, apartments used for “sharing” become unavailable to long-term renters, worsening housing shortages and driving up rents. Cities and countries around the world are having to decide whether to treat sharing companies as innovators or scofflaws.

As sharing companies adjust to regulators, they become more like other businesses. Houston makes Uber drivers pass a background check and provide disability access. What makes car-sharing there different from cab services? We explore this and other questions throughout this supplement.
The Sharing Economy By Any Other Name

The term “sharing economy” doesn’t quite capture what’s really going on with companies like Uber and Airbnb. After all, if you’re paying for something, is it really sharing?

Timothy Taylor, managing editor of Macalester College’s Journal of Economic Perspectives, writes on his blog that the term “seems like a triumph of public relations artistry.” He prefers “the matching economy.” Others call it “collaborative consumption,” or the “on-demand economy” — although that’s not quite right, either, because it can include things like Seamless that don’t rely on freelance labor.

Even less used terms are the “gig economy” and the “1099 economy” — referring to the kind of tax forms freelancers must file.

The inadequacy of the name isn’t lost on sharing economy detractors, either. Dieter Schlenker, chairman of Taxi Deutschland, is among those who have described it as a “locust economy.” While “sharing economy” appears to be the term that’s catching on, judging from the number of mentions of each of these phrases on the Bloomberg terminal, the debate is likely to continue.

Sharing Platforms Are Contributing to the U.S. Economy and Not Getting Credit

Sharing platforms are contributing a “nonnegligible” fraction of income that probably isn’t being counted in official estimates, Boston Fed researchers said.

The researchers surveyed 778 people about how much they participated in informal work activities in recent years. The survey, conducted in December 2013, found that aggregate income from informal work amounts to 4.4 percent of income from formal work. Excluding people who sold goods or rented property, the figure is 1.8 percent. More than a third of respondents said informal work helped them offset the effects of the recession either very much or somewhat.

“Taken at face value, either number represents a nonnegligible fraction of formal income that is probably not fully counted in official estimates of national income,” they wrote.

The research also points to a sort of double whammy of additional sources of slack in the labor market that formal estimates may be missing.

The Fed researchers, Anat Bracha and Mary A. Burke, said 26 percent of those they classify as being out of the labor force actually engaged in informal work in the past two years. At least some of these people would probably be interested in formal work as the job market improves.

Also, more part-time workers are probably interested in better jobs than official surveys have captured. The researchers guesstimate that about 37 percent of part-time workers surveyed are likely to be part time for economic reasons. The comparable BLS estimate they cited, from August 2014, is 27 percent. “As formal wages increase in an improving labor market, individuals may switch from informal to formal work,” they wrote. Read the survey here.
ECONOMIC IMPLICATIONS
BY JOSH WRIGHT, BLOOMBERG INTELLIGENCE ECONOMIST

Sharing Means We're Wealthier Than We Think But May Grow Slower Than We Want

The rise of the sharing economy has disrupted not just the business models of major industries like hotels and cars, but also the models of economists analyzing U.S. data.

By generating new forms of informal employment, the sharing economy has muddied existing measures of employment status, labor force participation and wages earned. This development has been widely acknowledged, if not yet effectively addressed. Less frequently discussed are the implications for U.S. capital expenditures and GDP accounting — measures of aggregate economic growth and overall material well-being.

In this regard, an alternative name for the sharing economy is instructive: the "revealed infrastructure" economy. By repurposing existing assets that previously were for exclusively personal use, on-demand services reduce the need to make new business investments in fixed assets. The overlap between consumer and business goods suddenly increases, whether they are buildings, vehicles or human capital — knowledge about everything from household tasks to musical instruments. All of these can now be easily shared — traded really — via TaskRabbit, Thumbtack and the like.

In a sense, all this sharing reveals we are wealthier than we thought. It’s an upward shock to our economically productive capital stock. On the other hand, we may not need to invest, build, buy and grow quite so quickly under current GDP accounting because of the new overlap between consumer and business goods. That may constitute a near-term drag on GDP growth. As it is, U.S. capital expenditures have been abnormally weak since the recession — an average quarterly rate of 4.1 percent over the first five years, compared to a range of 6.0 to 15.6 percent over the prior six post-recession periods — and the rise of the sharing economy may have contributed to that on the margin. That's the first-order effect.

The second-order effect from an economist's perspective is that this should also free up some societal capacity for investing our resources elsewhere. Indeed, part of the popular enthusiasm for the growth in sharing industries stems from the intuitive appeal of repurposing assets and enhancing consumer choice. You don't have to be an economist to appreciate that there's something highly efficient about that.

In any change, some stakeholders in the status quo face deep uncertainties, but there's something more unsettling here. Complaints that workers fear being displaced by automation and outsourcing have grown commonplace, and firms and industries have faced obsolescence before, but this time relationships both between employees and firms and between firms and consumers are being transformed simultaneously.

The potential size of even the near-term first-order effect — less old-style investment — is hard to measure, because the “sharing economy” is still small in terms of profits and in its share of overall U.S. GDP. The second-order effect is impossible to model quantitatively with confidence, because we don’t yet know what the economy of the future will look like, despite the best efforts of the venture capital industry to tell us. We won't build as many cars for taxi fleets, so what will we do with that money instead? We don't know, and that unknowability is what makes such economic shifts unsettling, if not downright threatening. For now, the global sharing economy’s size in five key sectors has been estimated at around $15 billion in 2014, equivalent to less than 0.1 percent of the entire U.S. economy as conventionally measured. That's not yet a large number from the macroeconomic perspective.

To some extent, the latest measurement issues point up an old problem. Introductory economics courses regularly rehearse the shortcomings of GDP as a measure of material, let alone overall well-being. Most of the major U.S. macroeconomic data reports are geared toward the goods-producing industries, a legacy of the U.S. economy’s structure in the middle of the 20th century. More recently, the critiques of GDP have broadened with analysts exploring wider development or quality-of-life measures such as infant mortality and education levels, or even attempting to develop measures of Gross National Happiness. What's novel about revealed infrastructure is it poses a challenge to traditional GDP accounting on its own terms.

Even more of the sharing economy flies under the GDP radar than activity in the traditional economy does. As yet, there's no easy way to adjust GDP for this. But given the data generated by these new businesses, the open-source ethos inculcated in many of their staff and the basic economic incentive to analyze the industry, it's hard to believe that new tools and new opportunities are not on the horizon.
CORRECTION: An earlier version of this article incorrectly stated the size of the sharing economy as a percentage of U.S. GDP.
Airbnb May Benefit Travelers More Than Cities as Hotel Rates Fall

Many hoteliers are probably contemplating what the current and future economic impacts on their business of upstart firms such as Airbnb may be. This question is of increasing relevance, as this formerly little-known startup has served over 35 million guests and commands a valuation in excess of $20 billion, surpassing brands like Hyatt ($8.6 billion), and closing in on Hilton ($29 billion).

To date, both Airbnb and incumbent hotels have downplayed the potential economic impact on hotels. Airbnb has portrayed itself as adding incremental economic activity in its mission to diversify travelers' accommodation options, and has specifically touted the degree to which Airbnb properties are "located outside the main hotel areas" (72 percent in London). Similarly, prominent figures in the hotel industry have represented Airbnb as non-threatening. Marriott CEO Arne Sorenson said on CBS This Morning in 2014: "I think Airbnb is a really interesting experiment that is very fun to watch."

But in practice, 35 million guests worldwide is a large number for the hotel industry to sweep completely under the rug.

Until recently, there have been no rigorous attempts to answer the question of economic impact, as it's difficult to quantify and a comparison against a counterfactual is needed: what would a given hotel's revenue stream have looked like had Airbnb never come into existence? In addition, significant diversity in Airbnb penetration has resulted in hotel impacts that range from negligible to potentially substantial, depending on diverse factors such as location, market segment, etc., so that any one individual hotel's experience is difficult to generalize.

Our research started from the hypothesis that Airbnb offers travelers an alternative to a hotel stay — not a perfect substitute, but with increasing frequency, a suitably viable alternative such that any given Airbnb booking might plausibly equate to a hotel room vacancy elsewhere. Moreover, we developed a strategy to quantify and estimate this impact. We found that hotel revenue is indeed hurt to varying degrees, which has implications for travelers and policy makers as well as the hotels themselves.

We chose to consider Airbnb stays in the state of Texas, in part because of the state's geographic diversity, and because hotel room revenues in Texas are reported in public tax records with the Texas Comptroller's Office.

We estimate the impact on hotel room revenue in the most affected city in our study, Austin, to be in the 8 to 10 percent range. Austin is most affected because it has the highest rate of Airbnb adoption in the state — 8,575 properties as of 2014. Airbnb's popularity in Austin is likely a product of the city's idiosyncratic nature as well as large events held in the city every year such as SXSW and the Formula 1, which create spikes in accommodation demand.

While this result suggests that Airbnb is, on average, negatively impacting hotel room revenue, it was still not clear which hotels were most affected and how hotels responded to increased competition. By utilizing a dataset of hotel occupancy rates and prices (obtained from Smith Travel Research), we found that affected hotels have responded by reducing prices. We also leveraged the rich attributes of hotels in the hotel census dataset to understand which hotel categories were the most affected. We found that lower-end hotels, and hotels not catering to business travelers, are most vulnerable to increased competition from rentals enabled by firms like Airbnb.

These results have important implications for hotels, travelers and policy makers. Low- to mid-range hotels should pay particular attention to Airbnb penetration. While offering discounted rates is a good strategy to compete for price-sensitive Airbnb customers, Airbnb also offers highly personalized and crafted stays, with which traditional hotels could find it hard to compete.

All travelers, not just participants in the sharing economy, benefit from Airbnb because they can now travel at more affordable rates. Finally, the implications for cities and policy makers are nuanced. While Airbnb generates incremental economic value for cities by attracting new tourism, it is not clear that this extra income will compensate for loss in hotel taxes. Whether cities embrace and regulate the sharing economy (e.g., in Portland, Oregon) or fight it (in NYC), this new peer-to-peer model is clearly here to stay.

Georghi Zervas is assistant professor of marketing at Boston University. John W. Byers is a professor of computer science and Davide Proserpio is a PhD student in computer science. Read the full paper at ssrn.com/abstract=2366898
THE WORKERS  BY JENNIFER ROSSA, BLOOMBERG BRIEF EDITOR

'On-Demand' Workers Are Supplementing Their Incomes, Not Living Off Their Jobs

Thinking about quitting your full-time job to start freelancing willy-nilly in the sharing economy, setting your own hours, having total work-life balance, and still being able to pay the bills? Think again.

Most of those working freelance for companies like Postmates or DogVacay don’t rely on it as a primary source of income, and flexibility of hours appears to be more of a promise than a reality, a recent survey finds.

Sharing-economy jobs account for less than 50 percent of household income for 58.5 percent of respondents to the “RFS 1099 Economy Workforce Report,” and less than 25 percent of household income for almost two-fifths. The report’s title refers to the tax forms freelancers file.

The high proportion of college students in the survey sample, 38 percent, helps explain this, as these individuals are likely looking for supplemental income. But respondents also think that pay isn’t great — the average hourly rate is $18, according to the survey — and cited “finding enough work” as their biggest pain point. They also reported that while they value flexibility highly, demand/peak hours wind up being the biggest influencer of their work schedules.

Many 1099 workers do other things to supplement their contractor income. A quarter of respondents said they also work a full-time job, and another quarter said they run a side business. Twenty percent work a seasonal job like construction, and daytrading is somewhat popular: 7.5 percent saying they invest.

In light of all this, high turnover among respondents isn’t a surprise. One out of every two plan to leave contractor work in the next year, the survey reported. And about one-third of respondents said they can’t see themselves as an independent contractor for the rest of their life.

For more from the survey, click here. For a survey from MBO Partners on similar topics, click here. To see a breakdown in this issue of just Uber drivers, click here.

Compared to the U.S. Workforce, Sharing Economy Workers Are...

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Sources: RFS 1099 Report, DOL

Notes: We took demographic stats collected by the 1099 survey and compared them with the demographics of the U.S. workforce broadly. In the "Younger" chart, we compare 18- to 24-year-olds in the 1099 survey with 16- to 24-year-olds for the U.S. workforce. In the "More Educated" chart, the stats for the broader U.S. are for population as a whole, not workforce.
INSIGHT: UBER DRIVERS  
BY ANNE RILEY, BLOOMBERG BRIEF EDITOR

Younger, More Educated and Less Married: Who's Driving Your Uber?

Do you slip into the backseat of your Uber, pop in your earbuds and text away in silence until you reach your destination? I’m sure you aren’t alone. But take a minute to introduce yourself to your driver, and odds are you two have a lot more in common that you realize.

According to an Uber-sponsored survey of 601 active drivers for the San Francisco-based ride sharing company, its drivers — or “driver-partners” as sharing-economy-speak would have it — are much more similar in terms of age and education level to the general workforce than to traditional taxi drivers and chauffeurs. (See pie charts below.)

At the same time, Uber drivers are less likely to be married (50.4 percent) compared with taxi drivers (59.4 percent) and the general population (52.6 percent) and more likely to have children at home (46.4 percent) compared with taxi drivers (44.5 percent) and the overall workforce (42.2 percent.) Seven percent of Uber drivers are veterans, more than the 5.3 percent of traditional taxi drivers and 5.2 percent of the general U.S. population. Uber drivers also comprise more women (13.8 percent) than traditional taxi drivers (8 percent), though those statistics are still well below the approximately fifty-fifty makeup of the overall U.S. population.

Uber did not respond to requests for comment on the study. An analysis of the study, co-authored by Princeton economist Alan B. Krueger and Uber’s head of policy research Jonathan V. Hall, partially attributes the demographic overlap between Uber drivers and the general population to the fact that the U.S. economy was operating below full employment during the period studied, attracting to Uber’s workforce more highly educated employees than might usually look to this sector for work.

Flexible work hours also likely drew non-traditional drivers into the company’s ranks and kept them there even after the job market began its recovery, the analysts suggest.

So maybe strike up some friendly, neighborly banter next time you call an Uber. Or text away in the backseat. If your driver is just like you, he or she will probably understand.

**Uber Drivers: Age**

- Age 18-29: 21.80%
- Age 30-39: 26.50%
- Age 40-49: 19.10%
- Age 50-64: 19.10%
- 65+: 19.10%

**Taxi Drivers: Age**

- Age 18-29: 26.90%
- Age 30-39: 27.20%
- Age 40-49: 19.50%
- Age 50-64: 19.00%
- 65+: 19.00%

**U.S. Population: Age**

- Age 18-29: 19.00%
- Age 30-39: 23.40%
- Age 40-49: 23.40%
- Age 50-64: 21.80%
- 65+: 21.80%

**Uber Drivers: Education**

- Less than HS: 10.80%
- Some Coll./Assoc.: 9.20%
- High School: 36.90%
- College Degree: 40.00%
- Postgrad Degree: 8.20%

**Taxi Drivers: Education**

- Less than HS: 16.30%
- Some Coll./Assoc.: 16.30%
- High School: 55.20%
- College Degree: 25.10%
- Postgrad Degree: 9.30%

**U.S. Population: Education**

- Less than HS: 21.30%
- Some Coll./Assoc.: 28.40%
- High School: 25.10%
- College Degree: 16.00%
- Postgrad Degree: 9.30%
On-Demand Begins March on White-Collar Professions; 'Uber Legal' to Come?

By Katie Benner, Bloomberg View

On-demand companies are known for using technology to match service providers with customers who need things like taxi rides, house cleaners and couriers. But these companies aren’t just for concierge-type services.

Some startups are trying to usher white-collar workers into the on-demand economy as employees, rather than as customers. If these companies succeed, it could be an interesting development in the contract labor debate that has been sparked by the advent and rapid adoption of on-demand services.

A former PayPal and Microsoft executive, Rakesh Agrawal, recently introduced redesign|mobile, a web-based marketplace for skilled labor. Agrawal once worked for the expert network Pacific Crest Securities as a contractor who hopped on the phone to explain certain tech topics to hedge funds and mutual-fund managers.

He’s essentially replacing the expert network idea with software that matches clients with consultants, lawyers and other professionals who can answer questions about legal issues, personal finance, the tech industry, communications and business strategy. But instead of working with huge institutional investors who pay thousands of dollars, he’s serving individuals and charging tens of dollars.

“A lot of questions that could be answered don’t even get asked because the process is so cumbersome,” Agrawal said. With his company, customers can book appointments in 15-minute increments and not worry about lots of paperwork and other logistics.

Amy Phillips, redesign|mobile’s editor, is herself a contract worker who manages the site from her new home in Todos Santos, Mexico. “She’s a great example of the kinds of positions we want to create,” Agrawal said, noting that she can use the site to get work even though she lives in a place where there isn’t a huge demand for editors — and make a flexible schedule for herself.

What Agrawal is doing isn’t new. It just that the Uberization of high-skilled or high-paying work hasn’t been talked about much. Lawyer-on-demand apps, such as Quickleg and UpCounsel, already exist. People can use the Medicast app to summon a doctor to their homes. And Upwork matches a network of freelance writers, graphic designers, accountants, programmers and marketing experts with clients who need their skills, even for very small jobs.

While I was at the Collision startup conference in Las Vegas recently, I noticed that there was more buzz around

"White-collar workers seemingly enter this space with more privileges and potentially lower costs."

...
Demographics Drive Sharing Economy as Millennials Seek More for Less

Millennials More Likely to Have and Sleep With Smartphone

![Graph showing ownership and sleep with smartphone by age group]

Source: Pew Research Center

Millennials are more likely to participate in the sharing economy than other generations, according to a 2014 poll by marketing company Havas Worldwide. Set to become the largest living generation in the U.S. by the end of 2015, millennials will continue to drive growth in the sharing economy.

Millennials' median income is close to that of previous generations when they were the same age, despite millennials' higher education levels. With more college debt and a higher chance of being unemployed or living in poverty than previous generations when they were 18 to 30 years old, millennials are using their smartphones to borrow rather than buy in order to maintain the lifestyle of their childhood. See related StoryChart online at http://bit.ly/1JrOfuL.
COWORKING PROFILE: WEWORK

BY ANDREW RICE, BLOOMBERG BUSINESS

Is This the Office of the Future or a $5 Billion Waste of Space?

When the job is no longer 9-to-5, it’s hard to keep a work-life balance. Now, though, there’s a place where the age-old divide can seem irrelevant, where toil and fun blend together beneath neon signs that say things such as “Embrace the Hustle.” Where there’s always a free keg of beer at the self-serve bar, with a tap that says: WeWork.

At a basic level, WeWork is a company that sublets office space, taking care of many of the time-consuming hassles involved in self-employment. That’s not the factor, though, that has captured the fancy of venture capital investors, who have pushed the five-year-old company’s valuation to a giddy $5 billion. WeWork has cast itself as a new kind of workplace for the post-recession labor force and a generation that has never known a cubicle. It aspires to make your job a place you never want to quit.

In April I decided to give WeWork a try. After perusing the options, which start at $45 a month for pay-as-you-go access and run into the thousands for a small office, I sign up for a $350 “unlimited commons” membership. This allows me to use WeWork locations around the world, so long as I can find a seat at the bar. I download the company’s iPhone app and book a spot at a WeWork location on Varick Street in Manhattan. By the next day, I’m tapping away on my laptop in the facility’s second-floor common area. In this WeWork, as in others I later visited, tiny, glassed-in offices line the perimeter. Many have techy names on the doors — Blipit, Znaptag — but there are also lawyers, nonprofits, movie producers, political consultants, and a beef jerky brand. My work area is lit like a gastropub, with dark wood and leather armchairs, a bar with trompe l’oeil liquor-bottle wallpaper, and microbrews on tap.

Adam Neumann, WeWork’s Israeli-born co-founder, has called the company a “physical social network,” and it makes every effort to lubricate connections. “We gave 90,000 glasses of beer last month,” he said in a recent onstage interview at TechCrunch Disrupt NY 2015, “which is a number we’re proud of.” Here are some other enviable numbers for WeWork: It currently has 23,000 customers working in 32 locations, about half of them in New York, where WeWork is the fastest-growing consumer of office space. Flush with $355 million in venture capital from its latest funding round, the company is now expanding internationally.

Many traditional real estate investors are perplexed by WeWork’s $5 billion valuation. With that kind of money, you could build the world’s most expensive skyscraper — One World Trade Center, which at 3 million square feet has roughly the same cumulative amount of office space as WeWork — and still have $1 billion left over. And its business model — leasing space wholesale from landlords and then subletting it at a margin in small blocks — is a familiar and fairly risky one. Publicly traded Regus, which dwarfs WeWork with its 2,500 locations in 110 countries, is worth $1.3 billion less by market capitalization. Neumann says doubters don’t grasp the scope of his plans. “We are not competing with other co-working spaces,” Neumann says. “We are competing with offices. And that is a $15 trillion asset class in the U.S."

White-collar professionals now represent the fastest-growing segment of the contingent workforce, he says, and they have driven demand for a new, flexible place to do business. “They’re looking for a Starbucks solution, without having to be in that Starbucks,” says Sean Black, a managing director at real estate brokerage JLL who has handled several of WeWork’s lease deals.

Neumann says his mission is to transform the workplace for what he calls the “We Generation,” providing his tenants — or rather, “members” — with all the bandwidth, printer toner and beer they need, so they can concentrate on the parts of their jobs they enjoy.

WeWork also offers valuable benefits like access to a group health insurance plan, and its app doubles as an online social network, where members post inspirational quotes, trade tips about the best barbecue in Austin, and seek professional help. Each office location has a “community manager” who programs events: book clubs, Ping-Pong tournaments, yoga and meditation classes, technology talks, life coaching, Easter egg hunts, wine tastings, and movie, salsa and trivia nights.

“I think there’s been a fundamental shift in expectations,” says Bruce Dunlevie, a founding partner of Benchmark Capital, an early investor in the company. “Today’s 23-year-old in a decade will be a 33-year-old, and I don’t think they’re going to want to go back to the old model. They will have derived utility and created a habit around a WeWork-style workplace.”
P2P LENDING

Peer-to-Peer Loans Spread Bankings' Profits and Risks

BY NOAH BUHAYAR, BLOOMBERG NEWS

Need a few thousand dollars to pay down credit card debt, fund an elective medical procedure or put on a new roof? How about hundreds of thousands of dollars to buy equipment for a small business or buy a home? Peer-to-peer lenders want you. To the industry’s backers, peer-to-peer lending is about democratizing finance, making borrowing money more efficient. To its detractors, it’s an end run around bank regulation with a good chance of blowing up.

Peer-to-peer lenders see their advantages as lower costs and better risk management. Not only are risks widely distributed, but they say their credit assessments, based on algorithms that look at many factors, are more sophisticated than traditional credit ratings. Proponents say efficiencies like those will let peer-to-peer lenders remake banking, with some predicting $1 trillion in loans originated through online marketplaces globally by 2025. Goldman Sachs says marketplace lenders are part of a growing trend of shadow banking that will steal $11 billion a year in profit from traditional banks in the next five years. Former U.S. Treasury Secretary Larry Summers, who sits on LendingClub’s board, said in a speech in 2015 that marketplace lenders can make the financial system safer because they perfectly match assets with liabilities.

John Stumpf, the CEO of Wells Fargo, disagrees and says competition for borrowers could cause underwriting standards to plunge, threatening the financial system. Peer-to-peer lenders aren’t regulated like banks, and usually don’t hang on to any portion of the loans. That’s drawn comparisons to the originate-to-distribute mortgage model, which fueled the U.S. housing bubble. Others wonder whether sky-high valuations like LendingClub’s reflect what many see as a tech bubble rather than underlying business potential. A go-go atmosphere might lure in new entrants with big hopes but little experience and could increase pressure on existing companies to take more risks to maintain rapid growth.

More Than 1,500 Lenders Crowd China's Nascent Online Financing Market

BY SHAI OSTER, BLOOMBERG NEWS

Peer-to-peer lending in China is taking off, and the growth is attracting big-name investors from Tiger Global Management to Alibaba Group Holding Ltd. It’s testing a state-dominated banking system that’s traditionally favored big government firms at the expense of smaller players.

Soul Htite, the LendingClub co-founder who left to form Chinese lender Dianrong.com three years ago, said he believes the momentum is just starting.

“The market in China is more profitable because costs are lower and the growth is much bigger,” he said.

Dianrong, which bundles funds from investors and lends them to smaller businesses hungry for capital, hopes to lead China’s new crop of peer-lending services. It has facilitated about 1 billion yuan ($161 million) of mostly business loans, charging lower rates than China’s shadow banks.

For Chinese investors, P2P lending offers higher interest rates than they’d get leaving their money in the bank, with the promise of lower risk than putting their money in China’s volatile stock market. Lenders claim they lower the risks of default by spreading the cash across a large number of loans.

The pace of growth has drawn regulatory scrutiny: Chinese officials are considering what rules are needed to maintain oversight of the sector.

Htite welcomes that scrutiny because he says it will bring more clarity and confidence. He adds that while his model bundles loans, each lender effectively signs mini contracts with each borrower, insuring greater transparency.

China’s nascent online financing arena is already crowded with more than 1,500 lenders — not all sound. According to Yingcan Group, 275 lenders went bankrupt or had trouble repaying money last year, prompting regulators to take a closer look at the sector.

Yet the prospects of faster growth and higher returns are luring investment. U.S. investment firm Tiger Global bought an undisclosed stake in Dianrong this year. Tencent Holdings Ltd. and an affiliate of e-commerce provider Alibaba have stepped into the fray.

Even traditional banks are testing the waters. Dianrong built an Internet financing business for Bank of Suzhou in Jiangsu province, taking a percentage of profits from that operation, Htite said. The company is currently building similar platforms for four more banks, he said.
As Money Pours Into Peer-to-Peer Lending, Some See Bubble Brewing

BY EDWARD ROBINSON, BLOOMBERG BUSINESS

Is peer-to-peer lending out of control? There’s certainly some cause for concern. P2P loan volume is poised to hit $77 billion this year, a 15-fold increase from just three years ago. LendingClub, the No. 1 player worldwide, is trading at a market value of about $7 billion even though it lost $33 million last year. And in a flashback to the subprime mortgage boom, P2P startups are now bundling and selling off loans through securitizations.

The business of matching lenders with borrowers online — which still amounts to only 0.08 percent of the $96 trillion in global corporate and household outstanding debt — may truly be an innovative way to distribute capital. But is P2P a revolution or just another bubble?

Money managers are betting it’s the former as they pile into one of the fastest-growing asset classes in finance, Bloomberg Markets reports in its June issue. Some are taking equity stakes in P2P startups. Others are investing in the loans themselves.

In the U.K., holders of tax-free savings accounts known as ISAs may even soon be allowed to invest in P2P loans, a move that could draw Britain’s top asset management houses and provide 150 billion pounds ($220 billion) in fresh cash by 2020, according to Liberum Capital, a London investment bank. “Every single lending product that a bank provides is vulnerable to this model,” says Cormac Leech, a senior analyst at Liberum.

And now Wall Street is cranking up the volume by running these loans through its securitization machine. In November, Morgan Stanley and Goldman Sachs led a $303 million offering of notes Prosper Marketplace.

Such deals will help P2P platforms spread risk and multiply loan volume, which isn’t necessarily a bad thing. Still, the specter of the subprime-mortgage bust looms over this nascent market.

“Yes, these platforms are low-cost distributors of loans, and investors are frantically chasing yield,” says Tania Modic, the head of Western Investments Capital, a family office based in Lake Tahoe, Nevada. “But loans take time to season and go bad, and Wall Street loves to package and pass along risk. The music will stop — it always does — and this will not end well.”

Peer-to-peer stalwarts counter that their industry doesn’t look like the toxic mortgage market of the 2000s. Many platforms in the U.S. and the U.K. post their loan books online so investors can analyze the quality and performance of their debt on a loan-by-loan basis. London-based RateSetter maintains a “provision fund,” which stood at 13 million pounds as of May 14, to make lenders whole should borrowers default, a feature other sites are now imitating.

Most P2P firms also shun subprime borrowers. Zopa, a 10-year-old British firm that’s issued more than 800 million pounds in consumer loans, approves only one out of five applicants. Both Zopa and RateSetter have default rates of less than 1 percent, while bad loans at LendingClub and Prosper are below 3 percent.

“There’s always tension in any credit business between how fast you grow and the quality of your loan book,” says Giles Andrew, Zopa’s co-founder and CEO. “We publish data on every loan. So any signals that bad debt had started rising would be very visible.”

But as institutions pour money into P2P, some platforms may relax their credit criteria and welcome riskier borrowers to accommodate the flow, especially if they can offload risk through securitizations, says Michael Tarkan, an equities analyst at Compass Point Research & Trading in Washington who covers P2P companies.

In the U.S. market, LendingClub and its brethren have enabled consumers to pay off pricey credit card balances with cheaper P2P term loans. So what’s to stop consumers from leveraging their credit cards back up? Such behavior could spell bad news for investors in P2P loans if an interest rate hike or an unforeseen shock pressures borrowers, Tarkan says.

“We’ve created a mechanism to refinance a credit card into an unsecured personal loan,” says Tarkan, who’s rated LendingClub a sell. “This may prove to be a superior model, but we just don’t know because it hasn’t been tested yet through a full credit cycle.”

Renaud Laplanche, the founder and CEO of LendingClub, says borrowers may indeed max out their cards again. But so far, he says, they’re boosting their creditworthiness after converting card debt into P2P loans by paying lower interest rates. Moreover, Laplanche says, the global lending market is so vast that platforms like his, which is multiplying its volume by 20 percent a quarter, won’t have to take on riskier borrowers for years.
REGULATION: VIEWS FROM THE PUBLIC

Airbnb Pays My Health Insurance and Parking Tickets; Uber Helps Me Pay Bills

The U.S. Federal Trade Commission held a June 9 workshop to examine “competition, consumer protection, and economic issues raised by the sharing economy.” Public comments filed ahead of the hearing show that people renting their houses or driving for car services are usually supportive, and in some cases, are relying on these services to pay their mortgages or help with basic things like food between jobs, during illnesses, or when they move to new towns. Those who compete with these services are less supportive. Here is a sampling (comments have been edited and condensed). Read more here.

Anti-Homesharing:
■ “Airbnb has made it impossible to make a living as an innkeeper in Wellfleet. Last year there were forty options in our small town on Airbnb and many were whole houses, rather than single rooms, since lots of people own second homes elsewhere. Airbnb hosts do not need permits from the town or insurance. They offer rates that undercut what traditional B&bs charge, and I doubt they all declare their earnings, since they do not believe they are running a business. We have decided to close at the end of this season, unable to compete.”

Neutral on Homesharing:
■ “The sharing economy is great because you can help others while helping ourself and making ends meet. However, whole house rentals on sites like Airbnb ruin communities by artificially raising rents, removing viable housing stock, and destroying neighborhoods by replacing neighbors with loud, often drunk enough tourists. There is room for companies like this but regulation should limit the types of rentals that are available.”

Pro-Homesharing:
■ “Airbnb has allowed me to earn a supplemental income while offering the opportunity to people to experience this beautiful area that I live in for a fraction of the cost. Not only that, but these people also aid in the local economy by shopping at the stores, eating at the restaurants, visiting the museums, and much more. Companies like Airbnb offer a valuable service by protecting my privacy, handling transactions, and connecting people that wouldn’t normally have the chance to be connected in a safe, secure environment. This is nothing new in my community. In fact, my neighbor, now in his 50s and a part-time resident himself, said when he was a kid, you could step off the train in Southampton, go to the Chamber of Commerce, and find out what rooms were available to rent for a night or a weekend. His grandmother would frequently rent a room in their home to professionals looking to come to Southampton for a summer getaway. As demand grew in the succeeding decades, so did the way in which rentals were obtained; shifting to private industry, being regulated by local government, and hindering the opportunity and limiting the availability for people to offer short-term accommodations at reasonable costs. When things are done correctly, the sharing economy is a way for people to be their own small business owner with assistance, safety, and privacy. It is a way for our world to continue to connect.”

■ “I started renting with Airbnb a little bit over two years ago. I can’t describe how helpful this income has been. Before this, my only income was Social Security.”

■ “I applied to become an UberDriver after my wife told me about the company back in December 2014. I am a civilian contractor working mainly overseas on DoS and DoD contracts. Three weeks prior I had just returned from my last contract and would not have another contract until late February or early March 2015. After my wife told me about Uber, I checked out the Uber website and determined that it would not hurt to apply, so I did. Now, I did apply for several reasons but mainly to make some extra cash to pay some bills and the fact that UberDrivers make their own hours — we can logon and logoff when it is convenient and I do have children and my wife works during the day. The flexibility Uber offers is exceptional and desirable.”

■ “I’m a bartender in South Florida and use Uber to drive my customers home all the time. There are never cabs available and if by chance you get one, the drivers are pushy and rude and the cars are usually nasty. Uber keeps thousands of drivers off the road who’ve been drinking.”

Thinks drivers should be employees:
■ “Some of these companies are abusing workers who are actually employees. Basically Uber takes the money, keeps track of rides, accounts for what we should get paid. If we were contractors, we would do this. Uber is trying to influence the schedule we work by offering minimums and bonuses for certain days of the week, events, times of the day. Uber is in complete control of ratings and not revealing crucial information to drivers. Uber completely controls the rate drivers get paid. Uber does not allow drivers to promote tips. Uber promotes that drivers should provide water.”
Cabbies (and Regulators) Versus Collaborative Consumption

**Eugene, Oregon:** Uber suspended service in April 2015 after city said it violated local ordinances.

**Vancouver, BC:** Moratorium on issuing new taxi licenses in effect until fall 2015.

**Anchorage, Alaska:** Uber suspended operations in March 2015 after city requested temporary restraining order in Oct. 2014.

**Pennsylvania:** Philadelphia cab companies in March lost bid to block Uber from city. Ruling was preliminary.

**Toronto:** Uber and city were in court June 1 as city seeks permanent injunction.

**Hamptons, NY:** Uber suspended service June 5 from East Hampton to Montauk after East Hampton required every taxi driver to have physical office in town.

**Europe:** EU reviewing whether Uber is taxi service or web app, after Uber filed complaints against national laws it says restrict ability to compete. Uber faces legal challenges in countries including Belgium, France, Germany, Italy, Netherlands, Portugal and Spain.

**China:** Ministry of Transport in Jan. 2015 bans private cars from offering unlicensed taxi services via mobile-phone apps, while endorsing software for licensed vehicles.

**South Korea:** Government intends to ban private taxi services by year-end, Reuters reports May 28.

**Taiwan:** Minister of Transportation and Communications called Uber’s service illegal in Dec. 2014.

**Thailand:** Government rejected joint petition by Uber and GrabTaxi for legalization, Bangkok Post reports May 1.

**India:** Uber had service in 11 cities as of May 31, 2015. It was banned in Delhi in December after a local rider said she was raped by an Uber driver. Uber, which plans to continue operating in Delhi according to the Wall Street Journal, says it applied to be regulated under a local taxi system and will hire drivers who pass background checks.

**New York, NY:** City Taxi & Limousine Commission proposed rules to regulate car service apps, which car-sharing industry is fighting.

**London, UK:** Mayor Boris Johnson wants to cap number of private-hire cars in city. FT reports Uber wants to debate issue with mayor.

**Bogota, Colombia:** Transport regulator says only registered taxis can pick up members of public.

This information is current as of June 5, 2015. Click anywhere on graphic to see a list of all the cities where Uber says it operates.

BloombergBriefs.com
Q&A

**Brick-and-Mortar, Internet Companies Held to Different Regulatory Standards: Baker**

**Dean Baker**, co-director of the Center for Economic Policy and Research, an economic think tank based in Washington, D.C., spoke to Bloomberg Brief editors Anne Riley and Jennifer Rossa May 1 on the challenges of the sharing economy and the need for consistent regulation. Comments have been edited and condensed.

**Q: Is the sharing economy as it is now good or bad for the economy?**

**A:** It’s clearly a mixed bag. The claims that the sharing economy is allowing for sellers to be connected with consumers and allowing for efficiency, there’s clearly some truth to that story and that basic picture’s good, for the most part. But a lot of what it is about is essentially evading regulations and for the most part, I have to say that’s bad. It doesn’t make sense to have a regulatory structure in place for the traditional taxi industry, for the hotel industry, and then say if you go via of the web, none of that applies to you. Insofar as that’s what’s going on in terms of Uber and Airbnb, that creates real problems. The point is we want to have consistent regulation and that has to apply to everyone. I think most of the sharing economy is about evading those regulations and that is a serious problem.

**Q: Who should regulate the industry?**

**A:** A lot of these things do come up at the local level. Certainly the cab services, the hotel industry, most of that is at the local level. The labor aspect of it would be primarily at the state level in terms of state rules on overtime, and some of that is federal as well. So it would be mixed.

**Q: It would seem impossible to keep up with a patchwork of regulations for a global company.**

**A:** If you look at the hotel industry, you have the Hiltons: They’re worldwide chains and they’re subject to a large extent to local regulations. Obviously there are cases where they determine it’s more trouble than it’s worth, and that’s a decision a company has to deal with when it enters a new market.

**Q: How close do you think regulators are to taking action?**

**A:** It’s really just becoming an issue. I’ve had the occasion to talk to a few legislators and they’re really struggling. I think most of them recognize its positives. The big question to me is how do you try to make the regulations symmetric? What makes sense from a policy standpoint?

**Q: The FTC has been looking at the sharing economy. What can they do?**

**A:** Most of their authority usually stems from antitrust action and I doubt that at least at the moment there will be much by way of antitrust issues. Now it could get to where that’s something to worry about; you could have an Uber driving out traditional cab companies in some areas. One of the issues with traditional cabs is an element of cross subsidies. You have higher-income people that take a cab and give a higher tip, and cab drivers come to expect that. At the same time, many lower-income people are dependent on cabs going to the hospital, maybe going grocery shopping once a week, and they often don’t tip. So the higher-income people are in effect subsidizing for the lower-income people. Now if you had a story where Uber drives out some of the traditional cab services, it makes it difficult for low income people to get a cab, then I don’t know if it’s an antitrust issue but it does become a serious issue where people who expect they are going to have this service to go to the hospital or a doctors’ appointment aren’t able to get a cab if Uber’s basically the only service around.

**Q: These lower-income people don’t have access to smart phones and credit cards needed to book an Uber.**

**A:** Exactly. It’s largely closed off to them. These are barriers that can be overcome obviously but again we have to recognize that.

**Q: We have a sharing economy of cars, apartments, tasks. What next?**

**A:** The worry is if you’re giving people a route to evade regulations, then there are a lot of cases where it might not really be sharing but it’s an opportunity to evade labor regulations. If you say “that’s fine, these are independent contractors,” you give companies more incentive to look at places where they could do that and avoid having traditional employee/employer relationships. That’s the sort of thing that in my view is totally bogus. You aren’t providing a service to the economy by giving people a way to evade regulations.

**AT A GLANCE**

**Current Residence:** Washington, D.C.

**Career:** Co-founded CEPR in 1999; previously worked as a senior economist at the Economic Policy Institute and an assistant professor at Bucknell University; has also worked as a consultant for the World Bank, the Joint Economic Committee of the U.S. Congress, and the OECD's Trade Union Advisory Council

**Education:** B.A. from Swarthmore College and Ph.D. in Economics from the University of Michigan
PROFILE: MANAGED BY Q

Happiness Can Be an On-Demand App

BY KATIE BENNER, BLOOMBERG VIEW

I’ve been to two big gatherings of on-demand workers — the service-providers available through the apps of companies such as Uber, Lyft, TaskRabbit and Homejoy.

At the first meeting, last spring, drivers assembled in San Francisco to protest their treatment by Uber. They said the ride-hailing company was exploiting them. Uber staff members struggled to appease the disgruntled contractors, and the conversations were heated and tense.

I attended a very different kind of session this winter at the headquarters of Managed by Q, a New York startup that matches workers with companies that need office cleaning.

These workers, called “operators” mingled with company founders, executives, engineers and sales staff at one of Q’s monthly operator assemblies. The conversations were loud at times, punctuated by hellos, hugs and high fives. They had gathered to express their concerns and problems and learn more about the company’s growth. Several operators told me they loved Q as well as the businesses they cleaned, which they referred to as their clients.

The tension at Uber and other big on-demand companies is the norm. The scene I witnessed at Q is an anomaly. What sets Q apart is that its operators are full-fledged employees who get benefits, including health care.

Most other on-demand startups regard their workers as contractors who aren’t necessarily eligible for the minimum wage, benefits or compensation for on-the-job injuries and other claims.

Contract workers have sued Uber, Lyft, Homejoy, Postmates and Instacart to be recognized as employees. You are unlikely to find them spending afternoons fraternizing at headquarters.

Q’s model is a direct response to many of the questions hanging over the freelance economy.

"Q’s model is a direct response to many of the questions hanging over the freelance economy."

Can you offer a consistently high-quality experience with a workforce that is temporary? How important are loyalty and consistency as companies expand?

Uber, for example, has reportedly used drivers that have assaulted and harassed passengers. The chances of getting a dangerous Uber driver are still vanishingly small. And that tiny risk probably doesn’t matter to an executive rushing to the airport. But it may matter a lot to people who think about using the app to pick up unaccompanied children or elderly relatives.

Other on-demand startups, such as the butler app Alfred and the food delivery app Munchery, are also treating employees as workers, not contractors. Hunter Walk, a seed investor in Q, believes that more on-demand companies will start to think about labor that way — even if they don’t offer full-time jobs — for two big reasons.

First, employment laws could change to account for the increase in companies that depend on contract workers and there will be a push to create a new worker category that is a hybrid of traditional full-time employment and contract labor. No one is sure what that might look like, but it could include some combination of benefits and insurance for people who work the equivalent of a full-time workweek.

Second, when labor markets are competitive — increasingly the case in the on-demand sector — workers will take company culture into account. To attract the best talent, companies will need to show they value drivers, handymen and housekeepers in the same way as, say, tech workers who write code.

“It will be a harder sell to create an environment where companies coddle tech talent and treat everyone else poorly,” Walk said.

Q has found a way to overturn the industry standard of turning workers into a cheap commodity: It offsets the lower margins on labor costs through the sale of higher-margin products and amenities.

The company charges $25 an hour for cleaning, with a four-hour minimum. Operator wages start at $12.50 an hour, plus benefits, with an opportunity for a performance-based raise every six months.

But Q’s operators do far more than just clean. They also deliver and manage a package of goods and services, just like the fictional Q in the James Bond movies.

Customers can buy Q’s cleaning supplies at a starting rate of $50 a month, and they can also purchase basics such as toilet paper and hand soap. The operator orders items when they run low and puts them away. They keep notes and take care of special requests. Q can also supply maintenance people when repairs are needed.

Over the past year, Q’s clientele has grown to more than 200 from 15. Other startups, including Kickstarter, Oscar Health and Uber, account for 40 percent of the customer base. The one-and-a-half-year-old company has raised more than $2.4 million in venture funding, and it will expand to Chicago this spring.

Q’s co-founders, Dan Teran and Saman Rahmanian, said the only way to provide consistently great service was to have loyal, committed operators — hence the operator assemblies, higher wages and the benefits.

They also say that treating employees with respect is the right thing to do, and you get the sense that they really mean it.

Walk is right: Q is onto something big. Even if it doesn’t become an Uber-size business, it is now becoming the standard-bearer for a new type of on-demand service company that values all of its workers.

— This column originally appeared on Bloomberg

April 9
Q&A

'All Companies Are Targets' for M&A, Hindered by Regulation, Says Viant's Smith

Regulatory uncertainty poses a threat to M&A in the sharing economy, says Scott Smith, CEO and founder of California-based investment bank Viant Capital. He spoke to Bloomberg Brief reporter Hema Parmar on May 19. His comments have been edited and condensed.

Q: What’s your outlook on M&A activity within the sharing economy?
A: I expect M&A activity to grow rapidly and to be at all levels. I think all of the companies are targets.

Q: Even giants like Uber and Airbnb?
A: Absolutely. These companies are backed by venture firms, which means they’re all going to be looking for an exit three to five years afterwards. Some like Airbnb have already gained sufficient size and momentum to be able to be a public company. But the vast majority will never attain that kind of size.

Q: How do sharing companies differ?
A: There are distinctions between the sharing of goods and the sharing of services. If you look at the services side that’s where it gets very complicated. For example with home help or child care, there are websites now that are providing direct access to care providers and getting rid of the home-help agency or the after school programs. That is one aspect of the sharing economy where it’s purely services. And it’s a different sort of metric with Lyft or Airbnb where you’re providing maybe a service but also a room, or a car ride.

Q: How does that affect M&A activity?
A: They will be acquired by different people. I could easily see one of the major hotel companies buying Airbnb to keep their eyes on the space and to keep it within the family. I could also see Airbnb being acquired by one of the major web properties because of the ability to get eyeballs and readership. Another very logical acquirer of Airbnb would be the travel sites, [like] Expedia. With the service companies it’s a little complicated to figure out where they’re going to land. But certainly if you look at home help [startups] for example, some of the major health-care providers might acquire them.

Q: Are there different risks?
A: Very much so. This is the interesting thing about the entire sector that is an impediment to an acquisition. Lyft and Uber are skirting both the limousine and the taxi rules throughout the world. And they are subject to a tax locally and internationally by the taxi companies, by the regulators and by legislatures. For Airbnb, this has become a huge problem. Almost all cities regulate hotels. Airbnb is technically not under the hotel regulations, is not under the health and safety code regulations that a restaurant or food provider would be under. And there’s a real question in everybody’s mind as to where the regulation should be imposed. Should every Airbnb venture be regarded as a hotel operator, for example? And should the Lyft drivers be required to have taxi medallions?

Q: How will this be resolved?
A: What will be created is a third set of regulations for these emerging companies. I think Uber and Lyft are going to have a set of regulations ultimately imposed on them that’s rational. Similarly with Airbnb I think we’re going to have local counties mandate that if you rent out your property it has to meet certain code standards and you have to have an insurance and various other things like that. Those would be beneficial provided it doesn’t kill the opportunity.

Q: What are the benefits of services?
A: There’s a company called CareLinx, another one called CareZone. If you hire a person from CareLinx, CareLinx takes care of all of the filings — tax filings, social security filings, FICA filings — on behalf of the employer. This is a huge benefit to the user of the services, because for many years California has had a law that anybody providing services in the home is legally an employee, which means you have to provide workers compensation, pay social security and FICA. The new company is actually providing compliance with the regulation rather than avoiding the regulation.

Q: How do you value sharing?
A: We’re valuing these companies on a combination of current revenue, but also projected revenue growth. If you look at the recent valuations that Uber, Airbnb and Lyft achieved, it’s because people looked at not only the places where they are, but all the places they can go and replicate their model. A lot of it is your sense of where they can go in the future. These valuations have no basis in current reality.

Q: Where would Uber or Airbnb IPO?
A: It wouldn’t surprise me to have them be valued at 10-12 times current revenue. I think both Airbnb and Uber are likely to go public. And maybe they go public at the very low end of the range, which would be 5-7 times revenue. Most public companies are valued on forward-looking growth. The only thing that can set them back is a series of very negative regulatory findings against them.

Hometown and base: San Francisco
Career history: Lawyer at Pillsbury Winthrop; co-head of tech banking at Credit Suisse; founder of Viant Capital
Favorite sharing company: Uber
Favorite recent movie: Sharknado
Favorite restaurant: Harry's Bar, Venice, Italy
Favorite toy: Drone with GoPro camera
Best recent vacation: St. Barts
Hobby: My garden
If you could have another career it would be: Skateboarder and 20 years old
M&A OUTLOOK

Fast Growth of U.S. Sharing Economy Today May Mean M&A Tomorrow

BY BEN EISEN, BLOOMBERG BRIEF

When Robin Chase co-founded car-sharing company Zipcar Inc. in 1999, she had no illusions about the endgame. "We always knew that we would eventually either have an IPO or get purchased," Chase, who was chief executive officer until 2003, said by e-mail.

Zipcar ended up doing both. The company’s public offering was in 2011, then it was acquired by Avis Budget Group Inc. for $509.9 million in 2013.

A growing number of companies built around providing on-demand services, often by pooling resources in what’s become known as the sharing economy, is poised to face the same decision. Companies like car-hailing start-up Uber Technologies Inc., said to be raising money at a $50 billion valuation, and room-rental service Airbnb Inc., said to be doing the same at a $20 billion valuation, have helped a once remote concept grow into a burgeoning business model.

 Bank of America Corp. strategists led by Sarbjit Nahal said in a report last month that there’s a $450 billion market in the U.S. for services that could be disrupted by the sharing economy. As the flow of money helps create dominant players in the space, smaller competitors may join forces to try to displace market leaders, according to Michael Stiller, a tech analyst at Nasdaq OMX Group’s advisory services unit.

“When you have a winner-take-all marketplace environment, they are truly more valuable as they grow,” he said.

Because there’s no precise definition of what’s included in the sharing economy, pinpointing its size is tough. According to an Aug. 15 study last year by PricewaterhouseCoopers LLP, the sector had $15 billion in annual revenues in 2013, which could grow to $335 billion by 2025. Arun Sundararajan, a professor at New York University’s Leonard N. Stern School of Business who researches the sharing economy, puts that number anywhere between $150 billion and $1 trillion in a “few” years’ time.

That’s fertile ground for U.S. companies that are flush with cash and on the prowl for acquisitions. There was $3.3 trillion of M&A activity globally last year, the most since 2007, and $1.5 trillion is in the

“When you have a winner-take-all marketplace environment, they are truly more valuable as they grow.”

— MICHAEL STILLER, A TECH ANALYST AT NASDAQ OMX GROUP’S ADVISORY SERVICES UNIT

books so far this year, according to data compiled by Bloomberg.

Paris-based Comuto SA’s BlaBlaCar bought rivals Carpooling.com and AutoHop for undisclosed sums earlier this year. China’s two largest taxi-hailing apps merged in February to create Didi Kuaidi Joint Co., which is backed by Internet giants Alibaba Group Holding Ltd. and Tencent Holdings Ltd. The lack of M&A in the U.S. could give way to purchases down the road, according to Sundararajan.

“Ride sharing is an area where the funding is very heavy among the top couple of players, but for the smaller ones it’s more unclear whether they will be able to sustain themselves compared to their well-capitalized peers,” said Matthew Wong, lead research analyst at CB Insights.

In the hotel industry, the rise of house-sharing services is catching the attention of traditional hotel companies that have historically shied away from the sector. Hyatt Hotels Corp. is “collaborating” with onefinestay, according to Hyatt spokeswoman Amy Patti. The Wall Street Journal reported last month that the hotel chain invested in onefinestay’s $40 million funding round.

For hospitality companies, which have already diversified into auxiliary areas like senior housing, room-sharing could be another complement to the core business, according to Sean Hennessey, clinical assistant professor at the Tisch Center for Hospitality and Tourism at New York University School of Professional Studies.

“Certainly from the hospitality point of view there is momentum for M&A activity,” Hennessey said. Home-sharing’s appeal to younger consumers with less money offers a chance to “rope in lifetime customers” for traditional companies that are already trying to lure that cohort with hip branding, he said.

Still, the hospitality industry embodies some of the challenges for traditional companies jumping into the sharing economy, including a patchwork of legal restrictions on home rentals.

Because the sector is still young, few sharing-economy companies have made M&A a priority, according to Sebastian DiGrande, who heads Boston Consulting Group Inc.’s West Coast Technology, Media and Telecoms practice.

Sharing economy companies “are more focused on getting to what I would describe as critical mass in their given market than they are on M&A,” he said.

“That doesn’t mean downstream they won’t do M&A, but to me that’s still where we are in the evolution.”
COMMENTARY: CONSOLIDATION

Boom in On-Demand Apps, Waiting for Consolidation

BY KATIE BENNER, BLOOMBERG VIEW

I had a lot of things to mail recently, so I tried to download an app called Shyp, which would let me summon a courier to pick up and mail my packages. But I couldn’t get Shyp because I’ve maxed out my phone’s storage capacity with lots of other apps that let me call for food, car rides and cleaning services. I’ll probably delete Netflix to make some room, since watching “West Wing” reruns is less important to me than avoiding a trip to the post office.

My phone is crammed full of apps for on-demand services. It’s just one sign of the crazy boom in companies that want to turn our phones into remote controls for the real world.

Money is pouring into these startups. U.S. funding grew by 514 percent to $4.1 billion in 2014, and that number will probably double this year, according to a recent research report from CB Insights. A total of $9.4 billion has been spent on 263 deals since 2010, when the trend began. In 2010, there were fewer than 20 venture investors in the space. There were 198 by the end of April 2015.

The clamor to get into on-demand companies has been driven by the runaway success of Uber. At the industry’s On Demand Conference, it was impossible to avoid the phrase “Uber for.” (See our related feature.) Steve Schlafman, a venture investor at RRE and a panelist at the event, said that someone had even tried to pitch him an “Uber for private investigators.”

Most people I know in San Francisco — usually other yuppies like me — use on-demand service everyday. Uber for a ride home. Sprig when there’s no time to grab lunch. TaskRabbit when Ikea furniture must be assembled. New apps promising a more convenient, pampered world spring up all of the time.

But California, and the Bay Area in particular, is basically a test kitchen for all sorts of ideas. It’s easy to forget that few of the buzzy startups out here survive.

It’s hard to read that frothy CB Insights report and not think that all this growth will end like the previous boom in social networks, which was driven by the huge success of Facebook. There will be a handful of other big winners, a lot of consolidation and a lot of failures.

Patricia Nakache of Trinity Ventures says her firm believes in the on-demand economy in part because the millennials generation wants products and services that fit into a lifestyle of smartphones and instant gratification. Trinity is invested in Eat Club (on-demand meals) and Zirx (on-demand parking).

But even Nakache thinks that there will be consolidation. Part of the reason the investment dollars are flooding the zone, she argues, is that many of the winning companies will be those that got the biggest the fastest: “There are low barriers to entry for lots of companies in the space, like on-demand alcohol delivery,” she says. “Never underestimate the power of branding, but for these companies, generally speaking, the way to achieve any barrier is to go for market domination.”

So as the money flows and new startups are formed seemingly every month, here are some ways that the on-demand space will probably shake out.

**Startups will deliver service people, not just stuff:** Uber, Lyft and Postmates have shown that people are comfortable having strangers shuttle them and their stuff from door to door. The next step is to get people into our homes. TaskRabbit has been doing this for awhile, but a new crop of startups including Handy, managed by Q, Soothe and Alfred are sending plumbers, cleaning people, masseuses and personal assistants into our homes and offices. This new type of service throws some thornier issues into the mix, especially around labor. Outsource to minimize cost (the industry norm) or hire full-time employees to assure quality (as Alfred and Q do)? These are two wildly different business models, and it’s unclear which will win out.

**Regional players will consolidate:** Do we really need Washio in Los Angeles and Rinse in San Francisco? It might make sense for startups that are attacking the same problem in different cities to get together. Companies that have the strongest operations and best cost structures will be in a position to roll up other players.

A few mainstream companies have dipped their toes into M&A in the sharing economy. Daimler bought MyTaxi and RideScout in September 2014 and Avis Budget Group bought ZipCar for $507 million in January 2013. But most M&A so far in this sector has been startups buying other startups. Sharing economy companies that have gone public especially seem to be trying to roll up their sectors. The above table looks at some of the more active acquirers.

Startups Quietly Buy Up Their Sharing Economy Peers

<table>
<thead>
<tr>
<th>ACQUIRER</th>
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<tr>
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<td>Localmind, Fondu, DailyBooth, Crashpadder</td>
</tr>
<tr>
<td>Chegg</td>
<td>8</td>
<td>Internships.com, InstaEDU, Campus Special, Bookstep assets, Zinch, Student of Fortune, Cramster, CourseRank</td>
</tr>
<tr>
<td>Etsy</td>
<td>3</td>
<td>A Little Market, Grand Street, Lascaux</td>
</tr>
<tr>
<td>HomeAway</td>
<td>14</td>
<td>Redbeacon, Stayz Group, Travelmob, BedandBreakfast.com, Abritel.fr</td>
</tr>
<tr>
<td>Zipcar</td>
<td>4</td>
<td>Denzel Mobility, Streetcar, Flexcar</td>
</tr>
</tbody>
</table>

Source: Bloomberg Briefs and Bloomberg MA<GO>

May 26
VENTURE FUNDING

BY JENNIFER ROSSA, BLOOMBERG BRIEF EDITOR

Follow the Money: Sharing Startups Have Attracted Billions in Capital Since 2010

Given that no one can agree on what exactly the sharing economy is, statistics about it are hard to come by. CB Insights estimated in May that "on-demand" U.S. companies have raised $9.4 billion since 2010 including Uber, and $3.89 billion excluding it. Tracxn figures that under a liberal definition of the sector, companies have raised $9.6 billion over the same period. Jeremiah Owyang, founder of crowdcampanies.com, says about $15 billion has been raised over time, including "the venerable eBay, founded in the dim mists of technological antiquity." Data also varies on which firms are the most active investors. Tracxn puts Y Combinator at the top of its list, with eight investments. CB Insights lists SV Angel as most active. The data on this page is from Tracxn.

VC Funding for Transport Dwarfs Other Sectors

A Global Phenomenon: Capital Raised by Country

Source: Tracxn
Q&A

Sharing Economy Will Reinforce Income Inequality, Says Menlo's Ganesan

The sharing economy will be great for consumers, but not so great for the income gap. Venky Ganesan, managing director at Menlo Ventures, told Bloomberg Brief editor Jennifer Rossa. The firm has invested in companies such as Uber, Poshmark, Getaround, Munchery and Rover.com.

Q: How did you first get interested in these types of companies?
A: Menlo Ventures has always said, let’s pick an area that’s interesting and focus on it. A few years back we felt there was a combination of things that made the sharing economy work. An important question is, why now? First is the explosion of mobile phones, which gives everyone out there access. Secondly we had the Great Recession, which created a big labor mobile force. You had people out there looking for ways to supplement their income and that brought a lot of freelance people in at a time when the sharing economy was blossoming. It’s the concept of a stranded asset. In Uber’s case it is what I call stranded capital of a car. With Airbnb it is a stranded second bedroom. Cloud services and big data are another component. A lot of these services start with information in the cloud and then use big data. We have gone through vertical by vertical thinking about which marketplaces to invest in.

Q: What does the sharing economy mean for how we think about work?
A: We’re going to be reshaping how we work and what it means to be a fixed labor force. The sad truth is, ObamaCare has probably done more to improve mobility of the workforce than any other initiative conservatives had in mind. There are lots of implications, not all good. We’ll move closer and closer to a freelance economy. People with a much more variable view of what work is.

Q: How will that affect income inequality?
A: It will reinforce it. We all want a meritocratic world but the challenge is that leads to income inequality. If you had perfect information about all the doctors in the world, who is going to want who are the best at what they do will get more. Ironically as you get more meritocratic the median person faces a reduction and so does everyone below. Unless you live in Lake Wobegon, most people are average, and being average isn’t great. We need to think about how we balance that wealth creation with more social nets for people who get trapped below the median.

Q: Ideas to address that?
A: I’m sure my capitalistic brethren will hate me for saying it, but you’ll have this incredible wealth creation that creates tax revenue. You need to take that tax revenue to fund social programs and safety nets.

Q: Another person we spoke to said that if this industry were properly regulated, at best it would add modestly to growth and wealth.
A: I disagree. You’d still add a lot of wealth. The challenge we have is 19th century labor laws conflicting with 21st century economics. Overtime laws were written because if you were working over 40 hours in the industrial age, you can’t take that physical toll. People retired at 55 and died at 70. Jobs are changing. People will work beyond 55 and won’t die in their 70s. We need to update our laws and should address who is an employee, who is an employer, and who is a contractor. A lot of these companies are in the middle of what I call regulatory arbitrage. Clear regulations would create a positive effect, not a negative effect.

Q: What are the next big areas for sharing economy companies?
A: I think all local services are going to be affected. Think about your day and the things you do locally. You go to the grocery. That will be a marketplace. You wash clothing. Women get a mani-pedi and other aesthetic services. There is someone doing a service for you and there is a company in the middle that hired that person and coordinated the service. When the transaction cost is low the provider can transact directly. It’s better for the person getting the service and the person doing the service.

Q: What other places besides local services?
A: High value transactions done infrequently through brokers, like real estate. Financial services — for most people they’re hard to understand, so they pay someone in the middle. A topic that’s close to home because my wife is a doctor is medicine. There’s a doctor, a patient, the employer, the insurance company. If you think about how the money flows, there are lots of people taking pieces of the transaction. Education is another big sector. Take Udemy [Menlo is not an investor]. Teachers usually do a lesson plan. Some teachers said, why have every teacher do a lesson plan? So teachers use their own money out of pocket to buy these lesson plans.

Q: Do you see big regional companies forming? Global ones?
A: I absolutely expect that there will be very meaningful regional players. In India and China Uber is behind. If Uber doesn’t have the most meaningful number of drivers in Columbus, Ohio you’ll go with Lyft. These markets will be won city by city, country by country. It’s still very early.

AT A GLANCE

Hometown: Coimbatore, a small town in India
Career: Microsoft, McKinsey, started my own company (Trigo Technologies, sold to IBM), Globespan Capital, Menlo Ventures
Favorite app: Twitter
Recommended book: Influence by Robert Cialdini
Favorite restaurant: Three Seasons, Palo Alto
Favorite vacation spot: Watching SportsCenter in bed on my big screen TV (doesn’t happen often since my wife wants to watch crime shows)
to go to the surgeon with a lower success rate? As we get more transparency the people
#UBERBUTFOR

"Uber, but for..." jokes are so ubiquitous that there's now a spambot retweeting them. Here are some of our favorites.

Specialization is the name of the game these days. But this idea may be a little too much so.

Jimmy Dunn
@jimmy_dunn

.@_AlexLawrence #UberButFor sticking your hand down the disposal to see if a fork is down there.

Details

Uber for stuff you don't want to do is in fact a common theme.

Mad Ted: Country Rd
@Top_level_Ted

Like Uber, but for getting other people to go to the dentist for you

Details

I wouldn't want to do this, either.

Chris Eppstein
@chriseppstein

Uber but for putting camping equipment back into its original bag.

Details

Scheming happy-go-lucky dogs are a thing.

Purge.
@QuienPagaElige

@umairh Uber but for dogs that want to be walked. All the early adopting dogs have downloaded the app.

Details

And so are shirking cats.

Chris Taylor-Davies
@CTD

Business idea. Uber for cats. If you need a cat for a short time the app will connect you with one in your area for a visit. Probably.

Details

Love this.

Michael Tams
@michaeltams

*carries mattress around*
*creates app like Uber but for naps*
*calls it Napster*
*gets sued by Lars Ulrich*

Details

Maybe someone should call John Kerry.

Alex Blagg
@alexblagg

Wish there was an app that's like Uber, but for getting weapons grade plutonium

Details

And finally, the "Uber, but for" backlash is in process.

Dave Higgins
@davehiggins1

I would have to imagine that venture capitalists are tired of hearing pitches that begin "It's like Uber but for..."
QUOTED

"In 2008 we were introduced to these people. They called them angels. I'm like, oh my god, these people believe in angels. They were called angel investors, of course. They had the opportunity to invest $150,000 in Airbnb, at like a $1.5 million valuation. Everyone turned the idea down. And so we resorted to selling collectible breakfast cereal."

— Airbnb CEO Brian Chesky on May 11 telling Bloomberg TV how the company got its start

"The jury in this case will be handed a square peg and asked to choose between two round holes. The test the California courts have developed over the 20th Century for classifying workers isn't very helpful in addressing this 21st Century problem."

— Judge Vince Chhabria of the U.S. District Court of Northern California on March 11, presiding over a case about whether drivers for ridesharing companies are contractors or employees

"The sense that you don't own things is much more prevalent than it used to be — that you're really only renting things anyway. It gets down to something that all of us can understand: Why do you own something you don't use very much? It's probably never made sense to do a lot of things we've done, but it sure is a lot easier to share them today."

— Christopher "Kit" Kaufman, a partner at Latham & Watkins, on June 3 in an interview with Bloomberg Brief

WHAT TO READ  COMMENTARY AND ANALYSIS FROM AROUND THE WEB

■ How to classify workers in the sharing economy? Robert Sprague, associate professor at the University of Wyoming College of Business, writes that classification tests should focus "not on the dependence of the workers on the employer, but the dependence of the employer on the workers."

■ Insurance may have to adapt to the rise of the sharing economy, writes Tim Sablik in the Richmond Fed's fourth quarter magazine. He says that insurance, historically separated into personal and commercial categories, may see demand for mixed-use products as sharing companies grow.

■ There's a lot of talk about how the sharing economy needs to be regulated. But what if these companies can replace some regulatory functions? That's the argument of a paper from authors at George Mason University's Mercatus center. The authors write: "By facilitating greater trust while simultaneously opening up new innovations and opportunities, these new Internet-based mechanisms promise to revolutionize modern marketplace interactions. This should force a reevaluation of traditional regulations aimed at addressing perceived asymmetric information market failures, regulations that have typically failed to improve consumer welfare while also undermining innovation and competition."

■ Cities have more work to do to regulate sharing economy companies, according to a survey conducted by the National League of Cities. The survey found that 59 percent of cities impose no regulation on ride-sharing, and 58 percent impose no regulation on home-sharing. The largest percentage of respondents, 61 percent, said that "public safety" was a sharing economy concern.

■ Among sharing economy customers, 18.4 percent — representing about $600 million of transactions annually — expressed some level of dissatisfaction, according to a survey by TrustCloud.

QUIZ

Which of the following 'Uber but for' ideas are fake?

A) Uber for cash so you don't have to go to the ATM
B) Uber for iPhone repair
C) Uber for airport lounges
D) Uber for cabana boys
E) Uber for drones
F) Uber for umbrellas
G) Uber for barn raisings
H) Uber for private investigators
I) Uber for tailors
J) Uber for getting packages
delivered to a neighbor
K) Uber for siestas
L) Uber for putting gas in your car
M) Uber for backyard pools
N) Uber for marijuana delivery

Answers here
Q&A

'It's Not About Transactions:' TimeBanks Founder Cahn on the Essence of Sharing

Sharing is a way to channel productive capacity not valued by the market while also strengthening communities, says Edgar Cahn, founder of TimeBanks USA, a non-profit forum for the exchange of time and skills. The 80-year-old legal professor — a former counsel and speech writer to Robert F. Kennedy — spoke to Bloomberg Brief editor James Crombie on May 20.

Q: What does 'sharing economy' mean to you?
A: For me it's a sense of stewardship. All of us have assets and the question is whether those assets are held exclusively to line our own pockets or whether they are held as trustees to build the kind of world we all want to live in together.

Q: How does it work beside money?
A: Look at the capacity in the community we have that the market does not value. I consider aging baby boomers to be part of that, and the disabled and returning veterans and people returning from prison. The sharing economy embraces an attempt to enlist untapped or underutilized capacity to meet unmet needs.

Q: Why does this resonate now?
A: I consider home, family, neighborhood, community, civil society to be an operating system that was subsidized considerably by labor exacted from the subordination of women and the exploitation of minorities and immigrants. When you take that labor out of that operating system, you need a serious upgrade. I view time banking as a way to say, 'How do we upgrade that operating system, because it undergirds the whole monetary economy.'

Q: What is 'time banking'?
A: A medium of exchange that enables everybody to use his or her time as a currency, both to earn and to spend, to save, to invest, in ways that money does not do, and I believe cannot do. It may be an idea whose time has come with the sharing economy and an awareness that wealth is something other than stuff.

Q: So you replace money?
A: Money works brilliantly to provide a way of distributing what's in short supply. I have yet to meet anybody in the Wall Street world who doesn't acknowledge the existence of domains that are above and beyond money. What has been missing is a medium of exchange that would enable us to strengthen, reinforce and reaffirm those values. I don't think it's a currency that will replace money.

Q: How successful has time banking been, and how do you measure that?
A: It's become almost a concept that takes on a life of its own. And in that sense it's successful. It's about exchanges but we know of 2 million hours registered over the past say 10 years in time banking in this country and at least another 2 million in England, Scotland and Wales. We also know that 55 percent of the people in the largest time bank that was going at the time did not even record their hours. When we asked why, what they told us was, 'Time banking is about relationships, and the relationships are more important than the digits.' You can't commodify relationships so there's an inherent contradiction a medium of exchange that tries to give it value. It's that spirit that infuses the sharing economy. It's not about transactions.

Q: This all sounds very Utopian.
A: I don't think it's Utopian. All of us has a big side and if that's appealed to, we respond with our biggest selves. I would like us not to exact dependency as the price of giving help. I would like us to value work that builds community.

Q: Isn't Time Banking open to abuse?
A: In all these years — we're talking millions of transactions — we know of only one theft of one cellphone in one public housing complex, and within an hour that whole community knew who had done it and that teenager had a lot of time credits to earn to get accepted back into that community. If you're doing respite care for the elderly, you have to run a police background check. The same is true if you're focusing on childcare and pre-school.

Q: What are the biggest challenges of time banking?
A: What we've found most difficult, ironically, is getting people to spend their credits, not to earn them. People don't like to ask for help. Probably that's the culture of this country.

Q: What do you make of all the new so-called 'sharing' sites out there?
A: You can commodify stuff, like rides, a room in your house. I don't think you can commodify things that you feel are unique and are above and beyond price. Price has invaded in a disturbing way every domain of value and part of the sharing economy is a reaction to that.

Q: Is it OK to make money on this?
A: It's not bad, but it's just different. To the extent that it enables people to get rides that they couldn't have gotten before, or go places that they couldn't afford, that's desirable.

Q: What are the bigger regulatory issues for the sharing economy?
A: There are going to be a great many challenges, in the sense that, if you look at licencing and credentialing, it serves a purpose, supposedly of quality control. But it creates a quasi monopoly.

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Recommended Reading:
- Change the Story, Change the Future by David Korten
- The Zero Marginal Cost Society by Jeremy Rifkin
- With Liberty and Dividends for All by Peter Barnes and 'anything by Robert Reich'

Hobbies: Silversmith ('I make pins and cufflinks'), gardener
Favorite cuisine: Indian
Vacation spot: 'Anywhere I can snorkel'

Transferable skill from government: Respect for human beings
To the best of our knowledge, F, G, H, K, and M do not yet exist.

Answers to quiz: To the best of our knowledge, F, G, H, K, and M do not yet exist. N exists, but only for medical marijuana, so far — and even there new regulations are forcing companies to move cautiously. In Washington state, for instance, Canary shut down after legislation banned delivery of marijuana. Also, figuring out which of these ideas already exists is hard — we would have said J wasn't a thing, either, but that was before we saw this ad pasted to a Brooklyn (where else?) lamppost.