



REIT Investors: Should You Buy This Disrupting New IPO?

Description

Real estate investors holding hotel REITs may have an imminent market disruptor on their hands, as the budget accommodation rental service Airbnb looks all set to go public in 2020. The IPO could see a loss of market share among traditional hotel businesses, strengthening the rental and tourism app's bottom line, and knock value off of some key holdings in North American stock portfolios, as investors switch teams.

However, the public listing could also give investors a route to some quick upside, as the stock is sure to be popular among tech and momentum shareholders. Airbnb is one of the [stars of the gig economy](#), and like its peers **Uber** and **Lyft**, it hopes to attract the attention of investors by going public. With more than seven million Airbnb listings spread across every city you can think of across the globe, business is booming.

Will Airbnb have staying power?

What's been so remarkable about Airbnb's rise to prominence is that it has done so from the depths of the financial crisis. On the flip side, the hotel industry has also fared extraordinarily well, given not only the severe market decline of 10 years ago, but also the intense competition from Airbnb.

Is there enough market share for both business models? So far, the two temporary accommodation types have managed to coexist fruitfully. However, in terms of investment, Airbnb's IPO could detract from traditional hotel real estate investment trusts. Another area of investment that could be impacted includes tech stocks — an area that often values platform over business sector.

The question remains, though, as to whether Airbnb will sink or swim when it hits the stock markets. Recent tech and app-based IPOs have fared poorly this year, and while the financial landscape of 2020 could look rather different from today's, a tech-cum-hotel stock might be something of a gamble. In summary, hotel investors may want to hold onto their REITs.

Don't sleep on these investment opportunities

American Hotel Income Properties REIT ([TSX:HOT.UN](#)) is one such stock. Paying a monthly dividend with an extraordinarily high 12.5% yield, American Hotel is easily one of the richest of its kind on the TSX and offers investors [a lucrative pure play](#) on major hotel brands in the U.S.

American Hotel's fundamentals are decidedly mixed, with a high share price relative to income. This could put it at risk of a sell-off, with or without the challenge from Airbnb, especially if a market correction rears its ugly head.

The rise of the gig economy and a softening hotel sector over the last quarter raise further red flags. Since hotel REITs are the most closely correlated REITs to the economy, stressors such as job growth and consumer sentiment leave dividend payments hanging in the balance, with a market correction likely to take a swing at that impressively juicy yield.

The bottom line

Investors seeking exposure to the hotel industry have a clear winner with American Hotels. Tech stock fans and momentum investors may want to check out next year's Airbnb IPO, though whether traditional hotel investment trusts suffer a loss of market share will remain to be seen.

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1. TSX:HOT.UN (American Hotel Income Properties REIT LP)

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