



The secret under the sheets

The truth behind your next booking with Airbnb

**Published by the Hospitality and Tourism Research
Institute**

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Toronto, Ontario May 2016

To cite this report:

Gumbs, Q., Dodds, R., & Griffin, T. (2016). *The secret under the sheets: The truth behind your next booking with Airbnb*. Ted Rogers Institute for Hospitality and Tourism Research, Ryerson University. Retrieved from: www.ryerson.ca/content/dam/tedrogersschool/htm/documents/ResearchInstitute/Airbnb%20Report.pdf.

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Executive Summary

The rise of the sharing economy gave way for disruptive innovation companies to make their marks on and change the existing business to consumer frameworks. Airbnb has become a poster child for how one business can disrupt an entire sector. The objective of this report is to understand the impact of Airbnb on tourism destinations. Particularly, the aim of this study is to ascertain the impacts that Airbnb has had on travellers' behaviours and the appeal of Airbnb as an accommodation option. Additionally, the legal; environmental; economic; and social implications of Airbnb will be investigated.

Some of the key findings of this study indicate that: travellers' behaviour patterns are being influenced due to the access to low-cost and alternative accommodations; Airbnb poses some threat to the housing market as it is reducing supply and increasing costs, but also raises challenges for the hotel industry and brings both positive and negative consequences to many communities.

Because of these implications there is an obvious need for governments to clearly define the legal parameters for Airbnb users in order to minimise risk and allow it to operate in an environment that produces the best outcomes for all stakeholders involved. Although there is the need for greater policy guidance, over regulation can be just as ineffective as none. Therefore, regulators will have to employ creative and innovative methods in order to produce flexible and timely policy that allows Airbnb and its positive benefits to thrive.

This report concludes by forecasting what the future holds for the business environment with Airbnb as a part of it. This is an integral part of understanding the implications of the study since it recognises that the company may become a permanent part of the business environment and will definitely continue to further shape the way business is done in the future (which is one of its features as a disruptive innovation).

Findings from this study will improve the understanding of positive and negative implications of Airbnb which can then shape decisions for decision-making in the future.

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1 Introduction

The tourism sector is quite impressionable and has evolved over the years to accommodate many shifts imposed on it through external factors. There are many examples to illustrate the industry's innovative response to global trends. When environmental conservation became a primary concern, the industry responded by offering more eco-friendly services and depending heavily on policy as a means to reduce its adverse impacts on the environment. As technology improved, the tourism industry responded by developing mobile applications and analyzing big data for consumer trends and relationships. Once again, the tourism sector is tasked with the job of responding to the emergence of a new economic framework aptly dubbed the 'sharing economy'. Initial discussion will explore and define what the sharing economy is, followed by a more thorough look at Airbnb and implications for communities and traditional accommodation sectors.

2 Defining the sharing economy

The 'sharing economy' is also referred to as the 'peer economy', 'shareconomy' or 'collaborative consumption'. While there seems to be no widely agreed upon definition of exactly what the term includes, there seems to be a general understanding that the sharing economy is a socioeconomic system which bridges demand and supply through the sharing of underutilized assets (Botsman, 2013). This economic model is based on the online peer-to-peer "sharing, swapping, trading, or renting products and services, enabling access over ownership" (Botsman, 2013). Where traditional public sector economic conditions have created environments where information is guarded, processes are closed, and organizations are hierarchically rigid, new sharing economies promote a culture of openness, collaboration, and empowerment of different users (Johal & Zon, 2015). There are several characteristics of the sharing economy system which warrant defining:

1. Redistribution markets: Allowing for unwanted or underused goods to be redistributed;
2. Collaborative Lifestyles: Non-product assets such as space, skills and money are exchanged and traded in new ways; and
3. Product Service Systems: Accommodating consumers' desires to pay for the access of a product rather than needing to own it outright.

The term disruptive innovation is a common feature of these businesses. Simply put, disruptive innovation refers to the “process by which a product or service [which] initially [started] at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors” (Christensen, 2016, p. 1). Allen and Berg (2014) theorize that the distinguishing characteristics of disruptive innovation include “decentralised exchange, a focus on access over ownership of resources, firms becoming the facilitator of exchange (rather than acting as a producer), and mechanisms of self-governance” (p. 4). Subsequently, businesses that operate within the sharing economy have ‘disrupted’ many established industries, for example in transportation (e.g., Uber, Getaround), finance (e.g., Lending Club, Zopa), borrowing and lending (e.g., SnapGoods) and service providers (e.g., Zaarly). The sharing economy has also extended to the accommodation industry with businesses such as Airbnb, VRBO, Homestay and OneFineStay.

In the hospitality industry, disruptive innovation companies like Airbnb led researchers for the 2013/2014 World Travel Trends Report to question, “is ‘sleep cheap’ the next mega-trend?” (Messe Berlin, 2013). The report (written in 2013) acknowledges that over the last four years the total number of “international overnight stays has increased by 16% to 7.5 billion nights” (p. 22), but a large part of this rise was in private or alternative accommodations which saw 31% growth. Moreover, Messe Berlin (2013) reports that low-cost accommodation

providers like Airbnb serve to benefit the most from the trend of increase demand for low-cost, no-frill companies by generation Y consumers.

3 Airbnb

Founded in 2008, Airbnb is “a community marketplace for people to list, discover, and book unique accommodations around the world — online or from a mobile phone or tablet” (Airbnb, 2015a). Throughout its short existence, Airbnb has experienced exponential growth. In 2011 alone the European market expanded by 784% (Rinsema, 2012). In the same year Airbnb opened 10 offices in 7 different time zones with the ability to communicate in over 18 languages. In 2014 the Canadian market had over 19,000 listings, three Canadian cities were on Airbnb’s ‘top 20’ list, and activity created an estimated economic impact of \$54.6 million in Montreal, Canada from April 2013 to March 2014 (Airbnb, 2014). The company has a physical office in Toronto, because as the Airbnb Country Manager stated there is a “strong organic community” across the country (Serebrin, 2014). .

4 Airbnb Impacts on Traveller Behaviours

The arrival of Airbnb and the like have had impacts on the way tourists are choosing and consuming their travel experiences. Many scholars expect that the presence of low-cost accommodations will produce similar results as seen in the airline industry where travellers’ behaviour regarding trip duration and frequency were altered as a result of more affordable travel (Gokovali, Bahar, & Kozak, 2007; Martínez-Garcia & Raya, 2008).

4.1 Length of stay.

There are several factors that visitors consider prior to choosing a destination. These include their financial constraints (budget), their time constraints (available vacation time) and who they share their time away with (family, friends, strangers) (Alegre & Pou, 2006; Fesenmaier & Jeng, 2000). Kozak (2004), expressed the importance of destinations’

understanding and estimating of visitors' length of stay because of the direct relationship to the amount of money spent. The rationale here is that the longer visitors stay the more comfortable they will be to roam, explore and utilise more facilities subsequently increasing their economic impact.

Users of non-hotel accommodations, such as campsites and bed and breakfasts tend to stay longer than the average hotel visitor (Nicolau & Más, 2009). Martínez-García and Raya (2008) attributed this relationship to the low cost of these types of accommodations; the behaviour of Airbnb users appears to be consistent, as the company advertises that their "travellers stay longer and spend more" (Airbnb, 2016). Moreover, length of stay can also be attributed to more authentic social interaction between guests and the local way of life. Su and Wall (2010) explain the impacts hosts have on the tourists' experience. They found that

the presence of local residents, both permanent and temporary, at a destination and their interactions with tourists influence tourists from various perspective, such as their on-site behaviours (such as duration of stay), experiences and satisfactions... and, ultimately, their evaluations of their visits (p. 39).

Airbnb's contribution to authentic travel experiences will be discussed in a following section.

For now, however, it is important to note that there appears to be a direct relationship between access to authentic travel experience and length of stay.

4.2 Frequency of travel.

As stated above, Airbnb's often low priced accommodation can result in increased savings for the visitor. These savings give travellers more money to spend both at the destination, as well as on taking more trips. While the literature does not do this topic justice, there is the implicit notion that low-costs will contribute to higher frequency in travel. This has been demonstrated with the advent of low cost carriers that have encouraged more frequent travel, although length of stay may decrease as travellers take more but shorter trips (Mason &

Alamdari, 2007). Therefore, low-cost travel in conjunction with low-cost accommodation may increase overall travel frequency while decreasing length of stay.

5 Visitor Motivation for Choosing Airbnb

Understanding of why people travel or choose to utilize a particular product or service (motivation) provides significant information that decision makers can use to create better experiences for their visitors (Jamrozy & Uysal, 1994; Mayo & Jarvis, 1981). For Airbnb users, the literature suggests that these major psychological factors are price, intended usage of unit and the yearning for authentic travel experiences.

5.1 Affordability.

Price and value are routinely found to be one of the most important factors for tourists in choosing a destination and accommodation (Ananth, DeMicco, Moreo & Howey, 1992; Wilensky & Buttle, 1988). It should not come as a surprise that low price is one of the motivating factors for users of Airbnb. Guttentag (2015) attributes Airbnb's price competitiveness in part to their fixed costs (i.e. rent and electricity) being covered by individual hosts. Additionally, other factors such as little to no labour costs, the absence of taxes having to be factored into the room rates as well as the fact that hosts are not usually dependent on Airbnb as their sole source of revenue contributes to the price flexibility and low costs of Airbnb units.

5.2 Practicality.

Where owners of vacation homes were once left with an empty property without easy access to potential visitors Airbnb and similar now provide a practical solution for second home owners seeking to cover year round costs such as insurance and maintenance. Chen (2009) and Marx (2011) recognize that "ownership is no longer the ultimate expression of consumer desire" (p. 881), with people becoming more concerned with access-based consumption as opposed to ownership. Access-based consumption is defined "as transactions that may be market mediated

in which no transfer of ownership takes place” (Bardhi & Eckhardt, 2012, p. 881). This change to access-based consumption are a result of environmental concerns and cost saving efforts as it is often cheaper to use a product for a short-term period than own it (Bardhi & Eckhardt, 2012; Leismann, Schmitt, Rohn, & Baedeker, 2013). This access to bedrooms or homes allows people to temporarily feel to some extent as they are in a home (at least in comparison with traditional accommodations). Additionally, access allows consumers to have more autonomy within their own space. Kagermeier and Stors (2015) found that Airbnb hosts are less bureaucratic than hotels, guests often have their own cooking space, and the stakeholders are more flexible. As a result guests may find Airbnb to be a more practical and appealing option.

5.3 Authenticity.

Many travellers try to distinguish themselves from ‘tourists’ and seek authentic experiences that contribute to the local economy (Weeks, 2012). In an effort to satisfy their demand for authentic experiences, travellers may use Airbnb as their accommodation of choice. Guttentag (2015) recognises that “Airbnb’s distinct appeal, which [rests in its] potential for more authentic local experiences” (p. 1192) is what sets it apart as a novel business. Part of that authenticity is facilitated through guest-to-host interaction. Airbnb (2015b) confirms this as they reported that 84% of the users in Chicago desire to “live like the locals”.

Guttentag (2015) also suggests that this appeal shows a direct relationship with MacCannell’s (1973) theory that tourists have a “desire to share in the real life of the places visited, or at least to see that life as it is really lived” (p. 594), adding that “tourists try to enter back regions of the places they visit because these regions are associated with intimacy of relations and authenticity of experiences” (p. 589).

Moreover, Prentice, Witt, and Wydenbach (1994) further elaborate that it is informal, casual interactions in local activities as opposed to formal learning or formal events that gives guests the feeling of an authentic experience and creates attachments (friendship). These authentic attachments occur “when the host and guest are not spatially separated or different linguistically, so that interaction between the two is possible and expected” (p. 40).

5.4 Access.

A distinct feature of Airbnb is its ability to provide more product in areas that are poorly served by traditional accommodation: neighbourhoods, regional towns and rural areas. This accessibility is another motivation for users. MacCannell (1973) highlights how tourists are motivated by access to the backstage areas of a community, and Airbnb can cater to this demand distributing tourists to more dispersed and varied hosts. As a result, Airbnb diversifies the benefits of tourism to more places.

6 Airbnb’s Impact on Tourism Destinations

To consumers, the ease, convenience, value, and flexibility of the sharing economy easily eclipses political issues and negative impacts when considering which accommodations to use (Lehr, 2015). There are a number of impacts that Airbnb has caused including legal, economic, environmental and social that have yielded both negative and positive results. This section will explore these factors

6.1 Legal.

Airbnb poses legal concerns in most of the areas it is operational and cities have legitimate reasons to address these concerns in a way that ensures the well-being of hosts and guests, and is fair to existing accommodation providers.

6.1.1 Health and safety

For example, there are health and safety concerns that Airbnb hosts are not required to adhere to; or at least there is no policy in place in which this can be done at present. President and CEO of the Ontario Restaurant Hotel and Motel Association, Tony Elenis best summarised this concern by asserting that the “hospitality industry is extremely regulated and topping the list is the rules on health and safety of our employees and guests... [Which] takes much training and understanding of meeting these objectives that only comes within a business structure and people involved in this profession” (Weisleder, 2014). There are potential impacts for hosts and guests should unfortunate incidents occur and reasonable health and safety provisions were not provided. Further, the lack of requirements on Airbnb hosts is a substantial competitive advantage over the traditional accommodation sector in terms of price and flexibility, having an impact on businesses who employ local people.

6.1.2 Zoning.

Another concern relates to zoning, and whether these ‘businesses’ operate in residential areas. For example the City Planning Director for Los Angeles listed the following areas as no go areas for short-term rentals: agricultural zones; single-family residential zones; lower-density multifamily residential zones; residential accessory service zones; and any other area governed by specific plans because of the impact tourism can have on different types of neighbourhoods (Morris, 2015).

The literature suggests that the law should not view Airbnb’s activity through different legal lenses than that of long- term and short term rentals (Daniels, 2015). The purpose of the legislation should be to protect the interests of both providers and consumers and not to limit the business activity. Whether the type of tenant should constitute as a factor in affecting zoning and

permitted activity is questioned. Ultimately does the use of zoning regulations to micromanage property owners' infringe on their right to use and enjoy their property (Daniels, 2015)?

There are other legally binding issues that may render the rental of a unit as illegal or perhaps just problematic to other sectors (e.g. real estate). Condominiums for example usually state in their rules and contracts that short-term rentals are not allowed. In this instance, persons who ignore this legally binding issue may find themselves in breach of contract and may be subjected to legal repercussions. In urban areas with large numbers of condominiums in prime rental areas (such as Toronto) this issue is beginning to cause tensions between condo boards, long-term residents, government departments responsible for licensing, and Airbnb hosts, especially those who use Airbnb to rent properties on a more professional basis.

Subletting

Further legal concerns stem from subletting which can lead to drastic outcomes such as eviction. Ontario's Residential Tenancies Act forbids subletting for profit; subsequently, tenants are "not permitted to sublet their unit for an amount greater than what the landlord is charging" (Weisleder, 2014). This clause brings to question the legality of many Airbnb units that are currently being sublet. Furthermore, subletting can also result in mortgage fraud. Morales (2015) explains that depending on the agreement between the homeowner and the lending institution subletting can result in eviction or the lender calling in (requiring instant repayment of) the mortgage.

6.2 Safety and Fraud.

There are many social concerns (i.e. safety and security) that Airbnb poses. As New York Assemblyman Keith Wright says "people should have a right to know that their neighbor in apartment 2A is not running an illegal brothel. They should have a right to know that the folks in apartment 5C are not dealing drugs." (Sutherland & Golding, 2014). Morris (2015) realised that

this skepticism may also be the source of animosity between residents and guests and hosts since residents can become angry with hosts for turning homes within their neighbourhood into hotels. They can also become infuriated with guests for their behaviour during their stay which in some cases means acting with little to no concern for their surroundings¹.

While there are not many recorded situations of safety and security breaches, there are a few instances occurring at Airbnb listed units which have raised concerns. Lehr (2015) suggests that, although security breaches occur at hotels as well, that the absence of on-site supervision may be the source of Airbnb's problems. Lehr (2015) gives a few examples of safety breaches below:

- Ari Teman's modest garden apartment in the Chelsea area of Manhattan supposedly rented to a family, when in fact was rented to an advertised full-blown orgy, causing Mr. Teman to be evicted.
- Troy Dayton rented his home in Oakland, CA to a young woman who turned out to be a methamphetamine addict and stole belongings including his birth certificate.
- Jessica Penzari rented her downtown Manhattan apartment to a woman who described herself as a military woman looking for a little R&R. In fact Ms. Penzari was called by police when the woman, a prostitute was stabbed by her "John."

6.3 Overcrowding.

Regulators have had to deal with the issue of overcrowding caused by increased visitors to an area staying in Airbnb accommodation². In an effort to increase their housing capacity, Airbnb hosts may use measures such as bunk beds and dividing their living spaces into cubbyholes³ that may result in overcrowding. The New York Multiple Dwelling Law (MDL) and

¹ See story of Airbnb guests who destroyed a home in Calgary and provided a fake credit card:
<http://www.cbc.ca/news/canada/calgary/airbnb-renters-who-trashed-calgary-house-used-fake-credit-cards-to-fuel-party-1.3065243>

² See how the issue of overcrowding is affecting Australia:
<http://www.heraldsun.com.au/business/companies/airbnb-blamed-for-overcrowding-in-highrise-buildings/news-story/66ce10c19913df5cfd46ffd51b55ce05>

³ See example here: Illegal East Williamsburg Airbnb Turned One Loft Into Eight Tourist "Cubbyholes"
http://gothamist.com/2016/02/29/illegal_williamsburg_airbnb_turned.php

the Housing Maintenance Code (HMC). MDL § 31(6)(A) provide that, except in special circumstances (such as rooming houses and hotels etc.) no room shall be occupied for sleeping purposes by more than two adults (Cooper, 2015). Clearly there are potential issues in classifying and then regulating much Airbnb activity that is happening in private homes. Apart from being a legal issue, overcrowding can also lead to adverse environmental impacts.

6.4 Environmental Impact

Sharing has always been a part of human existence (Kagermeier & Stors, 2015. Leismann et al. (2013) echo this by recalling terms such as “ecological or ownership-substituting services”, “new utilization concepts” and “use-oriented economy” to demonstrate how this type of business model (sharing economy) is not new. They explain how similar the sharing economy has the potential to contribute to environmental conservation and can lead to resource efficiency through the sharing of products and services. However, the authors caution that the term ‘resource efficiency’ is usually used in an economic context and not an environmental one which can be misleading. They realised that this common mistake can create the illusion of resource efficiency in an environmental context which “can [result in] the creation of blind spots [and] rebound effects” (p. 186). The term ‘rebound effects’ means when a service or product that better for the environment becomes more popular to the point it creates more overall harm, therefore offsetting any positive impacts. The potential for resources saving through sharing has been identified by many and can be realised “as long as the framework conditions for using the service do not cancel out the savings achieved” (Leismann et al., 2013, p. 187). It takes more than merely technological and organisational changes to occur in order to result in sustainable social and or environmental transformation. Leismann et al. (2013) conclude by adding that before businesses in the sharing economy dub their operations sustainable they should take into consideration

factors such as consumer behavior and policy frameworks which can either facilitate or inhibit true efficiency.

Irrespective of the aforementioned warnings, many reports⁴ can be found on Airbnb's website where the company boasts its track record as an environmentally sustainable company. Joe Gebbia, Chief Product Officer for Airbnb, reported that Airbnb guests consume 63% less energy when compared to hotel guests (Airbnb, 2015d). Further highlights from the Airbnb North American study include:

- In one year alone, Airbnb guests in North America saved the equivalent of 270 Olympic-sized pools of water while avoiding the greenhouse gas emissions equivalent to 33,000 cars on North American roads.
- Less than half of Airbnb hosts in both North America and Europe provide single-use toiletry products for their guests, also reducing waste per stay.
- In North America, 95 percent of Airbnb hosts say they recycle at least one item type at their property; 94 percent of guests report that they recycle when possible.
- When staying at an Airbnb, guests are 10-15% more likely to use public transportation, walk or bicycle as their primary mode of transportation than if they had stayed at a hotel.

In response these findings, there are those in the literature who recognise that theoretically Airbnb's ability to use underutilised assets should produce less wastage and be more environmentally friendly. Nonetheless, their skepticism rests in whether these findings carry any weight in the practical sense. First, there are questions about how Airbnb calculates its findings, since the company did not disclose their research methodology (Rubicon, 2015). The lack of

⁴ See Airbnb Environmental Impact Reports: Chicago <http://blog.airbnb.com/environmental-impacts-in-chicago/>; Montreal: <http://blog.airbnb.com/environmental-impacts-montreal/>

transparency around the production of these numbers raises questions on the validity of the implied savings.

Furthermore, Gunther (2014) puts forward an example where he agreed that Airbnb's growth could equate to fewer hotels being built thus resulting in saving material. However, he questions whether the growth of the company is not counterproductive to all of these claims since, at the end of the day, it encourages more travel (increased emissions) or encourages extravagant spending on things with negative environmental impact with travellers' realised savings from choosing Airbnb. The rebound effects can be questioned, as it is plausible that many of those trips included by Airbnb in the above findings may not have occurred had Airbnb not existed perhaps an Airbnb visitor does consume less than a hotel visitor, but if there are many more Airbnb visitors taking trips who would have otherwise stayed at home then the overall impact must be negative. Simply put, Gunther (2014) is encouraging those who find Airbnb to be a sustainable business to look at the environmental impacts in its entirety (i.e. both the direct and indirect impacts).

7 Economic Impact

As noted in a previous section, Airbnb influenced many significant behaviours of travellers: length of stay, frequency of travel, and increased money spent during trip for example. Behaviours which are directly linked to the economic activity. Therefore, one can infer that the company contributes greatly to economic stimulation.

Airbnb (2015c) reported that an economic impact of an estimated U.S. \$209 million and supported about 2,100 jobs within just seven years of being operational. On average, a Chicago based host earns U.S. \$8,300, contributing greatly to their ability to live comfortably (Airbnb, 2015c). The study found that Chicago hosts used around half of their "Airbnb income to pay

their rent/mortgage and other regular household bills and expenses” (2015c) demonstrating the impact it can have on hosts’ quality of life. Chicago is one of many destinations studied which revealed that Airbnb is an effective tool for economic stimulation⁵.

There are some, who have expressed concern about the impact regulation will impose on these economic benefits. Allen and Berg (2014) warn that:

The real threat to the sharing economy is government regulation driven by the incumbent industries that are challenged. The danger of excessive legislation and regulation will absorb the gains yielded by technology improvements, preventing mutually beneficial trade and stifling economic growth (p. 2)

This forewarning, if not taken into serious consideration by regulators, suggests that the economic rewards currently being experienced as a result of Airbnb may very well be limited if heavy regulations are put in place.

7.1 Effect on the housing market.

Consumers revel in the provision of affordable accommodation, for them the “utopian bright side of the shared accommodation, seems to politically overcome the dark side; evidenced by cities with rising apartment rental rates and declining inventory” (Lehr, 2015, p. 2). But the reality about the correlation between Airbnb and the housing market calls for legitimate concerns. These issues range wide from landlords who evict tenants in order to list their unit for short-term use on Airbnb (Jones, 2010) to Airbnb’s impact on the cost of housing for residents. Said (2012) and Shih (2012) theorise that the average housing price may increase if the supply of residential housing reduces in order to make way for short-term rentals thus negatively impacting the housing market. This practice of turning homes into ‘hotels’ is slowly climaxing into a

⁵ See, amongst others, Airbnb positive (economic, social, environmental impact in Boston: http://blog.airbnb.com/airbnbs-positive-impact-boston/?_ga=1.195698283.659162571.1456875311, Berlin: http://blog.airbnb.com/economic-impact-airbnb/?_ga=1.195698283.659162571.1456875311#berlin London-Edinburgh: http://blog.airbnb.com/economic-impact-airbnb/?_ga=1.195698283.659162571.1456875311#london-edinburgh

housing crisis in many major cities and should be addressed quickly. This is already the case for downtown Vancouver where some suggest reports that Airbnb is to be blamed for the city's near-zero vacancy rate (Gold, 2015).

Lee (2016) used the example of Los Angeles, California, which is currently in an affordable housing crisis where “[r]ents have increased by 7.3% in 2014 alone, and the median renting household already spends 47% of its income on housing”. As a result, this crisis has furthered the contention over Airbnb and gives more context to explain why many planning officials are in favour of zoning in an effort to protect the interests of the public.

7.2 Impact on the hotel industry

Airbnb's impact on the industry is difficult to gauge since it is still being observed and due to the disruptive nature of the business it is also hard to predict. This section will consider the sectors most at risk, the demographics of Airbnb users, and the implications for hotel revenues.

7.2.1 Competition

When reviewing the literature it is apparent that little consensus exists on in what type of hotel (budget, B&B, midscale, etc.) Airbnb competes with. Lane and Woodworth (2016) reported that the factors that influences an Airbnb unit to compete with a traditional hotel includes:

Location, availability, type of sleeping accommodation, number of guest rooms available within a particular unit, the character of the structure in which the unit is located (i.e. single family home vs. a Bed and Breakfast operation), minimum length of stay hurdles and price. (p. 3).

Initially scholars like Zervas, Proserpio and Byers (2016) believe that Airbnb competes directly with budget hotels. Other scholars have now recently recognised that Airbnb is a major threat across the broad range of accommodation types including luxury hotels (Oates 2015b).

Airbnb's ability to compete with the traditional hotel is directly related to the fact that a

substantial amount of Airbnb listings (somewhere between half to two-thirds) are not entire spaces and not shared accommodation (Huston, 2015). This implies that that with its wide range of room types and offerings Airbnb can be a potential threat to all types of traditional accommodation options.

7.2.2 Demographics

Airbnb appeals to younger travellers (eMarketer, 2014) and this poses implications for the present day, as well as future demand patterns for accommodation. Presently, Airbnb and visiting friends and relatives (VFR) competes for a similar market amongst millennials (Ali, 2015). eMarketer (2014) also reports that Jan Freitag, Senior Vice President of strategic development at STR suggests that the appeal to millennials lends itself to longevity for the business: “once millennials, who today use Airbnb for leisure travel, move up in their companies to positions that can dictate travel policy, Airbnb is on its way to being a legitimate accommodations choice for Fortune 1,000 corporations”. With Airbnb currently dominating the millennial market now and positioned to continue having a hold of this generation as well as upcoming one, this could mean a dramatic shift to what we now refer to as the hotel industry.

The implication of millennials being the group of focus now means higher demand for cheaper accommodation (Machado, 2014). This stems from the fact that millennials want more affordable and immediate travel since they are no longer waiting on their ‘golden years’ to travel but rather save a little, travel a lot which opposes the ideals of the generation before them.

7.2.3 Impact on hotel revenue

There is little to no debate, however, that the company has made a significant impact on the hospitality industry. Volgger, Pechlaner, Lun, and Prukker-Losonczi, (2016) determined that Airbnb presents a peculiar set of issues in the hospitality industry since it is “bad for hotels but good for tourism” (p. 28). Consigli, Gallagher, Kumar, Mehta, Purnell, and Templeton (2012)

and Jordan (2015) foresee that Airbnb will suppress hotel rates and revenues due to additional supply of accommodation options in the market. Zervas et al. (2016) in their Texas based study found that Airbnb was responsible for a 13% decrease in hotel revenue. They also found that “each 10% increase in Airbnb supply results in a 0.37% decrease in monthly hotel room revenue. In Austin, where Airbnb supply is highest, the impact on hotel revenue exceeds 10%” (p. 1). This finding also lends itself to the idea that Airbnb’s ability to respond to demand without having to physically build the space to accommodate the various fluxes in demand is one of its most significant impacts on the hospitality industry. Lane and Woodworth (2016) offered an example of this where in one market there was an estimated 152,000 available units on average in September 2015, meanwhile, in January of the same year, available units averaged approximately 79,000. This example also sheds light on the idea that unlike traditional accommodation businesses, perishability is not as much of an issue for Airbnb.

Airbnb also limits hotels’ ability to employ dynamic pricing strategies in peak times since their rates must also be competitive with residents who also take advantage of these peak periods as well. Lane and Woodworth (2016) also found that Airbnb hosts are willing to offer discounts and be flexible with prices in a way that traditional hotels cannot match. This competitive pricing strategy poses a threat to markets where higher Airbnb discounts are offered such as New York (40%) and Oahu (31%), who may be more susceptible to encroachment from Airbnb competition.

8 Social Impact

Airbnb boasts that a major benefit of its activity is to the social impact on the communities they offer services in: “these peer-to-peer transactions build community, foster cultural exchange, and strengthen empathy and understanding” (Airbnb, 2015e). The same report

featured a quote from an Airbnb Chicago host about the additional social benefits of using the platform:

Airbnb helps us live a more comfortable lifestyle. With Airbnb we can afford to stay in our home, stay on top of our bills, and still enjoy life by traveling and trying new restaurants, etc. to recommend to our guests!

There are many social implications of Airbnb, both positive and negative. The company caters to social needs on physiological level. In the face of this, however, there are unintentional social consequences, for example discrimination, that have been occurring within the Airbnb community.

8.1 Social consciousness of Airbnb.

It is important to understand how the sharing economy system differs to that of the ordinary business-to-consumer relationship. Kagermeier and Stors (2015) recognise businesses operating within this sector has contributed to an “evolutionary development of existing societal and behavioural transformations” (p. 3) which resulted in a fundamental paradigm shift. These businesses, as Botsman (2013) put it, thrives on the basic principle of reciprocity to fulfill needs and wants for monetary and non-monetary rewards.

Reciprocity is the social mechanism that makes associational life possible. When reciprocity finds economic expression for the provision of goods and services to people and communities it is the social economy that results (Restakis, 2006, p. 1).

The sharing economy has become a community building tool which separates it from the ordinary business model. Botsman and Rogers (2010) recognised that companies like Airbnb thrive from the consumers’ innate desire for stronger community. The interactions in the sharing economy between producers and consumers, and how they differ from interactions in traditional models, help develop a sense of trust and authenticity, and Airbnb’s power to influence over consumers should not be considered as “a flimsy idea or a short term trend, but rather a powerful

cultural [and] economic force reinventing not only what we consume but how we consume” (Botsman, 2013).

In this dynamic socioeconomic system, where trust is the main currency (Botsman, 2013), there is a solid foundation for genuine connections to flourish beyond the generic consumer-to-organisation relationship. Perhaps the most appropriate illustration of Airbnb’s ability to foster meaningful connection is the company’s response in wake of the 2015 Parisian terrorist attacks. Airbnb hosts opened up their homes to offer free accommodation to those impacted by the attacks. One Airbnb user left this review in Airbnb’s community centre following his experience:

The hosts attending... were really touched that people from the company went out of their way to check that everyone attending was safely out of harm’s way in Paris. The local hosts are clearly shocked at what has happened and what it will mean to their lives. The small gestures of concern and support from Airbnb seem genuinely appreciated. (Oates, 2015a)

8.2 Discrimination.

Businesses within the sharing economy, in an effort to increase trust and accountability, have created avenues for its users to have a general idea of whom they are about to enter into business with. Airbnb member accounts “allow sellers to present personal profiles, post pictures of themselves, and even link to their Facebook accounts, leveraging social media to establish reputation and build trust” (Edelman & Luca, 2014, p. 1) which can result in unintended consequences such as discrimination. This discrimination can come in numerous forms such as gender, classism and racial biases. In this case, however, since it occurs in an online format, one can refer to this as ‘digital discrimination’. For example, Edelman and Luca (2014) find that non-black Airbnb hosts can charge up to 12% more than blacks for similar properties due to racial discrimination. This is not to suggest Airbnb causes people to feel more discriminatory, but is an

additional social avenue where it can be acted out, posing a challenge to claims of positive social impacts within and between communities.

9 Regulation of Airbnb

This section examines what governments across the world have done to address the changes which were examined earlier in this paper. Most governments have at least discussed policy, and some have implemented regulations to deal with Airbnb.

9.1 Challenges with regulation.

The emergence of the sharing economy has resulted in regulatory concerns from many lawmakers. Their primary interest rests in protecting the public in the areas of consumer protection, “taxation, safety, employment practices, contracting legitimacy, liability, insurance, not to mention the already existing industry specific law and regulation” (Allen & Berg, 2014, p. 26). There are many challenges for governments as it relates to the regulatory process. Johal and Zon (2015, p. 4) found that “as these new models emerge, there are clear signs that status quo approaches from governments are ill-suited for some aspects of the sharing economy.” Furthermore, they identified three main reasons why governments are finding difficulty in their policy making process:

1. The unique features of sharing economy enterprises;
2. The limitations of existing regulatory models; and
3. The political and cultural context of government.

Regardless of the difficulties, there are varying arguments in the literature that address whether or not there is indeed a need for policy. On one hand, those not in favour of regulation stand firm on the fact that the sharing economy thrives on a certain level of freedom and autonomy which can be threatened if by overregulation. Moreover, their argument criticises governments’ intentions by warning that the term “public interest”, as it relates to supporting

regulation, can arise from places ignorance and personal of corruption (Koopman, Mitchell & Thierer (2014) Allen and Berg (2014, p. 27) further this theory by highlighting that “incumbent firms in a market often welcome new regulations – even costly new regulations – because they present barriers to entry for new competitors.”

Additionally, those against government imposed or “top-down” regulations suggest that the sharing economy holds the capacity to self-regulate. Allen and Berg (2014) hold that self-regulation should be considered as it offers cheap and flexible alternative to creating new regulations. Cohen and Sundararajan (2015) offered four ways a hypothetical self-regulating sharing economy may avoid failure:

1. Establish credibility early on through its performance;
2. Self-regulatory actors must demonstrate strong enforcement capabilities;
3. Self-regulating organizations must be perceived as legitimate and independent; and
4. Self-regulating organizations must take advantage of participants’ reputational concerns and social capital.

Nonetheless, those who fully support regulation recognize that there is also the general public interests at stake, (i.e., security, safety, and fraud) in addition to other negative nonparticipant externalities, which must be protected by the law (Koopman et al., 2014; Ranchordás, 2015). Moreover, they stress that companies operating within the sharing economy serve to benefit from this regulation which will prove to create clear distinctions between what is illegal and legal within the sharing economy (Ranchordás, 2015). Lehr (2015) questions whether or not the lack of widespread regulation on Airbnb and similar businesses gives them an unfair competitive advantage over hotels; especially property owners who are operating hotel type services with multiple accommodations through Airbnb. To this, he concludes by suggesting that taxes,

compliance issues, safety and regulatory issues must be addressed in order to level the playing field.

9.2 Global regulatory responses to Airbnb.

Johal and Zon (2015) illustrate the disparity of consensus amongst Canadian governments with regards to dealing the sharing economy as a whole:

Edmonton has called for a temporary suspension of ridesharing companies while they work out the right response, while Toronto's new mayor, John Tory [asserted that] Uber, ... is 'here to stay' and that 'regulators, ... have to take into account in doing their job that the world is changing and it's changing for the better, and that regulations have to be modernized. (p. 17)

In the midst of the regulation debate, a few places have become global benchmarks as it relates to regulating Airbnb: Paris, San Francisco, New York, Barcelona to name a few. Novoa (2015) reported that the following conditions must exist in order for owners to rent apartment rooms in Barcelona and Fishman (2015) provides a general overview of the regulation for San Francisco, below are a few of the highlights:

Barcelona

- Renters must live in the apartment, before and during the rental period.
- Rentals can't last more than 31 days and rooms can only be available for a maximum period of 4 months per year (not consecutive).
- Maximum of 2 rooms per apartment.
- Municipalities will be able to determine in which city areas this activity can take place.
- Owners will be responsible of collecting a tourism tax (€0.65 in Barcelona and €0.45 in the rest of Cataluña, per night).
- Cataluña's tourism department will be able to collect a tourism tax from persons renting whole apartment. These hosts will also be required to licence their property with the tourism department and obtain a tourism license.

San Francisco

- Only permanent residents of San Francisco (living 275 consecutive days) can partake in rental activity
- Units can only be rented out for a maximum of 90 days per year

- Permanent residents are allowed to rent out their primary residences, but not locations in which they don't live, or second or vacation homes
- The 14% San Francisco hotel tax--called the "Transient Occupancy Tax"--must be collected from renters and paid to the city.
- Hosting platforms such as Airbnb to notify their hosts of the city's law

When considering these two examples, one can infer that collection of tourism tax, who can qualify as host/renter, and maximum days a unit can be rented are of particular importance to law makers.

Johal and Zon (2015) encourage law makers to consider their own organizational structure when creating regulation for disruptive innovation business stressing the need for governments to “establish a strategic operating framework, re-align their political and cultural incentives, modernize government structures and adopt smarter regulatory responses” (p. 19) businesses like Airbnb. Regulators are therefore urged to take a holistic view of their own capabilities and culture, and attempt to meet the needs of this ever changing field of business.

10 Understanding the Future after the Airbnb Effect.

Airbnb is still a relatively new company in only its eighth year of operation and law makers other stakeholders are still making sense of how to address it. Guttentag (2015) believes that the uncertainties surrounding regulation have created a fluid environment around Airbnb thus making it difficult to predict the future of Airbnb. If industry professionals were to operate under the assumption that Airbnb will continue to strive for growth and market penetration, there are several factors that should be given ample thought: how can traditional hotels realign themselves to compete against the business? Will millennials shift away from Airbnb? And, will destinations experience more changes because of Airbnb?

10.1 Competing with Airbnb.

Forgacs and Dimanche (in press) recommend that in order to remain competitive hotels should improve their online presence by paying more attention to the user friendliness and design of their web pages. They suggest that hotel websites should achieve four key objectives:

1. *Attract* the potential guest and make it easy to be found through understanding the workings of search technology;
2. *Retain* the visitor who ends up on the landing page through site architecture that makes navigation user friendly offering a reason to stay on the site;
3. *Engage* the potential guest through appealing content and imagery; and
4. *Convert* the visitor to take desired action (from look to book, signing up for the loyalty program, posting a review, etc.).

Forgacs and Dimanche (in press) suggest that by using visuals and adopting more storytelling marketing efforts will resonate more positively with guests who seek authentic experiences. Oskam and Boswijk (2016) predict that this desire to cater to authentic travel will shift from the traditional “put heads in beds” mantra to hotels playing a role in “facilitating meetings between guests and between guests and locals [as] an important part of their concepts” (p. 31). Moreover, Oskam and Boswijk (2016) recommend that hotel owners pay greater attention to reviews, just as Airbnb hosts do, as they predict that by 2020 reviews will contribute to hotel valuations and will be a stronger competitive indicator than traditional indices like average daily rate (ADR).

10.2 Future guest purchasing patterns.

The guest of the future is predicted to be a more informed guest whose travel experience would have been highly influenced by alternative accommodation options like Airbnb. Oskam

and Boswijk (2016) identify these Millennials and Generation Y guests as guests who will control the organization of their trip. These guests will be avid review writers who will not be as easily influenced by standardized offers and promotions that appealed to the generation before them. Because there will be a high number of these travellers, Oskam and Boswijk (2016) foresee that the increase supply will result in increased demand for non-traditional accommodation concepts as that generation would have become desensitized to different and unique means of accommodation.

10.3 Future Airbnb destination impacts.

It is a somewhat difficult to forecast the future impact on destinations. Various scholars imply that the impact can go one of two ways. Yglesias (2012) drew a distinction between the hotel sector and the tourism industry as a whole recognizing that “visitors aren’t best regarded as a resource to be milked by hotels. Rather, hotels merely facilitate visiting, while the visitors bring broad-based benefits to a local economy by patronizing a range of business and institutions”. This assertion made it clear that law makers and other advocates against Airbnb should see the threat to hotels as a threat to the tourism industry. In fact, he saw Airbnb as a tool that contributes to, rather than take away from the tourism economy since it increase visitation to areas which may not have not otherwise being accessible to tourists. It is important to note here that accessibility in this context refers both to location and affordability.

By the same token, Oskam and Boswijk (2016) are of the opinion that as a result of policies and the natural consequences of displacement by tourist numbers will cause tourism to spread. They also envisage that this will have a positive effect on the economies of fringe neighbourhoods and also contribute to urban renewal within those neighbourhoods.

The other side of this optimistic view demonstrates that Airbnb may create adverse effects for the destinations. Guttentag (2015) believes that it is also possible that Airbnb will decrease the monetary benefits of tourism. His objection is rooted in the fact that Airbnb for the most part provide supplemental income to hosts as opposed to supporting full-time jobs. Consequently, if the traditional accommodation sector was to be dismantled by Airbnb then the hospitality job market may decrease causing unemployment and other ill-social consequences.

11 Conclusion

Airbnb has been dissected many scholars in an attempt to fully understand the extent of its impact on the travellers' behaviour and its general appeal to tourists. From this research the following can be concluded:

1. Airbnb has increase the length of stay in destinations due its affordability
2. Frequency of travel: since guests are benefiting from low accommodation costs they are better positioned to afford to take more trips.
3. There is an appeal in the "home away from home" feel that Airbnb offers. This feel a motivation for tourists as it positions Airbnb as a practical option.
4. Tourists perceives value in guest to host interaction provided by Airbnb as they feel that this experience is more authentic than traditional options.
5. Airbnb offers great variety in locations. Access to fringe areas appeals to travellers as this can also be likened to more authentic experiences.

Tourism destinations have had to deal with the impact of Airbnb in several areas. Firstly, there are the legal considerations which poses an interesting question: given the double nature of the usage of homes, is Airbnb illegal? And, depending on that answer how can other legal issues such as zoning, subletting, security and fraud as well as overcrowding be addressed? Secondly, lawmakers must come to a concrete agreement about the environmental impacts, if any, posed by Airbnb. Thirdly, the economic impact. It is clear that Airbnb contributes positively to the livelihood of its users, however, this appeal is negatively affecting this housing market and there seems to be no middle ground. It is either a thriving Airbnb market or a severely overpriced housing market. Airbnb has also made its mark on the hotel industry with its appeal to millennials and wide variety of units making it compete with all accommodation types it does not come as a surprise that the business is negatively affecting hotel revenues. Lastly, the

social impact of Airbnb was explored. While it is obvious that Airbnb can be considered as a powerful community building tool, there are other unintended social consequences that is negatively affecting the Airbnb community such as discrimination.

Bearing these impacts in mind, one can understand why there is an overwhelming call for lawmakers to regulate Airbnb. While some countries have attempted to regulate the company, Johal and Zon (2015) have put forward the following recommendations to policy-makers:

1. Establish a strategic operating framework before commencing the policy making process;
2. Re-align their political and cultural incentives more closely with the ‘Airbnb model of thinking’ and not through their traditional lenses;
3. Modernize government structures and adopt smarter regulatory responses.

These recommendations may be useful since further growth can be anticipated for the Airbnb brand. If stakeholders were to move forward expecting Airbnb to continue its successful growth then there are different strategic changes that they will have to employ. For hotels, if they wish to become more competitive they would need to respond by becoming more like Airbnb –offering more authentic travel experiences and improve their web pages to include more story-telling. Additionally, hotels will have to accommodate the change in guest behaviour and lifestyle as millennials are positioning themselves to be very different from their predecessors. Lastly, when trying to envision the future with Airbnb as a part of it, it is important to distinguish between the hotel industry and the tourism sector. This distinction can remove bias and allow lawmakers to look at the bigger picture beyond the longevity of hotels.

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