

THE ECONOMIC COSTS AND BENEFITS OF AIRBNB

(a/k/a Internet-based service firms (“IBSFs”))

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Key Components extracted from Article by Bruno Ulrich

1. The largest and best-documented potential benefit of Airbnb expansion is the increased supply of travel accommodations, which could benefit travelers by making travel more affordable. There is evidence that Airbnb increases the supply of short-term travel accommodations and slightly lowers prices over the traditional hotel concept.
2. There is little evidence, [though], that cities with an increasing supply of short-term Airbnb rental accommodations are seeing a large increase in travelers. In a recent survey the question was asked how substitutable travelers find Airbnb lodgings. The precise question was, “Thinking about your most recent Airbnb stay—*If Airbnb and other similar person-to-person paid accommodations services (e.g., VRBO) did not exist, what type of accommodation would you have most likely used?*” Only 2 percent of Airbnb users responded to this question with the assertion that they would not have taken the trip. The remaining 98 percent identified other lodging possibilities that they would have used.
3. Airbnb bookings have become increasingly concentrated among a relatively small number of “hosts” that are essentially miniature hotel companies. At its inception, Airbnb advertised itself as a way for homeowners (or long-term renters) to rent out a room in their primary residence, or as a way for people to rent out their dwellings for short periods while they themselves are traveling. However, in recent years Airbnb listings and revenues have become dominated by “multi-unit” renters—absentee property owners with multiple dwellings who are essentially running small-scale lodging companies on an ongoing basis. [Another way of looking at the situation, is it has allowed] property owners to diversify the potential streams of revenue they generate from owning homes. It allows property owners to diversify [with portfolios to include] short- and long-term rentals.
4. Property owners do benefit from Airbnb’s capacity to lower the transaction costs of operating short-term rentals [e.g., through technological efficiencies by-passing traditional rental agencies, etc.], but [worthy of note is that fact that] the beneficiaries are disproportionately white and high[er]-wealth households.
5. The shift from traditional hotels to Airbnb lodging leads to less-reliable tax payments to cities. Airbnb is essentially a positive supply shock to short-term accommodations. Like all positive supply shocks, it should be expected to lower prices. Zervas, Proserpio, and Byers (2017) examined the effect of Airbnb expansion across cities in Texas. They [found] that each 10 percent increase in the size of the Airbnb market result[ed] in a 0.4 percent decrease in hotel room revenue.
6. Airbnb has entered into a number of tax agreements with state and local governments and is clearly trying to build the impression that it wants to help these governments collect

taxes. Yet a number of tax experts argue that Airbnb's efforts to collect and remit lodging taxes (as well as other taxes) have been wholly insufficient.

7. AlltheRooms.com and others maintain that if Airbnb were to fully comply with the local jurisdiction's tax system on lodgings and pay the same tax rate per dollar earned as traditional hotels, there likely would still be some small fiscal losses stemming from Airbnb's expansion. The primary appeal of Airbnb to most travelers is lower-price accommodations, so even if the same tax rate were paid on Airbnb rentals as is paid on hotel rooms, the lower Airbnb prices would lead to less tax revenue accruing to local governments.
8. Short-term travelers likely impose greater externalities on long-term residents than do other long-term residents. Externalities are economic costs that are borne by people not directly engaged in a transaction. In the case of neighbors on a street with short-term renters, externalities include noise and stress on neighborhood infrastructure like trash pickup. These externalities are why hotels are clustered away from residential areas.
9. The single biggest potential cost imposed by Airbnb comes in the form of higher housing costs for city residents, [assuming] enough properties are converted from long-term housing to short term accommodations. In their 2016 study, Merante and Horn, found evidence that Airbnb listings are correlated with a rise in landlords shifting away from long-term and toward short-term rental operations.
10. Airbnb tends to make short-term rentals feasible by creating a norm of ignoring regulations that bar short-term rentals. Short-term rentals are effectively banned in many residential neighborhoods in the cities where Airbnb operates, yet they have proliferated after the introduction of Airbnb. The regulations barring or limiting short-term rentals were established to reduce the externalities associated with commercial operations of certain kinds—including hotel operations—in residential neighborhoods.
11. The potential for Airbnb to degrade the quality of cleaning jobs is recognized even by the company itself: Airbnb offers hosts the opportunity to advertise that they have taken the "living wage pledge" by committing to pay a living wage to the cleaners and servicers of their properties. It is not clear how commitment to this pledge is (or can be) enforced, however.
12. Because housing demand is relatively inelastic (people's demand for somewhere to live doesn't decline when prices increase), even small changes in housing supply (like those caused by converting long-term rental properties to Airbnb units) can cause significant price increases.

Comment:

- 1, Note that the above text has been, in part, copied, edited, and comments added and deleted by this author.
- 2 Prepared February 6, 2019, by BOU