



Let Airbnb Be

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After having only been in existence for a little more than five years, Airbnb has attracted the indignation of several powerful enemies. Politicians who are eager to collect more tax revenue, city activists who claim that Airbnb will lead to more gentrification and higher rental costs, and hotel chains that resent the perceived loss of profits, are all lobbying the government to regulate and tax the new company as hotel in order to achieve their goals.

Although these groups may believe that they are pursuing the correct policy by forcing Airbnb to be regulated similarly to hotels, Airbnb does not fall into the same category as a hotel.

Contrary to what is claimed, Airbnb is simply the middle man in an exchange between two individuals. One simply needs a place to stay and another would like some cash for an extra room. Airbnb itself does not own any of the homes listed on its site, nor does it provide anything besides facilitating the payment process to the homes that are listed. It is the arbiter of the contract between renter and owner.

As Matthew Feeney of the Cato Institute points out, Airbnb is, in its most basic form, making something that is quite familiar to us much easier and much more convenient. “People have been allowing people into their homes for as long as there have been houses,” Feeney explained, “Only now you have the option to look for homes to stay in from people you do not even know.” In other words, Feeney argues, Airbnb is providing us with information. This information encompasses what options we have if we choose to travel to a specific area.

The lobbying efforts by the various groups against Airbnb seem to be working. Several U.S. cities and states, including jurisdictions such as Chicago, San Diego, San Francisco, and Washington D.C., have forced Airbnb and its users to pay hotel and occupancy taxes, just as hotels do. In San Francisco alone, where Airbnb has been especially scrutinized, it was forced to pay millions of dollars in back taxes to the city of San Francisco for not paying the 14 percent hotel tax that the city requires. These new taxes have resulted in millions in lost revenue for the homeowners and higher costs for travelers who use the service.

A more appropriate policy for the government to follow would be taxing the income of Airbnb under the corporate tax rate and taxing the income taken in by homeowners renting their rooms under the ordinary income tax, as is already done.

When homeowners use Airbnb, they are more efficiently monetizing their real estate possessions by allowing their unoccupied spaces to be used productively. This provides another stream of

income that helps to defer real estate or rental expenses, in a room that would have otherwise gone unused.

By using Airbnb, travelers are more efficiently able to find homeowners willing to let them stay at his or her place, rather than having to ask each homeowner individually. Airbnb allows homeowners to compete with each other for the business of travelers, ensuring that lower-income tourists are not priced out of the market, and that renters get the most for their money.

Nicole Gelinas of the Manhattan Institute argues that Airbnb should be considered a hotel because rentals under thirty days are illegal in New York and the only type of companies that are allowed to provide rentals under thirty days are hotels. This misses the point about what homeowners and renters are actually doing on Airbnb: providing individuals with housing that is already owned or rented by another individual in exchange for a fee.

Gelinas is also concerned about Airbnb users taking up some of the available housing in New York. While this is a valid concern, is she also concerned with all of the housing areas taken up by hotels, motels, bed and breakfasts, hostels, and other lodging areas? Is she concerned about all of the commercial real estate built that, in many cases, remains largely vacant? Airbnb, similar to hotel chains, is providing a service that customers demand.

According to a study done by Georgios Zervas, Davide Proserpio, and John Byers of Boston University, for every 10 percent increase in the Airbnb housing supply, there was a 0.37 percent corresponding decrease in hotel revenue. The authors also project that in the Texas hotel market, for every 1 percent increase in Airbnb listings, it will result in only a 0.05 percent decrease in hotel revenues. In other words, Airbnb is not thriving at the expense of the hotel industry, but is growing the proverbial “pie” of travel lodging.

The rapid growth of Airbnb (the company went from 3 million stays in 2012 to 40 million stays in 2014) shows that the current hotel system has failed to meet consumer demand for affordable short-term lodging. Because there is only a limited supply of hotels and motels in specific areas, the homes listed on Airbnb provide a wider selection of locations, prices, environments, settings, and conveniences for travelers. Airbnb allows travelers to “live like locals” and explore neighborhoods that do not typically cater to tourists, both by providing accommodations in a wide variety of locales and by connecting visitors with local residents. For example, in New York City, 80 percent of rentals are outside of the traditional hotel districts.

To regulate Airbnb in the same manner as hotels is a mistake. Airbnb is a platform that connects travelers with homeowners, tourists with locals, and couch crashers with couch providers. Airbnb provides the means for people to find lodging, not the lodging itself. Airbnb should be regulated for what it is and not what competitors claim it to be.