

The regulation of Airbnb and its impact on hotel performance

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The rise of players of the sharing economy revolutionized the accommodation sector. Academic research considers the hospitality industry as one of the industries which is impacted the most by the sharing economy with Airbnb being its most popular representative. Airbnb and other sharing economy-based platforms have been viewed as serious threat to traditional accommodation formats and are accused to unfairly compete in an unregulated environment. Many cities have already implemented short-term rental (STR) regulations. Since both economies, the traditional hotel industry and the sharing economy, offer the same core product, they can be considered at least partly as substitutes. That implies, that stricter regulation may lead to a decrease in STR supply, a rise in STR accommodation prices and consequently, an increase in demand for the traditional accommodation sector. Even though a plethora of academic literature deals with different aspects of the sharing economy and Airbnb, up to today only very limited research can be found that examines the financial impacts of STR regulation on the traditional accommodation industry.

In view of this major knowledge gap, this master thesis contributes to the debate by quantifying the impact of STR regulation on hotel performance metrics revenue per available room (RevPAR), average daily rate (ADR) and occupancy rate (OCC) in five European cities running a panel data regression model with fixed effects. The model combines two approaches found in academic literature: On the one hand, the approved model of Dogru et al. (2019, 2020) to investigate the impact of Airbnb supply on hotel performance metrics RevPAR, ADR and OCC, on the other hand the approach of Furukawa & Onuki (2019) to create a score specifically determined to quantify STR regulation, which is integrated as an additional covariate into the model provided by Dogru et al. (2019, 2020).

The findings show that strengthening the STR regulation increases the occupancy rates but decreases hotel room prices. The significant positive impact between a stricter STR regulation and the occupancy rates confirms the assumption that the two products hotel and Airbnb overnights are substitutes. A stricter STR regulation leads to a reduction in Airbnb supply and a rise in Airbnb accommodation prices and therefore, a shift in demand from Airbnb to the hotel industry. This also confirms the effectiveness of STR regulation from the perspective of the traditional accommodation sector. Contrary, the results show that hotels lower their room rates as an answer to stricter STR regulation. A possible explanation is that hotels utilize aggressive pricing strategies to mitigate the adverse effects of Airbnb. The process of introducing and tightening regulations is likely to be accompanied by increased public attention and thus might intensify the perception of Airbnb as a competitor to the traditional hotel industry, leading hotels to react to the competition by lowering their prices.

These findings have important implications not only for the traditional accommodation industry but also for public authorities who must respond accordingly to the disruptive potential of Airbnb and other representatives of the sharing economy. First of all, it is essential for hotels to recognize Airbnb as a direct competitor which threatens the traditional accommodation sector by acting as a substitute and causing financial damages. The understanding of the threat potential must be accompanied by a reflection on how and which values are created for customers. Hotels have key attributes that cannot be met

entirely by Airbnb. In order to retain and reattract customers, the focus must lie on strengthening and promoting these attributes. When regulating STRs, the authorities have to weight different interests, and the hotel industry is only one of many players involved in the issue. From the perspective of policymakers, the findings show the disruptive potential of Airbnb for the hotel industry, but they also suggest that STR regulation is effective and strengthens the hotel sector. There exists no single right solution for STR regulation. It is important to deepen the understanding on the issue: A mandatory registration obligation and or the issuance a license for STRs helps to understand and value the economic and social interactions of Airbnb, and possibly could be combined with an agreement with Airbnb to automatically collect taxes helping to solve the problem of lost tax revenues. As several researchers have outlined, cities should adopt their regulation approach according to the impact of Airbnb and the degree of problems cities are facing. This makes it all the more important for authorities to have reliable assessments on the impact of Airbnb. This master thesis contributes significantly to the limited understanding body of work regarding Airbnb, its regulation and the relationship with the traditional hotel industry. Yet future research must improve and expand the academic understanding of the topic, not only but also to enable the authorities to base future decisions on scientific findings.

References:

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