

Airbnb

The muddled economics behind curbs on Airbnb

New York fines for homeowners who rent out rooms are misconceived, writes Diane Coyle

Diane Coyle



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It is an extraordinary move. In New York, [Andrew Cuomo](http://next.ft.com/content/f9128e34-9761-11e6-a1dc-bdf38d484582) (<http://next.ft.com/content/f9128e34-9761-11e6-a1dc-bdf38d484582>), state governor, last week signed into law a bill imposing large fines on homeowners who advertise through [Airbnb](http://next.ft.com/content/266b3af6-96cd-11e6-a1dc-bdf38d484582) (<http://next.ft.com/content/266b3af6-96cd-11e6-a1dc-bdf38d484582>), the accommodation platform. This in effect bans 40,000 people in the city from certain uses of their own property and restricts competition that has benefited thousands more travellers.

Incumbent industries — the hotels and hotel workers' unions, in this case — never like new competition. But lawmakers should surely be focused on the wider public benefit. Prohibitive fines on offering accommodation through Airbnb seem a wildly disproportionate response to any harm the platform is causing. At the least, surely, [evidence of such harm](http://next.ft.com/content/7f3dcfea-8a1b-11e6-8cb7-e7ada1d123b1) (<http://next.ft.com/content/7f3dcfea-8a1b-11e6-8cb7-e7ada1d123b1>) is needed.

The sheer number of hosts and guests is testament to the value they derive from the platform. So what makes it seem such a big problem to regulators not only in New York but also in other cities in the US and Europe?

Successful lobbying appears to be a big part of the explanation. Hoteliers certainly see Airbnb as a threat. But according to research on the subject, to be published next year, the adverse impact on hotel revenues seems to have been small to zero.

Airbnb is probably also increasing the size of the overall travel market. In 14 European cities surveyed, hotel revenues have continued on an upward trend since Airbnb's launch in 2008. There is also tentative evidence that the platform is competing with budget hotels but enabling other establishments to obtain a higher average daily rate from business and upmarket travellers. After all, the offers from an Airbnb host and a city centre hotel are distinct from one another. A tired business traveller will want a reliable service, the ability to leave luggage and have taxis booked.

Cities that charge a visitor tax might well be irked if Airbnb hosts are not collecting it but the company has been striking deals with cities to ensure they receive such revenues.

There are tales, too, of riotous stag parties disturbing quiet neighbourhoods with their drunken antics — a nuisance, certainly, but surely not meriting a ban on Airbnb hosting. In fact, the company's interests are aligned with those of local authorities in this regard. Like other successful digital platforms, Airbnb has strong incentives to regulate its hosts and their customers.

Another concern is the effect the platform is said to have on long-term rental accommodation. Private landlords are suspected of switching to Airbnb because they can make more money without being constrained by legal protections for long-term tenants. But the number of properties on the platform is small relative to the size of the rental housing stock in the cities where it operates so it would be surprising to find Airbnb landlords squeezing out many tenants or [driving up rents \(http://next.ft.com/content/810564fe-7464-11e6-b60a-de4532d5ea35\)](http://next.ft.com/content/810564fe-7464-11e6-b60a-de4532d5ea35) on a significant scale.

Berlin, for example — a city where such concern has led to local authority restrictions — has about 30,000 Airbnb beds (it has a housing stock of about 3m). Among those listed, the average occupancy rate in 2015 was 36 per cent. The average annual revenue earned was about \$3,800. This does not look much like a part of the private rental market.

In rapidly growing cities, the fundamental problem is a shortage of housing and Airbnb's impact will be marginal. There is some evidence of a rise in rents in London, but banning Airbnb would hardly solve the city's housing shortage.

The economics of the accommodation market would suggest that Airbnb will erode the previously sharp distinction between short-term stays in hotels and long-term rentals. But the available evidence does not justify Mr Cuomo stopping so many of his voters

choosing how they earn money from their own property, and making New York City that bit less attractive to visitors.

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