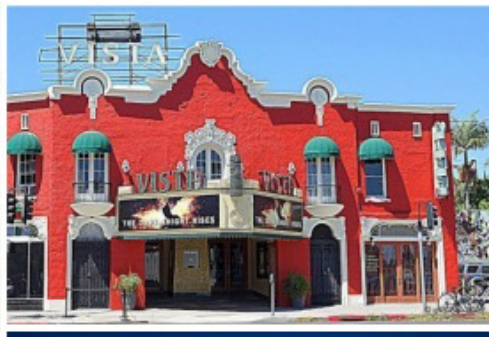




AIRBNB, RISING RENT, AND THE HOUSING CRISIS IN LOS ANGELES

MARCH 2015



laane»
A NEW ECONOMY FOR ALL

Roy Samaan

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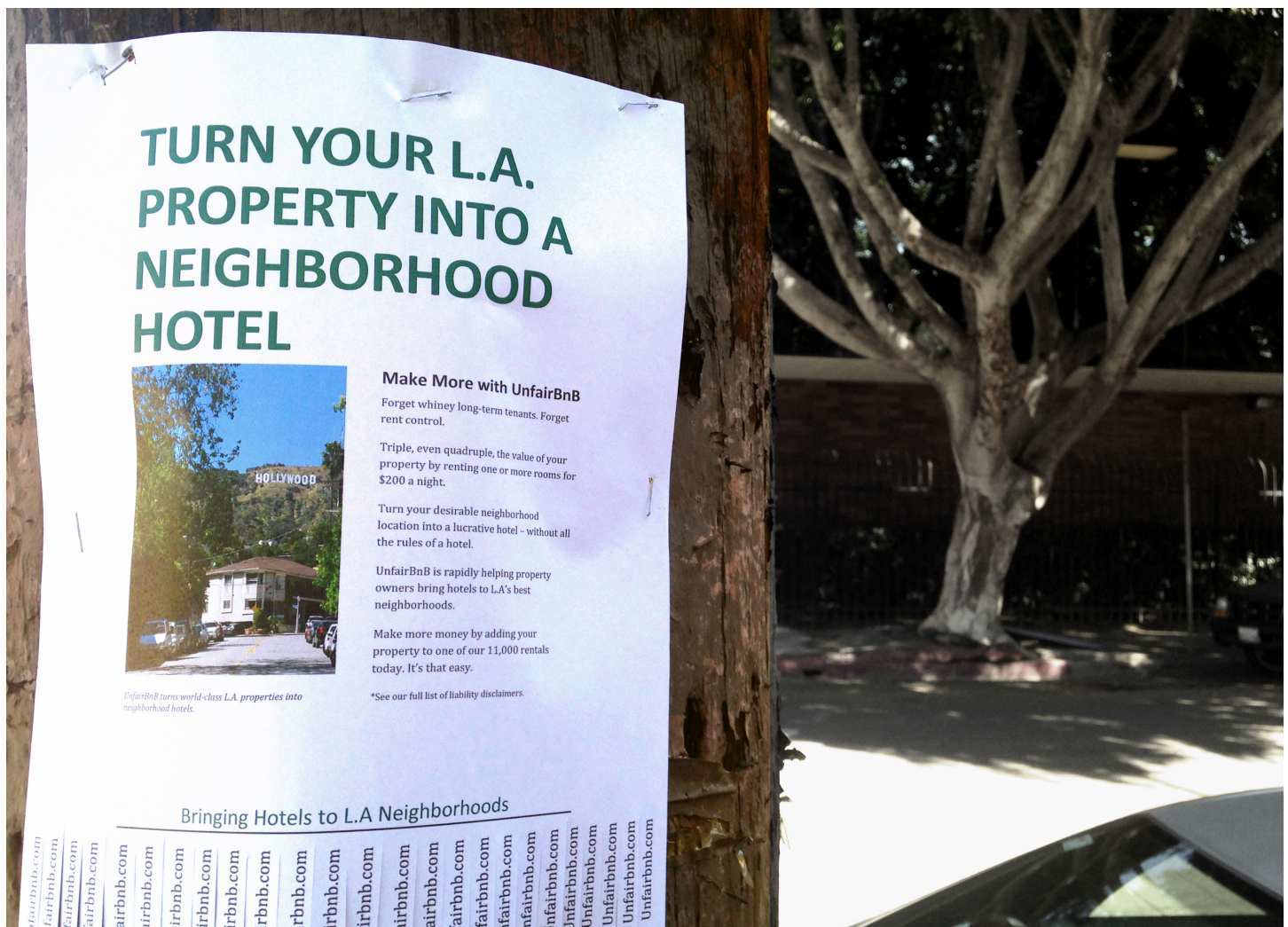
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Executive Summary

Sharing our homes has been commonplace for as long as there have been spare rooms and comfortable couches. Whether through word of mouth, ads in newspapers or flyers on community bulletin boards, renters and homeowners alike have always managed to rent out or share rooms in their living spaces. These transactions were decidedly analog, but they represented a genuine peer-to-peer marketplace. Websites like Craigslist eventually made connecting sellers to buyers far more common. Companies like HomeAway applied the same principle to the vacation home rental market, allowing owners of vacant homes to connect with vacationers. In all these cases, transactions were limited to the buyers and sellers.

If there were negative effects arising from the transaction, they were largely limited to the buyers and sellers.

AirBnB changes this basic formula. By incentivizing the large-scale conversion of residential units into tourist accommodations, AirBnB forces neighborhoods and cities to bear the costs of its business model. Residents must adapt to a tighter housing market. Increased tourist traffic alters neighborhood character while introducing new safety risks. Cities lose out on revenue that could have been invested in improving the basic quality of life for its residents. Jobs are lost and wages are lowered in the hospitality industry.



This report seeks to explore the history of AirBnB, understand how its public pronouncements deviate from observed facts, and identify the tangible and intangible effects that the company is having on our housing market, neighborhood cohesion and public revenues.

A key component of this report is its analysis of the AirBnB market in Los Angeles based on a snapshot of AirBnB listings on October 17, 2014. Through the application of freely available code, we have collected a comprehensive set of data that includes information on AirBnB hosts, prices, listing locations and listing types. These data provide a great deal of insight into the contours of the company's operations in and effects on Los Angeles.

First, AirBnB's impact on Los Angeles is far larger than previously understood. We identified 8,400 hosts and 11,401 AirBnB units listed for rent in Los Angeles.

Second these units are not, by and large, the "shared" space implied by terms like host or sharing economy. Instead, nearly 90 percent of AirBnB's Los Angeles revenues are generated by lessors with whole units and leasing companies who rent out two or more whole units.

Third, AirBnB has created a nexus between tourism and housing that hurts renters. The 7,316 units taken off the rental market by AirBnB is equivalent to seven years' of affordable housing construction in Los Angeles.

AirBnB density overlaps with high median rents and lower rental vacancy. The top nine AirBnB neighborhoods have a vacancy rate below the threshold the city uses to deny conversion of apartments to condominiums.

As a whole, Los Angeles has seen rental rates grow three times faster than San Francisco, while growth

is twice as fast in AirBnB's nine top neighborhoods as in the rest of the city. The UCLA Anderson School of Business considers L.A.'s high cost of housing a "significant drag on job creation."

In Venice, as many as 12.5 percent of all housing units have become AirBnB units, all without public approval. There are 360 AirBnB units per square mile in Venice and longtime residents who never intended to live next to hotels now find themselves dealing with noise and safety concerns that negatively impact their quality of life.

Over 80 percent of the taxes and economic activity AirBnB claims to generate likely would have come to Los Angeles anyway, resulting in taxes being paid, higher wages being earned and more money being spent by visitors.

In short, AirBnB has become a major player in Los Angeles and is having major impacts, often negative. But Los Angeles is a key market for AirBnB as well. AirBnB is moving toward an Initial Public Offering (IPO), and can only capture the billions of dollars it hopes to if it can address one fundamental fact: AirBnB rentals, in L.A. and elsewhere, are largely illegal.

This report argues that as the city begins the process of crafting a regulatory regime to address the company's proliferation into residential neighborhoods, any potential policy ought to be assessed by four key criteria:

1. Housing must be protected
2. Systematic approval requirements must be in place
3. AirBnB must share the burden of enforcement
4. Only true sharing should be allowed

Who is AirBnB?

AirBnB sells itself as a platform akin to a community bulletin board. However, unlike most community bulletin boards, the company takes a percentage out of every transaction, has centralized control over all listings, and maintains a global scope of operations. In other words, AirBnB is a hotel company. It may be deregulated and decentralized, embedded within countless apartment buildings, bungalow courts and leafy suburban streets, but the company's primary function is to make a profit accommodating guests.

According to the story AirBnB tells about its founding, CEO Brian Chesky was unemployed when he moved to San Francisco in 2007. A large design conference came to town and Chesky saw an opportunity to generate a bit of income by renting out an air mattress in his San Francisco loft to conference attendees who could not find an affordable hotel room. Chesky and his roommates accommodated three guests and provided them with breakfast. Thus, AirBed & Breakfast – now known as AirBnB – was born.¹

Early growth and Silicon Valley roots

AirBnB's early growth focused mainly on large events like the 2008 Democratic National Convention in Denver and South by Southwest in Austin. With hotels in these markets at full occupancy, AirBnB provided a listing service for individuals with surplus space in their homes or apartments to rent out to like-minded travelers. After successfully completing these proof of concept trials, Chesky and the other AirBnB cofounders were invited to participate in Y-Combinator, a Silicon Valley tech start-up incubator program that connects budding entrepreneurs with major venture capital investors.²

The company emerged as a favorite of Y-Combinator founder Paul Graham who worked to connect the AirBnB team to his contacts in the venture capital world. An email exchange published on Graham's personal website, with full knowledge and permission of all parties involved, shows that from a very early stage AirBnB sold itself as both a hotel competitor and as the foundation of a new



AirBnB's three co-founders, Nathan Blecharczyk (left), Brian Chesky (center) and Joe Gebbia (right) were added to *Forbes* list of billionaires in 2015.

kind of peer-to-peer marketplace—“the eBay of spaces” as Graham wrote to a potential funder.

The company touted its revenue stream as “counter-cyclical,” arguing that when the economy declined, as it did while AirBnB pursued its initial rounds of financing in 2009, more users would be drawn to the site since they “had to pay the rent.”³ In other words, people would want to rent out

Renting out residentially zoned units as accommodation for travelers runs counter to land use regulations and zoning codes.

their homes because rising housing costs made it harder to afford the rent or mortgage. As we will see, AirBnB returns to this claim time and time again to sell its service to residents, regulators and the public. As we shall also see, the claim is at once misleading and even ironic, since AirBnB itself may contribute to those rising costs.

Regulatory uncertainty threatens IPO

Since April 2014, AirBnB has raised nearly \$800 million from global investment firms including TPG Capital, T. Rowe Price and Dragoneer Investment Group. AirBnB has been valued at \$13 billion, placing the company in the upper echelons of the hospitality industry.⁴ At this valuation, AirBnB has a higher market value than both Hyatt (\$8.4 billion) and Wyndham (\$9.3 billion).⁵ According to media reports, the company has been responsible for booking 10 million guest nights since 2008, and its own estimates indicate the company may have booked more room nights in 2014 than

major chains like Hilton and Intercontinental. The company generates revenue by charging hosts a three percent commission on each booking and by charging travelers a commission of between six and 12 percent, thus generating a yield of anywhere between nine and 15 percent in commission for every booking.⁶

Market observers expect AirBnB’s successive rounds of fundraising are a prelude to an Initial Public Offering (IPO). However, renting out residentially zoned units as accommodation for travelers runs counter to land use regulations and zoning codes.⁷ For example, a March 2014 memo distributed by Los Angeles’ Deputy Planning Director Alan Bell states that short term rentals are prohibited in single-family and lower density multi-family residential zones. The memo notes that the status of short term rentals in higher density multi-family and commercial zones is “complex.”⁸

Uncertainty around the legality of AirBnB’s core business model is further compounded by the fact that the company has not collected the hotel-related taxes mandated by most jurisdictions. Municipalities have explored a range of regulatory options to address the proliferation of illegal hotels in residential neighborhoods. Consequently every municipality represents a proving ground for AirBnB. Each time a city normalizes the company’s activities, AirBnB becomes a more stable, secure investment. Receiving legitimacy from major markets, like Los Angeles, is a critical precondition to moving into the IPO phase of the company’s growth cycle.

Each time a city normalizes the company’s activities, AirBnB becomes a more stable, secure investment.

AirBnB's Political Playbook

AirBnB has marshaled a sophisticated political operation any time the company has faced even symbolic regulatory action.⁹ This generally involves packing a room with dozens of hosts. Armed with compelling stories, these hosts detail the ways in which renting out their spare rooms has enriched their lives and saved them from economic ruin. The hosts seem motivated by a combination of financial self interest and a sincere belief that they compose a beleaguered community. This gives AirBnB a group of personal, heartfelt and therefore effective spokespeople that most corporations can only dream of. This is no accident, but rather the result of a sophisticated operation based on a well-articulated marketing philosophy laid out in the book *The Culting of Brands: How to Turn Customers into True Believers*.¹⁰

Culting's author is Doug Atkin, who also happens to be AirBnB's Global Head of Community.¹¹ The book is pitched as a way to "teach marketers how to align themselves with a specific segment of the population, how to attract and keep new members, how to establish a mythology about the company, and how to manage a workforce filled with true believers."¹² The central thesis is that companies like Apple ("*Think Different*") and Nike ("*Just do it!*") share many characteristics common to cults like the Unification Church or the Hare Krishna in that these companies form a strong emotional connection to their customers and these customers view themselves as a part of a broader community.



This picture, taken from AirBnB's website, highlights the company's core principle of creating a sense of "belonging" through its service.

As Atkin puts it in the conclusion of *Culting*:

We have reached a unique intersection in society that favors marketers. On one side, established institutions are becoming increasingly inadequate sources of meaning and community. On the other, there has been a growth of a very sophisticated kind of consumerism... Alongside alternative religions, brands are now serious contenders for belief and community... [A]s long as traditional institutions fail, and marketers remain sophisticated, then brands can become credible sources of community and meaning.¹³

The *Culting* philosophy is evident in much of AirBnB's marketing, from its founding myth about the air mattress to its use of hosts as spokespeople. To build up this base, AirBnB has hired political field operatives in addition to contracting with traditional PR firms. A simple LinkedIn search shows that AirBnB's preference has been for hiring staffers with experience managing political campaigns. A December 2014 job posting for an AirBnB "community organizer" position, for example, listed "[r]ecruiting, training, and managing advocates of home sharing" as the primary job responsibility and "community organizing in political campaign[s]" as the top desired qualification for the position. As is the case with most jobs on a political campaign, the job listing also notes that the community organizer "will be a temporary position."¹⁴

The AirBnB Ecosystem

AirBnB's success is based on a revenue-generating model marked by externalized labor and overhead costs and centralized, low-risk control over a proprietary marketplace. Exploring the key elements of this marketplace sheds light on how the AirBnB system functions and where the company's internal workings deviate from its public pronouncements.

Hosts and listing types

AirBnB's business model is composed of three elements: hosts, listings and guests. Understanding the variations among these categories is a necessary step to unraveling how AirBnB generates revenue. AirBnB lists three different types of units as follows:

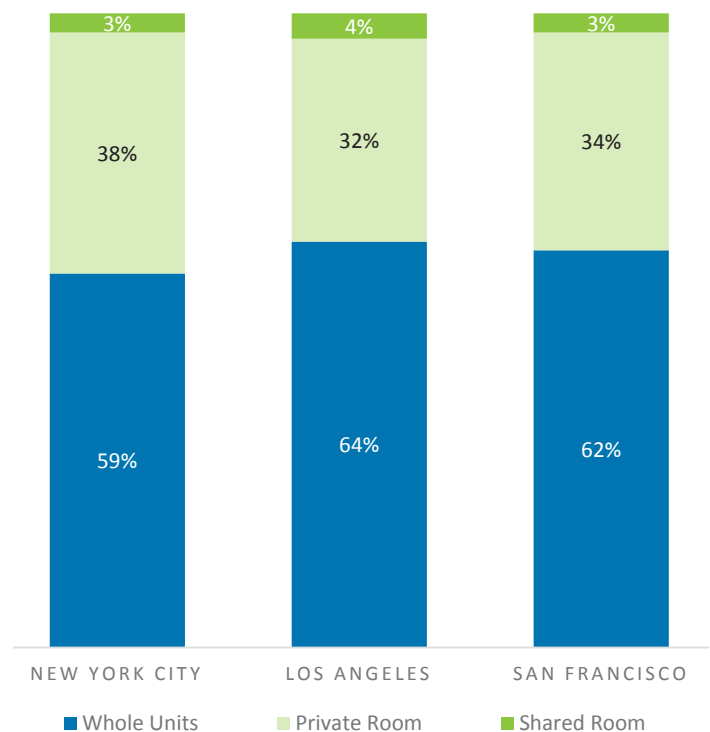
1. Whole units: An entire home, apartment or other accommodation. Host is not present in the unit during the guest's stay.
2. Private rooms: A space within a host's home or apartment with the expectation of some degree of privacy. Host is present in the unit during the guest's stay. In this listing type, the guest is essentially a short term housemate.
3. Shared room: Guest and host occupy the same living space, with a reduced expectation of privacy. This is the original "airbed" or couch surfing model described by the founder.

Renting out whole units exacerbates Los Angeles' existing shortfall of rental options while also creating safety hazards and quality of life concerns for Los Angeles neighborhoods.

Whole unit listings dominate key AirBnB markets

AirBnB's marketing and political outreach may center on private and shared room listings, but an examination of AirBnB listings in three key markets shows that the company's marketplace is dominated by whole unit listings.¹⁵

Figure 1
Percent of Listing Types by City



In all the major markets for which data are available, the number of whole unit listings outweighs the other types of listings by a nearly two-to-one margin, and shared rooms make up an almost negligible portion of the market.¹⁶ A breakdown by listing type appears in Figure 1.

Understanding the market mix of AirBnB's listings is a necessary step to gauging the effect the company has on residential neighborhoods. Renting out whole units exacerbates Los Angeles' existing shortfall of rental options while also creating safety hazards and quality of life concerns for Los Angeles neighborhoods.

The Los Angeles AirBnB Market

In a recent front page *Los Angeles Times* article exploring AirBnB's effects on neighborhoods, AirBnB reportedly claimed there were "roughly 4,500 hosts in L.A."¹⁷ The story did not indicate how many *units* AirBnB claimed to have in Los Angeles.

In fact, this significantly understates the size and scope of AirBnB's operations in the region. According to our data, as of October 17, 2014, there were more than 8,400 hosts in the Los Angeles area, nearly twice what AirBnB claimed. Even that number understates AirBnB's size. We found 11,401 AirBnB lodging units in the Los Angeles hospitality market.¹⁸

The categories AirBnB uses to describe its different types of lodgings are somewhat misleading. Terms like "host" and "sharing economy" imply a shared space and the presence of the person renting out the space in all three listing types. To better understand how the market actually works, we have developed a different system of categorization to more accurately reflect the size, type and scope of AirBnB's tourist-serving operations.

These categories are:

- Leasing Companies: Lessors listing two or more whole units;
- Single Lessors: Lessors listing a single whole unit; and
- On Site Hosts: Hosts listing private rooms or shared rooms.

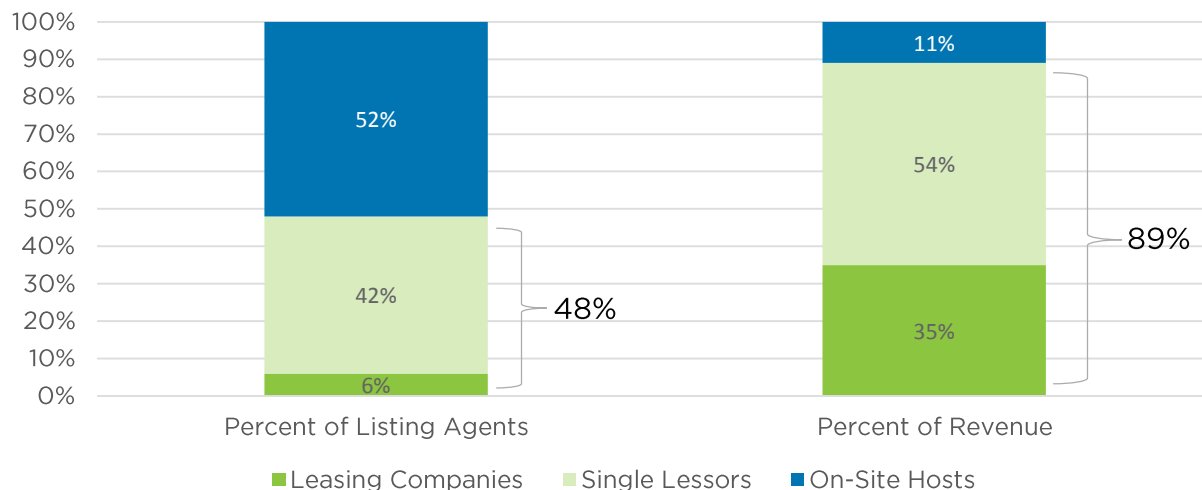
Figure 2, based on the company's data, shows that while those who actually "share"—the on-site hosts—are in the majority, they generate just 11 percent of the company's Los Angeles revenue.¹⁹

single lessors and leasing companies combine to generate 89 percent of AirBnB's Los Angeles revenue. A full 35 percent of revenue is generated by the six percent of the market that meets our definition of "leasing companies."

On-site hosts listing shared rooms accounted for less than one quarter of one percent of AirBnB's Los Angeles revenue. In terms of revenue generation, the spaces which most closely approximate AirBnB's earliest days are almost completely eclipsed by the listings which most closely resemble traditional hotels.

Figure 2

Revenue Generation by Listing Agent Type



High intensity use indicates hotel conversion

Commercial entities—the combination of leasing companies and individual lessors—are responsible for the most intensively used AirBnB units in the city. Rather than representing “surplus capacity” in the housing market, listings with hundreds of reviews present the clearest evidence of the conversion of residential uses into hotels.

For example, the most reviewed listing in our dataset is a Venice Beach guest home with 326 reviews and a minimum stay of two nights.²⁰ In Appendix B we describe how we estimate occupancy based on this information.

These adjusted booking data show this Venice guest house was likely to have been booked for 1,231 days, or 3.4 years.²² The listing’s hosts have been AirBnB members since 2009, meaning this unit had an occupancy rate of 69 percent. The average occupancy rate for a limited service hotel is 67.8 percent, according to PKF Hospitality Research’s 2014 Trends in the Hotel Industry.²³

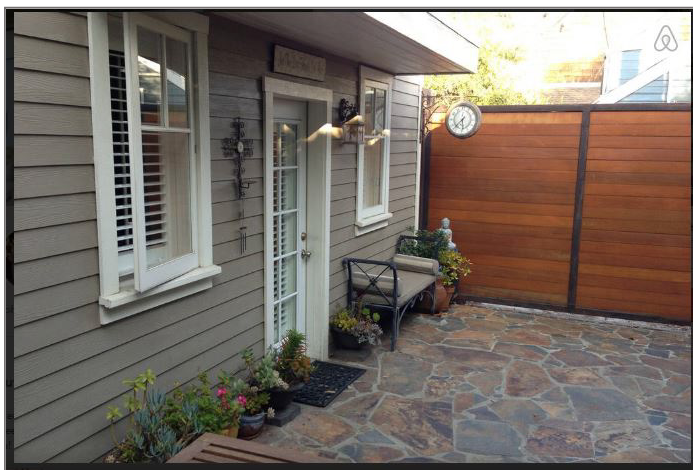


This rent-controlled Venice apartment building has an AirBnB unit with a 93 percent occupancy rate.

The top 10 most highly reviewed AirBnB units had average occupancy rates of 66 percent, in line with industry rates. While not the most reviewed unit in our database one Venice studio, had an occupancy rate of 93 percent indicating this rent controlled unit is a near-constantly occupied hotel.²⁴

Hosts with multiple units may be professional management companies

As our category name suggests, “leasing companies” are not individuals. Instead, listing agencies have consolidated AirBnB listings under an assumed AirBnB host. A host going by the name “Ghc” is the most prolific host in our Los Angeles AirBnB database, with 78 whole units in a dense cluster spanning the border between Santa Monica and Venice. Ghc’s host page is pictured in Figure 3.²⁵ Ghc is, in fact, the AirBnB page for Globe Homes and Condos, a company that describes itself as a “full service vacation rental management company.”²⁶



The most reviewed AirBnB listing in Los Angeles is this Venice Beach guest house.

Globe Homes' owner is Sebastian de Kleer, who co-founded the Los Angeles Short term Rental Alliance (LA-STRA) with Ari Eryorulmaz of AE Hospitality, another leasing company.²⁷ Given its co-founders, it is not surprising that LA-STRA is unambiguous about supporting the rights of "professionals in the short term vacation rental industry." LA-STRA's mission is to "to organize and unify the vacation and corporate rental community with the purpose of being able to influence new developments in laws and regulations regarding short term furnished rentals."²⁸ However, in a *New York Times*' piece profiling the proliferation of illegal hotels in New York City, de Kleer was far more succinct saying, "I need to be able to compete with the hotels[.]"²⁹

Before listing themselves as Ghc, de Kleer's company maintained its AirBnB presence under the name "Danielle and Lexi." The case of Danielle and Lexi is especially instructive in how complex the AirBnB

market in Los Angeles has become.³⁰ In spite of the fact that Danielle and Lexi received a "verified ID" badge on their profile page, we have no way of knowing if they had any role in the properties other than having their photo taken. All the listings featured on Danielle and Lexi's AirBnB host page were actually managed by Globe Homes and Condos. The Danielle and Lexi host page is pictured in Figure 4.

Ownership obscured

Globe Homes works with property owners to convert their properties into de facto hotels. Tracking down ownership information for these units is difficult as AirBnB only releases exact unit addresses once a booking has been confirmed. However, we were able to determine the exact address of one of the Globe-managed AirBnB properties. A search of public records showed the apartment building, located a few blocks off Abbot Kinney, is owned by Michael Tatum. Tatum also

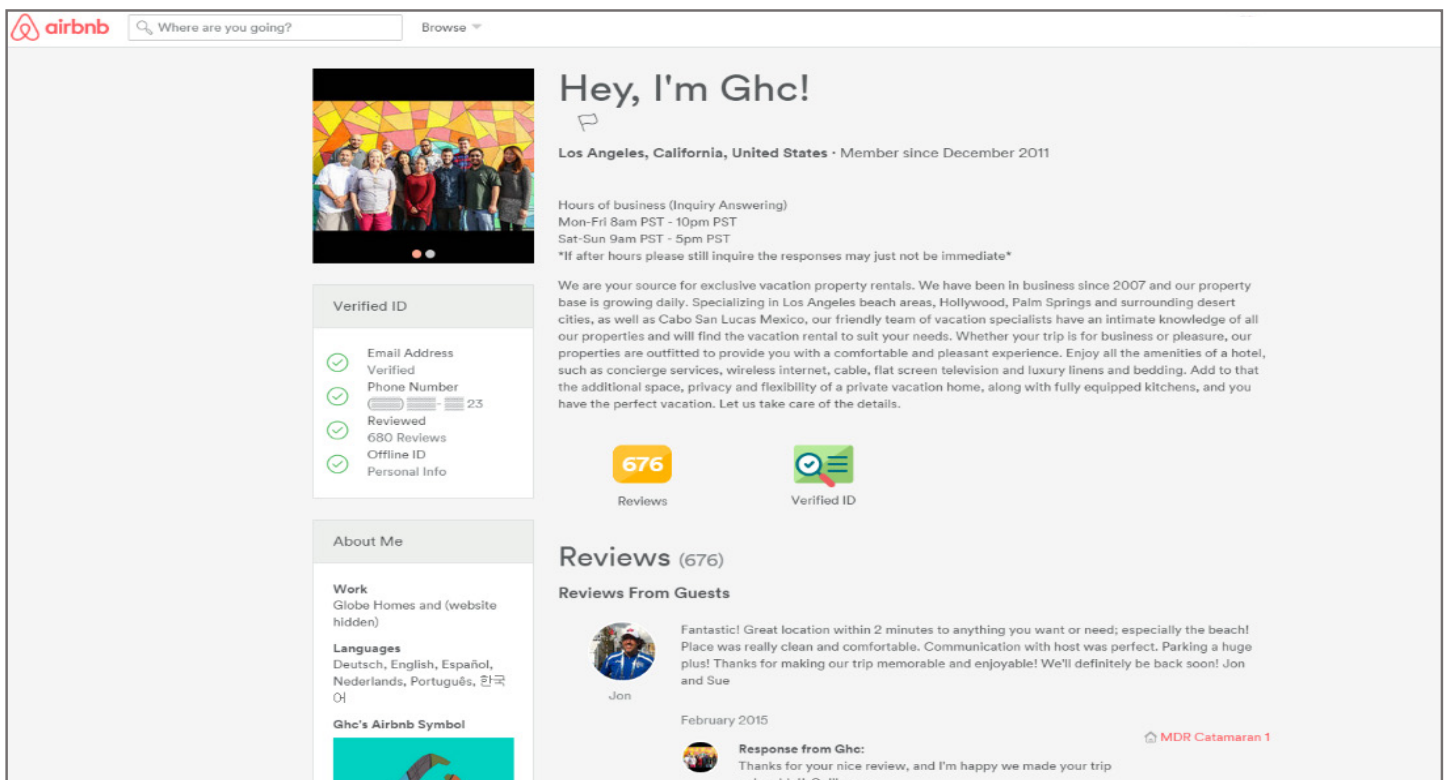


Figure 3: The profile page for Globe Homes and Condos

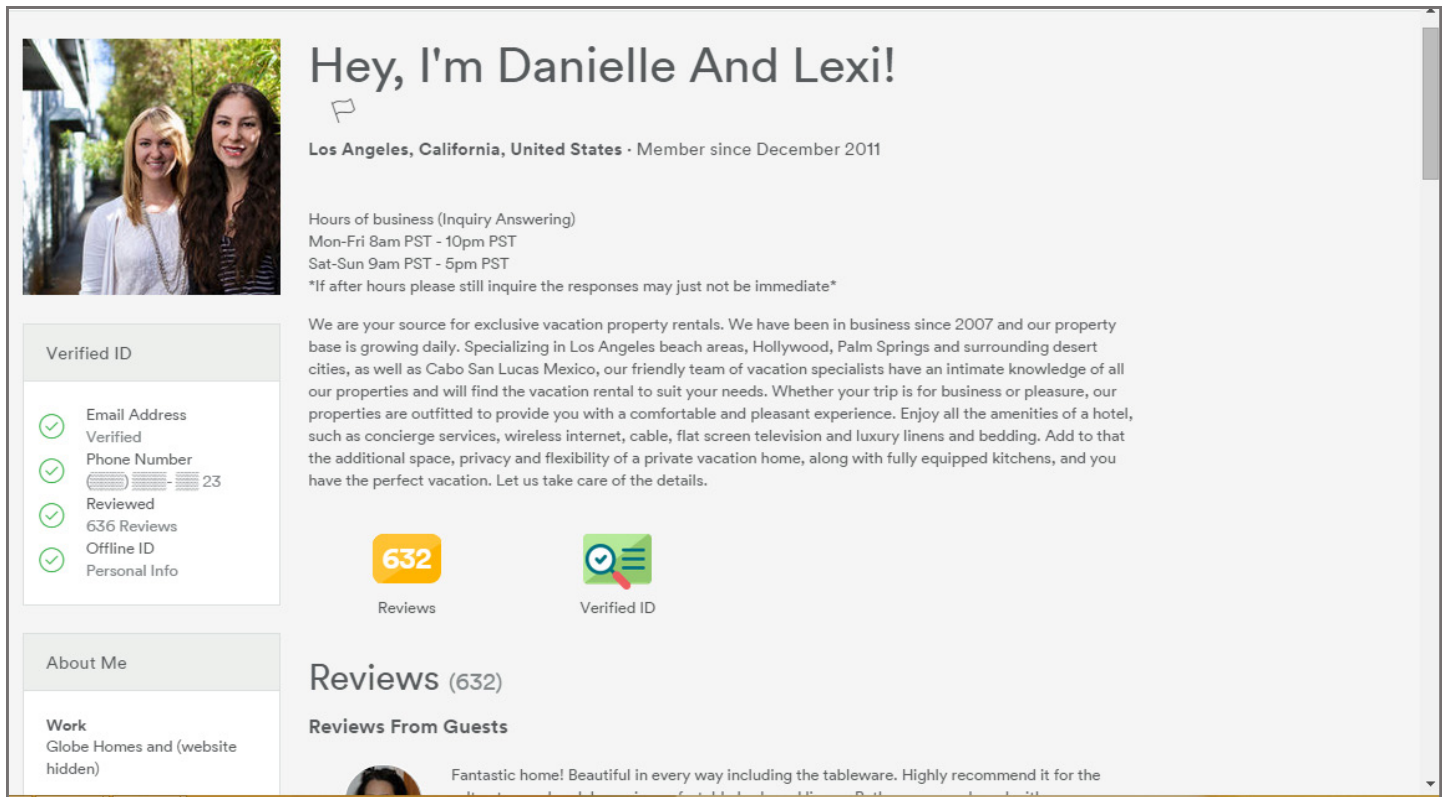


Figure 4: Danielle and Lexi were the previous avatars of Globe Homes and Condos on AirBnB.

owns 19 other properties throughout Los Angeles and Santa Monica. Many of these properties also happen to be apartment buildings, although to the best of our knowledge these buildings have not been converted into tourist accommodations. Tatum purchased the building on Santa Clara Street, a low-density residential zone, in 2009

Tatum has a contract with Globe Homes, and Globe Homes, under the guise of “Danielle and Lexi,” listed the units within the apartment building through AirBnB. The building has at least five units, all of which are covered by the City of Los Angeles Rent Stabilization Ordinance (RSO, also called “rent control”).³¹

Renting these units out to transient visitors allows Michael Tatum to sidestep the tenant protections, bars on eviction, and limited rent increases built into the RSO, while collecting a predictable income stream from tourists.

Michael Tatum is presumably well aware of the limitations the RSO places on Los Angeles landlords. His father, Thomas Tatum, donated \$125,000 in support of Proposition 98, a 2008 initiative which would have allowed rent control units to become permanently market rate after being vacated by a tenant.³² Thomas Tatum was also a major backer of Proposition 199 in 1996,

In spite of the fact that Danielle and Lexi received a “verified ID” badge on their profile page, we have no way of knowing if they had any role in the properties other than having their photo taken.

along with his business partner, Jeffrey Kaplan. Tatum and Kaplan, who owned several hundred mobile home units in California, would have benefited greatly from the passage of Prop. 199 which was intended to phase out rent control protections in mobile home parks.³³ By renting their units out on AirBnB, the Tatums have finally bypassed the RSO, while also providing an instructive example of the relationship between AirBnB and rising housing costs described later in this report.

Globe Homes recently retired “Danielle and Lexi” as their avatars. Nonetheless, the Danielle and Lexi case underscores the regulatory complexity that cities face when trying to enforce zoning and housing ordinances at AirBnB units. Danielle and Lexi were not ultimately responsible for following city laws. The actual owners of a property need never interact directly with the traveling public, and AirBnB provides no way to directly contact a property’s owner as opposed to its agents or lessees.

This case also undermines one of the cornerstones of AirBnB’s business model, namely that the company’s ratings and identity verification system are a viable means by which travelers can vet their prospective hosts. Danielle and Lexi had a badge prominently featured on their profile page indicating that they had a “verified ID,” but they were at least two degrees of separation away from the property’s actual ownership.

A recent Boston University study suggests that AirBnB’s ratings are nearly worthless. According to this study, nearly 95 percent of AirBnB properties boast an average user-generated rating of either 4.5 or 5 out of 5 stars. These inflated ratings are believed to be caused in part by having hosts and guests review each other. As the *New York Times* coverage of this study noted, AirBnB guests that seem too critical worry they “might get turned down by future hosts who worry [guests] will be too demanding.”³⁴

The company does not monitor lodgings in any way, and relies exclusively on these ratings to determine the quality of the accommodation on offer.³⁵

The bottom of the AirBnB economy

AirBnB has argued that its service should be legalized on the grounds that it can help ordinary people supplement their incomes or remain in their homes. The company has also taken the position that “outdated” zoning codes are ill-suited to regulate the new, tech-driven “sharing economy.”

In this economy, AirBnB is a clear winner. As of October 17, 2014 there were 11,401 listings in the L.A. region as defined by AirBnB. Based on an analysis of AirBnB listing data and data provided by the company to the New York Attorney General’s office, we estimate the total revenue generated by these units to be \$80 million in 2014 alone.³⁶

However, our data show the very individuals who are meant to benefit the most from AirBnB’s service— “ordinary citizens”— are more than three times as likely to generate no revenue than hosts with multiple listings. Analyzing listing data from AirBnB’s public facing site shows that 38 percent of hosts with a single listing of *any type* generated no income whatsoever. These hosts have essentially failed to generate any benefit from listing their homes on AirBnB.

Our data show that the very individuals who are meant to benefit the most from AirBnB’s service – “ordinary citizens” – are more than three times more likely to generate no revenue than hosts with multiple listings.

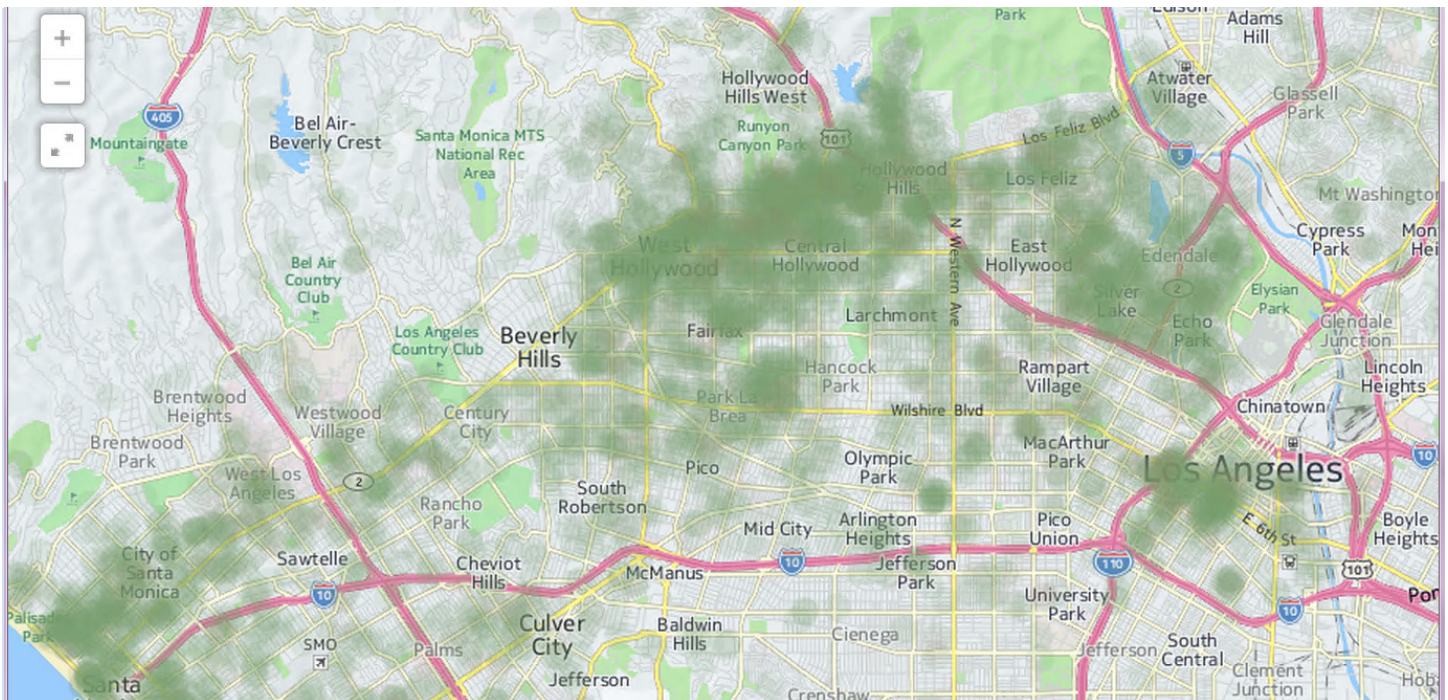
Hosts with access to more resources are able to extract the most benefit out of the AirBnB market. For hosts with two or more listings, the rate of failure to generate revenue is only 11 percent. Only two percent of hosts with five or more listings have failed to generate revenue.

Rather than disrupting the existing economic order, AirBnB seems to have simply reinforced that hierarchy. Our data show that AirBnB units are most densely clustered in Los Angeles neighborhoods with rents that are, on average, 20 percent higher than citywide median rent.³⁷ These are affluent neighborhoods with attractive housing stock and easy access to amenities. These are the characteristics that make these places attractive to tourists and residents alike.³⁸

Research conducted by the Harvard Business School has also uncovered a racial component to who is most able to profit in the AirBnB marketplace. Benjamin Edelman and Michael Luca conducted a study which found that “non-black hosts received

12 percent more *for a similar apartment with similar ratings and photos* relative to black hosts.” The authors’ statistical analysis controlled for “all of the attributes that are readily observable to a potential tenant browsing listings on AirBnB.”

Edelman and Luca conclude AirBnB’s attempts to build trust into the market it created may have the unintended consequence of enabling its users to impose a “significant penalty” on black hosts trying to earn income through AirBnB. Encouraging hosts to post photos of themselves and links to social media profiles provides all the information needed to engage in discriminatory practices. AirBnB’s “verified ID” program may make it easier for prospective tenants to discriminate against black hosts.³⁹ The median percentage of African Americans in AirBnB’s key profit-generating neighborhoods is 4.6 percent, below the citywide average of 9.5 percent.⁴⁰



A representation of the regions of Los Angeles in which AirBnB generated revenue. Revenue generation is clustered in coastal neighborhoods and in a corridor stretching from the Miracle Mile, through Hollywood and Silver Lake, to Downtown Los Angeles.

AirBnB's job costs

If AirBnB units were hotel rooms, the 11,401 units on the Los Angeles market would employ more than 7,400 hotel workers, earning an average wage of \$14.07 per hour.⁴¹ However, one way AirBnB keeps overhead low is to outsource traditional hospitality labor jobs, most notably housekeeping. Housekeeping is likely carried out by domestic workers employed by any number of home cleaning services.⁴² Domestic workers earn a median wage of \$10 per hour.⁴³

For every hour a domestic worker is hired to clean a tourist-serving accommodation, that worker is underpaid relative to a hotel worker by an average of \$4.07. If AirBnB lodging employed as many workers as hotel lodging, and assuming a standard 35 hour work week, paying AirBnB's cleaning workforce at the median domestic worker rate results in \$1.1 million less in wages than a similarly-sized hotel every week, or more than \$54 million every year.

AirBnB may actually cost jobs in hotels.

In fact, this likely understates the effect in several ways. Although data are not available, it is almost certain that AirBnB units do not provide as many jobs as hotels. Hotels employ workers in many job classifications AirBnB units do not—front desk, valet and parking, telephone operator, shuttle driver, security, and janitorial to name a few. These classifications account for two-thirds of the total hotel workforce. Moreover, unlike in a hotel, most AirBnB units are not cleaned every day, and some may be cleaned by the owner or host rather than by a cleaning company.

It is more likely that AirBnB units provide employment for, at most, 20 percent of the number of workers as a similarly-sized hotel. In other words, even a high estimate finds some 1,500 workers in place of the 7,400 that would be in a hotel with as many rooms as AirBnB. The wages paid to workers at AirBnB lodgings may be 13.2 percent of what they would be at a similarly sized hotel, resulting in a difference of \$3.1 million a week in wages.

Further, AirBnB may actually cost jobs in hotels. A 2014 Boston University School of Management study demonstrated that AirBnB's growth has had a statistically significant negative impact on hotel revenue.⁴⁴ This effect compounds the downward pressure that AirBnB places on wages, as hotels are less likely to give part-time employees any more hours or hire new staff.

For those workers in the AirBnB system, challenges extend beyond lower wages. Domestic workers face a notoriously exploitative and unregulated employment landscape. A study released by the University of Illinois Chicago and the National Domestic Workers Alliance found 61 percent of California domestic workers receive a wage insufficient to support a family and 54 percent of these workers reported working with toxic cleaning supplies. The report also found that "the lack of enforceable standards increases the likelihood of mistreatment."⁴⁵

Many housekeepers working for a hotel qualify for healthcare under the Affordable Care Act. Domestic workers are likely to be employed by smaller employers or engaged as independent contractors, reducing the likelihood that they will qualify for healthcare. Enforcing discrimination claims, overtime violations, and safety standards is challenging enough when all workers are directly employed by a single employer at a single worksite, but exponentially more so in the diffuse domestic work sector.⁴⁶

AirBnB and the Housing Market

Whether a market is digital or physical, basic economic principles of supply and demand are still operative. Traditionally, the rental housing market and the hospitality industry do not intersect. However, AirBnB has created a platform that allows landlords to pit tourist dollars against renter dollars. Landlords can potentially earn significantly more money by converting traditional rental stock into AirBnB units, as many appear to have done.

Los Angeles cannot afford to lose housing units. The Los Angeles Department of City Planning's Housing Needs Assessment shows that the city needs an additional 5,300 units of affordable housing each year to keep up with demand. However, Los Angeles developers have only averaged about 1,100 units of affordable housing per year since 2006. The 7,316 whole apartments currently listed on AirBnB represents nearly seven years' of affordable housing construction at the current rate of housing development.⁴⁷

AirBnB has created a platform that allows landlords to pit tourist dollars against renter dollars. Landlords can potentially earn significantly more money by converting traditional rental stock into AirBnB units, as many appear to have done.

Los Angeles has the highest percentage of renters of any city in the country. Although the average rental price in Los Angeles has increased over the last three years, median wages have stagnated.⁴⁸ These factors have combined to make the Los Angeles rental market the least affordable in the

The 7,316 whole apartments currently listed on AirBnB represents nearly seven years' of affordable housing construction at the current rate of housing development.

country.⁴⁹ According to research conducted by UCLA's Ziman Center for Real Estate, 77 percent of low income Angelenos devote more than half their income to rent.

AirBnB creates incentives to take units off the rental market

The Morrison Apartments in Venice Beach show this new incentive structure in action. Located one block from the Venice Boardwalk, the 21 units in the Morrison are covered by the City of Los Angeles Rent Stabilization Ordinance. Coldwell Banker Commercial (CBC) recently listed the Morrison for sale. In an Exclusive Offering Memorandum obtained by a member of the Venice Neighborhood Council, CBC presents the conversion of the Morrison to AirBnB units as the prudent financial choice for prospective owners.

CBC estimates that a landlord could expect about \$200,000 in net annual income by renting these rent-controlled units out on the open market. If the new landlord converts the building into AirBnB units, CBC estimates they could expect to bring in more than \$477,000 per year, assuming a 67 percent occupancy rate. The projected rate of return under the Morrison's residential configuration is estimated to be 5.6 percent, while the projected rate of return for configuring the Morrison as an AirBnB building is 13 percent.⁵⁰ The occupancy rate for nearby hotels is above 75 percent and these properties consistently sell out during the summer high season.⁵¹

FINANCIAL OVERVIEW

The Morrison Apartments - 14 Westminster Ave, Venice, CA 90291

INVESTMENT SUMMARY

Price	\$4,000,000
Year Built	1912
Units	20
Price/Unit	\$200,000
ROI	5.00%
Price/ROI	\$40,000
Lot Size	5,100 sq ft
Floors	4
Cap Rate	2.5%
Market Cap Rate	2.5%
CDR	16.7%
Market CDR	12.4%
FINANCING SUMMARY	
Loan Amount	\$2,400,000
Down Payment	\$1,600,000
Loan Type	Fixed
Interest Rate	3.5%
Term	30 years
Monthly Payment	\$8,027
DCR	1.25

UNIT MIX & ANNUAL SCHEDULED INCOME

Type	Units	Actual	Total	Market	Total
Single	12	\$14,572	\$174,864	\$14,572	\$174,864
1-1	7	\$14,572	\$102,004	\$14,572	\$102,004
2-1	1	\$12,000	\$12,000	\$12,000	\$12,000
2-1	1	\$12,000	\$12,000	\$12,000	\$12,000
TOTALS	21		\$311,100		\$311,100

ANNUALIZED INCOME

Category	Actual	Market
Gross Potential Rent	\$311,100	\$311,100
Empty Vacancy	(50,000) (16%)	(50,000) (16%)
Misc. Income	\$24,000	\$24,000
Effective Gross Income	\$285,100	\$285,100
Less Expenses	(167,200) (58.2%)	(167,200) (58.2%)
Net Operating Income	\$117,900	\$117,900
Debt Service	(173,250)	(173,250)
Net Cash Flow After Debt Service	\$44,650 (13.7%)	\$44,650 (14.7%)
Principal Reduction	\$6,000	\$6,000
Total Return	\$50,650 (13.2%)	\$50,650 (13.1%)

ANNUALIZED EXPENSES

Category	Actual	Market
Property Management Fee	\$12,000	\$12,000
Taxes	\$75,000	\$75,000
Insurance	\$5,500	\$5,500
Gas Taxes	\$1,720	\$1,720
City Fees	\$5,100	\$5,100
Laundry	\$5,500	\$5,500
Repairs & MNT	\$10,000	\$10,000
Utilities	\$26,500	\$26,500
Other Expenses	\$1,800	\$1,800
Total Expenses	\$173,200	\$173,200
Expenses Per Unit	\$8,248	\$8,248
Expenses Per Unit	\$8,387	\$8,419

COLDWELL
BANKER

THE MORRISON APARTMENTS

14 WESTMINSTER AVENUE, VENICE, CA 90291

21 UNITS - OFFERED AT \$6,000,000

ERIC SACKLER
Director
T: 310-779-4999
EricSackler@coldwellbanker.com
11661 San Vicente Blvd, Nth FL
Los Angeles
Calif 90047-0177

COLDWELL BANKER COMMERCIAL

AIRBNB/VRBO PRO FORMA FINANCIAL OVERVIEW

The Morrison Apartments - 14 Westminster Ave, Venice, CA 90291

INVESTMENT SUMMARY

		Type	Units	Market	Market
Price	\$6,000,000				
Year Built	1912	Single	12	\$45,000	\$540,000
Units	21	1-1	7	\$40,000	\$280,000
Price/Unit	\$285,714	2-1	1	\$72,000	\$72,000
ROI	6.00%	2-1	1	\$44,000	\$44,000
Price/ROI	\$47,619	TOTALS	21		\$1,132,000
Lot Size	5,100 sq ft				
Floors	4				
Cap Rate	5.21%				
CDR	5.23%				

FINANCING SUMMARY

Loan Amount	\$2,400,000	Loan Potential Rent	Market
Down Payment	\$3,600,000	Land Tenancy	\$225,000 (20.0%)
Loan Type	Fixed	Misc. Income	\$30,000
Interest Rate	3.5%	Effective Gross Income	\$795,000
Term	30 years	Less Expenses	(\$29,400) (3.7%)
Monthly Payment	\$10,957	Net Operating Income	\$765,600
DCR	1.27	Dish Service	(957,145)
		Net Cash Flow after Debt Service	\$420,455 (11.8%)
		Principal Reduction	\$4,227
		Total Return	\$477,220 (13.9%)

ANNUALIZED EXPENSES

	Market
Property Management Fee	\$21,672
Taxes	\$59,250
City Taxes	\$5,740
State Taxes	\$1,793
Insurance	\$5,196
Laundry	\$1,374
Expenses & MTN	\$20,000
Utilities	\$20,000
Marketing/Ad	\$20,000
Misc. Expense	\$40,000
Total Expenses	\$229,967
Expenses Per RSP	\$34.99
Expenses Per Unit	\$15,648

Prepared by Coldwell Banker, this financial overview compares the rate of return for a traditional rental listing and conversion to an illegal hotel.

It is reasonable to assume that landlords and property owners across the city are making similar cost-benefit analyses with respect to their housing stock. One enterprising AirBnB impresario, Jon Wheatley, even posted a step-by-step guide for buying apartments for the purpose of running a remotely-managed AirBnB listing.⁵² While Coldwell Banker does encourage prospective buyers to “check with the city” before converting a building into AirBnB stock, the challenges inherent to enforcing the zoning code on more than 11,000 AirBnB units has allowed these sorts of bootleg boutiques to proliferate unchecked throughout Los Angeles neighborhoods.⁵³

This new incentive structure has very real consequences for Los Angeles renters. The Waldorf is an historic apartment building in the heart of Venice. As the building’s owner has begun converting the Waldorf into a de facto hotel, long-term residents have felt increasingly unwelcome in their homes. As their friends and neighbors

have moved out, their building’s owner has listed newly vacant apartments as short-term tourist accommodations rather than bringing in new long-term tenants. Residents also believe their landlord is no longer performing basic maintenance on their apartment because they are not as profitable as the tourist-serving units.

○ OCTOBER 28TH

I BOUGHT AN APARTMENT TO RENT OUT ON AIRBNB

In 2012 I bought an apartment specifically to rent out on [airbnb](#). I've been managing it remotely for the past year. This post includes everything I learned as well as some revenue numbers.

The how-to guide posted by Jon Wheatley detailing how to purchase a rental unit and operate it as an AirBnB unit.

Table 1

AirBnB's Top Grossing Neighborhoods in the City of Los Angeles

Neighborhood	Percentage of total AirBnB Listings	Number of AirBnB Listings	Percentage of Revenue	Residential Vacancy Rate
Venice	12%	1,137	23%	4%
Downtown	3%	270	14%	4%
Miracle Mile	9%	848	9%	3%
Hollywood	11%	980	7%	3.5%
Hollywood Hills	5%	452	6%	3.5%
Echo Park	3%	325	5%	3.5%
Silver Lake	4%	361	5%	3.5%
Mar Vista	2%	191	2%	2.6%
Los Feliz	2%	196	2%	3.5%
Total	51%	4,760	73%	Avg: 3.5%

Beyond the nuisance this has caused, Waldorf residents miss the sense of community they once shared with their neighbors. They report being awakened by regular cleaning crew visits and not recognizing the people they pass in the hallways when they get home from work.

Even though a portion of their building is already being used as hotel, Waldorf residents would likely be swiftly evicted if they rented out their apartments on AirBnB. In one case, a Venice landlord brought suit against one of his tenants who was renting out her rent-controlled Venice apartment at a nightly rate equivalent to about \$3,000 per month, while paying a rent of just \$1,000 per month.⁵⁴ This landlord was presumably aware that his tenant was paying a monthly rent well below the neighborhood's median rent.⁵⁵ AirBnB is plainly illegal in low density residential areas, and converting a rental apartment into a business is against the terms of most residential leases. Consequently, this landlord had unambiguous legal grounds for an eviction. He is now able to list this unit at the market rate, nearly tripling the rent he earns every month in the process.

High AirBnB density overlaps with higher rents and lower rental vacancy

AirBnB has units listed throughout Los Angeles, but just nine of the City's 95 neighborhoods are responsible for generating 73 percent of the company's revenue. These neighborhoods are ranked in Table 1 in order of the share of total revenue.

The apartment listing service *Lovely* releases a quarterly report of the Los Angeles rental market charting the growth in median rent. The Q3 2014 report, released December 2014, highlights some dynamics shaping the Los Angeles rental market. The report's key finding is that rents in Los Angeles have increased 10.4 percent between Q1 2013 and Q3 2014 with a median rent of \$1,865 across all unit types and sub-markets. This represents a growth rate more than three times that of San Francisco.⁵⁶

The rapid growth in rents has a cumulative effect on the regional economy. The UCLA Anderson School of Business March 2014 Human Capital Report indicated the high cost of housing in Los Angeles has created a statistically significant drag on job creation in the region.⁵⁷

AirBnB market density coincides with neighborhoods that have rents well above the citywide average. These neighborhoods boast an average rent 20 percent higher than the citywide average.⁵⁸

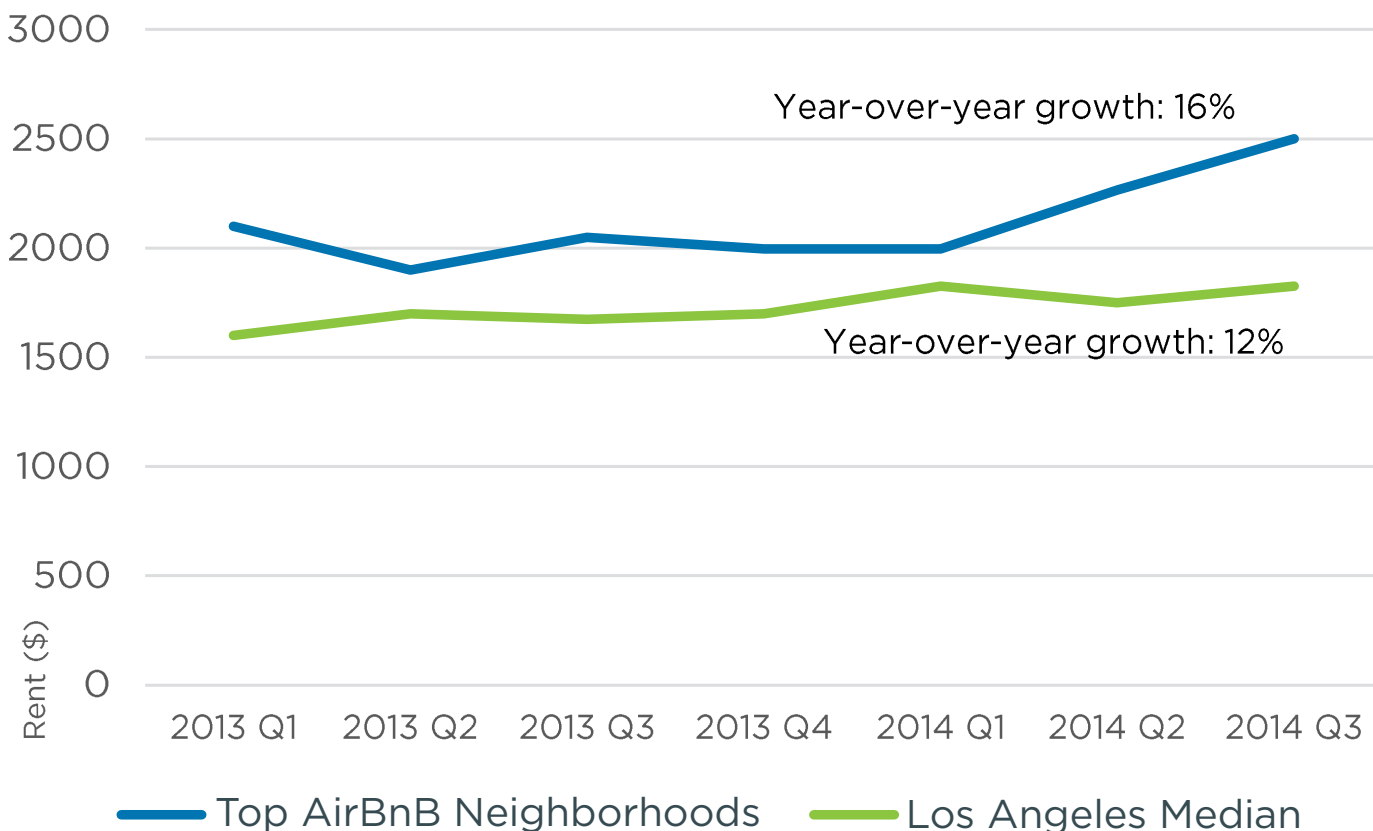
Rental prices in these neighborhoods have increased substantially in recent years. Real estate listing company Zillow creates an index of Los Angeles neighborhood rents going back to 2011. According to Zillow's data, these neighborhoods have all had double digit increases in rent over the last three and a half years; Hollywood's rent has climbed by 20 percent, while rent in Echo Park has increased by 31 percent. Mar Vista, a residential West Los Angeles neighborhood adjacent to both Venice and Santa Monica, has had a 41 percent

increase in rent since 2011.⁵⁹ As shown in Figure 5, since the beginning of 2013 rents in AirBnB's top neighborhoods have climbed 16 percent, as compared to a 12 percent growth in the citywide median rent over the same time period.

Rental pricing is based on numerous economic factors and market forces, and we do not know the exact relationship between AirBnB density and median rents. It is telling that the average vacancy rate for AirBnB's top nine neighborhoods stands at 3.5 percent. The City of Los Angeles places special significance on neighborhoods with low vacancy rates. In 2006, at the height of a boom in the conversion of rent-controlled units into condominiums, the Los Angeles City Council passed an ordinance allowing City agencies to deny

Figure 5

Comparison in Median Rent Between AirBnB Top Neighborhoods and Citywide Median Rent



condo conversions in neighborhoods with vacancy rates below five percent.⁶⁰ Removing rental units from these markets by the thousands, as AirBnB has facilitated, appears to have contributed to declining vacancy rates, and consequent rising rents.

Examining AirBnB listings turns up examples like the case of 1010 Wilshire, a high end apartment building with 227 units in Downtown Los Angeles. AirBnB lists Alexandra as the “host,” though as with Danielle and Lexi, we have no way of knowing if she runs the building or is merely an attractive image in a photograph. Either way, 1010 Wilshire’s management has listed 20 percent of its units as tourist accommodations on AirBnB rather than housing for locals.

When the rental market does not work in 1010 Wilshire’s management’s favor, they can participate in the tourist market instead. This distorts the rental market by limiting rental supply. In doing this, 1010 Wilshire’s management is following the path of

Removing rental units from these markets by the thousands appears to have contributed to declining vacancy rates, and consequent rising rents.

least resistance to the highest rent possible. AirBnB has provided the tools and incentive structure that make this decision not only profitable, but also reasonable.



Hey, I'm Alexandra!
Los Angeles, California, United States • Member since June 2013

I love to travel and know the importance of having the right place to stay. I have a variety of studios, 1 bedroom, 2 bedroom, 3 bedroom, and Penthouse Suites to choose from at TENTEN Wilshire in Downtown Los Angeles. I work in the management office and am on site almost every day. You can count on our management team to deliver beautiful suites.

Verified ID

- ✓ Email Address Verified
- ✓ Phone Number Verified
- ✓ Facebook 726 Friends
- ✓ Reviewed 27 Reviews
- ✓ Offline ID
- ✓ Personal Info

About Me

Work
Relations Manager

Languages
Español

Reviews (26)

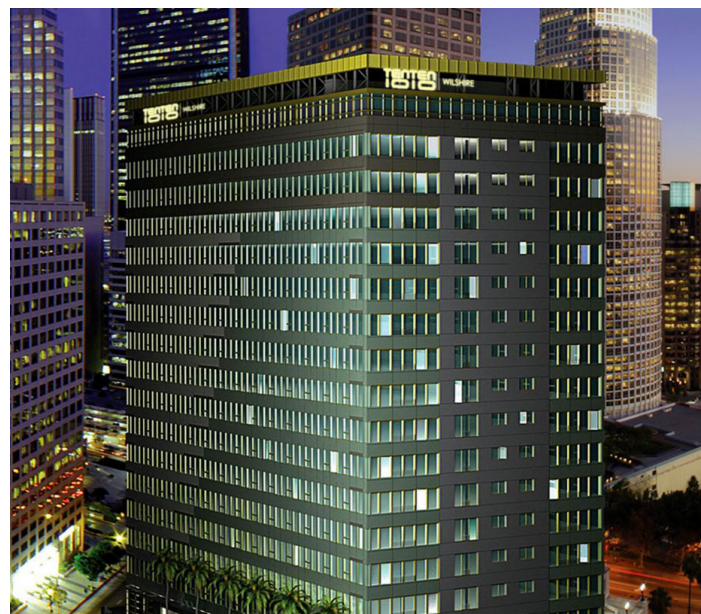
Reviews From Guests

Alex January 2015
This place was great and Alexandra was easy to work with. The building had awesome amenities, especially the whole rooftop area. Worth checking out if you're staying in the downtown LA area.
[Spacious 2 Bedroom 1 Bath Downtown](#)

Tichaun January 2015
This was a great stay! The room was just as expected and the building was great. I was thrilled with our view of the city and the rooftop deck was wonderful. I only wish we stayed longer!
[Luxurious 1 bed / 1 bath Suite DTLA](#)

Alex
Alex made all the arrangements for this awesome luxurious apartment extremely easy. It was shocking how little I had to do. Because of this one experience facilitated by Alexandra I will choose Air B and B over hotels from now on.

Host page for Alexandra, 1010 Wilshire’s AirBnB leasing agent.



Exterior shot of 1010 Wilshire from the leasing company’s home page.

AirBnB in Los Angeles Neighborhoods

When municipalities implement zoning codes they have a basic purpose, namely the promotion of the health, safety, and general welfare of the community. Zoning codes fulfill this purpose by maintaining a separation between major land use categories (residential, agricultural, industrial, commercial) and by allowing only specified types of use in each major category. Most municipal zoning codes generally do not, for example, allow for the construction of heavy commercial uses in the midst of a single-family residential community.⁶¹

The Los Angeles Municipal Code treats residential zones with a great deal of deference, particularly where new commercial developments are concerned. If a new project is proposed that requires a variance from established zoning for an area, neighbors within a 500 foot radius must be notified, and an Area Planning Commission takes up the issue in a public hearing.⁶²

In AirBnB's Venice stronghold there are 1,137 AirBnB units. According to our estimates this is about 12.5 percent of all housing units in the community and an average of 360 AirBnB listings per square mile.⁶³ In some parts of Venice whole blocks have been given over to illegal hotel operations.⁶⁴ Public hearings and approval were not held for any of these conversions. By contrast, a local developer has sought to build the Abbot Kinney Hotel, an 82-room property, for more than three years, working with the Planning Department, community groups and numerous official and unofficial public forums. Approvals have not been granted as of this writing.

One reason for the long process for the Abbot Kinney hotel is concerns about neighborhood character and traffic. As the number of tourists in an area increases relative to the number of permanent

residents, it stands to reason that objective and subjective measures of neighborhood cohesion would decrease. A 2012 Urban Institute study pointed to research around residential instability. According to this study, "high residential instability in a neighborhood can result in reduced social cohesion and disrupt institutions which, in turn, can make a neighborhood more susceptible to crime."⁶⁵

For many long-time Venice residents, this academic verification was unnecessary. They have seen first hand what it is like to have a neighborhood converted into a hotel overnight. For one resident, it has meant watching an 80-year-old neighbor get sent to the hospital over a confrontation with loud tourists on his block. He notes that there are "different people every week... hanging out smoking on the sidewalks." He feels his community has changed for the worse, a sentiment echoed by another Venice resident forced to leave after 27 years when the house he was living in was sold. He says, "I'm not some romanticist that believes everything has to stay the same, but AirBnB has turned our neighborhood into a nightmare...We live on a 'walk street'...where we knew our neighbors...I don't know the people here anymore."

Numerous tourists moving through a neighborhood can also exacerbate parking deficiencies and worsen overall quality of life for residents. Scott Plante, a past member of the Silver Lake Neighborhood Council, has received more than 30 complaints over the past year from neighbors. These complaints include unfamiliar cars blocking driveways, late night parties on formerly quiet streets, and concerns about child safety in an environment with fewer familiar eyes on the street. As Plante noted in a recent *Los Angeles Times* story detailing the difficulties Silver Lake has had with AirBnB units, "It's supposed to be a spare room — not corporate interests taking over our neighborhood and turning everything into a virtual hotel."⁶⁶

In Venice there are an average of 360 AirBnB listings per square mile.

Who Can You Trust?

Public health and safety in hotels

Hotels are subject to numerous health, safety, and insurance requirements. The city has seen fit to regulate hotels differently than residential properties because they are different in fundamental ways. AirBnB allows hosts to utilize their spaces like hotels without being subject to any of the same regulatory checks to which actual hotels have adapted over the years.

According to the Los Angeles Municipal Code, hotels must, for example, keep detailed registries of all guests. These registries are often used in criminal investigations and to “regulate sketchy motels that can serve as magnets for crime.”⁶⁷ AirBnB hosts do not maintain such records. Such registries can also help public health officials in tracking the spread of infectious disease. By design, traditional hotels serve many more guests on a per unit basis than do typical rental apartments. This makes them more likely to act as vectors for infectious diseases and vermin like bed bugs, influenza and measles.

Hoteliers are aware of the risks and have instituted protocols to deal with these issues. Hyatt Hotels, for example, has instituted a chain-wide hypoallergenic rooms program that involves medical grade air filters and biannual intensive decontamination treatments.⁶⁸ Even budget brands like Best Western equip their housekeepers with ultraviolet wands and black lights to ensure each guest room is thoroughly cleaned after each guest checks out.

As tech writer Brendan Mulligan discovered, a lack of standardized cleanliness can throw a major wrench into a trip. Mulligan is a self-described “big fan” of AirBnB. Unfortunately, on a recent trip Mulligan was greeted by pillows and sheets which he described as “disgusting” and possibly “soaked in every bodily fluid imaginable.” Mulligan goes on to say of the risk involved when booking an AirBnB apartment, “There is no baseline of cleanliness, and no immediate options if it doesn’t suit your needs. If, when you check into a hotel room, you see a big

stain in the middle of the bed, you can ask to switch rooms, or at the very least to get new sheets. But when you check into an apartment in a foreign city, you don’t have that option.”⁶⁹

If AirBnB were to mandate higher standards for their hosts, their business model dictates that each individual host would bear the responsibility for sanitation. The company has made some efforts to connect hosts with local cleaning crews through a partnership with Handy, another shared economy company focused on residential cleaning.⁷⁰ Nowhere in Handy’s promotional material does the company, which outsources cleaning duty to an undefined pool of cleaners, mention the kind of intensive sanitization offered by major hotel chains.⁷¹ As discussed above, our data suggest some AirBnB units are being used with the same intensity and guest turnover as hotels, but without the benefit of cleanliness standards. Without such standards, infectious diseases may be transmitted more easily in AirBnB units. Without registries, public health officials may have a harder time halting their spread.



Brendan Mulligan @mulligan · 31 Mar 2012

After 24 hours of traveling, got to a disgusting @airbnb place. Not happy we are stuck here 5 nights. Provided pillows: pic.twitter.com/N7g5R3tB

1 1 1 1

Some AirBnB units are being used with the same intensity and guest turnover as hotels, but without the benefit of cleanliness standards. Without such standards, infectious diseases may be transmitted more easily in AirBnB units.

ADA compliance and enforcement

As public accommodation spaces, hotels are subject to the Americans with Disabilities Act (ADA) compliance standards. Under ADA guidelines, any public accommodation with five or more rooms set aside for guests qualifies as a “place of lodging” and is subject to the accessibility requirements set forth in the ADA.⁷² ADA requirements for lodging places include accessibility retrofits to entry and exit points, grab bars in restrooms, and designated lodgings for individuals with disabilities. As of 2012, lodgings must also enumerate through their reservation systems the types of accessible features in each handicap accessible room.

AirBnB is aware of these requirements, but the company does not verify any of its hosts’ claims of wheelchair accessibility. The company’s Host Help Center summarizes a few salient points about the ADA and notes that hosts with five or more listings “may” need to comply with the ADA.⁷³ The company also points out that ADA requirements are not generally applicable to residences. Only AirBnB knows exactly which hosts have five or more units at a single address. The best approximation we can make is to examine the number of people an AirBnB listing can accommodate. There are 647 whole unit AirBnB listings in Los Angeles that accommodate five or more people. While these listings may exist in a regulatory grey area, commercial hosts who operate *de facto* hotels are very clearly operating “places of lodging” as defined by the ADA.

One such host owns a multifamily building in Hollywood. He operates this property as a hotel by using AirBnB to list out individual units that are not rented out by long-term tenants. His Cozmo property contains 32 multi-family units, a fluctuating number of which appear to be rented out via AirBnB.⁷⁴ These units are available for both long-term tenants through the traditional leasing process and to travelers through AirBnB. Were this a full time hotel property, it would clearly be subject to ADA requirements.

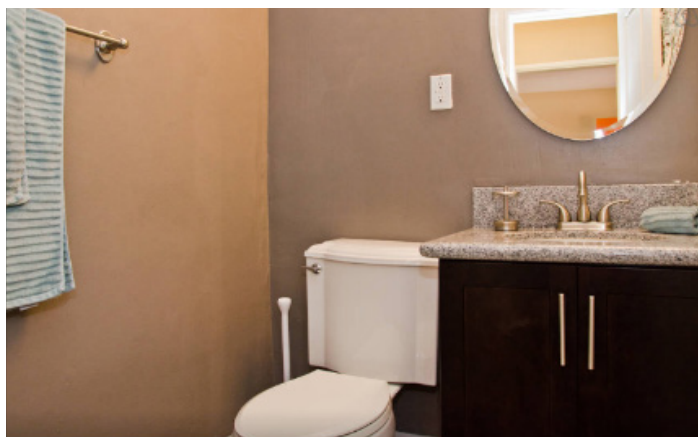


Figure 6: An AirBnB bathroom in a building with more than five units. There are no grab bars in this bathroom.



Figure 7: ADA compliant bathroom in a traditional hotel. Note grab bars and roll-in shower stall.

Cozmo units appear to be simultaneously residential and hotel uses. ADA compliant bathrooms in hotels, such as the one at a Hilton, shown in Figure 6, feature grab bars and showers that can accommodate a wheelchair.⁷⁵ Cozmo management posted the image in Figure 7 to illustrate the bathroom in one of their units that has been marked as “wheelchair accessible” though it does not appear any different from most residential bathrooms.⁷⁶

Under the ADA, hospitality reservation systems are required to give potential guests the option to reserve wheelchair accessible accommodations. Again, AirBnB’s inability to standardize its offerings may land guests who require wheelchair accessibility in some very inaccessible units. Take for example a listing in Hollywood which bills itself as “wheelchair accessible.” Perusing its attached photographs, one of which is shown in Figure 8, quickly turns up a picture of a steep staircase leading to the bedroom. There appear to be no additional accommodations in this listing that would allow a wheelchair bound guest to make his or her way up to the bedroom.

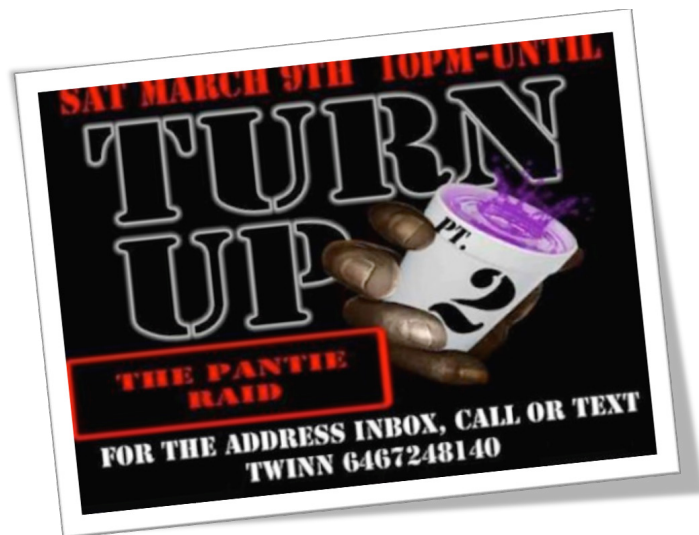


Figure 9: Flyer advertising a party in Ari Teman’s New York City apartment. Teman was not aware of this party.



Figure 8: A “wheelchair accessible” AirBnB unit in Hollywood.

Strained relations between AirBnB and its hosts

The assumption of trust between AirBnB hosts and guests is the lynchpin holding the AirBnB marketplace together. Every horror story detailing travelers blindsided by misleading AirBnB listings or plagued by bed bugs undermines this trust.⁷⁷ Misbehaving or destructive guests also shake the trust that hosts place in AirBnB. Hosts have faced illegal activity in their homes, theft of their belongings, or destruction of their property.⁷⁸

New York City AirBnB host Ari Teman's experience provides an instructive example of the risk hosts incur when they rent out their homes. Teman agreed to rent out his space because the prospective guest "had a verified account and he seemed legit... he had three positive reviews." Teman alleges the individual to whom he rented his home was in fact a party promoter who never had any intention of using the space as a last minute accommodation for his in-laws as he had initially claimed. A Google search of his guest's phone number turned up the promotional flyer, shown in Figure 9. When Teman returned to his condominium, he discovered a "huge posse of large men and women... looking like they got tossed from a club, hanging out in front" of his condo.⁷⁹ When he entered his home, Teman described the scene that greeted him as "a group of nearly nude, overweight people" engaged in what the *New York Post* dubbed an "overweight orgy." After the story broke into the media, AirBnB paid Teman \$23,000 to cover the damage resulting from "Pantie Raid."⁸⁰

Ari Teman's story is admittedly salacious, but for every "orgy" there are undoubtedly countless stories of burned rugs, broken lamps, and stolen items. If these stories were to emerge and paint an uncharitable portrait of the company, it could dim AirBnB's ability to attract venture capital or issue its IPO.

Against this backdrop, AirBnB hired Joie de Vivre Hotels founder Chip Conley as its Head of Global Hospitality. Under Conley, Joie de Vivre arose as



Figure 10: An image of a bedbug accompanying Rachelle Bergstein's Yahoo Travel piece (Source: Getty Images).

a key player in the boutique hotel segment by redeveloping underused historic buildings in urban cores into high end boutique hotels. In a sense, the Joie de Vivre brand is a spiritual predecessor to AirBnB. Rather than focus on the utilitarian daily needs of travelers, both Joie de Vivre and AirBnB attempt to entice travelers with the promise of a unique hospitality experience.⁸¹

One of Conley's key goals at AirBnB is to professionalize the company's hosts.⁸² These initiatives currently include professional photographers for AirBnB listings and referral to housekeeping services to ensure a uniformly tidy experience for AirBnB guests.⁸³

Assumption of risk and liability

AirBnB claims it is not at legal risk in the same way as its hosts and guests. This is because the company treats its hosts as independent contractors.⁸⁴ As such its legal position has been that it cannot be held liable for the actions of its independent contractors or their guests.⁸⁵ In high profile cases, like the "Pantie Raid" party described above, the company has settled out of court rather than face prolonged media scrutiny.

Risk is not distributed equally throughout AirBnB's reservation process. Taking on the highest level of risk are AirBnB's hosts who must contend with the uncertainty inherent in opening their homes to strangers, while also risking the ire of landlords, neighbors, and city regulators. Hosts may also be held liable for injuries suffered by guests during their stay and any property damage that may result from unruly guests. Guests take on the risk of paying someone they do not know upfront for an accommodation that may or may not live up to the listing description.

Rachelle Bergstein, a travel writer for *Yahoo! News*, experienced the pitfalls of AirBnB travel first-hand. Bergstein booked from a host with "terrific reviews." Unfortunately, this host also had bedbugs. The morning after their first night in the "charming" Silver Lake studio, Bergstein and her husband discovered a bedbug the size of an "apple seed"

crawling across their duvet cover (See Figure 10).

As it turns out, the host Bergstein rented from was in fact "not the owner, or even a tenant... [h]e was a listing agent" who pointed Bergstein to the part of the AirBnB Terms of Service that reminded guests that bookings are "made at the guest's own risk." While Bergstein's host ultimately relented in offering her a refund, she was dismayed to find that receiving a refund meant that she could not leave a review warning other guests of the unit's bedbug problem. She reminds travelers in the review of her AirBnB experience that price should not be the only criterion when selecting a place to stay. As Bergstein noted "AirBnB might have the advantage over hotels when it comes to price and charm, [but] a midrange chain hotel is clearly a better choice if you care about quality control." Bergstein is not likely to give AirBnB another chance until "guests are assured of a corporate guarantee, too."⁸⁶



Figure 11: Rachel Bassini discovered feces smeared on her couch after she rented out her space on AirBnB.



Figure 12: Rachel Bassini's bathroom after she rented out her space on AirBnB.

Host Guarantee and Peers' homesharing liability insurance

AirBnB does offer its hosts a guarantee that it will cover up to \$1 million in "Covered Losses" as defined by the company.⁸⁷ However, this guarantee only covers property damage and not major areas of homeowner liability such as personal injury suffered by a guest. Moreover, a homeowner's existing insurance may not cover any such liability as the homeowner is engaged in a commercial enterprise.⁸⁸ This is a significant point because the fine print of AirBnB's Host Guarantee specifies that it will only cover losses once hosts have exhausted other coverage and only if hosts file claims with AirBnB within a specified window. Hosts are expected to wrangle with their own insurance companies, and with the guests who have damaged their home before AirBnB will even consider paying out on the Host Guarantee.⁸⁹

In some cases, AirBnB has refused to abide by its own Host Guarantee, even where damage to a host's property was clearly the result of guest misbehavior. When Rachel Bassini returned to her home after renting it out through AirBnB, she discovered "feces covering the bathroom and couch, used condoms all over the bedroom, and chewed gum on the floors, walls, and couches." Some of the photographs of the

damage to Bassini's home are pictured in Figures 11 and 12. When Bassini attempted to collect on the promise made by the Host Guarantee, an AirBnB representative told her that "the Host Guarantee only cover[s] structural damage, not contents." Fearing that she had no further recourse, Bassini attempted to recover damages from her guest, but his AirBnB account had been suspended. AirBnB again denied Bassini's claim because she failed to file a report within 72 hours. The Company issued her a \$100 credit and deemed the matter closed. However, AirBnB reversed its decision after media inquiries and agreed to cover the cost to repair Bassini's home, so long as she "submits the proper paperwork."⁹⁰

In January 2015, Peers, the lobbying group founded by AirBnB marketing executive Doug Atkin, began offering "Homesharing Liability Insurance." There is a monthly fee of \$36 for this insurance, which will cover personal injury and other claims up to \$2 million for Peers members. However, this insurance does not cover claims related to bedbugs — a key risk associated with accommodating the traveling public. Nor does the policy cover bodily injury arising from violations of the Americans with Disabilities Act or "federal, state, local or common law regulating fire or life safety."⁹¹ This policy has only been available for a short time, and it remains to be seen how it will be applied to claims made by hosts who are in violation of their lease agreements and local zoning codes and regulations.

The Promise of Tax Revenue

Our best estimates show that AirBnB's Los Angeles County listings generated \$80 million in revenue during 2014, of which approximately \$58 million was earned within the City of Los Angeles.⁹² The City of Los Angeles collects a 14 percent Transient Occupancy Tax (TOT) on a monthly basis from all hotel operators in the city limits, yielding a tax obligation of \$8.1 million for AirBnB's City of Los Angeles hosts. This tax is meant to be assessed on travelers who rent a room from a hotel, motel, or inn.⁹³

As we explore below, AirBnB often approaches cities with the promise of remitting a monthly fee equal to the TOT in exchange for the passage of regulations that legitimize their business model. The rationale behind this offer is that cities will be adding new revenue to municipal coffers. However, this revenue is mostly reallocated from hotels which would have remitted these taxes anyway.

In AirBnB's economic analysis, released in December 2014, the company asserts that 37 percent of its guests would not have visited Los Angeles or would not have stayed as long as they did were it not for AirBnB. Assuming AirBnB's numbers are true, a minimum of 63 percent of the revenue generated by its listings was reallocated from hotels and is not new. If AirBnB had no listings in Los Angeles, these guests would have stayed in Los Angeles hotels, supported good jobs for Angelenos, and had a negligible impact on the city's neighborhoods, all while paying taxes.

Because AirBnB merged the "would not have visited Los Angeles" and "would not have stayed as long" categories, it is not clear how these 37 percent of travelers are distributed. If we assume an even split, then the number of travelers who would have come to Los Angeles regardless of AirBnB's listings rises to 81.5 percent. This means Los Angeles would have received between \$5.1 million and \$6.6 million in TOT from hotel stays were it not for AirBnB. In this scenario AirBnB only offers \$1.4 million in new TOT that would not have otherwise

been collected by hotels. This figure is equal to about 45 percent of the wages lost by AirBnB's domestic cleaners each year because they are not paid the same wages as housekeepers in the hotel industry doing the same work.

AirBnB's study also claimed the company's activities were responsible for \$312 million in economic activity and the "support" of 26,000 jobs. As with the tax revenue, we estimate that 81.5 percent of these benefits were merely shifted from one place to another, from hotels to AirBnB. In fact, since visitors who stay in hotels spend more than those who stay in homes, the net effect of staying in AirBnB instead of a hotel is a negative one, and that may well outweigh any additional travel days.

Beyond that, there are negative externalities which also go unconsidered in the limited economic impact data that AirBnB released in December 2014. For example, the UCLA Anderson School of Business study found that the high cost of housing has generated a statistically significant drag on job creation in Los Angeles. Fewer rental units, a drag on job creation, a reduction in tax revenues and a qualitative assessment of AirBnB's effects

If AirBnB had no listings in Los Angeles, guests would have stayed in Los Angeles hotels, supported good jobs for Angelenos, and had a negligible impact on the city's neighborhoods, all while paying taxes.

in neighborhoods are key elements that must be considered before a accurate judgment of the company's impact can be rendered.

neighborhoods that are not typically beneficiaries of that spending. However, data derived from the company's public listings do not support this claim.

Fewer rental units, a drag on job creation, a reduction in tax revenues and a qualitative assessment of AirBnB's effects in neighborhoods must be considered before a true judgment of the company's impact can be rendered.

The top ten AirBnB sub markets in Los Angeles are listed in Table 2, with the number of whole units and a revenue estimate.

These ten neighborhoods account for more than 50 percent of AirBnB listings as well as nearly 70 percent of AirBnB revenue generated in the Los Angeles area. Taken together, these neighborhoods encompass the heart of the L.A. tourist economy. A May 2014 Los Angeles Chamber of Commerce analysis found the Venice/ Santa Monica/ Marina del Rey area is Southern California's second most popular tourist destination, behind Disneyland. Hollywood, West Hollywood and Downtown Los Angeles are also singled out as key tourist-attracting districts.⁹⁴ Nestled between Hollywood and Downtown Los Angeles, Silver Lake and Echo Park contain many of the city's top rated bars and restaurants.⁹⁵ AirBnB is competing with traditional hotels for tourist dollars in the city's most popular tourist serving areas.⁹⁶

AirBnB revenue is clustered in established tourist districts

In Los Angeles, AirBnB revenue generation is clustered in key tourist districts. AirBnB claims its service helps drive tourist spending to

Table 2

AirBnB's Top 10 Revenue Generating Neighborhoods

Neighborhood	Whole Units	Total Units	Whole Unit Percent of Units	Whole Unit Revenue	Total Revenue	Whole Unit % of Rev.
Venice	882	1,137	78%	\$11,787,842	\$13,474,974	87%
Santa Monica	538	773	70%	\$8,077,411	\$9,315,075	87%
Hollywood	646	980	66%	\$5,544,207	\$6,747,061	82%
Downtown LA	220	272	81%	\$5,885,101	\$6,038,738	97%
Mid-Wilshire	514	848	61%	\$4,079,629	\$5,021,018	81%
West Hollywood	455	619	74%	\$3,666,100	\$4,181,391	88%
Hollywood Hills	315	452	70%	\$3,541,258	\$3,956,867	89%
Silver Lake	268	361	74%	\$2,681,351	\$3,043,461	88%
Echo Park	230	325	71%	\$ 2,427,196	\$2,639,005	92%
Marina Del Rey	136	172	79%	\$1,582,497	\$1,677,048	94%
Total	4,206	5,942	71%	\$48,273,023	\$56,094,638	88%

Policy and Regulatory Intervention

AirBnB's financial future will be determined in large part by the company's ability to convince municipal authorities to grant the company legitimacy by establishing a regulatory framework around the company's operations. When we examine the experiences that city regulators have had with AirBnB three themes emerge:

1. AirBnB will offer to remit fees equivalent to local tax rates to cities in exchange for legalization. These fees are not negotiated into any public code, but instead are determined by a contract negotiated between the company and cities in private. AirBnB will not share information allowing cities to verify the accuracy of the payments.⁹⁷
2. As evidenced in Portland, Oregon, AirBnB's flagship "Shared City," AirBnB will not participate in the enforcement of the model legislation it provided to the City, nor will the company monitor its listings for compliance.⁹⁸
3. The majority of AirBnB hosts will not comply with any licensing or permitting systems.⁹⁹ AirBnB will not modify its listings to require hosts to display their permit numbers, nor will it voluntarily turn over the addresses of unlicensed hosts to regulatory agencies. This refusal extends to providing addresses so that cities can conduct basic safety inspections to ensure the health and well being of AirBnB's own community of hosts and guests.¹⁰⁰

In the section that follows, we review the policy experience in several cities, and use the lessons from those cities to begin formulating criteria through which one can assess any potential AirBnB regulations.

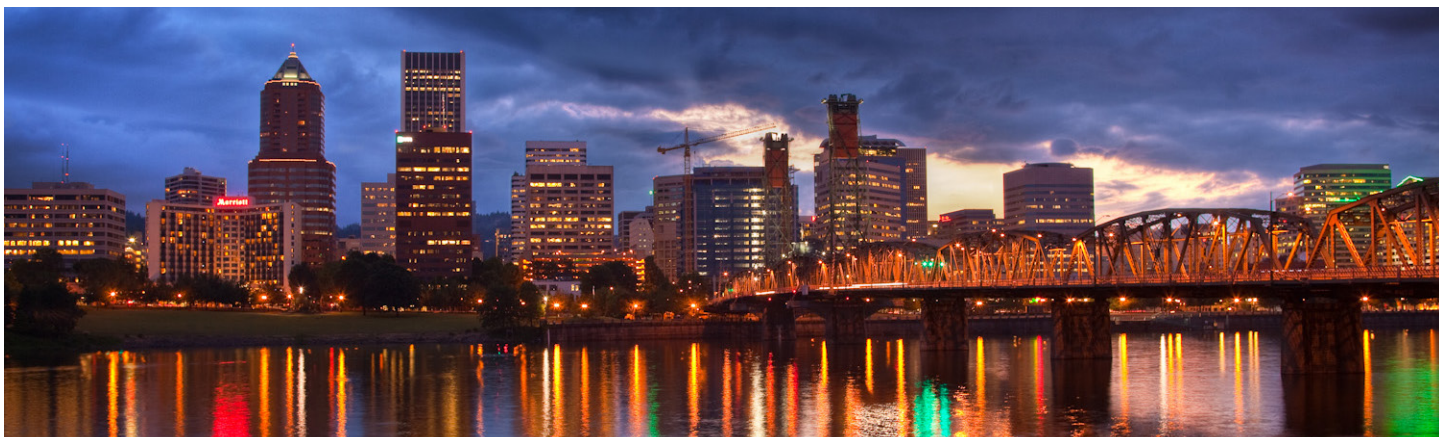
Before beginning that review, however, we want to raise a critical question about the basic proposal being offered by AirBnB—payment of significant funds in exchange for rules legalizing AirBnB's operations. This system has gone into effect in two cities, Portland and San Francisco.

According to a January 2015 *Washington Post* story, between July 1 and December 30 2014, AirBnB has turned over approximately \$5 million in hotel fees to Portland and San Francisco.¹⁰¹ The combined unit count of these two cities—7,600—is less than the approximately 8,300 units within Los Angeles city limits. Moreover, tax rates in Portland are three percentage points lower than in Los Angeles. Yet, in just six months, AirBnB has turned over to the two cities 62 percent of what we estimate it would owe in Los Angeles for whole year—a larger market with higher tax rates.

We may be severely undercounting AirBnB's Los Angeles revenues and tax obligation. If so, that would explain this discrepancy. However, this does not seem likely, given that we found twice as many hosts as AirBnB reported, and our estimates are based in part on the results of a subpoena by the New York Attorney General. If our estimates are correct, an alternative concern must be raised. By agreeing to a privately negotiated agreement with Portland and San Francisco, AirBnB may be paying more than it is required to pay in taxes. Many have rightly raised questions about how cities ensure they get all they deserve without proper monitoring. But the high payments here suggest an alternative danger—a company like AirBnB could overestimate the dollars involved to incentivize the city to adopt the laws the company wants.

Portland, Oregon

With much fanfare, AirBnB designated Portland its first "Shared City." This meant that the company and the city had determined to work together to create a regulatory framework that would allow the city to collect hotel taxes in exchange for creating a new category of housing in its planning code—the "Accessory Short Term Rental (ASTR)."¹⁰² The City of Portland decided to divide its ASTR regulation into two separate pieces of legislation. The first piece covered AirBnB units in single-family homes, followed by a second ordinance governing AirBnB units in multi-family housing.



Both pieces of legislation relied on the same basic framework. If hosts complied with the application requirements, they would be granted an ASTR permit. This permit was to be displayed inside the ASTR unit and the permit number was required to be posted on all listings advertising the space. To receive this permit, hosts were obliged to pay a nominal fee, notify their neighbors (or landlords) of their intentions to rent their space and submit to an inspection to verify installation of smoke and carbon monoxide detectors. The policy also limited the number of days that a homeowner could rent a space in his home up to 95 days per year.¹⁰³

Portland's ASTR policy was passed as an amendment to the City's zoning code. These ordinances remain silent on the issue of hotel taxes. Instead the City's Revenue Bureau negotiated a separate, private agreement to address specific issues around hotel tax collection. A redacted version of this agreement was only made public pursuant to a public records request made by reporter Elliot Njus at *The Oregonian* newspaper.¹⁰⁴ While AirBnB repeatedly denied it was a hotel operator in the agreement, the company was asking for the city to treat it "as though [it] were a single 1,600 room hotel."¹⁰⁵

Further complicating matters is the fact that a miniscule proportion of Portland's AirBnB hosts have sought legitimization and taxation—the Portland Revenue Bureau estimates that 93 percent

of all hosts have not obtained the necessary permits, had their units inspected for building and safety compliance, or notified their neighbors of their intent to operate a short-term rental.¹⁰⁶ Without any way to regularly identify individual hosts, the City of Portland Revenue Bureau had no way to monitor how the monies it was receiving did or did not relate to the overnight stays of visitors in AirBnB lodgings.

As Portland moved towards legalizing AirBnB rentals in multi-family units these issues became key political sticking points in negotiations. Portland Commissioner Nick Fish took the lead in pressing AirBnB to release host addresses to the city. At a late December 2014 hearing, the Regional Head of Public Policy for AirBnB, David Owen, argued against releasing such data on the grounds that it would constitute a violation of hosts' privacy rights. This argument did not pass muster with Commissioner Fish. As he put it:

We are not asking for people's confidential information. We are asking for an address of a home-based business, and under your view because that has an internet component that raises privacy concerns that are different than motels and hotels. We invoke the internet and we claim an exemption from all the other laws and rules of society. We welcomed you to Portland, but we have to make sure that the guests in one of your hosts' places—and you do not inspect

your hosts' places—we have to make sure that guest is safe, and the only way that we can do it is to have an address. If we don't have an enforcement mechanism that works why on earth would we give you the green light to do something that we can't reasonably enforce?¹⁰⁷

The City did ultimately “green light” the ASTR program to include multi-family units. However, the city also passed legislation to address Fish's concerns. In exchange for granting legitimacy to the majority of AirBnB's Portland listings, companies like AirBnB must now submit contact information for all hosts for any regulatory or tax purpose to the Revenue Bureau, as well as prominently display the host's permit number on all listings.¹⁰⁸

How well this will work is not clear. At a public hearing on this policy AirBnB's David Owen refused to commit to following Portland's new regulations if they included disclosure requirements for hosts.¹⁰⁹ The rules, as currently written, do not create any direct liability for AirBnB so long as they continue to pay money to the city.

San Francisco, California

Passage of San Francisco's AirBnB regulations was rendered no less contentious by the fact that the city is AirBnB's birthplace. As has been widely noted, San Francisco has undergone dramatic rent increases in recent years. These increases have been exacerbated by the limited supply of housing in the city. Not surprisingly then, the process to pass an ordinance pitted housing advocates against AirBnB as both sought to influence the San Francisco Board of Supervisors. Housing advocates pressed for a requirement that AirBnB pay some \$25 million in back taxes.¹¹⁰ They also wanted a ban on AirBnB units in rent-controlled buildings and a prohibition against renting units that have been vacated under the Ellis Act. None of these amendments were included in the final legislation, although some San Francisco Supervisors vowed to pursue these items as stand-alone legislation.¹¹¹

Passed in 2014, the San Francisco policy caps the number of days that a whole unit can be rented out at 90 per year. Although monitoring bookings for compliance with this provision would be very simple for AirBnB, the company has refused to assist the city in enforcement. Out of approximately 5,000 hosts, as of February 15, 2015, only 130 had set appointments with the Planning Department to obtain their permits, drawing further comparisons to Portland's experience.¹¹²

Building in new enforcement mechanisms now seems necessary to some previous AirBnB supporters. San Francisco Supervisor Jane Kim voted for the original ordinance but is now working to pass a supplemental ordinance that would allow nonprofit organizations to sue to enforce the short term rental law. She believes the first ordinance does not “have enough teeth” to ensure effective enforcement.¹¹³ Meanwhile, a coalition of affordable housing and community organizations known as Share Better S.F. has begun the process of collecting signatures to place an initiative on



the next municipal ballot that would implement far stricter regulations on AirBnB rentals in the City.¹¹⁴

New York City, New York

New York City has taken a more hardline approach to regulating AirBnB than either San Francisco or Portland. Under New York State law, residential rentals shorter than 30 days are considered illegal. New York City has taken the lead in halting AirBnB's expansion through rigorous enforcement of this law, while New York State Attorney General Eric Schneiderman has served the company with subpoenas to get exact addresses and revenues generated by AirBnB listings. As a result of these subpoenas, the Attorney General's office found that more than 72 percent of AirBnB's New York City revenue was generated by illegal listings. The Attorney General's report also found that commercial hosts dominated the New York City AirBnB market.

Share Better New York, a coalition of affordable housing, community, and labor organizations has been pressing New York City to address the proliferation of illegal hotels as part of a broader



New York City residents rally against AirBnB ahead of a January 20, 2015 New York City Council hearing.

strategy to maintain rental affordability in the notoriously pricy city. The City Council has pressed for increased transparency and accountability from AirBnB. During the course of an eight hour hearing to determine what impacts AirBnB has had on New York's housing stock, it was found that AirBnB *could* force hosts to comply with state law, but the company has refused to do so. Upon pointed questioning from City Councilmembers, AirBnB Head of Public Affairs David Hantman admitted not having done any research to determine which listings



New York City Councilwoman Helen Rosenthal addressed a crowd of affordable housing advocates as they rallied against "illegal hotels" ahead of an eight-hour hearing on the sharing economy at the New York City Council (Photo: Capital New York).

are illegal. This answer failed to satisfy New York City Councilman Jumaane Williams. “Wouldn’t that be something a responsible company would do if they wanted to keep doing business in New York City?” Williams asked.

The company’s refusal to assist with enforcement in Portland, San Francisco and New York City seems to have more to do with ideology than with technical capacity. As expressed by the company’s Head of Public Affairs, David Hantman, AirBnB believes “very strongly that you should be allowed to rent out your own home whenever you want.”

The marathon hearing also found that complaint-based enforcement does not effectively curtail the proliferation of illegal AirBnB listings. In the last year, the Mayor’s Office of Special Enforcement received nearly 1,150 complaints leading to nearly 900 inspections. However, a recent survey has shown the overall number of AirBnB listings in New York City has not changed since aggressive enforcement began.¹¹⁵

Southern California Cities

In the greater Los Angeles area, the cities of Malibu and West Hollywood have begun the process of regulating AirBnB-type rentals within their city limits.

The city of West Hollywood, under the direction of the City Manager, created the Shared Economy Task Force to study home and ride sharing in West Hollywood. The Task Force recommended that the West Hollywood City Council draft legislation to amend the zoning code to define “short term rentals” and reiterate that these types of rentals are illegal in West Hollywood. The West Hollywood City Council is now considering the matter.¹¹⁶

In May 2014, Malibu’s City Council voted to authorize officials to issue subpoenas to gather accurate information on the scope of short term rentals. These types of rentals are legal under the Malibu zoning code, but must be registered with the city and remit hotel taxes. To date, only 50 Malibu properties have complied with these regulations, although the City noted there are more than 400 listings on various short term rental sites.¹¹⁷

Los Angeles City Council has also begun the process of assessing AirBnB’s effects on the city. The Council has convened a Shared Economy Working Group to assess the best practices in regulating the shared economy in the residential sector.¹¹⁸



Principles for Regulating AirBnB

As we have seen, cities are clearly grappling with how best to regulate AirBnB. While cities have employed a variety of strategies to control AirBnB's proliferation, no municipality has been able to effectively limit the growth and negative effects of the large-scale conversion of residential units into tourist accommodations. What may have been considered "best practices" a year ago, today seem rushed and nearly unenforceable. Given the shifting policy landscape, it may be worthwhile to establish an evaluative framework that can be applied to any proposed short-term rental policy.

Housing must be protected

Los Angeles has faced a severe shortfall in housing units, leading to low vacancy rates and rapidly increasing rents. AirBnB's highest density is in the neighborhoods where these dynamics have been especially pronounced. Any policy should have protecting housing units as a top priority.

Systematic approval requirements

Neighborhood cohesion is vital to preserving quality of life and safety in Los Angeles communities. One neighbor's decision to list her unit on AirBnB can have wide-ranging negative effects. As with any land use change that has a potentially negative effect on a community, neighbors in the vicinity of a prospective AirBnB unit should receive advance notification of the potential AirBnB listing and be granted an opportunity to object to this conversion. Based on public input, the city should have the opportunity to approve, reject or impose conditions on a proposed AirBnB conversion. In this way, AirBnB's impacts on neighborhoods can be mitigated and provisions for clear disclosure guidelines and dispute resolution procedures can be established. Los Angeles should also protect renters by requiring permission from landlords before a rental unit can be placed on AirBnB.

AirBnB must share the burden of enforcement

Cities have not been able to effectively regulate AirBnB. Without the company's cooperation, cities must pay the costs associated with investigation and enforcement of existing zoning codes. Even when AirBnB has seen its preferred legislation pass, the company has refused to participate in policing listings. As we have seen in New York City, enforcement strategies focused only on hosts but not on the company facilitating potentially illegal activity, will fall short.

Only true sharing should be allowed

The majority of AirBnB's Los Angeles hosts are on-site. Because they are present to monitor their guests' behavior, and because these types of AirBnB listings do not remove units from the Los Angeles housing market, they create fewer negative externalities than other types of AirBnB listings. Protecting these types of listings while curtailing off-site and commercial hosts represents a smart approach to balancing the needs of Los Angeles communities with the desire of some residents to rent out space in their homes while they are present.

Appendix A: Revenue Calculation

Our analysis shows that there were more than 114,000 reviews left on AirBnB listings. The number of reviews attached to each listing is the best approximation of the number of visitors that a given AirBnB unit has accommodated. Since travelers can only leave a review on a listing after they have completed their stay, every review indicates a confirmed stay. However, not every guest leaves a review after her stay, so our estimates are likely to undercount the volume of guests served by each unit.

The number of reviews also allows us to approximate the revenue generated by each unit listed on AirBnB. By multiplying the number of reviews, the minimum stay, and the listed price, we have been able to estimate the minimum total revenue generated for each individual unit in our dataset. This formula yielded our initial revenue estimate of \$37,726,492 in Los Angeles for 2014.

We applied the same formula to data we pulled down from New York City's public AirBnB listings to yield a revenue estimate of \$121,219,400. We also compared our estimated revenue to the actual value calculated by the New York Attorney General's AirBnB analysis. The Attorney General's report on AirBnB calculated AirBnB's 2014 New York City revenue based on booking information the company turned over after being served with subpoenas. The Attorney General's office showed AirBnB generated revenue of \$282 million in 2014. Using this data point, we created a ratio to determine the relationship between our revenue estimates and actual revenue. We therefore concluded that our Los Angeles revenue was undercounted by a similar rate and revised our estimates upward. This formula also allows us to understand which hosts have failed to generate any revenue at all. We define the failure rate in this instance as the percentage of hosts who have not made any money by listing their space or spaces on AirBnB.

Appendix B: Occupancy Rates

Occupancy rates for AirBnB listings are calculated by first multiplying the number of reviews by the average minimum stay for all listings. Following the procedure described in Appendix A, we then create a conversion factor based on the New York Attorney General's bookings data. Our New York City dataset showed a total of 239,950 reviews had been left on New York's AirBnB listings. We know from the booking data that there were 497,322 AirBnB stays booked through AirBnB. We then applied this ratio to our own review data to obtain a more accurate estimate of the number of stays at a given AirBnB unit. Hosts list the year that they joined AirBnB, which allows us to then compare the number of stays to the number of days that the host has been active to generate an estimate of an individual unit's occupancy rate.

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