AN ANALYSIS OF AIRBNB AND ALTERNATIVE ACCOMMODATIONS

THE IMPACT OF THE SHARING ECONOMY ON HOTELS

AIRBNB SLOW TO STEAL SHARE IN NYC

SAN FRANCISCO HOTELIERS FEELING THE HEAT

“DON’T WORRY,” AIRBNB’S CHIP CONLEY TELLS HOTELIERS
EXECUTIVE SUMMARY

At a hotel industry conference in New York several years ago, a panel of leading hotel executives was asked whether plucky startup Airbnb was a threat to demand. After some quizzical looks and an awkward silence, one spoke up and admitted he had never heard of the peer-to-peer booking network. His fellow panelists agreed, and the conversation turned elsewhere.

The difference three years can make.

The sharing economy is thriving in the travel industry today, with apartment dwellers or home owners using a variety of distribution channels to rent out their unused units or spare bedrooms to travelers seeking alternatives to traditional hotel stays.

Whether it is millennials with their different cultural tastes or long-time road warriors with a need for destination authenticity or simply a cheap room, new vendors of alternative transient accommodations have emerged to meet the demand: Airbnb, VRBO, HomeAway, FlipKey, Roomorama, CyberRentals.com and others.

Market segment leader Airbnb is perhaps most well-known, its rise fueled by a seamless online booking experience and passionate community of users that’s sparked exponential annual growth.

In this special report, Hotel News Now examines how that platform and others are impacting hotel demand, with analyses of San Francisco and New York City as illustrative case studies. We also poll hoteliers around the globe to see how this disruptive travel segment is affecting demand and operations at the property level. The global outlook continues with a piece that examines hot spots where litigation (and anxiety) is beginning to boil over. And finally we present an op-ed from Chip Conley, Airbnb’s head of global hospitality and strategy (and hotelier), who shares some perspective on the sharing economy and discusses how Airbnb is working to even the playing field with hoteliers.

The resulting package will raise some questions. It aims to answer even more, preparing readers to respond more confidently to enquiries on Airbnb—whether pontificating on a conference panel, sitting at the boardroom table or walking the floors of one of the countless hotels feeling the effects of the alternative-accommodations segment in this evolving sharing economy.

Happy reading,
The HNN editorial staff
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The following 23 pages are packed with factoids, valuable case studies and never-before-reported analysis on Airbnb and the alternative-accommodations sector. Here are the five most important things you need to know from HNN’s special report, “The impact of the sharing economy on hotels”:

1. So far, Airbnb is succeeding in attracting customers, but is not yet taking much revenue from hoteliers, according to a market analysis of New York City from hotel consultant Sean Hennessey, who was granted unprecedented access to Airbnb’s data.

   The market has seen a significant increase in Airbnb units and hotel rooms in recent years, but occupancy has held steady at more than 80% for the past decade.

   Not all hoteliers would agree with Hennessey’s conclusion. New York tourism arrivals are on a steady upward climb, but the increases haven’t translated into higher hotel rates, according to Vijay Dandapani, president and COO of Apple Core Hotels. He said revenue per available room is forecast to grow between 2.5% and 3% this year for all hotels in the city, but so far this year his hotels have seen increases of between 1.5% and 2%.

2. Airbnb hosts and hoteliers are not yet playing on an even playing field. Various macro impacts exist, including concerns of city zoning infractions; the potential for abuse of low-income and rent-stabilized mandates; the reduction of workforce housing in cities with housing shortages; and the potential abuse of tenants and homeowner rights where alternative accommodations are causing disruption and/or concerns, according to a market analysis of San Francisco from hotel consultant Rick Swig. CONTINUE READING ON PAGE 5
Taxation and licensing, however, remain the hottest buttons around the globe. Government officials in the region of Catalonia have have been the first in Europe to go after the websites. In July, they fined Airbnb €30,000 ($40,7000) for renting unlicensed vacation accommodations, according to a report from HNN correspondent Benjamin Jones.

In San Francisco, there is evidence this new transient-stay product segment is impacting traditional hotel operations, according to Swig. Dynamic growth in business travel and professional group segments are driving weekday demand and RevPAR. Even though the city and region are benefitting from a booming economy, the weekend transient segments are counterintuitively slumping in the upscale and upper-upscale segments.

This segment has been targeted at the leisure transient segment, which travels mostly during weekends and holiday periods, Swig concludes.

Airbnb and similar peer-to-peer booking platforms are not new. Home sharing has historical roots, writes Chip Conley, head of global hospitality and strategy for Airbnb. In 1953—within a year of the first Holiday Inn sprouting in Memphis, Tennessee—the Swiss and Dutch Teachers unions created a home-sharing alliance so their members could find an economical way to travel while improving the understanding of a different culture.

Additionally, for the past two decades, people have rented their second homes on Vacation Rentals by Owner, better known as VRBO, or their extra bedrooms on Craigslist. (Those companies were founded in 1995.)

Hotellers can learn from Airbnb. There’s a reason the platform is reporting such exponential global growth: Airbnb’s founders recognized the traveling public want an alternative to traditional hotels and have developed a seamless platform to operate and sell that inventory, writes Conley, himself a successful hotelier.

Travelers want authentic, local experiences. They want more space. They want to pay for the things that matter most. And they want a state-of-the-art booking experience that meshes high design, a trustworthy environment and an ease of use that has largely alluded the travel sector.
SAN FRANCISCO is one of the most dynamic hotel markets in the country, but metrics indicate the performance is threatened by the growing alternative-accommodations segment.

The market segment leader is Airbnb, which has established itself strongly among an interested customer base.

While its business model is clearly a winner, Airbnb, along with the other companies in the business space, have overlooked some legal covenants for which they are now being scrutinized, questioned and vilified. Despite the latter, at least in San Francisco, there is evidence this new transient-stay product segment is impacting traditional hotel operations.

WEEKDAY/ WEEKEND YTD TRENDS
Although hotel performance in San Francisco is surging and on its third straight year of double-digit revenue-per-available-room growth with no new hotel supply in sight, the market is reporting year-over-year occupancy decline on weekend days in specific price segments. This would not make sense in this booming environment, except for a new competitive influence: alternative accommodations.

According to STR, parent company of Hotel News Now, the occupancy for the San Francisco market, which includes the city and the surrounding airport communities, has grown 3% year to date through May 2014 and 2.9% for the trailing 12 months. Corresponding RevPAR growth has been 14.3% year to date and 13.8% for the trailing 12 months.

A further breakdown for the entire market shows that year-to-date 2014 weekday occupancy growth is 4.2% (+17.9% RevPAR), while weekend growth is trailing at 0.1% (+4.9% RevPAR). During the same period in 2013, weekday occupancy growth was 3.5% (+10.9% RevPAR).

The market shift and contrast between weaker weekend growth than weekday growth becomes more defined when breaking down some of the patterns by location and product segment. San Francisco’s primary geographic locations for hotel inventory are identified by STR as “Nob Hill/Wharf” and “Market St.” The following charts show trends for those geographic regions with comparisons of occupancy and RevPAR change by weekday and weekend in the upscale, upper-upscale and luxury segments:

HIGHLIGHTS
The market is reporting year-over-year occupancy decline on weekend days in specific price segments.
There were 4,798 Airbnb listings and approximately 34,000 hotel rooms in San Francisco as of May.
The city’s tax collector has been slow to find a method to hold sellers of alternative accommodations accountable for payment of taxes.

CONTINUE READING ON PAGE 7
### SAN FRANCISCO

#### WEEKDAY VS. WEEKEND TRENDS BY TRACT AND PRODUCT SEGMENT - YTD MAY 2014

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| **MARKET STREET TRACT** |                                           |                                           |                                  |                                  |                                        |                                  |
| Upscale             | 74.8% /+1.0%                              | 74.4% /-5.9%                              | +18.8%                           | -2.2%                            | 74.7% /-1.1%                           | +12.6%                           |
| Upper-Upscale       | 83.3% /+3.4%                              | 79.7% /-1.8%                              | +16.8%                           | +1.0%                            | 82.3% /+1.9%                           | +12.4%                           |
| Luxury              | 83.6% /+3.2%                              | 78.2% /+1.3%                              | +17.3%                           | +2.5%                            | 82.1% /+2.7%                           | +13.4%                           |
| Total               | 81.3% /+3.9%                              | 78.7% /-1.9%                              | +18.3%                           | +1.5%                            | 80.5% /+2.2%                           | +13.6%                           |

Source: STR

Dynamic growth in business travel and professional group segments are driving weekday demand and RevPAR. Even though the city and region are benefitting from a booming economy, however, the weekend transient segments are counterintuitively slumping in both the upscale and upper-upper scale segments. This would lead to the concern that some unidentified force is influencing an otherwise unexplainable occupancy downturn, when other retail and attraction segments are expanding during the same weekend periods. Digging deeper into month-by-month trends indicates a more prominent occupancy trend on weekends for this year. Although the chart below provides a rosy picture of a booming market with monthly double-digit RevPAR gains (except May, when citywide conventions did not materialize), the weekend performance is in steady decline from an occupancy standpoint with a significant RevPAR growth gap between weekday and weekend periods. As a result, it must be considered that another competitive force is creating an impact. CONTINUE READING ON PAGE 9
# SAN FRANCISCO

## WEEKDAY VS. WEEKEND TRENDS BY TRACT, MONTH, AND PRODUCT SEGMENT

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Source: STR
The impact of alternative accommodations on the weekends is logical, as this segment has been initially and primarily targeted at the leisure transient segment, which travels mostly during weekends and holiday periods. As the May 2014 year-to-date metrics and trends do not include the busy and leisure transient driven June-through-August season, it will be interesting to revisit these trends at the end of the 2014 summer seasonal period, when leisure transient demand plays a stronger role in transient occupancy demand for San Francisco.

**ALTERNATIVE ACCOMMODATIONS**

There were approximately 34,000 hotel rooms in approximately 240 hotels in San Francisco for tourism occupancy. Including the suburbs to the south of San Francisco, which service San Francisco Airport, 2013 occupancy in San Francisco was 80.5%, according to STR, which was the highest occupancy since 2007 and at current supply levels. In 2014, occupancy growth is already trending 3% above 2013 levels, but 4.2% of that growth is on weekdays, while weekend occupancy is flat (+0.1%) to last year.

Through a Web data-harvesting firm called Connotate, the San Francisco Chronicle in May 2014 compiled data from Airbnb’s website, which measured 4,798 listings for transient accommodations in San Francisco, including the use of at least 2,984 entire houses or apartments being rented as transient units without hotel licenses and outside the boundaries of strict rental laws. The remainder of the listings were either private rooms (1,651) or shared rooms (163). If Airbnb is considered to have a market share of 50% within the alternative-accommodations segment versus HomeAway and others, then an estimate of 10,000 existing alternative-accommodation units within San Francisco is reasonable.

The average daily rate for the alternative-accommodation units that Connotate measured for sale through Airbnb was $183, which corresponds with the combined 2013 annual ADRs for the upscale and upper-upscale hotels segments in both the Nob Hill/Wharf and Market Street STR tracts and might explain their corresponding weekend occupancy declines. With the potential of an additional citywide transient hotel inventory of approximately 33%, it is no wonder that impact is now manifesting itself through the metrics of similarly-priced hotels.
TAX FEES

The tourism occupancy tax in San Francisco is 14% of the nightly cost of a hotel room. The TOT is utilized completely for City of San Francisco services, programs and cultural arts programs. Simply speaking, when visitors pay their hotel tax, they also are paying for clean and safe streets; security services through fire, police, ambulance and hospital service; parks and recreational attractions; and the city’s cultural institutions of theater, opera, symphony, library and museums. Therefore, TOT should be in some ways considered an entry or use fee by visitors to San Francisco.

There is also a tourism improvement district fee in San Francisco. The fee is 2.25% of the nightly cost of a hotel room (1.3% in districts not impacted by Moscone Center conventions). One percent of the 2.25% fee underwrites the cost of marketing San Francisco through San Francisco Travel, which is the tourism marketing company for the city. The remainder is dedicated to underwriting the expansion of the Moscone Center.

The mission of San Francisco Travel is to market San Francisco as the world’s premier tourist destination and stimulate demand for overnight visitor stays and related spending. The funding of the Moscone Center expansion will continue to allow San Francisco to host some of the largest conferences in the country and enjoy the benefits of related overnight stay demand.

It is the law that sellers of transient lodging must charge their guests both the TOT and the TID and pay the proceeds to the San Francisco Tax Collector for proper distribution. In fiscal year 2013-2014, the tax collector estimated that TOT collections would approach $273 million in San Francisco, while TID collections without the Moscone supplement would enable more than $20 million to be spent on marketing San Francisco to sustain and expand visitation and overnight stays.

None of the sellers of alternative accommodations are charging and remitting either TOT or TID. Although actual consumption of alternative accommodations cannot be measured, as companies in the segment do not report their productivity, even at 50% occupancy of 2,984 units of Airbnb inventory at the measured potential ADR of $183, lost TOT to the city would approximate $35 million annually, while TID fees for marketing San Francisco would approximate $2.5 million. In consideration of further available inventory for sale it would not be unreasonable for these numbers to double.

LEGAL STATUTES

The “shared-economy” philosophy has influenced new business segments in addition to accommodations. The most prevalent are in transportation, such as Uber, Lyft and other car services, which have had an impact on the licensed transportation segments of taxis and traditional car services.
In the case of these transportation businesses, there are concerns for lack of adequate licensing, payment of taxes and fees, and inadequate insurance coverage among other items. In the alternative-accommodations segment, the traditional hotel business operators are focused on non-payment of the aforementioned TOT and TID and lack of licensing for transient lodging use. Other macro impacts exist, which include: concerns of city zoning infractions; the potential for abuse of low-income and rent-stabilized mandates; the reduction of workforce housing in cities with housing shortages; and the potential abuse of tenants and homeowner rights within the context neighborhoods in general, individual condominium projects and rental apartment buildings, where alternative accommodations are causing disruption and/or concerns.

In San Francisco, the reaction to disregard for legal statutes has stimulated both a need for further legislation and a separate ballot measure to clarify use of residences for short-term transient housing. The potential city legislation aims to end the “hotelization” of apartments by allowing only primary residents who live in their dwellings at least three-quarters of the year to rent housing, but it basically re-zones residential neighborhoods to allow transient overnight stays to achieve its goals. The proposed ballot initiative seeks comprehensive and enforceable legislation, which would include local registration of all affected units and address the loss of permanent housing, speculation resulting in steeply rising housing prices, evictions and neighborhood disruptions caused both directly and as a result of the unregulated short-term rentals of thousands of residences. Both proposals would require transient lodging sellers to register and license their units with the city.

In the case of payment of TOT and TID, there is a law on the books that makes those requirements clear. But the city’s tax collector has been slow to find a method to hold sellers of alternative accommodations accountable for payment, even as Airbnb had pledged to pay all appropriate taxes by August of this year.

In conclusion, even as San Francisco continues as one of the most frothy and dynamic hotel markets in the country, metrics indicate the city’s hoteliers are being threatened with impact from the alternative-accommodations segment.

Furthermore, there is ongoing frustration with an uneven playing field, where new entries into the transient lodging segment are not being held accountable to the same laws by which traditional hotel practitioners must abide. This story is clearly in its early chapters.

Rick Swig operates RSBA & Associates, which was founded in 1986. Since that time, Mr. Swig has provided advisory services to both major hotel management and operating companies, as well as owners of individual hotels and portfolios. Along with his asset management and consultancy work associated with RSBA & Associates, he has also been an investor in hotels since 1989, including currently the Napa Winery Inn in Napa, California. His past background also includes a career with Fairmont Hotels, where he rose to be the Vice-President and Managing Director of the Fairmont Hotel Management Company.

The opinions expressed in this column do not necessarily reflect the opinions of Hotel News Now or its parent company, STR and its affiliated companies. Columnists published are given the freedom to express views that might be controversial, but our goal is to provoke thought and constructive discussion within our reader community. Please feel free to comment or contact an editor with any questions or concerns.
HIGHLIGHTS

While Airbnb has grown quickly in New York City, so has hotel inventory.

Many of Airbnb’s customers in New York City are international visitors.

Airbnb does not stratify its inventory into anything like chain scales or market class.

Over the past year, Airbnb has become increasingly visible in the media. Much has been written about Airbnb in New York City, one of its largest markets. While the service has enjoyed grassroots success with hosts and users, hotel owners and affordable housing advocates have expressed concern over the impact of the service and its compliance with local laws and regulations. The future growth of Airbnb, in New York City and elsewhere, will evolve as communities address this “sharing-economy” company.

Beginning in the second half of last year, reporters and various stakeholders in the New York tourism industry began asking for information about Airbnb. Scouring the Internet provided some insight, but nothing compared to STR’s hotel data. STR is the parent company of Hotel News Now.

Airbnb offered me an opportunity to analyze its New York City business in depth. The company wanted to be more transparent and open about its business, with the belief that more forthright disclosures would help facilitate a productive dialogue with concerned locals.

My firm decided to undertake the analysis—but only under certain terms. The first requirement was that Airbnb make available any information related to my research. This included sup-

"BY THE NUMBERS"

source: Phocuswright

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<tr>
<td>Home like amenities</td>
<td>52%</td>
</tr>
<tr>
<td>More room/spaces</td>
<td>49%</td>
</tr>
<tr>
<td>Better value for money</td>
<td>44%</td>
</tr>
</tbody>
</table>

Top reasons why US travelers rent
porting detail that enabled me to have a reasonable “audit trail” substantiating the information provided. The only information Airbnb would not share were names and personal data of its hosts. My agreement with Airbnb also included a stipulation that it had no right to limit or otherwise editorially control my findings. Finally, I charged Airbnb for my time, though at a reduced level which amounted to a break-even effort.

The fundamental thrust of my research was to analyze Airbnb’s activity in New York City, as if it were a hotel company. Airbnb is definitely not a hotel company, but my goal was to provide a perspective to hoteliers that had the look and feel of data they are used to seeing.

My research made no attempt to address any legal issues involving the service or its hosts.

Key metrics of the analysis are familiar to any hotel manager: supply, demand, occupancy percentage, average daily rate and total room revenue. The period of analysis was January 2012 through April 2014; prior to 2012, Airbnb’s service in New York City still was becoming established. The analysis defines the New York accommodations industry as hotels and Airbnb as units. Growth in other services such as Craigslist, HomeAway, VRBO and others were not considered (although they appear to have substantial inventory in the market).

My analysis has, to the greatest extent possible, tried to stick with the facts and set judgments aside. In advance of a broader release of the research conclusions in the near future, the following “top 10” list summarizes some of the major findings from this research:

1. **Unlike hotel rooms, which are permanently placed into inventory, counting Airbnb rooms requires more judgment.** Some hosts sign up for the service but make their units available only occasionally. On average, Airbnb hosts only make the units available for rent about half the time. Therefore, Airbnb’s total effective inventory is much less than its total potential inventory.

   Of the inventory that is actually made available through Airbnb, anecdotal evidence suggests that “real” available inventory might be less than posted available inventory. For example, a host every month might make each weekend available for rent but only with the intention of renting for two weekends. Once two weekends are booked, the remaining availability is pulled from the calendar. While this might not be a major effect, it appears that some hosts see the Airbnb service as a free option, which can be exercised with great flexibility.

2. **While Airbnb has grown quickly in New York City, so has hotel inventory.** New York City has been adding hotel rooms at an exceptional rate in recent years. In that regard, it is challenging to separate the impact of new hotels on existing hotels from the impact of new Airbnb units on existing hotels. Of the two, it appears the new hotels
are providing a significantly greater competitive threat to existing hoteliers.

A significant portion of Airbnb’s guests appear to be unlikely to use hotels and might be more directly competitive with other accommodations providers, such as executive housing.

Two groups of Airbnb customers are notable. Looking solely at Airbnb’s guests by length of stay, 19% rent for 30 days or more, which is highly unusual for hotels.

Second, Airbnb tracks the number of guests in a party. Four percent of Airbnb customers are parties of five or more guests traveling together. Many hotels limit room occupancy to four guests or fewer, suggesting diminished competitive overlap. (While some hotels offer large suites, those units normally serve a different clientele and price point than the typical Airbnb customer.) Taken together, guests staying for lengthy periods and guests traveling in large parties make up nearly a quarter of Airbnb’s business in New York.

While Airbnb has a material presence in Manhattan, its real center of activity is Brooklyn. It’s interesting to note that Times Square, the city’s most hotel-intense neighborhood, is actually Airbnb’s smallest sub-market.

While Airbnb has some pricey options, it’s mostly a competitive threat to economy hotels. There are some nice units pictured on Airbnb, and there is some evidence that the quality of Airbnb’s typical unit is getting better over time. But Airbnb’s sweet spot has so far been nice but not luxury units.

A review of Airbnb’s website shows some options for shared rooms with bunk beds. This type of accommodation is not a substantial part of Airbnb’s inventory.

Many of Airbnb’s customers in New York City are international visitors, and they tend to book far in advance. Also, it appears Airbnb hosts do not use yield management strategies as aggressively as hoteliers. These two characteristics suggest there might be somewhat less competitive overlap than the raw data shows.

Consider as an example a visitor from France who is willing to spend $250 per night in New York City and who wants to confirm her reservation a month in advance. If a hotel had a room priced at $400 and sold it at the last minute on HotelTonight for $250, it might look like the hotel room was competing with Airbnb when the booking horizon makes clear that’s not the case.
Of the Airbnb stays in New York City, 47% are booked 30 days or more in advance.

Because of the nature of Airbnb’s business, it’s not possible to develop a profit-and-loss statement that could be compared to hotels. Nevertheless, it appears Airbnb rooms, together with new hotel rooms, have moderated the amount of compression often felt in peak demand periods. That reduces opportunities for existing hotels to achieve pricing premiums they might have had in the past.

However, it’s too simplistic to say new inventory is hurting room rates. Much of the new inventory is outside Manhattan and designed toward the lower end of the quality spectrum. Both of these attributes affect citywide room rate statistics.

Airbnb does not stratify its inventory into anything like chain scales or market class, the groupings STR uses to categorize hotels. Airbnb does use a sophisticated system whereby hosts and guests rate each other. In this way, the system is self-sorting and more like TripAdvisor or other online grading systems. There does not seem to be any momentum to creating an “Airbnb Platinum” or “Airbnb Express.”

So far, Airbnb is succeeding in attracting customers, but it is not yet taking much revenue from hoteliers. While Airbnb has accommodated significant traveler demand, it hasn’t affected hotel occupancies in a significant way. For that matter, all of the new hotel rooms have done little to depress hotel occupancy rates in New York City.

Occupancy levels have averaged more than 80% during the past decade, demonstrating that: a) capacity constraints continue to be the major factor limiting the city’s hotel occupancy rate and b) the increase in hotel rooms and Airbnb units in recent years has been met with a comparable growth in demand, demonstrating significant unaccommodated demand still exists.

Sean Hennessey is the founder and chief executive officer of Lodging Advisors LLC, a firm dedicated to providing high-quality counseling services to institutional investors, lenders, and other key players in the hotel industry. Prior to forming his own companies, Sean was a leading consultant and broker for more than 20 years. Sean began his career in daily operations over 30 years ago with companies such as Marriott, Disney World, and numerous restaurants. Sean graduated from Johnson & Wales in 1979 with an Associate of Science degree in Culinary Arts, followed by a Bachelor of Science degree in Hotel Administration from Cornell University in 1983.

The opinions expressed in this column do not necessarily reflect the opinions of Hotel News Now or its parent company, STR and its affiliated companies. Columnists published are given the freedom to express views that might be controversial, but our goal is to provoke thought and constructive discussion within our reader community. Please feel free to comment or contact an editor with any questions or concerns.
Many hoteliers give me a puzzled look when we talk about travelers staying in other people’s homes. But home sharing has historical roots. In 1953—within a year of the first Holiday Inn sprouting in Memphis, Tennessee—the Swiss and Dutch Teachers unions created a home-sharing alliance so their members could find an economical way to travel while improving the understanding of a different culture.

Additionally, for the past two decades, people have rented their second homes on Vacation Rentals by Owner, better known as VRBO, or their extra bedrooms on Craigslist. (Both those companies were founded in 1995.)

Despite these historical precedents, many in the hotel industry believe Airbnb sprouted out of nowhere. Airbnb’s innovation was the creation of an effective, modern digital interface and a connected, loyal community that helped broaden the marketplace of guests and hosts interested in home sharing. By marrying technology and trust, in just six years, Airbnb has grown to more than 17 million guests, with 70% of these guests from outside the U.S. On a global scale in 190 countries, Airbnb helps turn strangers into friends.

“I DON’T BELIEVE HOTELIERS SHOULD WORRY ABOUT AIRBNB’S EMERGENCE, BUT THERE’S MUCH TO BE LEARNED BY THIS BURGEONING PLATFORM.”

I’ll admit that when I was asked, as a hotelier who’d founded Joie de Vivre Hotels and subsequently created more than 50 boutique hotels, to give a speech on hospitality innovation at Airbnb’s funky headquarters in March 2013, I didn’t know what to think of the company. And, when I started working for the company soon after that, I didn’t understand the lingo (“shipping product,” “reducing friction,” etc.). I also was about twice as old as many of the employees. But, just as I was curious about them, it was clear this design-oriented tech company was genuinely curious about the generous spirit that defines hospitality.

The three founders of Airbnb started their company at the same age I started mine: 26.
The parallels of Airbnb to what boutique hotels represented back in the mid-80s when I started my company are uncanny: experience-driven travelers looking to “live like a local,” staying in neighborhoods rather than downtown and often paying prices that were moderately below the better-known, chain hotels. Traditional hoteliers dismissed boutique hoteliers like Ian Schrager, Bill Kimpton and me more than a quarter century ago with a lack of understanding that predictability and ubiquity were no longer the Holy Grail for a modern traveling public that was becoming more adventurous.

ONE PIECE OF THE PUZZLE
Airbnb is only one piece of the growing collaborative economy. David Brooks writes in the New York Times, “People are renting out their cars to people they don’t know, dropping off their pets with people they don’t know, renting power tools to people they don’t know.” He goes on to suggest that middle-class stagnation and the lingering Great Recession have created a new set of micro-entrepreneurs. There’s a growing number of freelancers and consultants who piece together their income based upon a disparate collection of skills, interests, hobbies and what the market will bear.

Airbnb’s data in New York City is a testament to this trend. Eighty-seven percent of New York City hosts are renting out their primary residence, with 62% of these hosts saying this supplemental income helped them meet their rent or mortgage payment. Almost half of the New York hosts who reported earnings had household incomes at or below the city’s average. The demand side of the equation is led by millennials who often base their lodging decisions less on the physical attributes of their accommodations and more on inspirations and aspirations, such as having a unique, casual and home-like experience.

Many hoteliers believe this is a fad, but I’m not so sure. While our efforts to teach the art and science of hospitality to hundreds of thousands of global hosts are still in the early stages, Airbnb guests already score their Airbnb experience higher than the average score of global hotel chains (based upon Net Promoter Score). And 70% of Airbnb hosts and guests review their experience, another sign that the Airbnb community is engaged and committed to this sort of travel.

DON’T WORRY
I don’t believe hoteliers should worry about Airbnb’s emergence, but there’s much to be learned by this burgeoning platform.

Part of the reason you shouldn’t fret is because the average length of stay is more than five nights, so some of Airbnb’s core market is extended-stay guests. Additionally, a sizable portion of Airbnb’s thrifty guests would never have made the trip or would have stayed on a friend’s couch if Airbnb didn’t exist. And, in most U.S.
kets, Airbnb represents a small percentage of the total lodging revenue. Even in our largest American market, New York City (with about 25,000 listings), Airbnb represents a small percentage of total lodging revenue in that market.

What can a hotelier learn from Airbnb? More and more guests, especially millennials, want to live like a local and connect with hosts who can become friends. Help your guests find authentic, local experiences they wouldn’t find in the typical travel guidebooks. Members of the growing global middle class, many experiencing international travel for the first time, are looking for more space for less money, and they don’t require daily maid service.

All travelers are looking for a well-designed technology platform with online retailers like Amazon defining the standard to which hoteliers need to aspire. So make sure your website is state-of-the-art. And just as “revenue manager” became a new job category in our industry two decades ago, data scientists are the new career frontier for hoteliers. Mining data—to both find guests as well as intuit their specific needs—is becoming a competitive differentiator for smart hotel companies.

**AN EVEN PLAYING FIELD**

As we move forward, Airbnb wants to ensure we have clear, fair rules for home sharing. This practice is often governed by a patchwork of confusing 20th-century laws that never imagined a 21st-century sharing economy. The laws are vastly different in the 34,000 cities in which Airbnb operates.

Our community wants to pay its fair share, and we strongly support sensible regulations for home sharing.

For example, this summer we started collecting and remitting occupancy taxes in Portland, Oregon. We will soon do the same in San Francisco. We will take the lessons we learn in these cities and move forward. We’re also always looking to help Airbnb hosts make their homes the safest on the block. For instance, earlier this year, Airbnb committed to shipping its U.S. hosts free smoke and carbon monoxide detectors if the host requested them.

Additionally, Airbnb can make a positive impact on the environment. We can help communities grow their lodging supply without having to waste precious resources building hotels that will be mothballed after major, one-time events. For instance, 20% of the international visitors traveling to Brazil for the World Cup stayed in Airbnb lodging. Airbnb also can be a leader in providing immediate disaster relief assistance globally, as demonstrated during
Superstorm Sandy when more than 1,400 New York City hosts opened their homes to those who needed a place to stay.

Airbnb isn’t a new idea. It’s an old one that has been updated for the age of technology.

No one has led the development, creation, and management of more boutique hotels than Chip Conley, founder and former CEO of Joie de Vivre (JDV). At age 26, Chip’s mission was to “create joy” by building a company that USA Today called “the most delightfully schizophrenic collection of hotels in America.” During his nearly 24 years as CEO, JDV grew to become the second largest boutique hotel company in America. (Chip is no longer an owner or leader of Joie de Vivre’s management business – now part of Commune Hotels – but remains a partner in several hotel properties.)

Honored with the 2012 Pioneer Award – hospitality’s highest accolade – The San Francisco Business Times named Chip the Most Innovative CEO – and JDV the 2nd Best Place to Work in the entire Bay Area. Chip received his BA and MBA from Stanford University and holds an Honorary Doctorate in Psychology from Saybrook University, where he is the 2012/2013 Scholar-Practitioner in residence. He served on the Glide Memorial Board for nearly a decade and is now on the Boards of the Burning Man Project, the Esalen Institute, and Youth Speaks.

He joined Airbnb as Head of Global Hospitality & Strategy, where he’s sharing his proven methods with hosts in nearly 200 countries.

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GLOBAL REPORT—Municipal authorities and hotel associations in some of Europe’s top tourist destinations are warning hosts using Airbnb and similar “sharing-economy” websites to toe the line on local laws affecting the hospitality sector. Such platforms allow private individuals to rent out unused rooms, apartments or houses to other travelers.

London, Berlin and Amsterdam are among the destinations cracking down. The latter earlier this year allowed short-term accommodations to be booked through such websites under certain circumstances in a law the Dutch press described as “Airbnb friendly.”

“Amsterdam is a hospitable city (and) is keen to create leeway for residents looking to occasionally rent out their own property to city visitors,” according to a statement by the municipal authorities released after new rules were imposed at the beginning of the year.

“However, such practices are only permitted if the guidelines are followed to ensure that holiday rental is conducted safely and honestly without causing nuisance.” CONTINUE READING ON PAGE 21
The guidelines stipulate:

- Owners can rent out a property only if they are the registered principal occupier.
- If a property is rented out for more than 60 days each year it will be considered a commercial activity, which is not permitted unless it is a legal bed & breakfast establishment.
- Renters are required to pay a tourist tax on earnings on holiday rental income.
- The property must comply with fire and safety regulations.
- Operators are not permitted to rent out their properties to more than four people at a time.
- Guests staying in a property should not cause any form of nuisance to others living in the area.

In London, the legal and policy director at the British Hospitality Association, Jackie Grech, told HNN the association had cautioned website renters to adhere to safety requirements and maintain proper hospitality standards.

“We want everyone to enjoy British hospitality. With that in mind, our concerns are around guests, communities and the product we as a sector are providing to consumers. ... Every consumer should be assured that regardless of whom they choose to purchase accommodation from in the U.K., that they will receive the same standards of protection from unnecessary risk," she said.

“We welcome new models of hospitality with the hope that they encourage tourism, but not by putting the community or visitors at risk," she added.

ILLEGAL IN LONDON

In London it is illegal to rent out one’s own home for a period of fewer than 90 days without planning permission, Grech said. However, with 13,000 Airbnb listings, the British capital is the country’s biggest market, according to a recent article in the British daily, The Guardian.

“More than 6,600 are leasing out an entire home or flat, rather than a spare room. More than 1,500 people listing properties on the site have multiple listings, with 180 listing five or more properties or rooms across London,” the paper reported.

These “semi-professional landlords” were causing concern among London hoteliers, The Guardian noted. “Our experience from (hotellers) is that it isn’t exactly affecting business per se, it’s more a reputational and safety issue at the moment,” Grech responded.

A housing law that went into effect in Berlin in May restricts permission to rent vacation lodgings in some of the German capital’s most desired districts.

The law is designed to “conserve the city’s housing stock as accommodation be-
comes increasingly scarce” and prohibits the regular short-term renting of rooms without a green light from Berlin officials, the Financial Times reported.

**CRACKING DOWN IN CATALONIA**

Government officials in the northeastern Spanish region of Catalonia have been the first in Europe to go after the websites. In July, they fined Airbnb €30,000 ($40,700) and punished seven others for renting unlicensed vacation accommodations.

If the websites do not obey local laws covering such rentals, the Catalan authorities threatened to shut them down. Regional capital Barcelona is one of Airbnb’s top rental destinations where travelers can pick from 14,000 listings on the U.S.-based website.

At a news conference, Jordi Clos, the president of the Barcelona Hotel Association, claimed that while there were some 8,800 legally-registered short-term apartment rentals in the city, the number of illicit properties was double that figure.

The association has set up a department to track down illegal tourism rentals about which it informs the authorities. Clos said it had so far identified more than 700 unregistered apartments or houses in the city.

But one Spanish chain argued that Airbnb and its ilk were not a major concern to its two properties in Barcelona, the Room Mate Emma and the Room Mate Pau, which generally cater to younger guests—the same demographic attractive to website renters.

“Airbnb and the other sites are not competition for us as these rentals can’t offer the same service as Room Mate, such as 24-hour reception, daily cleaning, etc.,” said Yeyo Ballesteros, the group’s head of communications.

“The Emma and the Pau are two best performers in Spain and have an average monthly occupancy of over 90%, so these websites are not seen as a threat,” he added.

French hotel group Accor, which operates several low-cost brands in popular European cities, declined to comment on the issue, while an InterContinental Hotels Group representative said no executives were available to answer questions.

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**“BY THE NUMBERS”**

source: phocuswright

- **51%**
  - **Millennials (ages 18-34)**

- **49%**
  - **Ages 35+**

US RENTER DEMOGRAPHICS

More than half (51%) of all U.S. renters are millennials (ages 18-34)
GLOBAL REPORT—Hoteliers’ reactions to the effects on their business from Airbnb and other sharing-economy travel websites range from outrage to guarded admiration. Some operators cannot quantify the dollars-and-cents impact of these services on their hotels.

“We have not seen a direct effect in any of our hotels,” said Richard Jones, senior VP and COO of Hospitality Ventures Management Group, an Atlanta-based hotel owner and operator. “We don’t feel it’s having any impact on our results or that it has hit our radar as of yet.”

Robert Habeeb, president and COO of First Hospitality Group and an HNN columnist, assumes Airbnb and other services are stealing business from his hotels, but he is unable to quantify the effects.

“If you look at Airbnb’s $10-billion market cap, then you must assume they are running some significant volumes,” he said. “We just don’t have statistics for our hotels, but anecdotally a lot of people are talking about (Airbnb), and while we may not be seeing it in markets like South Bend (Indiana), it’s become quite popular in Chicago.”

Habeeb said Airbnb’s penetration into urban centers rather than secondary or tertiary markets has created additional disadvantages to owners and operators of traditional hotels in large cities.

“Doing business in Chicago is very expensive and very regulated, and all of us competing here have the same cost burden, whereas those folks who are renting their apartments on Airbnb have none of those costs,” he said.

Bashar Wali, president of Portland, Oregon-based Provenance Hotels, is more sanguine about the sharing-economy phenomenon and its effect on the industry. CONTINUE READING ON PAGE 24
“The sharing economy is here to stay, and no matter how much we fight it and cry about it, for the millennials it is a way of life,” he said. “Our belief is if you make the playing field level—such as the payment of taxes—then we’re OK with it.”

Wali believes regulations passed by the city of Portland will help mitigate problems with Airbnb and similar sites.

“The city is doing a lot of the right things. They’re collecting taxes, and they’re making (hosts) apply for the permit and submit to inspections,” he said, adding the proposed legislation will require hosts to live in their residences at least nine months of the year and that apartment and condo units cannot be rented through Airbnb.

“That’s a particularly important part of the regulation,” he said. “Otherwise, apartment owners would stop leasing units and instead rent them on Airbnb, and the unintended consequence would be the apartment buildings would become quasi-hotels, which would push rental housing into the suburbs, making it harder for employees who work in the city to find a place to live.”

**DIRECT EFFECT ON RATES**

Vijay Dandapani, president and COO of Apple Core Hotels, is more certain about the threat the sharing economy poses to his company’s five hotels in New York and to the industry.

“The effects of Airbnb are pervasive and have deep consequences to our industry,” Dandapani said. “And while some (executives) at the national hotel chains finally see the problem, there are many people in our industry who haven’t woken up to it yet.”

He said New York tourism arrivals are on a steady upward climb, but the increases haven’t translated into higher hotel rates. He said revenue per available room is forecast to grow between 2.5% and 3% this year for all hotels in the city, but so far this year his hotels have seen increases of between 1.5% and 2%.

“There has been continual growth in tourism arrivals, both international and national, while RevPAR growth has been moderate at best, and more like flat,” he said.

Other hoteliers are less concerned about the increasing visibility and popularity of these sites.

“They’re a competitor, but what we have in common with them is that guests are experiencing our cities,” said Gül Heper, commercial manager for Stockholm-based HTL Hotels. “There’s always going to be a different way of doing it.

“It depends on the guest. And since the new travelers value personalized, unique experiences, they will sometimes opt for Airbnb, but there will be times they need security and a trusted place to stay,” she said.
Will Loughran, president of Richfield Hospitality, said while his company hasn’t been able to statistically uncover an effect on its business, he believes the Airbnb concept will create other entrants into the field.

“It is a smart and clever approach to a business they essentially pulled out of thin air,” he said. “It is intriguing to watch it play out.”

Loughran said these services also are creating new travelers who might not be able to afford traditional hotels, an assertion Dandapani disputes, at least from his experience in New York.

“That argument doesn’t hold water,” Dandapani said. “Go on their website and you’ll see listings for Times Square and the Upper West Side at rates higher than Hilton Garden Inns and much higher than my hotels.”

Habeeb also is worried about the long-term effect on the hotel industry, particularly when and if the current up cycle turns downward.

“We’ll be dealing with a lot of (hotel) development in the coming years and will be forced to contend with oversupply, and services like Airbnb will exacerbate that problem,” he said. “As this trend spreads and proliferates it could have a meaningful effect on our business, especially during off-seasons when we’re all fighting for every roomnight as it is.”

SOLVING THE PROBLEM
Several hoteliers took issue with the disparities in operating models for traditional hotels versus Airbnb and hosts.

“Airbnb customers are very rate-oriented, so it’s difficult to compete except by discounting,” Habeeb said. “People who rent their product on Airbnb can have very low rates because they have zero cost.”

Habeeb said while local governments can attempt to regulate sharing-economy services, they generally don’t have the mechanisms to enforce these laws. He said the same is true for state governments.
which should be concerned about losses in tax revenues.

“The federal government isn’t bashful about the regulations they impose on our industry—pool lifts, (Americans with Disabilities Act regulations) and others—so you would think if the feds are truly concerned about these issues they would extend enforcement to (Airbnb),” he said.

Taxes are a key issue for Dandapani. He said the differences in taxation on buildings zoned commercial versus residential can be significant.

“Here’s a simple example: Take a 60,000-square-foot building with a $100-million market value. If it is a hotel, the assessed value is 40%, or $40 million, and that’s what’s used to calculate taxes. If it is a residential building with the same market value, the assessed value is 6%, and the tax is figured on that amount. The disparity is huge.”

Dandapani said even if Airbnb and others pay occupancy taxes on their transactions, the playing field will still not be level.

“What about the rest of the taxes we pay?” he said. “There are mortgage recording taxes and other transactions taxes we pay when we buy and sell hotels that are completely different for residential transactions.”