

IS AIRBNB AN EXAMPLE OF A SHARING ECONOMY?

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Abstract

The paper discusses the topic of sharing economy in the segment of accommodation services on the example of Airbnb. The aim of this paper is to describe the advantages and disadvantages of a sharing economy especially in the context unfair competition. In the first part, the principles of sharing economy are introduced. The second part is focused on Airbnb, the main player, which represents a controversial approach to “sharing accommodation”, similar to Uber in the “carpooling” segment. The case study of Airbnb is aimed at the city of Prague. Data on the number of property owners, units, beds and prices are also mentioned. The monitored period is between April 2016 and April 2017. Comparison with traditional providers is mentioned. At the end of this paper, there is a discussion about potential restrictions of the accommodation segment and consequent recommendations, which correspond to the recommendations of the European Union, are proposed too.

Key words Sharing Economy, Collaborative Consumption, Airbnb

JEL Code: JEL Code, JEL Code, JEL Code (2 – 3)

Introduction

The principles of “sharing” or “sharing economy” is nothing modern, human society has had some form of sharing economy throughout the ages.

The assumptions of sharing are (1) the existence of a sharing product (goods or service); (2) readiness of owner to release his product to another person for use; (3) the existence of some person and his readiness to use this product (for a fee or free of charge).

The typical products for “sharing” especially among members of families, friends, neighbours etc. are leased goods, retail loans or the provision of services. Flexibility is the main advantage of a sharing economy. The other advantages are reduction of risk, low transaction cost, and simplicity of operation. The key difference between a sharing and a traditional economy is in a sharing economy the product is shared by his owner with other users (Švecová & Veber, 2017).

Which factors are determiners for the current development of a sharing economy? First key determinant could be a shift in value system, especially for younger people. This generation has changed its behaviour, it prefers to enjoy life before ownership of things. This is related to a desire to discover new approaches and get experiences differently. The second key determinant is the rapid development of ICT. Contemporary technologies have led to the development of many software applications that support sharing without the need to know the other people or to be physically nearby.

And which risks and limitations are connected with a sharing economy? Less regulations of these areas lead (sometimes) to a decrease of safety, hygienic standards, success of the complaint process, or respect of the terms of transaction etc. The limitation is an unwillingness to share property with strangers too; research from PWC describes this effect as being present in half of the population (PWC, 2015). Furthermore tax evasion is the most discussed issue regarding the sharing economy.

1 Sharing economy

Typically, the concept of sharing expects a non-competitive consumption of products. This consumption could be serial or parallel. Serial consumption means that products can be shared separately by multiple people at multiple times but not by multiple people at the same time (for example, bike sharing). Parallel consumption means that one product can be used by more than one person at a time (for example, Spotify or Netflix). From a global view, the sharing of products leads to an increase in efficiency of resource allocation and savings.

The term sharing economy could be defined by several approaches: (1) “the sharing economy is a socio-economic ecosystem built around the sharing of human, physical and intellectual resources” (Matofska, 2016); (2) the sharing economy includes the sharing of products by different people and their financial expenses are shared with the owner (Vorlíček, 2016); (3) the sharing economy includes “shared creation, production, distribution, trade and consumption of goods and services by different people and organizations” (Felson, Speath, 1978).

Assumptions for greater benefits from a sharing economy rather than a traditional are: (1) the capacity of the shared product is greater than the needs of its owner; (2) user needs of the product are short-term; (3) sharing a product brings more benefits, either in the form of an economic or emotional one; and (4) safety during product sharing and the existence of distribution channels is required (Veber et al., 2016).

The sharing economy has a wide range. In 2017, the server collaboratives-consumption.com featured more than 1300 entities divided into dozens of areas.

In connection with the term sharing economy, it is appropriate to note the terms collaborative economy, peer economy, access economy, circular economy, gig economy, on-demand economy, and swarm economy.

Collaborative consumption could be defined as “those events in which one or more persons consume economic goods or services in the process of engaging in joint activities with one or more others“ (Guarda, 2016) or as the concept including “traditional sharing, bartering, lending, trading, renting, gifting, and swapping.” (Botsman, Rogers, 2010). Distinguishing between sharing and **collaborative economy** is not clear, e.g. only 27% of US habitants have heard of these terms, and they are generally not able to distinguish between them (Olmstead, Smith, 2016). Typical examples are Airbnb, eBay or Zonky.

Eckhardt and Bardhi (2015) say that the term **access economy** for description of contemporary phenomena is better. According to them, if participants do not know each other, it is not a classic sharing. Typical representatives are Spotify or Netflix in the media area.

P2P (peer-to-peer or person-to-person) represents an immediate connection between two subjects. Typical example is P2P lending in the financial world – the term represents direct loans between people outside the bank. The connection between the providers and applicants for money is made by a software platform.

The **circular economy** represents the reuse of products with ecological benefits (Guarda, 2016). Massive decentralization and the overcoming of traditional economic models with a goal on the weakening of the forces of big players is named a **swarm economy** (Falkvinge, 2013). In the labour market the term **gig economy** is used for short-term contracts between companies and employers. It is estimated that in 2017 one third of US workers were independent contractors (CNNMoney, 2017) and the prediction for 2020 call for about more than two fifths (Intuit, 2010). The **on-demand economy** is defined “as the economic activity created by technology companies that fulfill consumer demand via the immediate provisioning of goods and services” (Jaconi, 2014).

2 Case study Airbnb

The server **Airbnb** is very popular and famous. It is a privately owned accommodation rental website. It enables hosts to rent out their houses, flats and rooms to others.

2.1 History of Airbnb

Its beginnings are dated to 2007 and it was established in 2008 (AirBed & Breakfast) with the website Airbedandbreakfast.com. The name was shortened immediately to Airbnb. Overseas expansion is dated to 2011 to Hamburg, Germany. Airbnb generates revenues through service fees to guests and hosts. In May 2017, it was valued at 31 billion USD. In NYC, it generated an estimated revenue of 451.43 million USD in 2015 and 805.32 USD is estimated by the end of 2018. Airbnb ad spending in the US is more than 23.5 million USD (The Statistics Portal, 2018).

2.2 Reservations against Airbnb and its regulation

At present, serious discussions are being held at the level of the executive bodies of the state and municipalities of the Czech Republic concerning the regulation of shared accommodation. The reasons are: tax evasion, non-payment of fees, non-fulfillment of the reporting obligation on accommodated foreigners, spreading complaints about the disruption of nighttime and disorder in the corridors by citizens living in the neighborhoods of apartments rented for Airbnb (for example Prague 1 registers approximately 5 complaints every week).

Foreign experiences are similar and have led in some destinations to restrict Airbnb services. In Berlin from May 2016, it is possible to rent a room only, not the entire house or apartment. Non-compliance of this is penalized by a fine of up to 100.000 EUR. In addition to protecting against tax evasion, the aim was to reduce the rise in housing prices and to make housing available to local residents. Although there has been only a short time to evaluate all the consequences of this restriction, now there are more than 4.000 apartments completely empty in Berlin. Amsterdam has introduced short-term lease regulation for a total of up to 60 days per year, and from 2019 it is expected to shorten this period to 30 days per year.

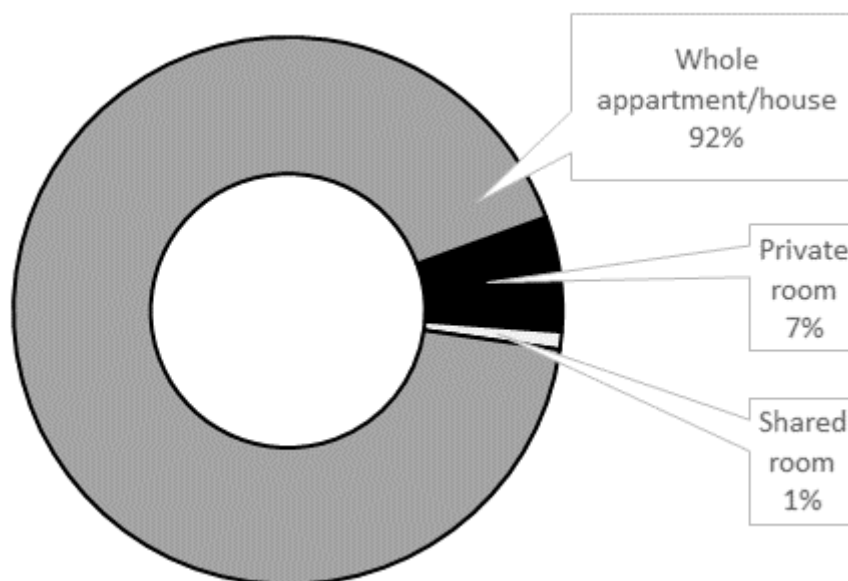
2.3 Airbnb in the Czech Republic

About a month after the launch of the portal Airbnb in 2008, the first accommodation was booked in Prague. The number of accommodation places and bookings has increased since then. The number of overnight stays is also increasing. Prague is the dominant market for Airbnb in the Czech Republic.

Between April 2016 and April 2017, research was carried out on Airbnb capacities (Veber et al., 2018). Through Airbnb, almost 32 792 accommodation places were offered in Prague with an estimated number of beds of 103 600 (in September 2016). What was the structure of the offered places? Most of them (beds) were in whole apartments/houses (92%); there were only 7% which offered beds in private rooms and less than 1% which offered beds in shared rooms – see Figure 1. Of these accommodation places, 75% were used at least once

during the reference period. The average utilization of offered capacity was around 50%. Because the total potential capacity of the offered beds is over 100 thousand, it is practically comparable to the offer of all traditional providers of accommodation services, i.e. hotels (Czech Statistical Office, 2016). The market share of Airbnb is more than 51%. Prague is in the top 10 of cities served by Airbnb.

Fig. 1: Estimated number of beds offered via Airbnb in Prague



Source: authors

An interesting view is the capacity utilization. The average occupancy of beds for traditional offers is below 50% (Czech Statistical Office, 2016). The average Airbnb occupancy was over 50% on the basis of calculations based on Airbnb's observable data in October 2016 (Veber et al., 2016). Therefore, it is possible to consider Airbnb's success as greater than traditional accommodation providers.

Total spending on accommodation services amounted to 95 million USD in that period. The average estimate of Airbnb's daily sales in the given period was over 1.8 million USD. It is estimated that Prague's losses on accommodation fees amounted to about 2.3 million USD. Of course, not only free room sharing via Airbnb was provided. The entity with the largest offer of accommodation capacities in Prague is currently offering 116 accommodation places. Several subjects offered around 90 accommodation sites with a turnover of about 1.8 million USD. The most profitable locations are located in the center of Prague, where an apartment with an area of 100 m² earns up to 86000 USD per year.

3 Discussion about potential restriction of the accommodation segment

Now, serious discussions are being held at the level of the executive bodies of the state and municipality of Prague concerning the regulation of shared accommodation. Legislative documents are currently being prepared. The restrictions will focus on regulations of repeated short-term rentals. This raises a number of questions.

First, how to define short-term rentals while not limiting long-term rentals? Experience from abroad shows that the limit of days could be 30 days of continuous rental. On the other hand, discussions are conducted on the number of days that could be tolerated for short-term leases and rents. The total number of days (accumulated) is in the range of 30 to 120 days per year.

Another factor is the regulation of the number of people accommodated in one apartment. The reason for this is compliance with hygiene and other standards.

The Tax Office has considered that short-term accommodation to be accommodation services, not renting. In this context, it draws attention to the need for electronic receipts when payments are received in cash or by card, with income tax to be paid, and VAT to be registered when the total income is exceeded by 45 thousand USD per year (in Czech Republic).

Conclusion

A shared economy is the phenomenon of the day. Unfortunately, however, some entities' offerings do not meet the assumptions of a shared economy. These entities do not comply with the standard legal conditions for doing business in this area. In this context, we talk about legitimate interests of clients, entrepreneurs, the state and the public.

In this context, it is necessary to distinguish between occasional sharing and commercial sharing. Occasional sharing should not be significantly legislatively regulated. On the other hand, regulatory procurement for commercial sharing should be adopted. This should prevent both unequal market conditions and tax evasion.

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