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An Analysis of the Changing Competitive Landscape in the Hotel Industry Regarding Airbnb

Dean D. Lehr
Dominican University of California

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MBA 5180 Capstone Thesis Project

**An Analysis of the Changing Competitive Landscape in the Hotel Industry
Regarding Airbnb”**

By
Dean Lehr
M.B.A. Dominican University, 2015

Executive Summary

This capstone thesis project is an analysis of the competitive environment between the hotel industry and Airbnb, an Online Vacation Rental Platform, (OVRP) in San Francisco. Airbnb is an internet platform that facilitates hosts to rent shared space, a private room or an entire home. Airbnb is growing and currently has over 1M listings in 34,000 cities and 190 countries globally. The focus of this research is to identify the competition within the San Francisco market, including data from the hotel and OVRP industry in New York City, NY, Los Angeles, CA, and USA. This study identifies and reviews the tangible and intangible affects Airbnb has on the hotel industry, hospitality workers, renters, neighborhoods, and the city and state revenues for transient occupancy taxes (TOT) and other taxes.

Research, interviews and questionnaires were engaged with hotel, Airbnb and travel industry professionals. A lack of keen interest from hoteliers reinforced hotel industry consultants' experience that hoteliers are apathetic about the Airbnb and OVRP competition. This apathy is likely the result of hotel industry double digit net income growth for the past 6 years. Times have never been better in the travel and tourism industry. A hotel industry expert Mark Woodworth of PKF research said "Real average daily room rate growth driving RevPAR will continue double-digit increases in hotel profits: something we have not seen in in the 78 years PKF has been tracking the U.S. lodging industry." Despite the bright outlook from PKF; in certain markets budget and mid-range hotel operators are reporting a recent slowdown in growth, even reductions in average daily rate and occupancy where Airbnb inventory is high. When the economy has a downward correction, the full weight of 1M to 2M OVRP listings, representing as high as 27% of the hotel supply in some markets to compete for ADR and occupancy. This may stimulate rate and occupancy pressures in many markets to the highest levels ever seen. In addition, current and future hotel appraisals and feasibility studies will likely require OVRP inventory to be considered into the valuation formula.

Airbnb constantly offers new user friendly features and can be a personalized, experiential and a meaningful experience. Rich connections have been developed between caring concierge like hosts and tourists. Tourists can bring worldly experiences to hosts. Budget travelers might not afford to travel if not for the low rates. Airbnb rooms supplement hotel inventory during extraordinary city wide events.

This utopian bright side of the shared accommodations seems to politically overcome the dark side; evidenced by cities with rising apartment rental rates and declining inventory. Pressures are placed on working class neighborhoods driving out the local workforce to accommodate high rate tourists. To date, Airbnb has defeated efforts to be effectively regulated. The media is full of Airbnb incidents where homes have been trashed and hosts have misrepresented their rentals.

Many Airbnb rental units are operated as a business, with 72% + reputed to be illegal. There is a risk associated from the unregulated nature of residential conversion to commercial accommodations. Owners and hosts run the risk of being in violation of VA, FHA and commercial mortgage covenants

and insurance policy restrictions. Non-permitted residential conversions to commercial occupancy do not have the same commercial safety standards as a hotel, Caveat Emptor, “let the buyer beware!”

San Francisco Ordinance 218-14 was passed in October, 2014 to legalize and regulate OVRPs; however the Ordinance as written is unenforceable. California State Senator McGuire authored SB 593 titled: The Thriving Communities and Sharing Economy Act. SB 593 is crafted to empower cities in California with collections authority and several other critical elements to regulate the multi-billion dollar OVRP industry, and to collect TOT tax. SB 593 states “Where vacation rentals are legal, the bill will assist local jurisdictions in their regulation and collection of TOT taxes. Where vacation rentals are illegal by local jurisdiction, the bill will prohibit online vacation rental platforms from making a rental.”

Airbnb has grown from 1 shared space in 2008, to 1M+ listings as of 2014; and expected to grow to reach 2M homes in 2016. Currently with \$800M in venture capital funding and a \$20 billion valuation, Airbnb is very popular with venture capitalists, hosts and tourists globally. Airbnb and OVRP’s are here to stay, however enforceable regulations are critical.

The hotel industry research had a universal theme, “level the playing field between hotels and Airbnb.” Hotel industry experts confirm Airbnb and other OVRPs are competitive with hotels. However, until tax payments, regulatory, safety, and compliance issues are addressed the majority of Airbnb and OVRPs will be operating illegally with an unfair competitive advantage over hotels?

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A brief history of hospitality:

In the earliest days when people traveled, staying in the home of family or friend was the only alternative to self-supported camping. Travelers carried whatever was necessary to provide shelter, eat, and survive. Commercial lodging did not exist.

Eventually facilities offering rest and relaxation to travelers opened going back to the early Greco-Roman cultures and civilizations. In the early times monasteries and abbeys offered accommodations to travelers. Eventually inns, taverns and roadhouses became the commercial lodging source of hospitality in the middle ages. Inns, taverns and roadhouses grew linking travel by a day's travel from village to village. When trade and commerce prospered outside of local markets, imported goods became available outside coastal shipping routes. Overland regional trade began to link countries, not just by sea. Hotels opened to serve as commercial lodging places for travelers to stay in cities. The growth and grandeur of hotels increased with early hotels such as the Exeter, Claridge's, Royal in England and Ritz Hotel in Paris. Increasing luxury options and standards encouraged wealthy travelers to follow as grand hotels opened in great cities and capitals around the world; built to symbolize culture, wealth and national pride, (The Economist, 2013).

As railways further connected continents overland, steamships connected the world so tourism and hotels prospered and proliferated. Tourism became available to widening socio-economic markets with bus transportation. Hotel brands began global empires projecting initially American and European affluence and influence. Airlines began connecting the world with increased frequency, reduced travel time and cost. Holiday Inn, motels and moderate hotel chains were founded to serve the common man and families traveling by bus, train, car and airline.

The hospitality industry has developed and evolved over hundreds of years. In the beginning there was self-sustained travel, home-sharing, inns, taverns and eventually hotels. Hotel branding and individual entrepreneurial ventures offering a wide variety of accommodations from economy, extended stay, corporate, resorts, luxury and to niche market experiential environments. The shared economy platforms are offering residential experiences to those travelers that appreciate a home-like experience. Although home-sharing is not new in itself, the slick, accessible, Airbnb global internet platform adds a personal experiential difference to travel and access to one of the oldest forms of hospitality.

Destination San Francisco:

In San Francisco tourism represents 134,231 visitors spending \$25.7 million dollars per day. The San Francisco hotel industry has 33,642 hotel rooms in a total of 214 officially permitted transient hotels. These hotels recorded 2.1 billion in room revenue at an occupancy level in 2014 of 82.6%. The transient occupancy tax (TOT) generated over \$300 million dollars in 2013 for the City of San Francisco. The hotel industry supports 24,000 jobs in San Francisco itself and 62,000 jobs in the entire Bay Area. Currently 57% of the hotel employees live in San Francisco. In the hotel industry 77% of the hotel employees identify as Asian, Hispanic, African American, or other non-white category, (Interview and fact sheet, San Francisco Hotel Council Executive Director Kevin Carroll.)

The average annual income of the San Francisco visitor is \$118,000 with average spending in SF (per person, per day) of \$240.31. First time San Francisco visitors equal 27.2%, with the average age being 43. Visitors with children equal 17.2%. The average stay is 3.5 nights, with 2.0 persons per hotel room, with 69% arriving by air, (sanfrancisco.travel.)

In a San Francisco Resident survey by Destination Analysis 53% of residents believe tourism is the most important industry in San Francisco, 98% believe tourism is very important to the economy and 78% believe San Francisco is a better place to live due to the tourism, (sanfrancisco.travel.)

Hotels

Introduction, ownership, supply, success measurement, and safety:

Hotel companies can develop, own, manage, and franchise brands with a commitment to one or any combination of these services for hotels. Each hotel entity seeks a strong return on their investment through commitment to their unique mission, vision, values, culture and objective. Global expansion over decades of real estate ownership and management has become restrictive in high demand markets. Expanded brand offerings, niche experiential hotel concepts, and focused market segmentation has allowed the major hotel brands to appeal to different market segments within the same cities. The larger global companies are publically traded with financial information transparency. In contrast Airbnb has exploded in growth from 1 set of airbeds to 1 million listings in 6 years. The shared accommodation market is privately owned and financial information is not easily available.

On a global basis the hotel industry posted \$551.1 billion in revenue for 2013, the last full year of global data available, (Marketline Industry Profile.) The global industry posted a compound annual growth rate (CAGR) of 5.9% between 2009 and 2013. The leisure segment represented 74.9% and commercial representing 25.1% of the global revenue, (Marketline Industry Profile.) Global travel is affected negatively by economic recession, energy prices, civil unrest, terrorism, war, health epidemics, tsunamis, earthquakes, nuclear emergencies and other factors. Major positive influences include the Olympics, World Cup, World Series, Super Bowl, other major sporting events, conferences, congresses and conventions.

Hotel ownership and supply:

In the early days hotels were entrepreneurial, developed and managed by individuals. Today the hotel business has become brand, trophy and commodity real estate focused. This has led to a bifurcation into the development, financial and ownership side and the operations and branding side. Major hotel ownership today is dominated by financial firms such as insurance companies, private equity, public companies and Real Estate Investment Trusts. Hotel ownership has become a commodity and a portfolio investment, (Economist, 2012). Major hotel operations are dominated by major hotel brands and large international operations management companies that have strong buying power to negotiate large volume design, construction, and technology contracts (Marketline, 2013.)

The hotel industry has a high cost of entry. Hotel development includes very high up-front costs including investment in prime real estate, long lead times for entitlements, specialized construction, furniture fixtures & equipment, technology, branding, and marketing. Purchasing a full-service hotel is typically based on a cost per key and currently ranges from \$175,000 to \$550,000 per key in major US markets. The capitalization rate approach for full service hotels value and investment has ranged between 6.1 and 6.7, (HVS, 2013). This is a major difference between hotels and shared economy platforms like Airbnb and OVRP's platforms that do not own real estate or even a bed.

The hotel industry enjoys cycles of boom and survives periods of bust. During cyclical downturns, the high cost of ownership can place hotel investments in jeopardy, just like renting an apartment with a higher monthly rent than one's income can support. Economic downturns can cause low occupancy, low rates and low cash flow that cannot support the mortgage and operational costs. This can cause ownership to lose equity; and even ownership of a hotel from foreclosure. These are the downsides of real estate and hotel investments, a downside that an internet platform such as Airbnb does not have.

When prosperous high occupancy periods create high demand, phenomena called compression pushes hotel rates higher with increased market demand. This compression drives higher occupancy rates, higher average rates, higher profits and eventually higher real estate value. Markets with limited real estate, high cost of entry and limited additional hotel room inventory expected to be developed are highly desirable investments, like San Francisco. In the boom times ownership focuses on higher and higher operational profits; while eyeing the real estate market for the best timing to sell the asset for highest profit from appreciation. The hotel industry monopoly game of the buy/operate/sell model effects visitors by driving higher and higher room rates. History shows eventually a demand correction will even out market rates.

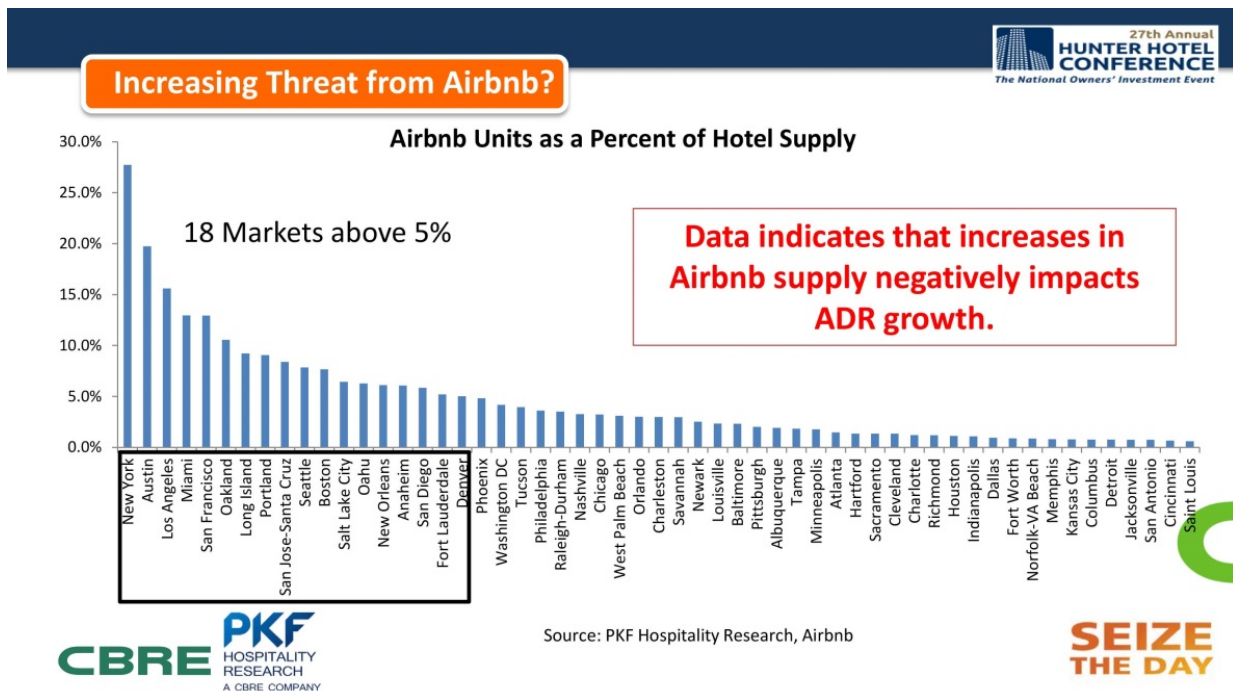
A new hotel industry paradigm is developing with the disruptive effects of Airbnb and OVRP's. A remarkable valuation attribute of Airbnb and OVRP's has been proven. Airbnb and OVRP's can be counter-cyclical, growing both during the recessionary times of 2009/2010 and boom times 2011 to present. It should be noted that during periods of high unemployment hosts need to supplement their income (or lack of income) and travelers conserve capital by utilizing Airbnb and OVRP's. It will remain to be seen how this plays out in the next economic downturn. Airbnb listing inventory has seen

unprecedented growth in the hospitality industry, now representing of 16+% in San Francisco and Miami, 27+% in New York City, 20+ in Los Angeles, 20%+ in Austin.

The rapidly expanding listing inventory of Airbnb has exceeded that of the largest hotel chains. For these reasons Hospitality Valuation Services (HVS) is reviewing the model for projecting future hotel demand, a basic component of a market, feasibility and appraisal studies. These studies affect viability and ability to finance and development future hotel projects. In the appraisal and feasibility process hotel demand is broken down into two categories, accommodated and unaccommodated demand. Due to OVRPs and Airbnb’s rising prominence, projections are becoming complicated and future demand estimations of a proposed hotel’s absorption of unaccommodated demand will require additional consideration, (HVS, 2014).

Mark Woodworth the president of PKF Hospitality Research said 7 of 10 hotel rooms being built will be in the upper/upper upscale end of the market for the next three years, (HotelNewsNow.) Not coincidentally these markets are the least competitive with Airbnb and OVRPs. The hotel industry has enjoyed unprecedented net operating income growth for 6 consecutive years, it is no wonder the hotel industry is not focused on the rise in the shared economy competition of Airbnb and OVRP’s. However in a late 2014 presentation at a hotel conference Mr. Woodworth of PKF Research spoke of the 6 consecutive years of increasing global hotel occupancy and profitability, he asked the question of attendees, “Should hotels be worried about Airbnb?” Mr. Woodworth responded that hoteliers should be!

Airbnb ratio percentage to hotel, figure 1:



Again on March 25, 2015 at the Hunter Hotel investment conference in Atlanta Mr Mark Woodworth of PKF Research asked a question of the 1200 hotel industry professionals, “How many of you are concerned from a competitive standpoint about Airbnb.” Five people raised their hands. Mr. Woodworth noted that “Airbnb and other room sharing ventures are absolutely threatening the hotel industry”. “The data indicates that increases in Airbnb supply negatively impacts ADR Growth”, then cited in 18 markets Airbnb supply exceeded 5% of the hotel supply. He reiterated that 76% of the highest demand cities had substantial Airbnb listings under \$200. He noted that in NYC this represented a very low competitive rate. Currently Airbnb and OVRP users only pay TOT tax in Portland, San Francisco, San Jose, Amsterdam, Chicago and Washington, D.C. Even in these cities with ordinances the enrollment of hosts and the ability to audit records appears to be unenforceable. Hotels are constantly audited. Airbnb’s and OVRPs reap further discounted travelers costs globally without the enforceable requirement for travelers to pay TOT tax.

Hotel consultant Don Landry spoke of the fact that Airbnb is growing faster than any hotel franchise model, without owning any real estate. The general concern from hoteliers at this conference was that besides cutting into the hotel industry revenue stream, Airbnb is not on a level playing field. Liam Brown an executive from Marriott International noted that although Airbnb would likely reach 2 million listings by the end of the 2015. The panelists from the Hunter Hotel conference recommended that the hotel industry focus on marketing the value added propositions offered by the hotel industry, (rebusinessonline.com). This would focus hotel industry attention to the strengths and opportunities of a SWOT analysis rather than dwell on the weaknesses and threats from Airbnb and OVRPs.

Today with the onset of on-line review sites, each hotel guest has extraordinary power to sway public opinion of a hotel, fairly or unfairly. Hotel guests have “no skin in the game” regarding their reviews. Hotel guests can review hotels, but hotels cannot review guests. Bad reviews to a hotel can affect future hotel selection by potential guests; therefore managers are quicker than ever to resolve customer service issues before the issues become publically exposed on the online review sites. Often hotel employment reviews are tied to the hotel maintaining high scores on review sites. Individual responsibility for guest service issues on such sites as Travel Advisor can impact a hotel manager or a workers career, or hotel demand supporting a hotel workers employment. Airbnb has a higher average quality score (4.5) than hotels (3.8) on Travel Advisor, one of the dominate hotel review sites. This is likely due to the co-review effect on Airbnb between hosts and guests, and guests and hosts. On Airbnb hosts and tourists can review each other on the Airbnb site, neither wanting to write a bad review stimulating reciprocal retaliation reviews. The system was changed in October of 2014, and new statistics were not available as of this writing.

Airbnb compiles Big Data more effectively than the hotel brands to facilitate personalization as are the On-line Travel Agencies (OTAs.) In short, hotels are being disrupted by a new pseudo-personalization from on-line platforms - of both the old school and new school varieties. “Airbnb possesses all the traits of a successful, highly disruptive firm. It looks like we are in Stage 3 of disruption right now, and with Airbnb happily embracing the payment of occupancy taxes, Stage 4 should hit when the next downturn arrives”, Mark Woodworth of PKF research. He further suggests “That was pretty much the

pattern with the OTAs as well (remember [the downturn in September] 2001 & [9/11/2001 and the great recession of] 2008?)” In 1Q 2001 Priceline's (PCLN) market cap was less than \$100 million, today PCLN is at 65.47 billion, Expedia (EXPE) at 12.89 billion and Sabre (SABR) at 6.84 billion. These valuations demonstrate how technology disruption has revolutionized valuations in the travel industry, (Yahoo Finance, 2015).

Hotel success measurement:

Hotel critical success factors include competitive strategy, management style, quality performance, values and beliefs culture, market position, stage of product life cycle, cost structure, location, and financial strength. Profitability is measured internally by revenue, operating profit, cash flow, and occupation cost, which are internal factors. The overall financial performance is strongly influenced by external competitive forces including competitor activity, hotel market supply determining the overall viability of a specific hotel in the marketplace, (Hospitality Marketing Management, 2014).

Financial benchmarks in the lodging industry are assessed by standard measurements, average daily room rate (ADR) and occupancy percentage together establish the foundations of how a hotel is performing. A review of these metrics in the form of revenue per available room (RevPAR), room is calculated by dividing hotels total guestroom revenue by the rooms available for sale over the number of days in the period measured. This data is typically compared within a custom defined market area with a self-selected competitive set. This competitive set is defined by hotels that are of the same type, similar size, target customers, market segmentation, and services, (defined later).

The hotel industry assembles syndicated data companies like Smith Travel Research (STR) which compiles global hotel data for individual hotel data providers. The Smith Travel Research Accommodations Report (STAR) program compiles contributed data to measure effectiveness of revenue management in a hotel annually, monthly, weekly even daily.

Hotel profitability and breakeven analysis considers all revenue sources to compute profitable operations. Revenue sources could include hotel, meeting room, food, beverage, catering, telephone, internet, laundry & dry cleaning, vending, in-room movie rentals, gift shop and retail, entertainment, business centers, recreational and sport facilities, parking, and spa revenues. Each revenue source must generate ample revenue to stand its own profitability test, or the service becomes a guest service or amenity. Often additional fees are charged guests for accessibility to amenities, sometimes called a resort fee. Limited service hotels have limited offerings, with less investment in smaller facilities. The extended stay segment has separate sleeping space from living room like area, often larger rooms with kitchenettes, (see market segmentation tables). Each hotel guest market segment and purpose of visit (business or leisure) will have different needs which would affect their desire to select one hotel over another hotel or possibly a shared economy listing from Airbnb or OVRP.

One cannot overlook the benefit enjoyed by the travel industry to low oil prices. Airlines, trains, buses and auto travel all benefit from the drop in oil prices. This reflects in lower ticket prices, increased

profitability for the transportation companies, and improved attendance to conventions and events. This has an additive effect reflected supporting travel in 2014/2015 from low gas prices.

All segments of the hotel industry are expected to enjoy robust performance in 2015. This strong expectation is the product of an expected 6 year period of double digit net operating income growth for net operating income in hotels. Mark Woodworth of PKF research said “No matter what hotel performance indicator you look at, for what type of hotel, we foresee extremely favorable movements the next few years.” Woodworth continued “ Real average daily room rate growth driving RevPAR will continue to a six year period of double-digit increases in hotel profits: something we have not seen in in the 78 years PKF has been tracking the U.S. lodging industry.”

Global hotel net operating income for 10 year period 2007-2017: table 1

2007	+7.2%		2012	+10.2%
2008	-3.8%		2013	+10.1%
2009	-35.4%		2014F	+17.3%
2010	+9.8%		2015F	+13.2%
2011	+12.7%		2016F	+10.1%

PKF Research

Hotel safety:

Most commercial insurance companies inspect each hotel property annually. The insurance loss prevention specialist typically provides a check-off list of compliance issues, or list of repairs required to maintain their commercial insurance policy in place. Hotels are required to provide a commercially safe and secure environment. Hotel Brands have rigorous safety standards for all aspects of construction, fire safety, signage, crisis training, and incident management. Branded hotels have inspections and security requirements and protections including secure electronic key systems, guest room dead bolt locks, solid core guest room and connecting room doors, secure balcony door locks, slip resistant finishes, in room telephones, fire prevention systems, fire detection, hard wired guest room and public space smoke detectors, fire alarm systems, emergency lighting systems, commercial foodservice fire suppression systems, water quality testing, GFI type circuits in bathrooms, commercial fire extinguishers, new construction annunciators and public area camera systems, elevators suitable for fire fighters, ADA communications systems, generators, fire pumps, regular testing, commercial flammable materials guidelines, secure window systems, and on-site 24 hour staffing and management. Safe-deposit boxes for guests, in room safes, secure luggage storage, Employee screening, employee and guest safety planning, training and committees, internal and external accident prevention inspections, earthquake and fire drills, evacuation planning and maps, (International Journal of Hospitality Management). Commercial operations are inspected by governmental agencies to meet commercial fire safety, building code, food service, and often Americans with Disabilities (ADA) compliance, (IHG brand safety standards). These commercial

construction, safety, and security standards are in sharp contrast to typical residential security standards of older apartments prevalent in the rental industry inventory.

Hotel segmentation, generational targets, markets, and brands:

Hotel market segmentation provides a basis for hotel marketing efforts and inventory controls in order to maximize revenue over competition. This hotel market internal segmentation is identified in the Hotel market segmentation table 1a. Hotel segmentation for appraisal and valuation is often used as noted in the Hotel market external segmentation table 1b. Hotel brands often analyze segmentation as noted in Hotel market chain segmentation Table 1b, (hotelnewsresearch.com.) Moody Analytics reports that unemployment will drop to 5.9% by 2015, with most employment growth in the lowest educated sectors. This tends to benefit the economy market segments, with growth in income levels benefiting the higher educated segments. “Employment gains now have reached all segments of the population, which translates into strong RevPAR forecast for all segments of the U.S. lodging industry,” pursuant to Mark Woodworth of PKF Research. The rounding out of the economic rebound translates into hotel industry segment wide growth.

Hotel market: internal and external segmentation table 2a:

Internal Marketing Plan Segments	External Segmentation appraisal & valuation
Leisure	Leisure and wholesale
Corporate	Commercial
Corporate Groups	Meeting and groups
Convention	Extended stay
Tour and Travel	Leisure and wholesale
Airline & Contract	Timeshare

PKF / Hospitality Valuation Services

Hotel Market: chain segmentation, revenue and forecast table 2b:

RevPAR by Chain Scale	2014 estimate	2015 forecast
Luxury	+6.7%	+7.0%
Upper/upscale	+8.1%	+7.2%
Upscale	+8.9%	+8.1%
Upper-midscale	+8.9%	+6.1%
Midscale	+7.7%	+5.5%
Economy	+8.5%	+7.4%

PKF Research

Hotel executives devote substantial resources to identify the ideal market segmentation for the sales, marketing and revenue management for individual hotel properties. Hotel marketing is focused

towards product, pricing, and distribution channels. Market segments must be identifiable to be measured, accessible by communications and distribution channels, substantial so as to be profitable, and durable to have a stable impact on profitability. Competition is keen among hotel competitors. Matching the right customers to your particular hospitality product mix is critical to success. Establishing the foundation elements utilized to identify unique consumer traits for budgeting, target marketing, and sales for a particular hotel include the following categories, (hsmi.com)

- Geographic - region, size population, and climate
- Demographic - age, gender, lifestyle, income, and occupation
- Psychographic - activities, social interest, and values
- Behavioral - features, benefits, usage, loyalty, and occasion

Today hotels are segmented and branded to meet more narrowly targeted experiential expectations. Each market segment and brand can be focused to meet niche market expectations or can be simply a commodity like a basic room and competing by price. Room size, furnishings, hotel outlet services such as gourmet food, bars and entertainment, golf, other recreation, spa, retail, gambling and quality standards reach every pocket book and experiential demand. Resorts focus on the recreation and niche experiential demands of its targeted market segments.

Hotel generational targets:

In an overview of the travel trends for 2015 the up-and-coming millennial generation travelers are among the most studied and coveted. Millennials are the focus due to their coming of age currently, with the largest generation (71million) since the baby boomers, (Social Librarian.com) expect all things internet to be critical to their experience, with ease of multi-platform mobile reservations a critical factor, (HotelNewsNow.com.) In-hotel mobile accessibility, fast, reliable, free internet access are a key amenity, (tnooz.com). Millennials identify important amenities to include the need for multiple easy access electrical outlets strategically placed for mobile device charging. Millennials and experiential travelers lead the list of desired WOW factors along with health and wellness options from exercise to healthy menus. Today, authentic opportunity for social connection in public areas, social media connection, and responsiveness and reputation management will be critical barometers of a hotels successful connection with guests.

Generational descriptions table 3:

Generation	Born	Age today	Current population
Baby Boomers	1946-1965	50-69	76 million
Generation X	1966-1976	39-49	41 million
Generation Y, Millennials	1977-1994	21-38	71 million
Generation Z	1995-2012	2-20	25 million

Social Librarian

Since World War II the baby boomer generation has considered car and home ownership as key milestones in life. The millennials have lost early interest in car and home ownership. The millennial generation has proven different from previous generations, not easily generalized or described. Connecting with friends by driving, is being replaced by ubiquitous on-line technologies transcending time and space. Smart-phones, mobile technology and compatible platforms have changed communication, human interaction, relationships and friendships. Zip-car or the “shared economy” Uber” app when transportation is needed is replacing dependence on car ownership, (Atlantic, Sept 2012). Tech conscious millennials seem to prefer denser more urban environments for living and working. When traveling hence the propensity for millennials is to focus on experiential environments of unique hotels like boutique and lifestyle brands that promote connection with locals through active restaurants and bars popular.

Hotel markets - leisure market:

The Leisure market represents 74.9% of the hotel market globally. The power of buyers in the hotel industry highlights the competitive environment between hotel brands. Buyer independence, low-cost of switching and price sensitivity are competitive triggers. Undifferentiated product, tendency to switch, product dispensability are moderate competitive factors, (Marketwatch.com.) Differentiation between brands is a critical competitive factor to the success of each brand.

The leisure markets represent 66% of the hotel room buyers. Leisure travel is a dispensable service; no-one is required to stay in a hotel for a vacation, as opposed to business travel. Leisure travel is highly susceptible to economic conditions. The power of each individual leisure buyer is not significant, excepting in the aggregate if leisure travel is halted such as September 11, 2001 or slowed in the case of the great recession of 2008-2010, that resulted in a devastating travel industry downturn.

Hotel markets - corporate market:

The corporate market represents 21.1% of the hotel market globally. In 2015 companies are expected to spend \$310 billion in USA. Corporate travel includes individual corporate and government travelers. The commercial segment also includes convention and corporate groups in house. Corporate hotel travelers require more intense sales efforts either direct to the end user, or to internal or external corporate travel planners. Requirements are often rigorously negotiated requiring deluxe rooms, discounted rates, upgrades, free services, last room availability and credit terms.

Hotel frequent stay programs reward guests using loyalty points for loyal customers, especially corporate travelers who endure long periods on the road.

When identifying the basis for the corporate market segmentation additional components are added to the aforementioned unique consumer traits including identifying

- Location or cluster of industry or convention facilities
- Corporate type, size, industry, purchasing criteria

- Behavioral characteristics, usage, buying status (HSMIAI, 2012)

Major travel management companies negotiate contracts with hotel brands and major individual hotel suppliers. Hotels offer preferred contracted rates along with amenities like instant reservation confirmation, concierge floor, selective room locations, car and airport transportation services, last room availability, breakfasts, free parking, free internet, health club or exercise room, swimming pools and a myriad of other special benefits for corporate contracts that meet annual room minimums. In an interview with a major nationwide service industry company travel manager the author was told the company represented could not take the risk that their business traveler could encounter inconsistencies, safety and security concerns of an Airbnb or OVRP room. The company would not book, nor recommend reimbursement by a company travel departments for Airbnb or OVRPs.

Recently, in an interview with a major travel provider (corporate travel agency) it was noted the following criteria were identified as critical metrics for the deployment of travel policy in corporate travel management. Along with these basic criteria corporation travel management companies rely upon the hotel brand and hotel property to provide their corporate travelers, for which they could be liable and responsible, a consistently safe and secure environment.

- Consistency of product
- Consistency of cost
- Consistency of compliance and duty of care
- Reducing dilution of yield

Recently, the author was provided a statement regarding Airbnb by American Express GBT. Although this isn't a specific company position, this represents official company messaging,

“Our customers are always looking for new and different ways to manage their travel spend and improve the traveler experience. The emergence of “sharing economy” models is really about an invention driven by the consumerisation of the travel industry - other companies in different industries have faced similar situations and have pivoted quite successfully.

We observe these new entrants trying to learn the issues particular to corporate travel and our customers grappling with how to embrace the sharing economy at a corporate level. Adoption levels will be contingent on the sharing economy's ability to deliver on corporate priorities such as traveler security and ability to deliver processes that are compliant with expense policies. Even then, we believe that individual company culture and the way in which individual companies view the sharing economy's ability to deliver on corporate priorities will play a role in adoption.” (American Express GBT, corporate communication released by interview)

Business-travel systems have more options than ever before. U.S. companies are projected to spend \$310 billion on business travel in 2015, but how they spend that money has become a source of

tension. Sharing-economy startups like Airbnb and Uber are challenging traditional travel vendors and in the process, they're forcing many businesses to reevaluate travel policies and conventions that are pillars of the current system. Most major travel management companies are unwilling to get on board with security, liability and consistency issues with shared economy vendors like Uber and Airbnb. Hotel brands deliver on the basic corporate travel necessities. Table 2 lists the major hotel brands, founding information, number of hotels, number of rooms, brands under their umbrella and revenue.

Hotel brands – a very competitive environment:

Most seasoned hoteliers remember vividly the post 9/11/2001 travel secession or the great economic recession of 2008-2009. The unrepresented downturn of 35.4% in 2009 (PKF, Table A) rocked the hotel industry. Hoteliers were coached and cautioned to resist reducing ADR however this proved impossible. Competing on price alone can be a downward spiral, especially when the perception of quality is diminished when a non-staple product is commoditized. In premium markets elements like service, exclusivity, and security come into play. Facilities like pool complexes, spas, gyms, golf and other recreational activities can become expected amenities. Hotel management companies focus managers and budgets to cash flow, profitability targets, and occupation cost demands. These factors include collecting accounts receivables, tightly managing the labor force, zero-based budgeting, with sales, marketing and revenue management focused to drive ADR, Occupancy and RevPAR. These strategies are typically approved by asset managers, investors and lenders through strong channels of communication to maintain a tight control of hotel assets, (hotelexecutive.com). The hotel industry losses during the post September 11, 2001 and great recession of 2008/2009 were massive; the lost valuation of hospitality real estate was substantial. Since that great recession; the recovery is expected to continue until at least 2017. The unprecedented forecasted 6 years of double digit profitability has caused hotel values in the U.S. to increase 156% to date. However, hotel lenders and developers are still gun shy from 2008/2009 great recessions, new hotel development and the availability of financing doesn't match the opportunities available in many U.S. markets, (HVS.com.)

Moreover, this rapid growth in RevPAR and valuation has been supported due to a lack of substantial addition to U.S. hotel supply. In particular San Francisco will not see significant additional hotel supply. Only 2 projects, totaling slightly over 300 rooms are in the planning or pre-planning stages. One renovation is the Renoir Hotel in the mid-market area with an upgrade to 135 luxury rooms, (SFGate.com.) In an effort to match supply with demand in San Francisco the Dream Boat will be docked at Pier 27 for the upcoming Dreamforce Convention with 135,000 attendees, (San Francisco Business Times.com). San Francisco is ripe for new hotel development, however housing comes first, said hotel consultant Rick Swig of RSBA Associates and former chairman of the San Francisco Convention and Visitors Bureau. Thomas Callahan of PKF consulting described the only way a large new hotel could be built in San Francisco could be through a public private partnership. The past 72% average occupancy rate over the past few decades has risen to 85% in 2014, causing Callahan to declare San Francisco is the best hotel market in the country. When asked "Is there anything that could slow the travel industry boom in San Francisco?" Callahan responded, "There are no big warning signs." Mr. Callahan from PKF consulting appears to be in contrast with Mark Woodworth.

of PKF Research who warns of the impending competitive collision between hotels and Airbnb and OVRP's in the next economic correction; however Mr. Callahan's comments were focused exclusively to the San Francisco hotel market of today.

Marketline Industry profile of April 2014, described "A new substitute in the form of private rentals, widely available through on line services such as Airbnb and Flipkey is a potential threat to the hospitality industry." Airbnb is described by HVS, PKF Research, and HotelNewsNow.com editor as being an emerging threat to the hotel industry. Airbnb has accomplished more growth than the top 10 global hotel companies have been able to grow in 20 to 240 years. The growth accomplished by Airbnb and OVRP's regarding numbers of listings and revenue is unprecedented. Airbnb has become one of the world's most valuable startups within only 6 years, (wsj.com.)

Largest hotel brands table 4:

Name	Hotels	Rooms	Major Brands	Revenue (M)
Intercontinental Hotel Group Founded 1777, Bass Brewery Market Cap 9.25B	4,840	710,295 Employees 7,797	Intercontinental, Crowne Plaza, Hotel Indigo, Holiday Inn, Holiday Inn Express, Staybridge Suites, Candlewood Suites, Even & Hualuxe Hotels and Resorts	1,860.
Hilton Worldwide Founded 1919, Conrad Hilton Market Cap 28.83B	4,278	708,268	Conrad, Hilton Grand Vacations, Hilton, Double Tree, Embassy Suites, Garden Inn, Homewood Suites & Home 2 Suites	6,810
Marriott International Founded by Bill Marriott Market Cap 22.21B	4,044	692,801 Employees 123,500	Marriott Hotels and Resorts, Ritz-Carlton, Bvlgari, Residence Inns, Courtyard by Marriott, Autograph Collection	2,740
Wyndham Hotel Group Founded 1981 by Trammell Crow Market Cap 10.91B	7,490	645,000 Employees 34,400	Wyndham Hotels, Microtel Inns, Hawthorn Suites,	5.280
Accor Founded in 1967	3,717	482,296	Sofitel, Pullman, Mercure, Suite Hotel, Sebel, All Seasons, Ibis, Etap, Motel 6, Formula 1	7,348.8
Choice Hotels Founded 1939 Market Cap 3.64B	6,379	505,278	Quality Inn, Comfort Inn, Comfort Suites, Quality, Sleep Inn, Clarion, mainstay Suites, Suburban Extended Stay, Econo-lodge and Rodeway Inn	757.97
Best Western Founded 1936	3,931	303,522	Best Western Premiere, Best Western Plus, Best Western	
Starwood Hotels and Resorts Founded 1980 Market cap 14.42B	1,222	354,225	Luxury Collection, W Hotel, Westin, Sheraton, Four Points by Sheraton, Aloft and the Element	3,270
Home Inns Founded 2002 by Ji Qui	2,609	303,522	Home Inn and Motel 168	
Carlson Residor Founded in 1960, Copenhagen	1,092	172,234	Radisson, Radisson Blu, Park Plaza, Park Inn by Radisson, Country Inns & Suites by Carlson and Hotel Missoni	

HotelNewsNow / Yahoo Finance, 2015

Porter's five forces analysis:

Michael Porter's Five Forces Model assesses the power base in a business situation. Porter's model is used in this case to evaluate the hotel industry. The hotel industry is a group of like companies providing products and services that satisfy a similar need, function and use. The five competitive

forces of industry will influence prices, costs and investment, (Porter 1980). Porter's Five Forces model is an effective business strategy tool to analyze the feasibility of a potential hotel, or the competitive position of the hotel industry to secure a strategic advantage over a new competitive threat. The hotel industry is highly influenced by travel and tourism trends and is vulnerable to global economic conditions. This five forces analysis considers the San Francisco market:

Threat of substitute products:

Threat of shared economy substitutes, like Airbnb is high

Moderate threat of substitute products with expanding hotel market brands

Threat of video conferencing becoming more mainstream to curtail business travel is moderate

Threat of substitutes in the hotel industry is always highest in recessionary times; one must always consider the downgrading and the cost of travel itself

Threat of new entrants:

Threat of new entrants low due to high cost of capital, low availability of land, high cost of construction and difficulty securing entitlements.

The threat of Airbnb gaining more inventory is high

The threat of Airbnb and OVRP's competition with occupancy and ADR high. The current inventory of Airbnb in San Francisco is said to be 5,500 rooms equaling 16+% of the 33,642 legal permitted hotel rooms in San Francisco.

New restaurants are a high threat to hotel food and beverage operations

Bargaining power of suppliers:

Suppliers in the hotel industry include property owners, developers, real estate companies, architects, interior designers, interior furnishings, contractors, consultants, information and technology manufacturers. The current barriers to entry into the San Francisco hotel market are very high.

The hotel industry is labor intensive, availability of skilled management and workers is challenging due to the high cost of living in the San Francisco Bay Area. In San Francisco unionized labor has significant influence over wages, work rules, health and welfare, and pension costs.

Food and beverage in hotels has lost its competitiveness in major hotels due to free standing restaurant competition options outside of hotels in San Francisco. The high cost of unionized labor contributed to a la carte food and beverage operations in hotels shrinking to minimum guest service levels.

Bargaining power of buyers (customers)

Customers typically have strong bargaining power in the hotel industry, however in the San Francisco market today the customer has diminished bargaining power due to high occupancy 87.1%, and high ADR \$252.97, pursuant to PKF Consulting Trends September, 2014.

Third party intermediary bargaining power of both transparent and opaque OTA's is low due to high occupancy/ADR

Hotel buyers are the end consumers; therefore forward integration is not an issue. Backwards integration has recently become a factor with the on-set of the shared economy on-line platforms such as Airbnb and OVRP's. Airbnb allows the public to rent rooms in their homes with backwards integration becoming a potential factor (Marketline). In San Francisco with 33,642 hotel rooms the addition of 5,500 shared economy rooms (and growing) increases the supply by 16+%.

The average visitor to San Francisco has a household income of \$118,000, spends an average of \$240.31 per day, is 43 years old, 69.2% arrive by air and stays for 3.5 days, (SF Travel.)

Intensity of rivalry among existing players:

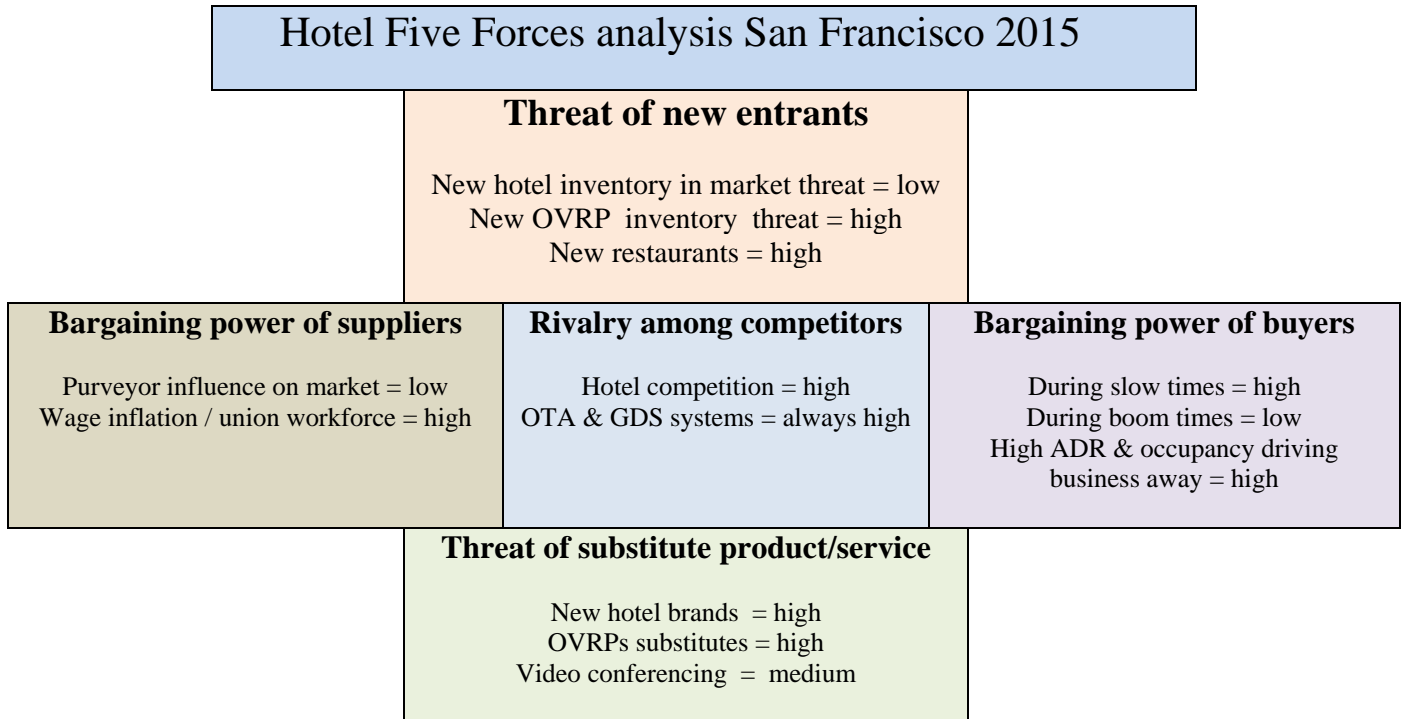
Numbers of hotels in San Francisco are 214 hotels with 34,000 hotel rooms representing an exclusive environment without intense competition among hotels at an 85% city wide occupancy rate.

The threat of backwards integration is generally not a factor in the hotel business.

Beginning in the mid 1990's GDS and OTA sites both transparent and opaque internet sites such as Expedia, Travelocity, Price line, and others came on-line, becoming the travel industry disruptors. Each travel industry segment developed strategies to compete. Brands required low rate guarantee on brand sites, mitigating the impact and stabilizing revenue management uncertainty.

Exit strategy in the hotel industry is more complicated than most real estate transactions. Owners and buyers must plan with an eye on competition, revenue forecasts, economic activity, current and future competitive activity, NOI, valuation, and interest rates.

Porters Five Forces Hotels, table 5:



Hotel industry SWOT analysis:

The Strengths, Weaknesses, Opportunities and Threats analysis otherwise known as (SWOT) is an important strategic tool to craft or review the strategy of a company or industry. SWOT capitalizes on the resource strengths, seeks to overcome resource weaknesses, aims at capturing the best opportunities and seeks to defend against the threat against sustainable success.

Strengths:

Strengths describe the positive attributes, tangible and intangible the industry. These internal industry attributes are within the control of the industry. Strengths are attributes that demonstrate the competitiveness in the marketplace.

- Established global presence over 100 years of development
- Strong brand image, equity and loyalty.
- Developing sustainable practices policies enhancing appeal
- Developing effective distribution channel relationships
- Brand loyalty programs are a major source of brand loyalty
- Corporate travelers and company contracts with emphasis on amenities
- Corporate groups and meetings in house emphasize a unique market immune to OLVP's

- Leisure groups and SMERF groups emphasize group pick-up for reduced outlet costs

Weaknesses:

An internal market competitive deficiency, something that a company or industry does poorly, or a condition that is a competitive dis-advantage.

- Fast growing hotel companies can acquire high debt levels
- Dependence on any one market can lead to vulnerability
- Personalization, Airbnb can effectively personalize the traveler experience. Develop methods to personalize and promote experiential traveler experiences

Opportunities:

Market opportunity is a big factor in shaping industry and company strategy. Marshalling resources to respond to today's fast changing appetite for the experiential desires of millennials for new concepts is critical.

- Expansion is critical to growing top line revenue
- Expansion into new brands incorporating independents in survival mode to join brands such as the Marriott Autograph Collection
- Growth in Asia driven by local interests

Threats:

Considered to be factors from the external environment which threaten the long term success of a company or industry. Threats can emerge from low cost competition, cheaper or better technologies, new products, unfavorable generational preferences, physiographic or demographic shifts. These are factors that should be top-of-mind for hoteliers, and seriously considered regarding Airbnb.

- Growing competition can lead to intense competition between brands with development cost increases and amenity promises
- Hotels can onboard risks associated with investment into political and economic regions that can become unstable
- Information security is a growing concern for company and guest integrity
- Currency risk can be associated with global exposure
- Hotel companies with large timeshare commitments are subject to extensive regulations
- Hotel and travel industry subject to natural disasters, governmental changes, terrorist threats and war

Hotel SWOT Table 6:

Hotel SWOT Analysis	
Strengths	Weaknesses
100 years of presence and consistency Strong brand equity and loyalty Sustainable practices appeal Loyalty programs Corporate programs strong Meeting and event space Group friendly	Fast growing companies acquiring debit Dependence on one market creates vulnerability Personalization limitations
Opportunities	Threats
Expansion critical for to line growth New brands create interest Re-branding existing properties Growth in Asia driven by local interests	Growing competition between brands Investment risk from political and economic issues Information security Currency risk Hotel companies with timeshare exposure subject to changing regulations



AIRBNB

Introduction to shared economy accommodations and history of Airbnb:

The sharing of homes, apartments, air beds, fold out couches has been common since the earliest days. Airbnb is an on line platform where tourists can book accommodations within a hosts' home, founded in 2008. These types of accommodations are described as Online Vacation Rental Platforms or OVRPs.

In 2008, two of the founders of Airbnb Brian Chesney and Joe Gebbia lived in San Francisco trying to make rent while unemployed in an expensive rental market. The apartment rental rates were climbing in San Francisco. A large International Design Conference was meeting in town with many sold out

hotels, those hotels available offered high rates. Mr. Chesney and Mr. Gebbia had an idea to help support their monthly rent; pull out and inflate their three air beds and offer an air bed and breakfast to conference attendees in their living room, marketed on the internet. Airbnb grew explosively and the OVRPs were re-born to include shared space and complete apartment and home rentals daily and longer. The different accommodations included air beds, couches, extra rooms, whole apartments, condos, houses, boats, castles, RVs and practically any place a person could lie down! The explosive growth was attributed by Mr. Chesney to the lack of investment necessary to grow, the idea of sharing is appealing and this concept required no pouring of concrete, cities had already made the investments decades previously, (McKinsey, 2014). In 1953 the Swiss and Dutch Teachers Unions created an actual home sharing alliance so their members could find an economical way to travel while improving understanding of different cultures. In the mid-1990's Vacation Rentals by Owner (VRBO) and Craig's List came into existence, (Chip Conley).

Home sharing was once a person to person, word of mouth, flyer and newspaper guerilla marketed opportunity. The sources of promoting and marketing "shared accommodations" in the past was typically through the neighborhood marketplace, an analog process of personal low tech marketing system of flyers, postings and newspaper classified advertisements.

Airbnb has created an innovative global marketplace of buyers to sellers' marketplace to rent space from an internet platform. The Airbnb founders developed an internet platform where hosts rent out shared rooms, private rooms, apartments, condos, houses, garages, pool houses, guest houses, castles, boats, recreational vehicles, and barns for tourists to stay by the day, week or longer. Airbnb has successfully spearheaded the growth of the OVRPs, now an industry leader within an industry with explosive growth and billions of dollars revenue. Airbnb is membership free for tourists; and does not have a fee for hosts to post their shared space or home for rent. When a tourist searches the Airbnb platform for the destination, city and neighborhood they want to visit, a wealth of host's listings is likely to appear. Not until a tourist wants to book a space will a sign-up be required, which is free. To actually rent a space involves a payment and verification process. When the host accepts the reservation the tourists' credit card is billed the cost of the stay, along with a 6-12% Airbnb commission, probably a cleaning fee, and possibly a damage deposit.

Hosts listings are free but when a host has a sale, the host pays a 3% fee to Airbnb. The Airbnb platform has globalized and transformed the short term rental market; creating hundreds of thousands of micro-hospitality businesses globally. Almost any space with room for an air bed and a bathroom in the world could be listed. Anyone can market their space globally. Airbnb has served 25,000,000 guests worldwide. Individuals can become hospitality micro-entrepreneur within minutes, (Airbnb.com.) The explosive growth of the Airbnb hospitality platform is changing the concept of modern day lodging, (Investor's Business Daily, 2014).

Airbnb has developed the first mover advantage forming its reputation of personalization and reliability early in its history. This was reinforced with Airbnb reinvesting revenue into an enhanced user experience through host and tourists' reviews, platform upgrades, liability and property insurance policies and social networking interfaces. By creating and upgrading their user friendly and savvy

technology platform, Airbnb has grown to more than 1,000,000 listings, from 350,000 hosts, in 190 countries in 6 years, (Airbnb). The largest hotel companies have required between 30 to 240 years accomplish similar statistics, (Table 2). The Airbnb core services include booking, verification, paying, feedback through reviews, property and liability insurance, 24/7 customer service, and neighborhood travel guides, (a concierge type listing) in 18 markets.

Today, VRBO is owned by Homeaway and offers rentals from 2 days and longer. VRBO and Homeaway were originally focused to second home type environments; typically condominiums and vacation homes in areas like Hawaii, Florida and Mexico. The fallout of the increased activity by VRBO listings was primarily restricted to renters and owners in a vacation environment, therefore the neighbors were accustomed to tourists.

Individuals have differing needs for different itineraries, therefore leaving open the need for hotels in addition to Airbnb. Staying in an Airbnb is a different experience than a hotel, Airbnb will never replace hotels, said Chip Conley the Director of Global Hospitality for Airbnb in a personal interview with the author.

The Airbnb hosts contacted in this survey were reluctant to be interviewed. I speculate this could be attributed to the fact that drawing attention to their unit(s) could draw unwanted attention. It is estimated that 72% of Airbnb rentals are illegal, (Laane.)

Airbnb ownership, success measurement, safety and security:

Ownership:

Airbnb began in 2008, since that time Airbnb has revolutionized the way people think about travel and hospitality. Today Airbnb has 1,000,000+ listings generating billions in revenue for their hosts and themselves. Airbnb is transcending a renegade disruptive model to challenge the hospitality industry for market share. With \$794,000 million in venture capital to date, Airbnb has been empowered to push its growth forward at light speed, (Inc., 2014.) Whereas the majority of Airbnb listings are illegal, an argument has been made to modernize short term rental laws globally to reflect a new 21st century reality. Portland, San Francisco, Chicago, and hundreds of cities are currently struggling to create responsible ordinances to enable verifiable regulations to monitor this growing market.

The three co-founders of Airbnb are Brian Chesky, CEO, Joe Gebbia, CPO and Nathan Blecharczyk. The Airbnb web-site describes CEO Mr. Chesky responsibility to be leading the company vision, strategy, growth and to provide unique opportunities for people to travel and change lives and community. Mr. Chesney met co-founder Joe Gebbia while acquiring his Bachelor Degree in Fine Arts in industrial design from Rhode Island School of Design. Joe Gebbia is the leader of the product team, responsible for creating meaningful experiences through intuitive design, brand and product development. Mr. Gebbia received degrees in industrial design and graphic design from Rhode Island School of Design.

Mr. Blecharczyk is CTO responsible for overseeing the technical aspects and strategy of the company. His responsibilities include building a team of world-class engineers to keep Airbnb technically the leader of the shared accommodation industry. Mr. Blecharczyk received a degree in Computer Science from Harvard University and held engineering positions with Microsoft, OPNET Technologies and Batiq.

Airbnb Founders Photo 1:



(San Francisco Chronicle,) AirBnB's co-founders, Nathan Blecharczyk, Brian Chesky, and Joe Gebbia were added to *Forbes* list of billionaires 2015

Success measurement:

Airbnb has driven explosive growth. With Airbnb on a trajectory to hit 2 million rooms by 2016, Airbnb would be twice the size of the largest hotel company, (HotelNewsNow, 2015.) Recently Airbnb has been suggested to have a valuation of \$20 Billion (REbusinessOnline.com.) Airbnb since 2008 has raised 794 million dollars in various VC funding rounds, (Laane, 2015.) Airbnb exceeds the valuation of all but the top two global hotel brands, exceeding the room count of any global hotel brand (Table 4) however doesn't own hotel real estate or even a guest bed. Airbnb backers think it is more valuable than Hyatt Hotels which owns 500 hotel properties globally, (Quartz, 2014.)

According to authors Evelyn M. Rusli, Douglas MacMillan and Mike Spector of the private equity firm TPG, it [TPG] is likely to lead another round of funding for the on-line home-rental company to bring the speculated funding above the 800M level. Prior investors include the A list of venture capital funds including TPG growth, T. Rose Price, Founders Fund, Crunch Fund, Sequoia Capital, Anderson Horwitz, Amazon.com founder Jeff Bezo, and Y Combinator, (Investor's Business Daily, 2015). The aforementioned explosive growth in valuation has created billions of valuation for the three Airbnb founders and their venture capital investors. In a Priceonomics survey hotels and Airbnb were studied in major markets. Priceonomics is a data crawling and analysis engine. A Priceonomics study evaluated the cost between hotels and Airbnb. This study utilized hotel reservations made 30 days in advance, Airbnb apartments most similar to hotel rooms showed considerable savings in most major markets. Airbnb was 21% cheaper than a hotel in table 7:

Hotel vs Airbnb Cost Study June 13, 2013: table 7

City	Hotel	Airbnb share room	Airbnb apt
San Francisco, CA	\$229	\$100	\$165
Los Angeles, CA	\$126	\$76	\$126
New York, NY	\$245	\$105	\$180
Austin, TX	\$110	\$65	\$115
Eugene, OR	\$89	\$65	\$80
Miami, FL	\$118	\$67	\$135
Alexandria, VA	\$94	\$64	\$100
Boston, MA	\$229	\$90	\$185
Overall		-49%	-21%

<http://priceconomics.com/hotels/>

The financial success of the Airbnb platform has contributed to creating a vibrant OVRP economy. However Airbnb suggests the most coveted benefits have been “social” including, (Airbnb.com):

- Creating personal friendships and connections between tourists and hosts
- Assisting hosts with rent or mortgage payments
- Enabling increased travel for budget travelers
- Creating hundreds of thousands of micro-entrepreneurial businesses globally
- Creating additional accommodation supply during the busiest periods when cities cannot meet demand. Examples include city wide sell-out events such as major conventions, the World Series, Super Bowl, World Cup, the Summer and Winter Olympics

Airbnb describes the host-guest relationship to reign supreme. Airbnb web-site suggests the Director of Global Hospitality Chip Conley has been deemed the modern day Ellsworth Statler when it comes to evangelizing the changing hospitality industry. Statler's sayings "Life is Service" and "The Guest is Always Right" is said to resonate with the entrepreneurial Airbnb hosts who know that their guests' positive reviews generate higher utilization, ADR and occupancy. The Airbnb focus is on personalizing the guest experience and creating a great value proposition for traveler and host. Airbnb describes its measures of success to be social, economic, and environmental.

Airbnb growth table 8:

	2009	2010	2011	2012
Revenues	\$850,000	\$6,800,000	\$18,000,000	\$45,000,000
Total Employees	4	13	140	500
Productivity	\$212,000	\$525,077	\$128,571	\$90,000

“Overview & Corporate Organization.” *PrivCo*. <http://www.privco.com/private-company/airbnb>

Trust, safety and security:

Airbnb has essentially by-passed the brand loyalty and trust that hotel brands have built over decades of brand building. Airbnb has convinced millions of people to stay in the homes of strangers, and hosts to rent their homes to strangers. The Airbnb platform is accessible from desk-top, laptop, tablet,

smart phones and now a host or traveler can connect by phone to a customer service department with a 24/7 phone number. In 2011 Airbnb formed the Trust and Safety Division after a San Francisco host's home was vandalized and her identity was stolen. As of early 2015 the Trust and Safety Division has a staff of 150, reviewing issues and developing an algorithm to detect suspicious behavior, (Investor Business Daily, 2015)

Regarding safety and security of hosts' homes, incidents regarding tourists abusing Airbnb hosts homes are not common; however examples of homes being abused include the following, (Fox News, 2014.)

- Ari Temans' modest garden apartment in the Chelsea area of Manhattan supposedly rented to a family, when in fact was rented to an advertised full-blown orgy, causing Mr. Teman to be evicted.
- Troy Dayton rented his home in Oakland, CA to a young woman who turned out to be a methamphetamine addict and stole belongings including his birth certificate.
- Jessica Penzari rented her downtown Manhattan apartment to a woman who described herself as a military woman looking for a little R&R. In fact Ms. Penzari was called by police when the woman, a prostitute who was stabbed by her "John."
- Matt Lynley was evicted from a Berlin apartment he rented by a Russian man claiming to be the real owner of the apartment. Due to the man claiming not to know anything about the Airbnb listing, Mr. Lynley left the apartment?
- Rachel Bassini rented her Manhattan penthouse to an unassuming man with wife and child shown in the profile photo. Upon return to her penthouse she found it in ruins, a crazy party had taken place leaving wine stains, condom wrappers, all manner of bodily fluids, and excrement covering the furniture.

Although hotels have horror stories about guests, and guests about hotels, the lack of on-site supervision can lead to unfortunate outcomes in unsupervised Airbnb and OVRPs in general. The 24/7 protection of security and on-site management adds a level of protection for tourists, management and ownership in the hotel environment. The lack of on site management and security is a source of frustration for Airbnb and OVRP tourists regarding minor issues; and a major issue regarding lack of ability to check into the unit, safety and security issues!

Reviews and expectations:

Airbnb reviews by hosts and tourists evaluate both qualitative and quantitative data. Reviewers comment on Airbnb rental space based on accuracy, cleanliness, check-in, communication, location, value and open narrative. Host's misrepresenting their homes is reputed to be less common since professional photographers have been required for the photography of Airbnb listings. The fact remains one cannot tell the entire story of a home space from the Airbnb listing, a tourists' reliance on reviews are a critical factor. An Airbnb employee mentioned to the author they know more about their hosts and travelers than a hotel guest knows about the front desk clerks in the hotel that a guest might

stay. Airbnb web site notes the following services to be expected from hosts. Operational guidelines assist non-professional hospitality managers “hosts” to build the trusting relationships with tourists. The hosts’ rules and the travelers “bill of rights” include the following:

- Accuracy – Listings are secured by professional photos, property types, and number of bedrooms and general description that should accurately reflect the guest experience.
- Communication – All inquiries and reservation requests are to receive responses within 24 hours.
- Availability- Update each listing’s calendar to accurately reflect dates of availability.
- Commitment - Ensure that commitments are solid before accepting a reservation. If a cancellation is unavoidable, make every effort to help guests find somewhere else to stay.
- Cleanliness - Ensure your listing’s bedrooms and common areas are cleaned prior to each guests arrival. This includes changing linens and cleaning surfaces in bathrooms and kitchens.
- Amenities – Any amenities, appliances, features promised at booking are available and operational during a guest’s stay. Provide fresh clean bedding, towels, soap, and toilet paper upon a guest’s arrival.
- Welcome – Make sure your listing is available at the time promised.
- Reviews – Genuine reviews are the cornerstone of Airbnb, leave review within 14 days.

Hosts are always required to be available when their unit (s) have occupancy. Through interviews it has been described as “unrealistic” to find hosts available 24/7. Hosts are not always connected if not on-duty such as an employee in the hospitality industry. However, since Airbnb instituted the 24/7 telephone customer support line this service was been mentioned as a very positive enhancement. This customer support line may not be able to solve the problem, but having a contact is the reason why several tourists interviewed, who were dis-satisfied with access and communication with the host would give Airbnb another try.

Airbnb hosts review guests and guests review hosts and their homes. The guest and host review process is the bond that holds the Airbnb platform of trust together, (Forbes, 2014.) Guests are incentivized not to abuse the hosts accommodations for fear that a bad review could ruin their Airbnb reputation. A bad review of a guest by a host could preclude the guest from being accepted by another Airbnb rental in the future. However, as the recent Boston University study suggested that having guests review hosts, and hosts review guests tends to render the system useless, (Boston University, 2014). It should be noted that Airbnb does not inspect host properties. A guest must rely on the review system 100%. The Airbnb platform does not legally accept liability for host’s accommodations.

Like-wise guests make their choice of where to stay based on location, price, features, availability and prior tourist reviews. It is no wonder guests and hosts are incentivized to be on their best behavior, or be publically exposed. The Airbnb review system was changed in October of 2014. In the past review retaliation was reputed to take place, however this is less likely to take place today. Both host and guest reviews are not posted currently until both reviews are available to be posted simultaneously. It is suggested that this may stimulate more accurate reviews, (Forbes, 2014). This review system, with whatever flaws are inherent, separates Airbnb from others including Craigslist, adding a layer of trust.

An Airbnb host can refuse a reservation without explanation, excepting within the auto-confirmation feature. This process is in place to protect hosts from guests that have a bad reputation. Hosts have their home and possessions readily available to tourists. A smart host would read the reviews of a tourist prior to accepting a reservation; however this leaves open the opportunity for a host to refuse a reservation for reasons other than those legal. For instance with access to photos and some linked to Facebook and LinkedIn, protected classes might be discriminated against. Likewise this leaves open the opportunity for guests to choose a host's home based on a decision regarding a protected class as well. This tourist selection process is reflected in research conducted by Benjamin Edelman and Michael Luca of the Harvard Business School. This research uncovered that based on all the available information, non-black hosts received 12% more reservations for a similar apartment than black hosts. This uncovered an un-intended racial component regarding who profits most from the Airbnb platform. Posting hosts photos and links to social media opens prospective tenants and landlords to discriminate, (Laane, 2015).

Airbnb hosts do not have protection from damages from conventional insurance policies, (interviews Mark Battat and Gil Guglielmi.) However, Airbnb recently began automatically provides hosts with \$1M property and liability insurance to support hosts to apply for insurance reimbursement for damages. A comprehensive evaluation of the Airbnb \$1M property and liability insurance policy was not performed by the author.

The Airbnb experience and Verified ID:

Chip Conley, founder of Joie de Vivre Hotels wrote about his belief that people traveled for escapism and self-renewal. This philosophy carried over into his viewpoint that the customer, employee and stakeholder of a business searched for self-actualization, each in their own ways. The search for self-actualization became a Maslow like pyramid as presented in his book, (Peak, How to get your Mojo from Maslow, 2007.) When Mr. Conley was asked to give a fireside chat at the Airbnb offices to the employees about hospitality, Brian Chesky co-founder realized a close parallel existed between the Joie de Vivre philosophy and those of Airbnb. Mr. Chesny lured Chip Conley to become the Head of Global Hospitality for Airbnb. This was not a difficult transition for Mr. Conley "always liking rebellious business people." Mr. Conley describes Airbnb as design schizophrenic, full of personality, variety and idiosyncrasies which create a unique experiential environment.

Airbnb is one of the first on-line applications to require a verified ID program through Jumio. Airbnb is piloting a program to link 25% of its user base to Facebook or LinkedIn accounts. These 25% will be required to provide an off-line verification by scanned ID, (about tech, 2014.) The author was required to verify when renting thru Airbnb in Hollywood, CA through e-mail address and cell phone number.

Airbnb has over 250 YouTube videos and testimonials via "Airbnb Life" to highlight compelling stories of the Airbnb experience. When a traveler or host connects their Facebook or LinkedIn account to their Airbnb account a higher level of trust and sharing is developed from this feature. The author experienced a well-functioning Airbnb reservation platform on April 4, 5 and 6th, 2015 reviewing

approximately one half of the 500 listings in the Hollywood, CA area for a reservation. Private rooms were generally available from \$49 to \$149 and private studios, multiple bedroom apartments and actual houses reviewed from \$89 to \$595 per night; based on searches performed on these days. The Airbnb rates listed do not include the Airbnb guest fee of 6-12% cleaning fees and deposits. The author's reservation totaled \$302.00 for two nights. A fee is also charged to the host of 3%.

Airbnb experience:

This author searched to book a private home with (1 or 2 beds) for Wednesday and Thursday April 8th and 9th 2015 the availability of locations can be seen once clicking on the location. Most locations could be seen to be booked for most of the month of April. If this was an accurate example of Airbnb occupancy, the demand was robust. More hotel rooms were found to be available on Expedia than Airbnb within the \$99 to \$179 target price range. After reviewing locations in Hollywood a reservation was made at a cost \$117 per night, plus Airbnb fee of \$32 (12%), cleaning fee, \$36 and (0) deposit required. This Airbnb studio rental had a convenient instant confirmation. The location was at 1144 Citrus Avenue in a relatively quiet area of Hollywood, CA. In reading the reviews comments noted that host Diane Dumas had multiple locations.



Airbnb.com listing photo / author's photo of entrance door 1144 Citrus Avenue Los Angeles. CA

The décor and landscaping around the unit was very attractive. This apartment was likely a converted garage, located at what appeared to be a single family home with 2-3 additional separate keyless entry locked doors. This was estimated to increase the density from a single family home to at least 3 units. Another individual was met on this property, whose car was parked inside the gated driveway. This person was not cordial and in-fact would not speak with the author when greeted. This caused speculation reflecting a resentful attitude from a 30 day type permanent renter who had a parking space on the property; with a negative attitude towards a rolling bag tourist.

The garage had a glass door behind a solid wooden sliding door with padlock hasp on the exterior. The author was very uneasy that anyone could lock the occupants into the space preventing exiting in the case of an emergency. A large 6 foot tall cabinet was discovered to be blocking the electrical

breaker panel, when a breaker was tripped. The kitchen area included a small refrigerator, microwave, toaster, Keurig coffee brewer and hot plate for cooking.

In comparison for the same period Expedia listed several 2, 3 and 4 star hotels available in the Hollywood area from \$89 to \$329 plus TOT. After this experience the author did not consider this Airbnb experience to be a better value at \$151 per night. The illegal padlock hasp on the outside of the exterior door (see photo above) and blockage of the breaker panel were safety hazards. These safety issues seem to reflect a coincidence regarding this Airbnb example; illustrating the difference between commercially constructed, inspected and professionally managed hotels and at least this Airbnb location.

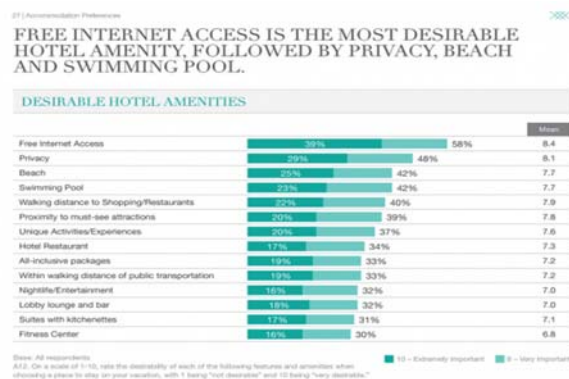
Airbnb segmentation, generational targets & brand competition:

The Airbnb segmentation includes people who want to rent out their space, identified as “Hosts” and people who want to rent space tourists, identified as “travelers. Hosts own their space or rent their space. Airbnb is able to target both its hosts and travelers segments equally, (Airbnb, 2015)

The Airbnb founders focused the development of their hyper-local, hyper-personal and bohemian peer to peer platform to the adventurous traveler. Younger travelers “millenniums” 18-34, are said to be the target market of Airbnb. A recent trends report from Resonance, 2015 Portrait of the U.S. Millennial traveler profiles the habits of 1,189 millennial (18-34) travelers. This demographic is targeted by the travel industry due to their growing disposable income, many without children and mortgages.

The Resonance survey suggests that although Airbnb seemed to have the 75 million Millennials' as their adoring fan base, which is not the case. Millennials who travel are different from the generation as a whole. The survey identified Airbnb was the least popular travel accommodation choice, although (40%) had used Airbnb, (11%) said it was their preferred option, shadowed by hotels preferred by (54%), friends and family (37%) and camping by (25%.)

Desirable hotel amenities survey figure: 2



Screen shot from Thooz.com

The 2015 Resonance Report survey of the U.S. Millennial Traveler suggests millennials are not choosing Airbnb. Airbnb was found to score high in regards to personalization and low in amenities. The millennials are not a typical generation, and cannot be stereotyped, (Resonance, 2015). Some say millennials are sharing, some say selfish, some say they are entrepreneurial and some say lazy? Millennials have been labeled as “gen boomerang” due to their return home after leaving home and not finding full time employment. Airbnb’s CEO Chesney said in a McKinsey & Company interview, today’s generation sees ownership as “a burden”. Millennials are said to be proud of their Facebook page, Twitter and Instagram feeds rather than homes or cars. Chesney predicted millennials will want less responsibility for the materials things and more focused on friends, relationships and experiences. Chesney quoted Thomas Freidman by suggesting people will have a more “complex income stream”, (McKinsey, 2014.) This non-traditional “income stream” may mean working as contract labor without benefits, sick leave, and pension. This could mean young adults staying on parent’s health insurance plans till 26, while likely experiencing an income trickle than a torrent, (Nation, 2015).

Airbnb markets and marketing:

Airbnb enjoys flexible market integration as an e-commerce site. A pull strategy enhances communications with verification of the booking process from text and e-mail sources to eliminate the need for person to person contact to complete a reservation, saving costs. Visitors to the Airbnb website find a rich web-experience, focused to build customer trust from both tourist and host segments. Airbnb’s personal experiential attributes and product mix is essentially limitless in the unique residential application to hospitality, excepting standardization and consistency, which the lack-there-of is considered to be an attribute in certain markets. Those seeking familiarity and standardization in product and services will likely not be comfortable with Airbnb and OVRPs.

Co-founder Brian Chesny lived in Airbnb listings to constantly be supportive and aware of the host and tourist experience. This hand on user approach kept the founders in touch with their customer’s experience. This approach likely contributed to the development of early innovations such as the host and tourist reviews which add trust and credibility to the viral buzz for this market leader in the OVRP category.

Airbnb is a private company with financial information and market strategy not easily discovered. One element that has been openly visual and particularly successful is the referral system, as proven by the explosive 9.76 % growth per month in usage. Adding a referral system is a powerful marketing tool for a successful on-line company. The benefit for the user is to create a successful Airbnb referral, then rewarded by a \$25 tourist travel credit and \$75 host credit referral paid by the Airbnb system. This referral benefit is not realized prior to Airbnb receiving the revenue benefits, (Forbes, 2015.)

Airbnb advertising, marketing and promotion appears to have been primarily word of mouth and viral in the early days. In May of 2014 Airbnb began a \$300,000 advertising campaign with an established market leader position. This campaign appeared on U-Tube, AFAR, Dwell, Lonely Planet, BuzzFeed, the BBC, Facebook and Twitter, (Advertising Age, 2014.) The CMO of Airbnb at the time was Amy Curtis-McIntyre who described her company as an internet platform, not a hotel company; their hosts

are essentially their innkeepers. Curtis-McIntyre confirmed the biggest future opportunity is the Asian market staying in Asia.

Airbnb Market Segment and Competitive Review

Traditional hotel market segments are utilized to review the areas of competitive impact of Airbnb and OLVP's upon the hotel industry. Due to scarce hard research data, the author compared traditional hotel industry market segmentation attributes, industry data & norms, hotel general manager interviews, and other travel industry member's interview questions to identify the likely market segment competitive impact and vulnerabilities. A rating scale was established to reflect a hotel vulnerability to Airbnb rating system scored on a 1-5 basis. The author established, (1) to be the most vulnerable to Airbnb and a (5) to be the least vulnerable segments in competition with Airbnb.

Corporate groups in house CGIH (4):

This segment requires contracts with hotels or meeting facilities for meeting space, audio visual aids, food, beverage and other services. The ability for guests to stay outside the host hotel in an "Airbnb" is tied to the individual company travel guidelines and how the group contracts with the host hotel or meeting facility. Hotels require a certain number of occupied hotel room nights to justify reduced meeting space costs, food and beverage costs below the market rate. If these minimums are not achieved the costs are increased substantially to the company.

Convention (4):

Convention planners negotiate bookings 2-10 years in advance with the city convention authority. Cities compete to be chosen to host conventions, bringing millions of dollars of revenue to a city through traditional tourism sources such as restaurants, attractions, and shopping. Convention planners contract convention specific essentials such as the convention center rental, city transportation companies, event companies, attractions and host hotels. These convention service companies compete for the business through a request for proposal process (RFP). Hotels submit a contract to reserve rooms at a discounted rate for the period of the convention. If individual convention attendees do not pick-up the reserved hotel room space within a prescribed time period in advance of the convention; participating hotels may release rooms from the reserved block of rooms to be returned to the hotel inventory for sale at market rates. Attendees staying outside the host hotels may need to comply with company travel policies for payment or re-imbursment of hotels which may or may not include Airbnb. The hotels within the "convention block" become transportation hubs for bus pick up and return for convention attendees, those attendees staying outside the block incur additional costs.

Tour and Travel (2):

This market represents domestic or international leisure travelers booked through contracted wholesale sources with pre-established rates for tourists. This market includes groups and free

independent travelers (FIT) often associated with package deals including airfare, hotel, rental car and attractions sold to tourists at a discounted rate below what could be purchased by a tourist. Since this market is diverse, the question could be asked “will tour and travel companies lose business to Airbnb and other OVRP platforms thereby losing market share.” The rating represents a vulnerability index for hotels and its clients who book tour and travel. Airbnb has expressed its desire to venture into new markets, this cost sensitive and commodity driven market might be a future target market for Airbnb.

Airline and Contract (4+):

Contracts with airlines are not at risk to Airbnb. Specific corporate contracts with specific pro-shared economy companies could be vulnerable.

Leisure (1):

The leisure market is most vulnerable market to hotels and the currently major source of business for Airbnb and OVRP’s. Airbnb can offer amenities hotels cannot offer like quaint bungalows, boats, mansions, RV’s, and castles with private tennis courts, pools, kitchens, gardens, and home like features.

Corporate (4):

Airbnb is touting “Business Travel Re-Invented” with its Business Travel on Airbnb. The Airbnb business travel page promotes marketing slogans such as “Airbnb takes care of business”, “Feel at home, be closer and get inspired”, “You’re your business travel”. Corporations have rented mansions for business meetings, to create a more intimate personalized experience.

However, hotels are geared to offer amenities to corporate travelers unlike offers currently available on Airbnb. Hotels offer 1 click like global multiple instant reservation confirmation, concierge floors, loyalty points programs, airport transportation service included, last room availability, breakfasts, health club or exercise room, swimming pools, free internet, and a myriad of other special benefits. These services can’t easily be accessed by Airbnb guests, certainly not included uniformly and consistently. The large corporate travel management companies and corporations require:

- Consistency of product
- Consistency of cost
- Consistency of compliance and duty of care
- A certain level of revenue to reduce the dilution of yield

American Express Corporate Travel Management, a major corporate travel provider has described the Airbnb entrance into the market with the following statement secured through interview with a senior corporate travel manager. This statement was issued by American Express in February 2015, which doesn’t reflect a specific corporate position but identifies a response for corporate travel managers to give to clients who inquire about Airbnb and OVRP’s, “Customers are always looking for new and

different ways to manage their travel spend and improve the travel experience. Other companies in different industries have faced similar situations and have pivoted quite successfully.

We observe these new entrants trying to learn the issues particular to corporate travel and our customers grappling with how to embrace the sharing economy at a corporate level. Adoption levels will be contingent on the sharing economy's ability to deliver on corporate priorities such as traveler security and ability to deliver processes that are compliant with expense policies. Even then, we believe that individual company culture and the way in which individual companies view the sharing economy's ability to deliver on corporate priorities will play a role in adoption."

Airbnb brand competition:

This thesis is focused on the competition between hotels and Airbnb; however there are several other large OVRP platforms. These competitors were surveyed for name recognition in the authors study questionnaires. Only VRBO had brand recognition above 30%. Although Airbnb is the clear market leader offering brand recognition, ease of use, and extensive listings. Airbnb faces competition which challenges its ability to maintain a sustainable competitive advantage in the C (host) 2 C (tourist) marketplace.



Homeaway Family of companies includes VRBO, VacationRentals.com, Homelidays, Ownersdirect, Aritel, Travelmob and others. Vacation Rentals By Owner (VRBO) slogan is "Rent a house for half the price of a hotel". HomeAway lists 1220 listings in San Francisco, VRBO lists 1,247. It is not known if this inventory overlaps with itself and other OVRP's. These sites primarily rent by the week, with some listings showing a daily rental options with minimum 2+ day seasonal rates. The listings are star rated, with most observed to be operated by owner. VRBO and Homeaway do not charge a tourist fee percentage of rental, representing a competitive advantage to the consumer over Airbnb. Homeaway comparison statistics for the summer months of 2013 reflect a \$254 ADR, 77% occupancy and a year over year growth of 12%. When compared to hotels for the same period, hotels had a \$110.21 ADR, 70% occupancy and a 3% growth year over year; (STR.) Homeaway has 775,000 listings in 171 countries, (Business Wire.). Brian Sharples, CEO of Homeaway describes his company's platforms as less big city, more family oriented, younger with a group that values the social network aspects of their service, (Investor's Business Daily.) Mr Sharples described the second home industry as composed of many younger people who recognize the wisdom of buying a vacation home and managing the vacation home as a rental with annual the family vacations. The second home mortgage being paid from rental proceeds while establishing their dream retirement home.



Flipkey is owned by TripAdvisor. It should be noted that Flipkey specifically targets offers to those that manage 5 or more rental properties. The web site promotes features offering business analysis tools for 5 or more rentals including ROI analysis, automated listings, expert advice, unlimited photos, verified reviews, global exposure, analytics and special offers. Three payment schedules are offered for 5 or more rentals. Trip advisor and Flipkey notes 15 years of experience, 160 countries, 11,000 cities and 300,000 listings from cabins to castles.



This Asian focused web-site describes similar founding circumstances to those of Airbnb; in fact the web-site looks remarkably like Airbnb. Roomorama touts its average booking as 9 nights or longer and guests spend \$1,000 or more per booking, with 5,000 cities and 70,000 properties. In contrast Roomorama started primarily in Asia, and strongest locations include Beijing, Tokyo and Singapore. In contrast to the other brands Roomorama started with, and maintains a large corporate following. Roomorama COO and co-founder notes that savvy travelers ages 25-50 are their target. Roomorama now touts multi-unit hosting. Roomorama features include suggested alternatives, multi-edit rates, and multi-platform compatibility, flexible rate management, calendar driven rate management, check in-out instructions, secure payment, extensive API, rate tester, rate estimator, and social integration. These features and innovations seem to have started with Airbnb, now Roomorama has adopted matching features replicating many aspects the Airbnb model.

Largest global shared accommodation brands table 9:

Name	Listings	Shared rooms	Private room	Whole units	Counties
Airbnb Founded in 2007	1,000,000	3-4%	32-38%	59-64%	190
VRBO and Homeaway Founded in	775,000	NA	NA	Predominately	171
Flip Key Founded in	300,000	NA	NA	Predominately	160

(Laane, 2015)

Airbnb five forces analysis:

Michael Porter’s Five Forces model assesses the power base in a business situation. Porter’s model is used in this thesis to evaluate the hotels and the Airbnb OVRP platform. Porter notes in his article, Strategy and the internet identifies that internet based companies have revolutionized the cost per

transaction, lowering these costs substantially,” (Harvard Business Review, 2001.) Porter further notes that strategy is a matter of discipline requiring a strong business model that focuses on profitability not just creation and growth. The wisdom of this statement played out in the DOT.com crash of 2001.

These revolutionary low transaction costs were obviously highlighted in the GDS and Expedia type disruption era in the travel industry. The lowering of variable costs to replace inferior [business] models creates a new competitive paradigm in travel, (Washington Post, 2014). The disruptive factor introduced by the GDS, OTA’s and internet consolidation sites reduced previously thin travel and hospitality margins for airlines, rental car companies and hotels. The conventional travel agent 10% commission model, in place for decades became unsustainable. Conventional travel agents have been virtually eliminated by the expansion of the GDS and OTA’s systems with Expedia, Travelocity, Priceline, Orbitz, Kayak, TripAdvisor, and Trivago. Remaining travel agents are active in corporate travel management, group travel, cruises, and primarily niche markets.

However, the new disruptor model or innovation popularized by Airbnb bypasses hotels, GDS and OTA’s for accommodations. The Airbnb commission structure collects 3% from hosts and 12-15% from tourists (15-18% total), this commission model eclipses the former travel agent commission by reducing transaction costs and increasing commission to Airbnb. Airbnb and OVRPs are disrupting the accommodation model by offering alternatives to hotels. The Airbnb internet platform model has low fixed costs of managing and engineering an internet platform. These costs are substantially less than developing, owning and managing expensive hotel real estate and employing thousands of hotel workers. Today, Airbnb disruption has skipped from the business to customer (B2C) model; employing a Customer to Customer (C2C) model. Amazon and E-Bay are successful examples of this model. The value proposition offered by Airbnb to hosts and tourists follows Michael Porters 6 principles of strategic positioning, (Harvard Business Review, 2001.) The growth of Airbnb is explosive without the need for real estate investment, employee and other substantial fixed and variable costs.

Threat of Substitute Products:

Airbnb and OVRP brands have a high threat of substitutes. The collaborative consumption internet model minimizes the cost of switching. Both hosts and tourists have growing options and the cost to switch is zero. Similar products, or in some cases the same property could be available under different OVRP brands. Price comparison and competition is relatively transparent with other OVRPs. GDS services offering hotels and the possibility of a consolidation site like (Trivago) for tourists searching OVRPs listings could be a possibility in the future.

Threat of New Entrants:

Airbnb and OVRPs have a high threat of new entrants. Barriers to entry do not include high capital investment of real estate; however scaling and repeatability of a successful competitive internet platform could be challenging. Airbnb is building brand equity, introducing innovative features over and above its major OVRP competitors, however these innovations are quickly copied! VRBO for

example had an 8 year head-start to Airbnb, but failed to scale, offer innovative options and build their brand as did Airbnb. Airbnb has remarkable venture capitalization support. Rivalry intensifies as the number of competitors increase, and OVRP players with niche markets and innovations are constantly surfacing.

Bargaining Power of Suppliers:

Suppliers (hosts) are in a strong position in San Francisco, therefore currently enjoying high bargaining power. However depending on the market and season this can be very different market to market. The professional commercial hosts face regulation and legal uncertainty, therefore commercial host expansion maybe tempered. The travel industry is red hot; therefore demand strong in most markets therefore high rates mean high bargaining power ability.

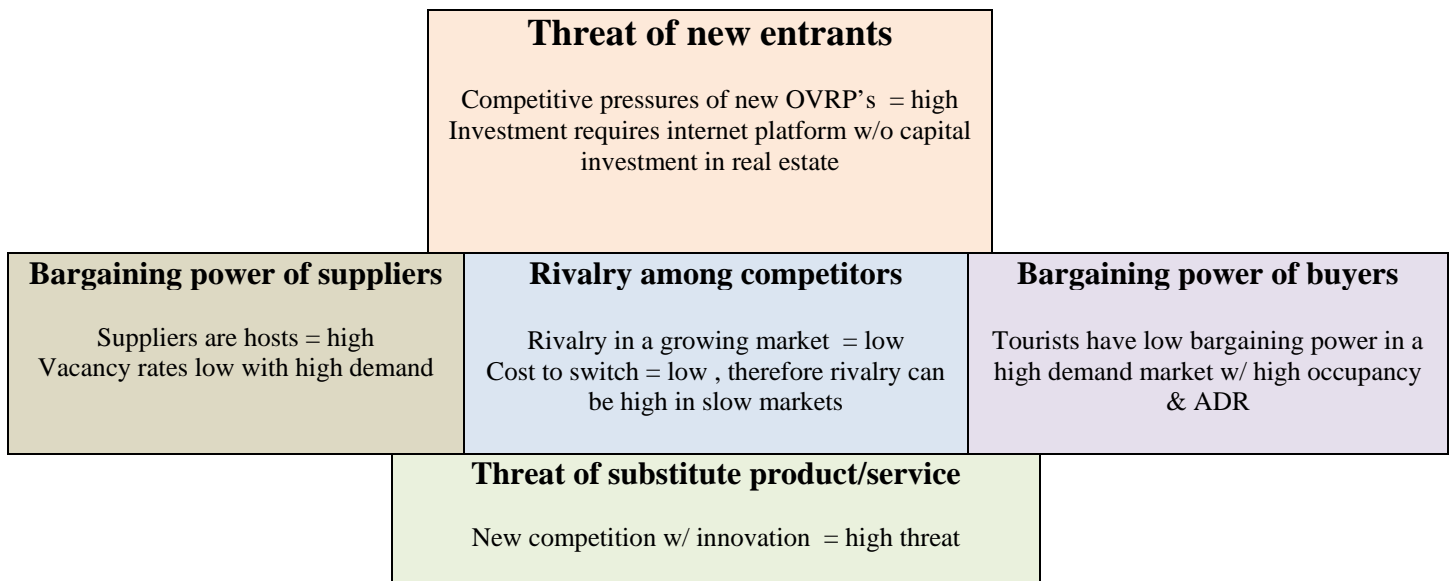
Bargaining Power of Buyers:

Buyers (tourists) have low bargaining power today in San Francisco with a strong red hot economy. Competition between hotels and OVRPs is low because the travel market demand is strong.

Intense Rivalry among Existing Players:

Although Airbnb is the market leader, this is a new volatile industry and subject to swings in public opinion, laws, and regulatory enforcement. Existing competitors include hotels, GDS including Orbitz, Kayak, as well as OVRPs like VRBO, Homeaway, Flipkey, Roomorama and even Craig’s list.

Airbnb Porters Five Forces table 10:



Airbnb SWOT Analysis:

Competition between hotel brands has always been robust, even in good times. In bad times competitive pressures can be destructive. Airbnb supply in May 2015 exceeds 5% in 20+ US major markets the stage is being set for a showdown during the next economic recession between Airbnb, other OVRPs and hotels. Airbnb is challenged to fall back on a repeatable brand experience; however each Airbnb listing is a unique experience, not easily repeatable like a hotel brand experience. Those tourists unmoved by today's hotel experience say this is strength. The great experience a tourist had with a certain host "Jane Doe" in San Francisco, is only available in San Francisco with host "Jane Doe". If her home is not available during your travel time then you cannot repeat that experience.

Airbnb Director of Global Hospitality Chip Conley is tasked with developing Airbnb standards, however this is challenging when the Airbnb brand is built upon unique experiences. Airbnb has little control over variables in the experience The Airbnb brand equity, experience and richness is said to be in authentic local experiences. Hotels develop a repeatable hotel brand experience as an asset that can be repeatable globally.

The Strengths, Weaknesses, Opportunities and Threats analysis otherwise known as (SWOT) is an important strategic tool to craft or review the strategy of a company or industry. SWOT capitalizes on the resource strengths, seeks to overcome resource weaknesses, aims at capturing the best opportunities and seeks to defend against the threat against sustainable success.

Strengths:

- Airbnb appeals to a wide variety of travelers, especially shared accommodation budget travelers
- New hip and cool to many young guests
- Airbnb building strong brand
- Highly personalized
- Host and tourist reviews builds confidence
- Cost per transaction low due to internet platform model
- Expansion does not require capital investment or use of new resources
- Airbnb appeals to those comfortable with inconsistency

Weaknesses:

- Airbnb does not have operational control therefore the experience is inconsistent
- Airbnb does not have a loyalty program, nor consistent amenities common for corporate travelers
- A consistent experience not easily repeatable
- Cleaning standards not uniform

- Meeting and group friendly facilities and services are not available
- 72%-90% of listings are said to be illegal
- Most Airbnb listings in cities are vulnerable to tax liabilities with TOT and other taxes
- Hosts reviewing tourists and tourists reviewing hosts can result in
- New insurance may prove to be difficult to collect or sustain

Opportunities:

- Expansion critical to grow market share and keep OVRP leadership role
- Venture capital seems unlimited
- Reaching new revenue sources for platform vertical integration options like Uber transportation, rental car and airline

Threats:

- Other OVRP brands are very competitive
- OVRPs hosts can rebrand, double brand or drive business to personal web-sites, San Francisco building department official interview
- Governmental regulations and lawsuits loom in most markets.
- Without operational control a major crime or other bad publicity could be a major shared economy accommodation success factor
- Airbnb corporate property and liability insurance is susceptible to a major liability lawsuit. This could result in cancelation of corporate policy for this new insurance market without a track record, independent insurance agent interview

Airbnb SWOT table 11:

Airbnb SWOT Analysis	
Strengths	Weaknesses
Appeals to the shared space budget traveler New, hip and cool to some guests Airbnb building strong brand Highly personalized Cost per transaction low Expansion does not require capital investment OVRP market leader	Experience not consistent and not easily repeatable Not corporate traveler friendly w/loyalty programs Not meeting and group friendly 72%-90% of listings illegal Vulnerability to TOT and other tax liabilities New insurance may prove to be difficult to collect upon due to exclusions
Opportunities	Threats
Expansion nearly an unlimited opportunity Expansion critical to grow market share Venture capital seems unlimited New revenue sources a strong opportunity	OVRP brands competitive OVRPs can rebrand, or double brand Re-branding existing properties Governmental regulations and lawsuits Without operational control bad publicity is a threat

Governments, renter’s, landlord’s, workers, neighborhoods weigh in on the Online Vacation Rental Platform:

Government:

The review of the competition between hotels and Airbnb requires an environmental effect analysis. With 72%+ of the OVRP rentals technically illegal, the governmental response is a critical component to the future of Airbnb and nature of this competition. Airbnb began in actual shared space model of accommodation; a social benefit was clearly defined. The literal air bed or couch in the founders’ San Francisco living room in 2008 denotes a grassroots social benefit that had now has an effect on hotels, hotel workers, neighborhoods, housing supply, and the collection of taxes for governments. Today these grass roots shared accommodations model with airbed or extra room is not the nature of the majority of Airbnb and OVRP listings. In Los Angeles 90% of the revenue generated by lessors from the 8,400 hosts, 11,401 listings represent whole units and leasing companies that rent out 2 or more units, (Laane, 2015). In San Francisco total apartments or houses represent 2,984 listings, 62%+ of the listings are at a \$226 ADR. In San Francisco 513 listings were controlled by management companies. The top 10 hosts controlled 240 listings, (San Francisco Chronicle, 2014.)

San Francisco multiple unit hosts table 12:

Airenvoy	59 listings	Regency Inn	14
Come2SF	51	Stay SF Residence	14
HackerHome Network	26	Donatello	13
Lois	23	International Hacker Hostel	13
Maria	21	Total	248

Los Angeles, San Francisco, New York City and other major cities have housing shortages; taking thousands of units off the rental market. This residential housing conversion to tourist hotel represents a reduction in affordable housing for workers in major cities. The lack of payment of TOT taxes to cities represents a loss of revenue to support city services.

In a speech recorded on September of 2014, Airbnb co-founder Brian Chesky described the shared economy as “Identifying the two biggest assets of people that have now become an opportunity to share, the home and car,” (McKinsey and Company, 2014) In regards to home sharing, Mr. Chesky described cities as “becoming too big these days to have a sense of community.” He believes Airbnb has a strong base of social benefits; to preserve a sense of community by supporting people’s ability to afford rising rents or mortgage payments while hosting budget travelers. These budget travelers may not have been able to afford to travel without the low cost of sharing accommodations. Mr. Chesky doesn’t like to describe Airbnb as a disruption model; he would rather describe Airbnb as a social benefit, a way of connecting people back to a sense of community. Mr. Chesky believes Airbnb can benefit cities by offering growth in tourist occupancy without billions of dollars in investment.

In the San Francisco market no major hotels are scheduled to be built in the near future. Year to date 2014 occupancy was up 1.3% to 86.5%, ADR at \$253.99, up 10.9% and RevPAR up to \$219.72 a 12.4% increase. It is no wonder why San Francisco hoteliers are complacent about a 20% growth in Airbnb and OVRP listings. San Francisco is enjoying the best of times in the hospitality business, (PKF Trends, 2015.) Rick Swig, a well-known local hotel executive and consultant described hotel development currently in San Francisco to be prohibitively expensive. New hotel construction could cost \$1M per room for a full-service hotel, \$500,000 for limited service, (SF Business Times, 2015.) Airbnb has exploded in growth in San Francisco. The outcome of this growth has been a set repercussions:

- Incentivizing the large scale illegal conversion of residential units into tourist accommodations competing with hotels there-by:
 - Reducing employment of full time hotel workers with benefits, thereby creating a wage and benefit reduction.
 - Loss of housing for hotel and other workers by driving up rental costs, based on a supply and demand model. Diminishing housing supply thereby increasing costs.
- Lost hotel revenue means lost taxes to government including Transient Occupancy Tax (TOT

= 14% in SF), payroll tax (SF = .0125 in SF), Gross Receipts Tax (SF = 0.01875), Tourism Improvement District (TID = 1-1.5% in SF), California Tourism Marketing Assessment (CTMA = \$650 per million of revenue).

- Tourist traffic alters residential buildings, neighborhoods, and parking when not constructed, zoned or permitted for high traffic tourism use.

US Senator Dianne Feinstein wrote in an Op Ed to the San Francisco Chronicle in October of 2014 “The San Francisco Board of Supervisors is about to approve legislation that would legalize short-term stays in private homes that are negotiated through a number of on-line reservation systems. This is a shortsighted action that would destroy the integrity of zoning in San Francisco allowing commercial hotel type rentals thought out the city. I urge Mayor Lee to veto it and ask the board to re-examine the amendments it [previously] rejected that could make the short-term rentals workable while still protecting the residential nature of the city.” As a former 9 year member of Board of Supervisors and 9 year Mayor of San Francisco I know firsthand the merits of strong zoning laws. This home-sharing legislation blurs those lines and provides for residential housing to be leased out for hotel use. It’s no secret that San Francisco is one of the most expensive cities in which to live. The legislation approved by the board will encourage property owners and renters to vacate their units and rent them out to hotel users, further increasing the cost of living. Simply put, this bill will further increase already sky-high rental costs. Finally, in 2012, the San Francisco treasurer and tax collector ruled that short-term rentals to tourists must incur the city’s hotel tax that all other visitors pay to cover costs of public services and amenities. The tab for back taxes for Airbnb rentals alone is estimated at more than \$25 million. Another common sense amendment to collect those back taxes prior to this legislation taking effect was rejected by the board. I believe there is a compromise solution, but it does not involve handing over the key to the city to Airbnb and other short-term residential rental companies. We must protect the integrity of San Francisco and ensure that taxes that are due are paid in full. The board should re-examine this legislation and take another shot at getting it right.” Senator Feinstein sums up several of the governmental issues confronting San Francisco and all cities.

Airbnb has shown incredible savvy creating an effective political playbook. Hiring Doug Akin as the Global Head of Community, Airbnb has martialled the Akin’s marketing philosophy within *The Culting of Brands: How to Turn Customers into Believers*. The central thesis of Atkin’s book is to create a mindset like Apple (“Think Different”) and Nike (“Just do it”), establishing a mythology about the company thereby creating believers. In the case of Airbnb that would include Airbnb employees, hosts and tourists. This evangelic mindset is common to cults like the Unification Church of Hare Krishna, (Laane, 2015.) It was suggested the Airbnb executives are so effective based on their hard won experience in governmental relations and brand trust building; “they have the ability to start a chain of neighborhood nuclear power plants,” (Investor’s Business Daily.)

Airbnb political process starts with marching hundreds of hosts to city council and boards of supervisors meetings that have compelling stories of saving their apartments and houses with the financial support assistance of Airbnb rentals. Then Airbnb encourages budget travelers to support the

benefit of shared accommodations allowing budget sensitive tourists to afford to travel and stay. In an incredible one-two punch, the Airbnb grassroots campaigns have been remarkably successful.

In San Francisco Airbnb demonstrated its political influence as recently as April 27, 2015. AnMarie Rodgers, senior policy advisor in the Planning Department recommended 16 revisions to enforce San Francisco Ordinance 218-14, legalizing short term rentals passed in October 2014. The ordinance as originally written is unenforceable, pursuant to research and personal interviews conducted with planning department officials by the author. Ms. Rodgers told the planning commission that her staff practically begged the appointees of the planning commission to vote for the 16 enforcement guidelines. Even after the Planning Department staff pleaded for an enforceable law, watered down amendments were passed by the planning commission. Joe Fitzgerald Rodriguez of the San Francisco Examiner wrote, “Tellingly, most of the votes for adding responsibility to [the Airbnb and the OVRPs] split 4-3 out of 7 member commissioners, with the dissenting four votes coming from commissioners who were appointed by San Francisco Mayor Lee. Why? Readers of my column should know of Mayor Lee’s influence from billionaire Airbnb investor Ron Conway. Now it’s easy to see how the money may influence votes. Mayoral-appointed commissioners risk not being reappointed if they vote against the mayor’s interests.” Planning Commissioner Dennis Richards noted that they were back to an unenforceable ordinance.

Mike Munger, director of Duke University’s Philosophy, Politics and Economics program suggested that the market has spoken regarding the trustworthiness of Airbnb. The incidents of host and tourist incidents are not so many as to slow the company’s growth.

Airbnb is reputed to have 27,393 listings in New York City, Murray Cox, a software engineer from Brooklyn launched a website listing the locations on www.insideAirbnb.com. All rentals less than 30 days without the host present in the unit is illegal in NYC, somewhere north of 58.3% of the units are illegal and not paying TOT taxes, (USA Today, 2014). Cox disputes Airbnb’s claim that 87% of the hosts rent out the place in which they live.

- Revenues collected by Airbnb and its hosts were roughly \$200 million in NYC. This is the equivalent to an average performing 2000 room hotel. – 1.3% of supply
- 6% of Hosts generate 37% of the revenues with multiple listings
- 72% of Airbnb rentals are in violation of NY state and local laws
- In April 2014, in direct response to the New York Attorney General’s investigation, Airbnb publically claimed it had barred many large commercial property managers

The Laane report is based on a snapshot of the Airbnb listings on October 14, 2014 in Los Angeles, the author found no similar report for San Francisco; however parallels can be drawn to San Francisco. The Airbnb impact on Los Angeles is described as far greater than previously understood with at least 11,401 listings. The rentals units are not shared space airbeds and couches, 90% are revenues generated by whole units and leasing companies. Airbnb has created an environment that has pulled whole units out of the 30 day rental pool, diminishing inventory by the equivalent of 7 years of affordable housing construction.

Los Angeles has seen apartment rental rates skyrocket three times faster than even San Francisco. Airbnb rentals represent 12.5% of the entire rental pool in Venice. Airbnb is apparently moving towards an Initial Public Offering, (IPO). Airbnb can only realize the billions of dollars in investment if it can overcome the “elephant in the living room”: Airbnb rentals in LA and elsewhere are primarily illegal.

The Laane report suggests the following four important policy issues to be solved:

1. Protect housing
2. Systematic approval requirement must be met
3. Airbnb must share the burden of enforcement
4. Only true sharing can be allowed [to protect the rental housing inventory]

Airbnb listings in major markets, table 13:

Airbnb	Listings	Licensed	Whole unit	Private room	Shared room	% hotel inventory
Los Angeles	11,401	NA	64%	32%	4%	12.0%
San Francisco	5,500	160 @ 30d	62%	35%	4%	16.6%
New York	27,392	NA	59%	38%	3%	27.2%

Laane.com, KCBS.com, HotelNewsNow.com

Renters, landlords, workers and neighborhoods:

Airbnb is not a model of predominately shared space. In New York 72% + of the short term rentals are illegal, and in Los Angeles short term rentals have not been legalized. The New York Attorney General Eric Schneiderman issued a report that 33% of the Airbnb rentals were going to people renting out multiple units, (USA Today, 2015.)

There are many risks associated from the unregulated nature of residential conversion to commercial accommodations. Owners and hosts run the risk of being in violation of VA, FHA and commercial mortgage covenants and insurance policy restrictions.

In San Francisco shared rooms represent 3% and private rooms 34% of the Airbnb inventory, with 63% being full unit rentals, (Laane.) In San Francisco the shared economy is strong, having been deemed the collaborative consumption model with 213 Airbnb listings per 100,000 people, (priceconomics, 2013.)

The benefits of this high ratio of OVRPs to population are in the eyes of the beholder. Each full unit rented on Airbnb and OVRPs is a unit that is unavailable for rent to residents. The effect of the tech company boom in San Francisco is an economic benefit to the economy; however adding gentrification to the conversion of thousands of rental units, then dedicating units to Airbnb tourist use is depleting the rental pool for hotel workers and others. These additive effects caused a 1 bedroom median apartment rental cost increase of 10% in San Francisco from June 2013 to June 2014, (priconomics, 2014).

Coldwell Banker Airbnb conversion analysis from apartment to hotel: table 14

FINANCIAL OVERVIEW
The Morrison Apartments - 14 Westminster Ave., Venice, CA 90291

INVESTMENT SUMMARY		UNIT MIX & ANNUAL SCHEDULED INCOME			
Item	Value	Type	Units	Annual	Total
Investment	\$100	Single	21	\$1,240	\$26,040
Units	21	1/1	7	\$1,275	\$8,925
Occupancy	\$28,274	1/1	7	\$2,640	\$18,480
ROI	1.50%	1/1	1	\$1,000	\$10,000
Financing	\$10,000	1/1	1	\$1,000	\$10,000
Net Cash	\$18,274	1/1	1	\$1,000	\$10,000
Net Cash	\$18,274	1/1	1	\$1,000	\$10,000
Cap Rate	1.81%	ANNUALIZED INCOME			
Interest on Cash	\$175	Interest Income		\$10,000	\$10,000
RETI	\$175	Unit Income		\$18,480	\$18,480
Market Price	\$1,519	Net Operating Income		\$18,274	\$18,274
		Unit Expenses		(\$1,240)	(\$26,040)
		Net Operating Income		\$18,274	\$18,274
		Net Cash Flow after Debt Service		\$17,274	\$17,274
		Financing Expenses		(\$1,000)	(\$10,000)
		Total Return		\$16,274	\$16,274
		ANNUALIZED EXPENSES			
		Property Management Fee		\$2,640	\$2,640
		Unit Taxes		\$1,000	\$1,000
		Unit Expenses		\$1,240	\$1,240
		Interest on Cash		\$175	\$175
		Financing Expenses		\$1,000	\$1,000
		Market Price		\$1,519	\$15,190
		Total Expenses		\$6,059	\$6,059
		Expenses Per Unit		\$288	\$288

THE MORRISON APARTMENTS
14 WESTMINSTER AVENUE, VENICE, CA 90291



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

ERIC SACKLER
Director
T: 310-779-9999
eric.sackler@cb.com
11881 San Vicente Blvd., 8th Fl.
Los Angeles
California 90047



AIRBNB /VRBO PRO FORMA FINANCIAL OVERVIEW
The Morrison Apartments - 14 Westminster Ave., Venice, CA 90291

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		Unit Expenses		\$1,240	\$1,240
		Interest on Cash		\$175	\$175
		Financing Expenses		\$1,000	\$1,000
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		Expenses Per Unit		\$288	\$288

Screen shot via Laane.com

In Los Angeles landlords, investors and real estate agents have been creating and implementing business models to convert apartments to Airbnb tourist hotels, see above. The Waldorf, a historic apartment building, and the Morrison in Venice, CA are examples of illegal apartment to hotel conversions. Jon Wheatley an Airbnb real estate entrepreneur wrote a step by step guide for investing in apartment buildings and converting to Airbnb hotels using his remote management system. These conversions were prevalent in Los Angeles, using photos as avatars of attractive young ladies as owners. Upon investigation these individuals do not appear to be connected to the properties, (Laane.com.)

San Francisco’s Ordinance 218-14 was passed on October 14, 2014 - amending regulation of short term residential rentals and establishing fees. This ordinance which took effect February 1, 2015 requires hosts must be permanent residents renting out single rooms or space within their own rented space. This type of rental, once registered is legal without restriction. Those permanent residents renting out their full units after registration are limited to 90 days per year. Since passed in October of 2014, Ordinance 218-14 has been deemed unenforceable by Planning Department Director and Staff. On April 27, 2015 16 new provisions were recommended to the Planning Commission to make registration and enforcement possible. These 16 provisions would enable enforcement, however it was watered down by the majority of the planning commissioners, therefore Ordinance 218-14 remains unenforceable.

Neighborhoods have changed in high density OVRP areas. Not only have apartment houses turned into tourist hotels, but the quality of life has changed in high density OVRP neighborhoods. Parents no-longer know who is walking down the hallways of their apartment building, changing the sense of community and safety for their children. The commercialization of residential units degrades the sense of neighborhood and the permanent resident's sense of community. Airbnb and OVRPs note their platform adds a sense of belonging to the tourist community; this utopian model appears to be at the expense of permanent residents, neighborhoods and cities. Street parking is impacted when a single family home is converted into a 3 or 4 unit rental, see page 28.

San Francisco Ordinance No 218-14:

In Carolyn Said's article in the San Francisco Chronicle on April 19, 2015 concerns were expressed by senior planning department officials that the new SF Ordinance 218-14 passed in October of 2014 was unenforceable. On March 23, 2015 the author interviewed senior planning department officials who expressed the opinion that San Francisco Ordinance No 218-14 is completely unenforceable. This was publically supported within 2 months of enactment by the director of the San Francisco Planning Department in early April, 2015 suggesting 16 amendments to the ordinance to enable accountability for enforcement. These 16 amendments were not passed; thereby Ordinance 218-14 remains unenforceable.

City, county and state taxes are not paying TOT tax in the vast majority of cities. The Laane study reported multi-unit landlords, management companies, Airbnb and OVRB founders and venture capitalists are benefiting by the inability of cities to respond to the political lobbying machine created by Airbnb. The public supports city, county and state services thru taxes. When billions of dollars is lost from tax roles, the cities, counties and state pay the cost of services to the OVRB business model. Quality of life issues are at stake, (Laane, 2015.) Hospitality wages and benefits are being diverted into the underground economy, city, county and state TOT taxes, payroll taxes, permit fees; life safety inspections, zoning laws, and ADA accessibility go unregulated on OVRPs. Planning department officials expressed the following general concerns in interviews.

- Collection of TOT taxes remains unenforceable. Airbnb complains that providing information individual addresses for hosts, which would allow enforcement of Ordinance 218-14, would put Airbnb at a competitive disadvantage. Airbnb suggests since Homeaway and VRBO do not collect individual host information.
- In an interview with a senior planning department official' "without shared accommodation accountability, host addresses, names, number of guest nights, and amounts paid enforcement of Ordinance 218-14 is not possible."
- Moreover, only a very small percentage of hosts have registered in San Francisco. Only 160 in the first month of registration. With an Airbnb rental pool over 5,500 this represents 3%.
- Planning department officials in San Francisco discovered hosts move from hosting platform to platform to their personal property web-sites. The motivation for this strategy is unknown;

however motivation was speculated to include avoidance of bad reviews, fees and tax avoidance, and avoiding any registration for enforcement.

It is abundantly clear only with addresses, registration and tighter regulation by cities, counties and states can revenues, safety and security of tourists, landlords, tenants, and neighborhoods be protected.

California State Senate Bill SB 593: (see Appendix 3)

In an interview with California State Senator McGuire on May 4, 2015, Senator McGuire said “Vacation rental platforms are no longer couch surfing, this is a multi-billion dollar business.” Senator McGuire described how important the TOT tax is to cities in his district.” He noted for the town of Yountville where the TOT represents 60% of the general fund. Cities have a very difficult and expensive time to acquire information to support TOT collection by individual subpoena.

Senator McGuire said his bill is simple “SB 593 requires online vacation rental businesses to follow local laws. The issues and background behind the crafting of Senate Bill (SB) 593 has been made simple. Where vacation rentals are legal, the bill will assist local jurisdictions in their regulation and collection of Transit Occupancy Taxes (TOT). Where vacation rentals are illegal by local jurisdiction, the bill will prohibit online vacation rental platforms from making a rental.”

The Thriving Communities and Sharing Economies Act will empower local control, provide funding for parks, local roads, fire and police services, and promote safe neighborhoods. SB 593 will require Online Vacation Rental Platforms to disclose information to cities and counties and/or collect and disperse Transient Occupancy Tax dollars – projected to be in the hundreds of millions of dollars statewide.

Capstone Conclusion:

The emergence of the “sharing economy” models is really about [disruption and] invention, driven by the new consumer techno-utopianism of the travel industry, (The Nation, 2014.)

The general shared economy model of Airbnb and OVRPs are here to stay. The business model renting full units for less than 30 days is illegal in most cities. Cities that have attempted to create effective ordinances to modernize and accommodate Airbnb, (Portland, San Francisco, Chicago, and Amsterdam) have discovered the politically negotiated and diluted ordinances and laws passed are unenforceable due to the lack of data provided and responsibility accepted by the Airbnb.

The benefits of the OVRPs models led by Airbnb’s 1M listings around the world remain in the eye of the beholder. When viewed from the inside, Airbnb offers the tourist financial savings and unlimited alternatives to traditional hotels. The genuine experience of a tourist actually sharing a home with a local person is a compelling model. Hosts receiving additional income for sharing their homes where the host actually lives seems reasonable to those people the author interviewed.

Airbnb does not take responsibility for the listings provided on its platform. What you see and read may not be the entire truth about what you are about to experience in an Airbnb rental. In the authors experience the attractive internal photograph of the Hollywood, CA home viewed when booking was in actuality a converted garage. This garage did not appear to be legal due to an electrical panel blocked by a standing closet and with an illegal padlock hasp on the exterior of the exit door. Hosts and tourists alike have experienced horror stories, (FoxNews.com.) In a recent post on Facebook communicated to the author, "It appears that I have lost \$1400 due to a fraudulent listing for an apartment I was renting in Amsterdam through air bnb's website... so I am out all this money AND have no place to stay next week when I arrive." The author should note this complaint was 2 weeks old; a resolution could have been resolved since completing this thesis.

Tourists have abused homes with outrageous parties, orgies, breakage, theft and renting for prostitution. Hosts have claimed their rentals had ADA accessibility, elevators, appliances, access to keys, and amenities when not available. Personal and belonging security in shared rentals will always be an issue for travelers and hosts. Commercial code violations are endemic, and safety cannot be monitored without on-site 24/7 professional management. Airbnb has mitigated certain issues with hosts and tourists review system, smoke detector requirement, professional photography of homes, property and liability insurance offerings and a customer service department.

Since 2008 Airbnb grew from 3 air beds and breakfast into a \$20B enterprise. After Airbnb emerged from Paul Grahams' Y-Combinator tech incubator in 2008 as a favorite enterprise, Mr. Graham described Airbnb as "a hotel competitor, founding a peer-to-peer marketplace - the eBay of spaces," (Laane, 2015.) The Airbnb story is a model of hi-tech ingenuity, entrepreneurship, and savvy viral like growth. When speaking in a McKinsey & Company interview apparently addressing the legality of short term rentals, Airbnb co-founder Brian Chesky described the Airbnb issues with cities as being due to "old outdated laws." The laws Mr. Chesky is presumed to be speaking are likely commercial building codes, commercial fire and life safety, commercial construction including the ADA civil rights law, zoning and parking requirements for residential neighborhoods.

Mr. Chesky spoke of the fact that in the past only brands could have a currency of trust; or people in your own community. However today that trust has been democratized, people can act like a brand [on airbnb.] He spoke of cities that have lost their character and the social benefit to bring tourists and hosts together helped to build a sense of community. A flip side exists to the experiential social benefits spoken of by Mr. Chesky on the McKinsey interview (McKinsey & Company, 2014,) and listed on the Airbnb web-site. Social impacts are effecting workers' wages and benefits, housing supply, neighborhoods, and cities. Airbnb and OVRPs growth from 1M to 2M listings by 2016 will amplify these issues. The total impact remains to be seen how this explosive growth will affect hotels, neighborhoods and cities? Currently the robust economy has camouflaged the effects. The competitive effects upon the hotel industry, due to the current red hot travel economy have not been realized yet by hotels in most markets, (Hotel News Now, 2015.) Cities however have realized several negative factors effecting tax collection, neighborhood quality of life, city revenue, jobs and housing, (Laane.com.) Increased competition among hotels and OVRPs has reduced ADR in certain markets

which might be considered a social benefit for consumers. The additional housing supply during peak convention season is welcomed by SF Travel President Joe D' Alessandro. However conversion from residential housing to hotel brings the following issues to light:

- Incentivizing large scale conversion of residential rental stock into tourist accommodations, causing neighborhoods and cities to bear the costs.
- Residential rental rate increase due to reduced stock.
- TOT, payroll and other taxes are not paid to cities, counties and states.
- Full time hospitality industry jobs with benefits are substituted with part time minimum wage or piecework jobs.

Airbnb hosts may become micro-entrepreneurs, but who is paying the price for the OVRP disruption? The idea of supplemental income for Airbnb hosts could be considered a pseudo-utopian smoke screen for large multi-property businesses disguised as shared accommodations. Travelers may benefit from lower prices but at what cost to the people paying the inflated home rental costs and loss of TOT tax support local economy of where they are visiting.

In interviews with union officials, hoteliers, consultants, and association executives the very unique and endearing multi-cultural richness of San Francisco is at stake for the tourism industry. The immigrant communities created San Francisco, “the attraction.” Chinatown, Japantown, North Beach and the Mission are the “Disney-like lands” of San Francisco. Like the performers at Disneyland, hotel and travel industry employees help create the rich multi-cultural San Francisco experience of the neighborhoods. Will the San Francisco experience be the same if the cast of destination San Francisco become commuters from the distant far reaches of BART in a homogeneous and “gentrified” San Francisco?

Airbnb and the shared economy are to stay. The entrepreneurial brilliance of Airbnb cannot be denied, and true registered shared economy accommodations paying TOT taxes will not be detrimental to the community. The shared economy today is putting a price on everything from shared lawnmowers, power tools, bicycles, cars, and now your home. The big picture issue is, “will the citizens of the Airbnb destinations continue to pay for the enrichment of the Airbnb founders, venture capitalists and commercial rental firms (the few)?” Will the VC funded lobbying continue to influence politicians to turn their heads while (the few) develop illegal, unregulated and untaxed businesses?

Hotel market recommendations:

To reiterate a common theme from 100% of the hoteliers and consultants interviewed by the author, a level playing field should be established between hotels and OVRPs. Hotel industry management companies, consultants and investors are now acknowledging the disruptive impact Airbnb and OVRPs have on the hospitality industry. Thomas Barrack a legendary real estate investor recently commented at the Milken Real Institute Global Conference, “[Airbnb] is killing [the hospitality industry], of course. If you look at the hospitality industry...you have to adapt the regulatory environment, the tax environment, all of the local handicap requirements... [while] keeping full-time employees. [If] You impute that on the

capital structure, versus a non-asset intensive engine of management, you can't compete," (Fortune, 2015.) The venture capital investors are valuing Airbnb at 20 billion, just under Marriott's market capitalization. Mr. Barrack is now expecting consolidation of the hotel industry. The key to his concern is a lack of regulators ability to place a leveling influence on Airbnb and OVRPs.

The following remarks were made by Interstate Hotels and Resorts CEO Jim Abrahamson at AH&LA's Fall Conference Industry Leadership Dinner in late 2014, "There are many incredible aspects of the hotel industry, but today we face many [new] direct threats. From extreme wage battles in cites around the country, to new entrants to the marketplace such as Airbnb and the online travel companies – and ensuring that there is a level playing field, to protecting the franchise model as we know it. We must not take these issues lightly, and we won't."

Patrick Moyock editor of HotelNewsNow.com described Airbnb as "[Airbnb is] what a contagion looks like in New York", (HotelNewsNow, 2015.) All hoteliers interviewed by the author reflected a desire to level the playing field of Airbnb, not paying TOT taxes and other commercial business costs is an unfair competitive advantage. The hotel industry has a history of ignoring new competition. New transparent or opaque distribution channels, aggregating channels, vacation rentals, hostels, boutique hotels and the proliferation of new unique brands has offered competitive challenges within the hotel industry over the last several decades. No disruptor has ever challenged hotels like Airbnb.

Airbnb represents over 5% of the available lodging in 18 major US markets, with San Francisco at 16%, Austin at 20% and New York more than 27%. Airbnb is effecting compression, which is the strongest factor to ADR growth. Airbnb might be undermining hoteliers' pricing power, (HotelNewsNow, 2015.)

Hotel brands are experimenting with new concepts to appeal to millennials like Curio by Hilton, Canopy and Moxy by Marriott, and Tommy by Commune. These experiential concepts are targeted at the millennial travelers. It should be noted, with relief from the hotel community that in a recent study it was determined that Airbnb and OVRPs, while an option for millennial travelers is still not the millennials top accommodation choice, (Rensonance.com.)

As a reaction to the explosive growth of Airbnb, the panelists from the Hunter Hotel Development Conference in late March of 2015 recommended that the hotel industry focus on value added propositions offered by the hotel industry. Looking forward as in any business, compete with strengths and opportunities; diminish weaknesses and threats, (SWOT).

- Focus on brand loyalty programs
- Focus on quality and personalization of services
- Focus on the corporate travelers
- Focus on corporate groups in house
- Focus on meetings and conferences with attendance cost offered at a discount including room packages to encourage hotel room block pick-up
- Focus on leisure group markets including value added benefits and discounts

Airbnb recommendations:

Airbnb describes the host-guest relationship to reign supreme and describes its measure of success to be social, economic, and environmental. The following Airbnb attributes have been noted.

- Creating personal friendships and connections between tourists and hosts
- Assisting hosts with rent or mortgage payments and promotes increased travel for budget oriented travelers
- Creating hundreds of thousands of micro-entrepreneurial businesses globally
- Creating additional accommodation supply during the busiest periods when cities cannot meet demand. Examples include city wide sell-out events such as major conventions, the World Series, Super Bowl, World Cup, the Summer and Winter Olympics

If modeled in compliance with legally empowering and enforceable ordinances the Airbnb business model has positive benefits to the host, tourist and is not financially or socially impactful to cities, neighborhoods and local economies.

However if apartment buildings, neighborhoods and cities are changed with the wholesale conversion and commercialization of private residences, social and economic impacts are negative. Governmental ordinances, safety, and truth in advertising appear to be issues that have developed for Airbnb. Governments, owners and neighborhoods have not successfully challenged and established recourse regarding the commercialization of residential property. Airbnb will benefit when a win-win regulation format is established for cities.

“The Airbnb platform has made several positive changes recently, and will probably have changes and challenges ahead in the process of self-regulation,” said Jan Feitag, analyst with Smith Travel Research. Ms. Feitag goes on to describe “the legality, licensing, safety and broader service issues are the core hurdles [for OVRPs.] These issues are the main issues driving the 120 billion dollar question.”

Airbnb is pioneering meteoric growth in the shared accommodations and collaborative consumption economy. Since Airbnb is in the spotlight, they will be required to quickly pivot to adapt and satisfy legal and social issues developing in major cities. Continued global market leadership will require negotiating a win-win model to legalize short-term rentals before cities begin enforcement. The various social, building & life-safety regulations, and rental housing conversion issues require prioritization to maximize effective use of its resources. Once Airbnb is out the legal and regulatory shadow, the rumored IPO will be very interesting to watch.

Figures / Tables / Graphics Tables

Hotel interview universe Appendix 1:

Appendix 1		Interview Listings	Hotels and Airbnb		
Location	Size	Entity Description	Title	Name / A	
1	SF	1000+	Full service hotel	GM	
2	SF	400+	Full service hotel	GM/VP	Thomas Klien
3	SF	400+	Full service hotel	GM	Ralph Lee
4	SF	200+	Full service hotel	GM/Pres	John Handlery
5	SF	200+	Full service hotel	GM	A
6	SF	100+	Full service hotel	GM/Regional	Jim Gerney
7	SF	100+	Limited service	GM	A
8	SF	50+	Limited service		A
9	SF	100+	Hostel		A
10	Santa Clara Co.	100+	Full service hotel	GM/Regional	Jim Gerney
11	Marin Co.		Full service hotel	GM	A
12	Marin Co.		Full service hotel	GM	A
13	Alameda Co.				
14	San Mateo Co.				
SF		Associations			
	SF		SF Travel	President	Joe D' Alessandro
	SF		Hotel Council	Exec Director	Kevin Carroll
	SF		SF Tenants Union	Director	Jennifer Fieber
	SF		SF Apt Association	Director	Janen New
SF		City of SF			
	SF		Mayor's Office		
	SF		SF Planning	Planning Official	A
	State Senator				Mike McGuire
Union Official					
	Local 2		Mike Casey	President	Mike Casey
Consultants					
	SF		RSB Associates	President	Rick Swig
	SF		Carlson Advisors	President	Dale Carlson
Insurance					
	Marin		Farmers Insurance	Agent	Gil Guglielmi
	SF		G2 Insurance	Agent	Mark Battat
Travel Agents					
	SF Bay Area		Major Corp Travel	Management	A

SF Bay Area	ABM Corporate Travel	Travel Manager	Kathy Conforti		
Airbnb Company					
Location	Name				
SF	Airbnb	Head of Global Hospitality General Manager North America	Chip Conley		
SF	Airbnb				
SF	Airbnb	Meet-up	Alex		
Shared Economy Platform					
	other				
	other				
Airbnb Hosts and Travelers					
NY	Airbnb	Traveler	M. Kopstein		
SF	Airbnb	Traveler	A		
SF	Airbnb	Host	A		
SF	Airbnb	Host	A		
SF	Airbnb	Super Host	Carrie Davis		
Market Segment Interview Goals			Number		
1	Hoteliers		6 to 12		
2	Airbnb hosts/ travelers		2 to 4 ea.		
3	Airbnb staff		1 to 2		
4	Airbnb competitors		1 to 2		
5	Consultants		1 to 2		
6	Union officials		1 to 2		
7	Government	SF & other	1 to 2		
8	Travel Agents	Leisure & Corporate	2 to 4		
9	SF Travel		1 to 2		
Largest Bay Area Hotels					
1	Hilton	SF	1,908	Michael Dunne	michael.dunne@hilton.com
	Marriott	SF	1,500	Dan Kelleher	dan.kelleher@marriott.com
	Westin St Francis	SF	1,195	Jon Kimball	jon.kimball@westin.com
	Parc 55	SF	1,015	John LaFortune	jlafortune@wyndham.com
	Hyatt Regency	SF	802	David Lewin	
	Hyatt Regency SFO	Burlingame	789	Keith Butz	keith.bulz@hyatt.com
	Marriott SFO	Burlingame	685	Clifton Clark	clif.clark@marriott.com
	Westin Market	SF	676	Ken Pilgrim	
	Fairmont Hotel	SF	591	Thomas Klein	thomas.klein@fairmont.com
	Holiday Inn Fish	SF	585	Sheila Martin	
	The Palace	SF	553		
	Intercontinental	SF	550	Pete Koehler	
	Hilton Financial	SF	543	Kevin O'Brien	kobrien@hotelsanfran.com

Hotel Nikko	SF	533
Sheraton Fish	SF	531
Holiday Inn		
Golden G	SF	499
Marriott	Oakland	489
Hotel Whitcomb	SF	460
Sofitel SF bay	Redwood S	421
Sir Francis Drake	SF	416
Courtyard		
Downtown	SF	410
W San Francisco	SF	404
Clift Hotel	SF	
Joie de Vivre/Commune		
Kimpton		

Anna Marie Presutti apresutti@hotelnikkosf.com

Michael George

John Mazzoni

Ralph Lee rlee@hotelwhitcomb.com

John Hutar

Debbie Bonafede

Mark Elerwein

Michael Pace

Questionnaire example Appendix 2:

An Analysis of the Changing Competitive Landscape in Hotels with the Popularity of Shared Economy Accommodations. Airbnb and Hotels

Dominican University of California MBA 5280 – Capstone Thesis Project – Dean Lehr 2015

The web based distribution channels of the shared economy accommodations like Airbnb are becoming more and more popular. From an experiential viewpoint many travelers that previously stayed in hotels are now choosing shared economy accommodations. Staying on a couch, single room, loft, barn, condo, or single family home may include amenities like a washer, dryer or kitchen. Although these accommodations might not directly be compared to a transient hotel room; the experiential component and homelike amenities appear to be changing certain consumer’s choice in accommodations. The following questions are focused to identify what your experience has been relating to your hotel and brand, and your experience and viewpoint regarding the rising popularity of the shared economy accommodations as a hotelier.

<i>Hotel name/optional:</i>	City
Independent / Major brand	Traditional brand & segment
Boutique Independent / Boutique Brand	Number of rooms or range

1. Are you familiar with shared economy accommodation options? (1= never heard of the company to 5 = have stayed and experienced the shared economy experience with this brand)
 - Airbnb 1 2 3 4 5
 - VRBO 1 2 3 4 5
 - Home Away 1 2 3 4 5
 - Flip Key 1 2 3 4 5
 - Roorama 1 2 3 4 5
 - Cyber Rentals 1 2 3 4 5

2. Do you see a benefit from the addition of shared economy residential units becoming available from Airbnb and other platforms on-line as commercial like accommodations for travelers in your town? Yes / No

3. A. Can you describe the state of the hospitality industry in your city and your hotel?

	City 2014	Your hotel 2014	Your hotel 2015 budget
Occupancy			
Average rate			
Other			

- B. Do you think shared economy accommodations are affecting occupancy/average rate/employment in YOUR hotel?
- o Today? Yes / No
 - o Do you anticipate in the future? Yes / No
 - o Do you have any statistics? Yes / No

C. If shared economy accommodations have affected your hotel or your brand? If so, what market segments have been affected and please provide rationale?

- | | |
|--------------------------------------------|----------|
| Leisure | Yes / No |
| Business | Yes / No |
| Convention | Yes / No |
| Tour and travel | Yes / No |
| Do you have any statistics, details below? | Yes / No |

4. Do you think hotels and shared economy platforms/hosts are on a level playing field in regards to supporting city services, complying with city code, state codes and ADA requirements? Please review these specifics.
- A. Are you concerned about the possible lack of commercial zoning, building, parking and code Compliance and inspections from the commercialization of residential units? Yes / No
 - B. Are you familiar with SF Ordinance No 218-14 requiring Airbnb to collect from travelers the 14% TOT tax to the City of San Francisco beginning February 1, 2015? Yes / No
 - C. Travelers in San Francisco hotels pay TOT and TID taxes. Are you concerned that SF Ordinance No 218-14 will effectively cause shared economy platform companies, hosts and travelers to fairly support the city services that travelers use and pay tax for when staying in hotels? Yes / No
 - D. Are you concerned about the commercialization of residential housing, workforce

housing, low
income, rent stabilized, and SRO housing units?

Yes / No

E. As a hotelier from an experiential, amenities and marketing viewpoint; what can/should hoteliers do to compete and appeal to the shared economy traveler in traditional hotels?

Appendix 3:

Thriving Communities and Sharing Economy Act

SB 593 (As proposed to be amended)

Senator McGuire

SUMMARY

The premise of SB 593 is simple. Where vacation rentals are legal, the bill will assist local jurisdictions in their regulation and collection of Transient Occupancy Taxes (TOT). Where vacation rentals are illegal by local jurisdiction, the bill will prohibit online vacation rental platforms from making a rental.

The Thriving Communities and Sharing Economies Act will empower local control, provide desperately needed funding for parks, local roads, fire and police services, and promote safe neighborhoods. SB 593 will require Online Vacation Rental Platforms to disclose information to cities and counties and/or collect and disperse Transient Occupancy Tax dollars – projected to be in the hundreds of millions of dollars statewide.

Background

Renting rooms is commonplace; however the impact of Online Vacation Rental Platforms (OVRPs) has forever changed the dynamic of the hospitality community.

OVRPs force neighborhoods, cities and counties to bear the costs and burden of their operation. Increased and undisclosed tourist traffic alters neighborhood character. This creates additional demands on public safety while at the same time, cities and counties lose out on revenue that could be invested in local services such as parks, roads and public safety. Moreover, the availability of affordable housing stock is being diminished for working families and seniors.

Problem

Presently, many cities and counties prohibit the renting of residences for less than 30 days. However, these prohibitions are frequently ignored by OVRPs, causing unwanted burden to city services, roads and neighborhood character while reducing TOT collection from sanctioned hotels. Rentals facilitated by OVRP's in these cities and counties go against the expressed wishes of the residents.

For the cities and counties that do allow short-term residential rentals, most require hosts to register and that transient occupancy taxes be paid. However, registration and payment of TOT in these cities

and counties are based on the owners of the short terms residential units voluntarily reporting their rental activity. However, there has been a severe under-registration of hosts and underpayment of TOT. Only 6.6% of hosts in San Francisco have followed the city ordinance to register. Sonoma County has had to spend in excess of \$200,000 in an attempt to track down those rentals that are not paying the required TOT under the ordinance. And Los Angeles is currently experiencing a rental housing shortage due in part to the recent popularity of OVRPs.

Clearly, cities and counties are unable to obtain this information due to the fact that online platforms pass their responsibility to individual home-owners. This lack of oversight and enforcement presents a huge gap in accountability, and as a result, local laws and regulations are not being followed.

Solution

SB 593, as proposed to be amended, will respect existing ordinances by empowering the local jurisdictions. It will provide critical tools to help cities and counties uphold their ordinances. The proposal has two components:

- **Assist local policies regarding OVRPs.** This bill will reinforce local ordinances by requiring online Vacation Rental Platforms to disclose information (address of host rental, amount of nights stayed, and amount paid by the visitor) to the cities and counties-similar to the way hotels currently report their TOT. This information will allow cities and counties to ensure their laws are being followed. Local jurisdictions may also choose to have OVRPs collect the taxes and remit them.
- **Enforce local bans against short term residential rentals.** SB 593 will prohibit OVRPs from facilitating a residential rental if the transaction would violate a local ordinance. This will reinforce local control.

Additionally, cities and counties will have the ability to opt out of their information disclosure process at their discretion. They may opt back in to receive the reports by providing hosting platforms with 90 days' notice.

Contact

Chris Nielsen, Office of Senator McGuire (916) 651-4002

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