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**TRABAJO FIN DE MÁSTER**

**AIRBNB AS AN EXAMPLE OF THE COLLABORATIVE  
TOURISM**

**AIRBNB COMO EJEMPLO DEL TURISMO  
COLABORATIVO**



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## **ABSTRACT**

In the last decade, a new sharing concept has seen its birth, which is known today as sharing economy. Its innovation is that creates a market formed by strangers who exchange goods and services, giving in this way new opportunities to generate transactions between peers.

One of the most significant examples of the sharing economy is Airbnb, a peer-to-peer accommodation platform which was founded in 2008 and it has had since then an exponential growth. Airbnb has become so successful that it has caused a rivalry with the hotel industry and has had impacts on the rental market.

This paper analyzes in what ways the company has affected the hospitality industry through the research that has been conducted and how hotel executives are responding to the challenge. Finally, it evaluates the effect that Airbnb is having on the rental market presenting the case of Barcelona.

**Keywords:** sharing economy, collaborative tourism, Airbnb, hotels, rental market.

## **RESUMEN**

En la última década hemos visto nacer un nuevo concepto sobre el hecho de compartir, lo que conoce como *sharing economy*. La innovación que supone es que crea un mercado formado por desconocidos que intercambian bienes y servicios, creando de esta manera nuevas oportunidades para generar transacciones entre particulares.

Uno de los ejemplos más significativos de la *sharing economy* es Airbnb, una plataforma de alojamiento de igual a igual que fue creada en 2008 y que ha experimentado desde entonces un crecimiento exponencial. Airbnb ha tenido tanto éxito que ha generado una gran rivalidad con la industria hotelera, así como un fuerte impacto en el mercado de alquileres.

Este trabajo analiza en qué medida la empresa ha afectado a la industria hotelera a través de las investigaciones realizado, y cómo los ejecutivos de los hoteles están respondiendo al desafío. Finalmente, evalúa el efecto que Airbnb está teniendo en el mercado de alquileres, presentando el caso de Barcelona.

**Palabras clave:** *sharing economy*, turismo colaborativo, Airbnb, hoteles, mercado de alquileres.

## INTRODUCTION

In the last few years, a growing number of sharing economy platforms have entered a variety of markets. These platforms promote the use of underutilized goods and services in a wide range of sectors, such as: finance, transportation and accommodation. One of the most iconic example of the sharing economy is Airbnb, a provider of short-term accommodation, which offers listings in 65,000 cities and 192 countries. Moreover, it has been valued in 30 billion dollars in the financial market (Ting, 2016).

The explosive growth of Airbnb has highlighted the need to regulate this kind of market in order to have fair competition with the hospitality firms and, at the same time, to monitor the rental lodging market.

As it will be discussed in this paper, many hospitality professionals denied the role of Airbnb as a threat to the industry. This position has been supported by the Californian start-up itself, claiming that they serve completely different customers. Airbnb alleges that it does not represent a threat for hotels but instead it “grows the tourism pie, attracting many guests who might otherwise not have come, or been able to stay as long” (“Overview of the Airbnb Community”, 2016).

If it may be true that the company attracts tourists worldwide and this could benefit the economy of the interested cities. On the other hand, it is also true that sharing economy platforms are poorly regulated.

Hotel industry executives have brought to light how hosts can offer accommodation at cheaper prices by skipping controls for all existing hospitality regulations. As Ramon Estalella Halffter, CEO of the Spanish Hotel Confederation and member of HOTREC (European Hospitality Association), stated: “Hoteliers have to deal with environmental protection, labour law, municipal tourism fees, consumer protection, various taxes (value-added tax, taxes for cities, environmental protection, safety, etc.) whilst many hosts on online sharing platforms do not comply with the same rules and laws” (Juil, 2015).

This paper aims to present Airbnb as an example of the sharing economy and analyze how its growth has been affecting the hotel industry and the rental housing market. In order to better introduce this subject, the thesis has been structured as follows. The first chapter presents the sharing economy as a concept, the factors that have seen its

evolution and how it has developed in the tourism sector. The second chapter is entirely dedicated to Airbnb, from its beginning to its current success. The third chapter provides an overview on the rivalry between hotels and the peer-to-peer company, and the fourth and final chapter presents the impact that Airbnb is having on the rental housing market.

## **1. Sharing economy**

### **1.1 The definition**

The sharing economy, also known as Collaborative Consumption as a result of a popular book from the title “What’s mine is yours” (Botsman & Rogers, 2010), has been defined, by the Business Innovation Observatory in 2013, as an alternative economic system based on “business models for peer-to-peer markets”. According to this definition, the main characters of this economy would be all those companies whose value proposition consists in creating a matching between a consumer who has a certain resource (property or competence) and a consumer who simultaneously needs that resource for a reasonable transaction cost (Dervojeda, Verzijl, Nagtegaal, Lengton & Rouwmatt, 2013).

In recent years though, this definition has changed to embrace an ampler one, which simply defines the sharing economy as a system based on the exchange and distribution of goods and services between peers. An interesting feature of this system is that the exchange takes place through the use of digital platforms. Today there are many initiatives with the purpose to reuse obsolete objects, optimize only partially exploited goods or provide personal services.

In a report that has become a milestone, the English organization Nesta states that: “The Collaborative Economy as we define it involves using internet technologies to connect distributed groups of people to make better use of goods, skills and other useful things. It allows people to communicate in a peer-to-peer way” (Stokes, Clarence, Anderson & Rinne 2014).

The definition above suggests that people should use technology to collaborate in a peer-to-peer (P2P) system, without actually specifying the sectors involved, but generalizing the aim of: make a better use of things and competencies. In 2014 Debbie Woskow in “Unlocking the sharing economy: an independent review”, asserts that Collaborative Economy is present “as online platforms that help people share access to assets, resources, time and skills. It encompasses a broad range of businesses and business models: peer-to-peer marketplaces such as Etsy, which allows anyone to sell their craft ware; services like City Car Club, where people can share access to a car

without having to own one themselves and time banks like the Economy of Hours which allows people to trade skills among themselves, an hour for an hour”.

These definitions open up a more broad and articulated way for the phenomenon. In fact, according to the Nesta report, it is possible to categorize Collaborative Economy into four pillars: collaborative consumption, collaborative production, collaborative learning and collaborative finance, depending on their purpose. To these, more recent discussions tend to add a fifth pillar: collaborative governance (Unipolis, 2015). Here below we can see a detailed explanation for each one of them.

#### COLLABORATIVE CONSUMPTION

Collaborative consumption refers to innovative platforms that are progressively rethinking the traditional concepts of: sharing, bartering, trading, renting, gifting and swapping, in a peer-to-peer model. These practices are reinvented and extended through online networks in ways that were not possible before. The engagement of Collaborative goes from huge markets like eBay and Craigslist, to peer-to-peer travel models such as Airbnb, or services for car sharing as Uber, to countless cases of food or home swaps, along with others. Because of the amplitude of this phenomenon, the Collaborative Economy is often identified with Collaborative Consumption.

#### COLLABORATIVE PRODUCTION

Collaborative production could be defined as projects in which a group of people collaborate to work together. The most common examples for the collaborative production are open manufacturing and open design. These movements are trying to apply the principles of openness and widespread collaboration among individuals in prototype development and manufacturing material goods. Key players are the so-called Fabrication Laboratories (FabLabs), open labs, equipped with machinery and technological tools (such as 3D printers). People can use FabLab for commercial purposes, but whatever is produced within it is made available to the community to improve the inclusive and collaborative process.

## COLLABORATIVE LEARNING

Collaborative Learning encompasses knowledge sharing practices such as courses, conferences and scientific or educational content, shared and made available for anyone. Some examples are: Wikipedia, whose contributors are common people who make use of a web platform to feed collective, horizontal and accessible knowledge; the MOOC, open online courses, designed for distance training that involves a large number of users, facilitating contact and contemporary access to content made available most of the times for free.

## COLLABORATIVE FINANCE

Collaborative finance encompasses new financial instruments and alternative currency. In this way people can choose who to give a loan to, unlike what happens in a classical financial institution. There are different types of collaborative finance system from crowdfunding to crowd-sourced equity, from lending peer-to-peer to mini-bonds linked to SMEs and to alternative currency payments. As for the consumption, collaborative finance is characterized by the coordination of demand (people or companies that need finance) and offer (people willing to finance) operated by digital platforms.

## COLLABORATIVE GOVERNANCE

Collaborative governance are new horizontal governance mechanisms which make citizens more involved in the political sphere creating stronger relations among citizens, public administration and private businesses.

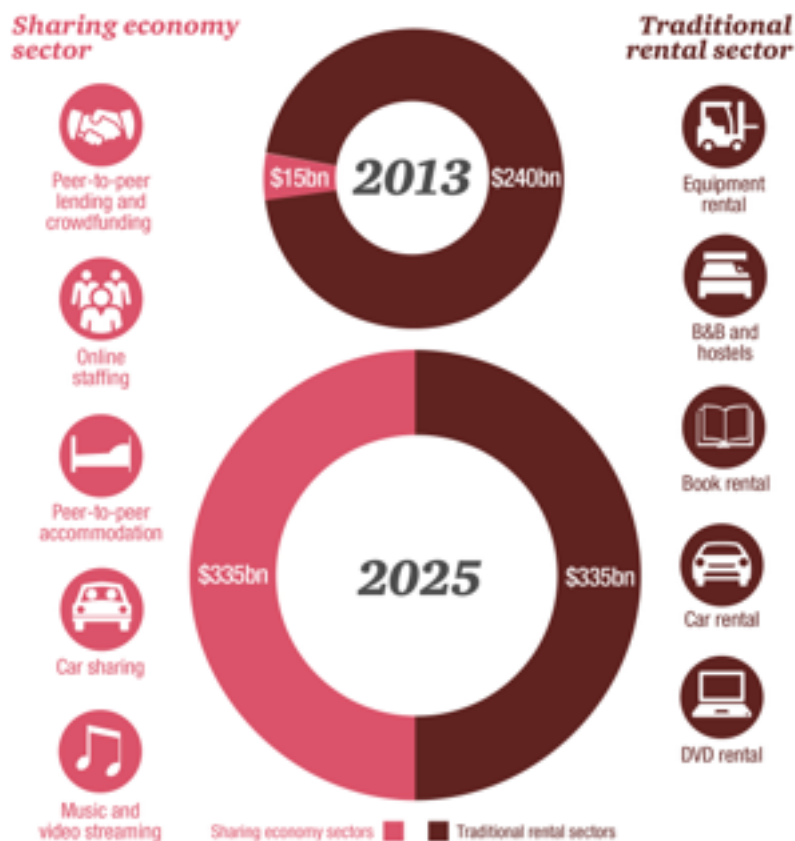
Overall, this new economic system is attracting the attention of a great number of citizens, creating an international debate that underlines a strong desire for innovation and the possibility for new alternative models to substitute the existing economic and social one.

In an article published in March of 2011, the American magazine *The Times* defined collaborative consumption as one of the ten ideas that will change the world, consecrating in this way the entry into the scene of the phenomenon and its weight in the socio-economic sphere (Walsh, 2011).



The sharing economy has grown enormously, particularly in recent years, although it began to develop in the 1990s, and seems destined to continue to grow in the coming years. According to a research carried out by Price Waterhouse Coopers (PWC) (2014), which compares potential revenue of five sharing economy sectors (peer-to-peer lending and crowdfunding, online staffing, peer-to-peer accommodation, car sharing and music and video streaming) with five sectors of the "traditional" market (equipment rental, B&B and hotels, car rental, book and DVD rental), the sharing economy will have by 2025 a potential revenue of 335 billion of dollars compared to the 15 billion of dollars of 2013.

Figure: 1 - Sharing economy and traditional rental sectors comparison from 2013 to 2025

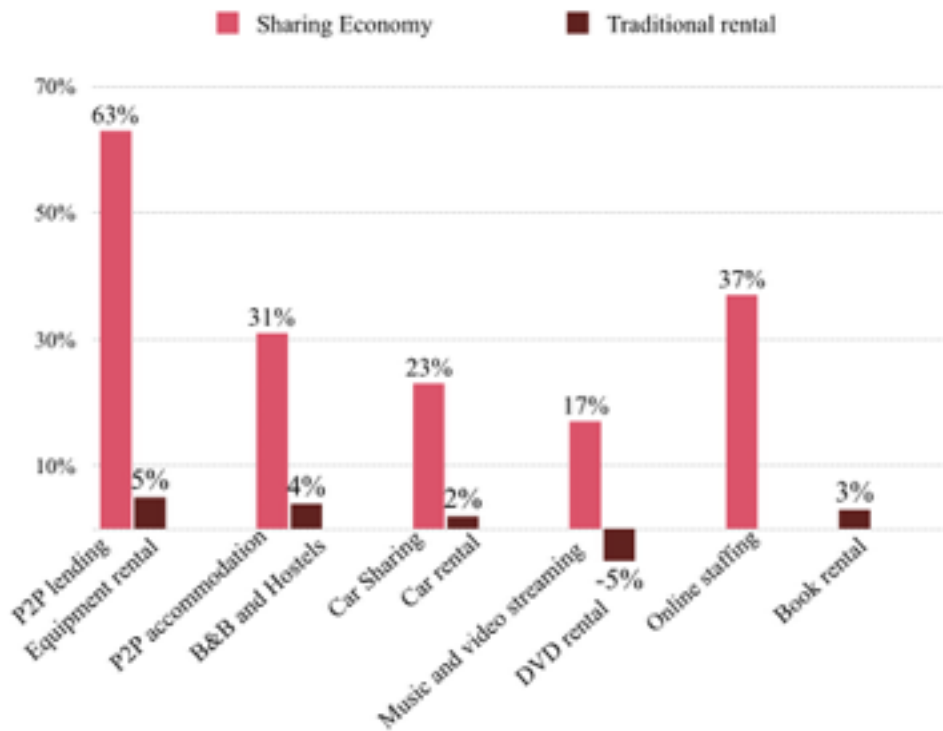


Source: Price Waterhouse Coopers

As it is shown in Figure 1, the sharing economy sectors are likely to grow much quicker than the rate of the traditional ones, which on the contrary have a pretty slow growth

rate. In Figure 2 it is possible to see in detail each sector’s growth rate, in the traditional and in the collaborative economy market.

Figure 2 - Annual Growth Rate of sharing economy and Traditional rentals market from 2013 to 2025



Source: Produced from Price Waterhouse Coopers data

It is safe to state that this data show a substantial difference between the two markets. The traditional sectors have reached their apex and now they are giving space to the new peer-to-peer systems.

What is interesting about the sharing economy is that, in contrast to contemporary successful ideas, it is not a brand new concept. According to the researcher Jill Richardson (2013) in her article *The Real Sharing economy Is Booming* states: “In human history, the so-called sharing economy is older than money and capitalism. Before anyone came up with the clever idea of giving set values to bits of metal and paper, people figured out that everyone could benefit by bartering and sharing.” All the activities linked to this system such as sharing, bartering and the exchange of goods and services were already in use during ancient times. In fact, the real innovation presented

by the sharing economy is not so much the concept, but the worldwide diffusion that it is having. As a matter of fact, in the past, the actors involved in these interactions were mostly residents in nearby areas, and among them, often, trust had developed over time. However, now, thanks to the internet, the exchanges take place on a much larger scale, with the participation of strangers who live miles away one from another. As Belk (2014) asserts: “The difference between ‘old-fashioned’ sharing and the sharing economy is that the latter is fueled by the internet age”.

## **1.2 Growth Factors**

The success of the Collaborative Economy is due to three main factors (Owyang, 2013): the financial crisis, new technologies and change of values. These factors will be presented and analyzed in the next paragraphs.

### **1.2.1 The financial crisis**

In 2008 the financial crisis affected almost the whole world and caused the increase of the unemployment rate while the consumers' purchase power decreased. In this scenario, the sharing economy was an opportunity of rebirth and adoption of a more sustainable and fair model, in view of the evident weaknesses of the old economic system (Mainieri, 2013). Consumers started to be more open about sharing in a way that was never been experienced before. Professor of Sociology at the Boston College, Juliet Schor (2014) affirmed: “Sharing economy sites are generally lower in costs than market alternatives [...] An Airbnb host, for example, can deliver a room more cheaply than a hotel. The platforms' fees are also lower than what established business extract in profit.”

If it is true that people lost their confidence in the old economic system, it is also true that this gave them the possibility to explore new options and endorse a change which led to today sharing models. Peer-to-peer companies have emerged as a solution not only to the economic crisis but also of a switch of values, many perceived this new system as a “post-crisis antidote to materialism and overconsumption” (The Economist, 2013). People have begun to choose access over ownership, therefore they have seen in the Collaborative Consumption the most pragmatic solution.

According to Lisa Gansky (2010), consumers are increasingly aware of the many unused resources they are surrounded (objects, spaces, skills, time, land, knowledge) and their value and potential if shared and monetized. As the expert states in her book *The Mesh*: “In other words, sharing economy users can maximize the yield management of what they already have.”

During the first years of the economic turbulence, between 2008 and 2010, different digital platforms were born. An example is Airbnb, a San Francisco company, which has achieved great results until today and it offers accommodation in more than 191 countries in the world.

### **1.2.2 New Technologies**

Experts as Botsman and Rogers (2010) see the key point of the sharing economy growth in the evolution of the internet in its Web 2.0 form. This gave the possibility to build new social networks in which people could communicate, share and post whatever they pleased in a remarkable speed and scale.

The transition from the Web 1.0 to the Web 2.0 has marked a revolution in the world of technology. It has moved from an internet static model, which worked as a collection of content, to a dynamic model that facilitates communication among people. Today’s users do not simply look for information on the internet or use content published by others, rather they create their own content to share online. As professors Lafuente and Righi (2011) stated “the web is no longer just a network of pages and links, it has become a network of people”.

In fact, nowadays we talk about Social Web, where people interact, exchange information, publish and share anything they want with people from all over the world. They create real communities that facilitate relationships between people. It is in this context that the sharing economy blossoms. According to Professor Nicolas John (2013), author of *Sharing, collaborative consumption and Web 2.0*, people are so used to share online that once they have gone offline the practice of sharing persists. As Katherine Boyle (2012) affirms: “We're changing the privacy settings of our real lives”. Mobile devices are another important factor for the development of the sharing economy: there are many start-ups that are based on downloadable applications on

smartphones and geo-localization services with GPS systems. With these devices, individuals have the ability to offer or enjoy a service completely free of charge, checking availability, pricing, localization from anywhere and at any time.

### **1.2.3 The change of values**

Consumers, in part as a reaction to the economic crisis, started rethinking the basic values of their lifestyle and what they saw as a source of value. The system that fostered individualism, ego worship and personal well-being, typical values of the capitalist mentality, were gradually leaving space to completely different ones (Rifkin, 2014). The desire to be part of a community, to establish meaningful relations with people, to search for different experiences, has brought us to a cultural revolution. This has affected not only the way people think, but also the way they consume, as the analyst Owyang (2013) asserts: “people want to rely on people not just companies. Individuals can now bypass faceless brands as they transact with each other”. Satisfaction in consumption is not generated by the main act of buying a new product but, at the same time, by the experience of a sharing consumption.

Moreover, nowadays there are always more and more people that prefer not to purchase their items or services from multinational companies, preferring to invest in small, local companies. For those who adopt this point of view, the peer-to-peer economy is a fascinating option, because the interactions are mostly driven by citizens and not big companies. Common people, citizens, and small companies have the aim to promote a viable change into the economic system. For some perspectives, sharing economy can therefore be interpreted as a possible alternative to the capitalist economy mechanism (Lathi, Selosmaa 2013).

What we are experimenting today is not only a revolution in economic and technological terms, but at the same time social and cultural. The XX century has paved its way to a new kind of consumerism, a “shared” form of consumerism (Eurometer International, 2016)

### **1.3 The sharing economy in the Tourism sector**

The sharing economy has already affected a wide range of sectors and among them, of course, the tourist industry. There are different platforms of collaborative tourism that foster travelers to change the way to discover culture and places. This could be seen, on the one hand, as a result of the new technologies development which opened a new dimension for businesses. Electronic commerce today provides an opportunity in the field of tourism, transport and hospitality, because internet technologies reach hundreds of millions of people (Roblek, Štok, Meško 2016). On the other hand, the sharing economy success in the tourism industry can be seen as well as the opportunity that arrived just at the right moment. In the past few years the tourism sector has been changing, modern tourists are not satisfied with the traditional tourism offers, they ask for more, they ask for new experiences. As professor Aparna Raj (2007) states in her paper *The New Age of Tourism - And The New Tourist*: “The travelling consumer of today [...] is very different from any other time in history”.

Consumers profiles have changed already, and more than ever in the travel sector. Today's tourists, the well-heeled or footloose back-packers, are usually informed, educated, and more often, fully aware of what to expect from their travels (Aparna 2007). The main objective for them is to optimize time and money during their trip and to organize everything in the best way possible. To obtain information, they do not only ask to friends, they go through the web and ask fellow travelers. In addition, the new tourists are increasingly sensitive to the surrounding environment, showing respect for the cultures of host countries. They are eager to learn and to be involved, rather than just being in a place and passively observe what is surrounding them. The new tourists want to be main characters in their own story and not simply audience anymore. Therefore, today we can say that the evolution of the tourist demand has brought us to the “Experiential travel” (Skift Report, 2014).

In an American Express survey conducted in 2013, more than 72% of respondents said they would rather spend money on experiences than things and 88% was referring to traveling. “Consumers want to have life-fulfilling experiences when they travel, and they are seeking travel experiences that closely align to their own personal values” said

Laura Fink (American Express, 2013), vice president of the marketing department at American Express Travel.

In a related poll conducted by American Express, one third of the company's travel counselors said customers planning summer travel were "specifically looking to immerse themselves in the destinations they visit and to travel like a local." (Skift Report, 2014).

Terry Dale, CEO of USTOA, the US Tour Operator Association, recognized a radical change in the demand of tourists: "According to our members, travelers want to forge deep links with people, traditions and customs of the places they are visiting, and these experiences add a meaningful and memorable component to a vacation" (Skift Report, 2014). According to Trip Advisor expert and travel consultant Wendy Perrin, the most significant change of consumer-traveler that led to experiential tourism was, at first, a niche that started to gain interest in more authentic experiences, instead of the usual visits to iconic sites and monuments (Clampet, 2014).

In this scenario, the sharing economy played a fundamental role because of its concept of community and authenticity, meeting in this way the needs of the so-called "new-tourists" or "experimental tourists". Making it easier for them to embrace new kinds of travels and share moment with locals.

Moreover, the Collaborative Consumption is based on the distinction of the tourism product, so it differs from the traditional because it is customized for the one who makes it accessible and for the one who experiences it.

#### **1.4 The users of Collaborative Tourism**

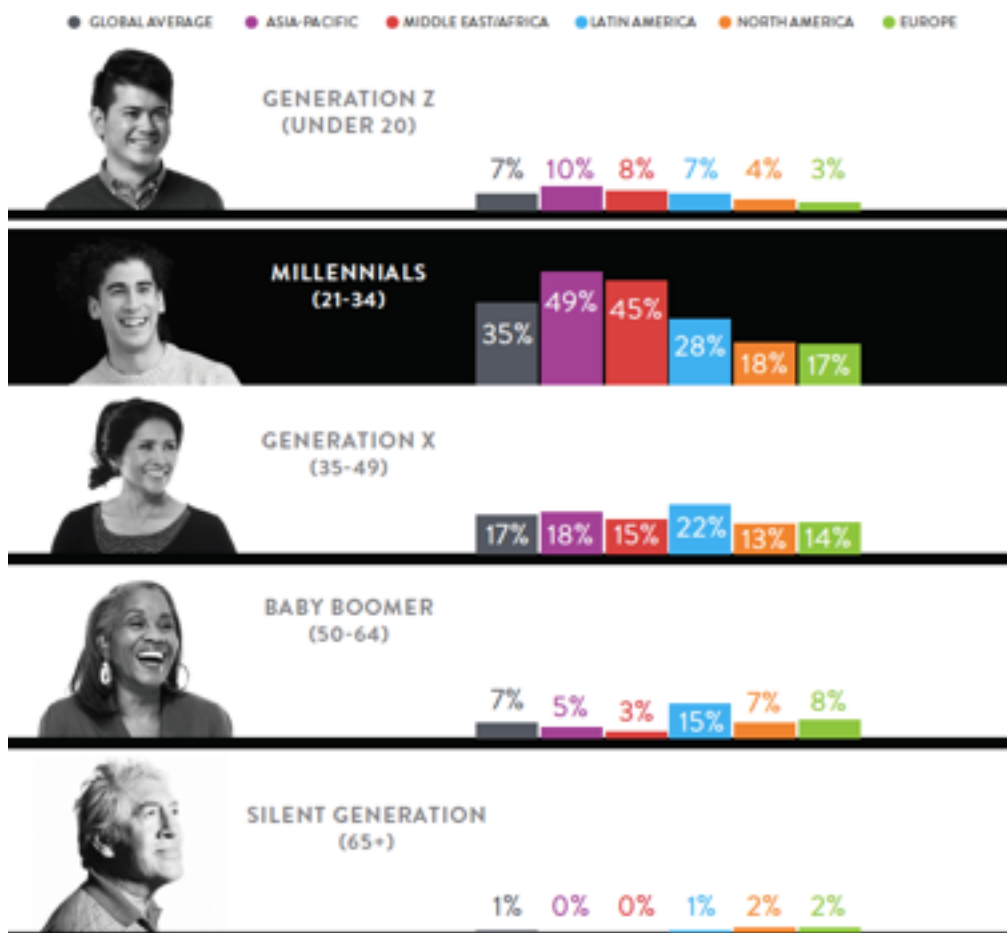
As we have seen before, in the tourist industry there has been a profound change in the demand itself. Consumer profile is changed, according to the International Society for Cultural History: "Specifically, costumers are increasingly become sophisticated in their use of technology to research, select and purchase lodging. Furthermore, costumers are resisting a chain mentality and there is true opportunity in creating unique and customized experiences for the creative tourist" (Pirnar & Icoz, 2010).

This new type of research mainly involves the generations that have been born with the internet, and in particular the one that is defined millennials, also known as the digital

natives. Millennials are people born among the 1980s and the beginning of the 2000s. This generation is characterized by an increasing use and familiarity with communications, media and technologies. In other words, digital natives are hyperconnected people who communicate, relate and have fun through the Social Network (Martinez, Salesa, 2016). According to Rifkin (2014), this generation is “Related in virtual and physical space, regardless of the ideological, cultural and economic limits that have separated “mine” from “yours” in a capitalist system based on private property and national borders”.

In support of Rifkin's theory, a 2014 study, conducted by Nielsen, reflects that compared to elders, millennials are the majority with an average of the 35 percent in the whole world, the ones who declare to be willing to be part of a collaborative community.

Figure 3 - Percentages of people who are likely to utilize products or services from a share community



Source: Nielsen Report 2014



As we can see in Figure 3, X and Z the generation, as well as the Baby boomer, participate with a good percentage to the collaborative model, however millennials place themselves at the first place of the ranking.

Regarding millennials declaring to be involved in the Collaborative Consumption there are two schools of thought. On the one side stand ethical reasons: they appear to be more open to new experiences (Olson & Kemp, 2015), are identifying freedom with enhanced social capital (Adams, 2015), have a collaborative mindset and are concerned about environmental and social issues (Botsman & Rogers, 2010). On the other side we find economic value. It is easier and especially cheaper for the digital natives to have access to what they need without even owning it (Arthurrson, 2017). In fact, if there is something both schools of thought agree on is the assumption that millennials in general have shifted from ownership to access, which is also a key element of the sharing economy (Belk, 2014).

Possible explanations for this shift include the desire for self-expression and a new generational definition in contrast with the parents' generation (Botsman & Rogers, 2010), economic needs (Elliott & Reyndols, 2014), greater convenience (Thompson & Weissmann, 2012), and higher value placed on experiences as opposed to consumption (Nelson, 2013).

## 2. AIRBNB

### 2.1 The company history

The most significant example of success when speaking of Collaborative Tourism is the Airbnb case. Everything started in 2007, in San Francisco, California, at Joe Gebbia and Brian Chesky's small apartment. "Brian, I thought of a way to make a few bucks — turning our place into "designers bed and breakfast" — offering young designers who come into town a place to crash during the four days event, complete with wireless internet, a small desk space, sleeping mat and breakfast each morning. Ha!" (Carson, 2016). This was the email that Joe sent to Brian, from which the company idea started. Struggling to pay the rent, because this had increased by the 25 percent, the two college friends saw an opportunity during the Industrial Designers Society of America World Congress. In fact, because of this, it was very difficult to find accommodation in town, all the hotels were sold out. So, they decided to put three air mattresses (from which will take the company name) creating a small Bed and Breakfast in their own living room for the price of 80 dollars per night (Salter 2012).

In 2008 they recruited the engineer Nathan Blecharczyk to design a website to connect locals with empty spaces in their home and travelers needing a place to stay. At first, the website used to offer only short stay accommodation and breakfast, and it had the name of *airbedandbreakfast.com*. To help fund the site, the founders created a special edition breakfast cereals, with presidential candidates Barack Obama and John McCain as the inspiration for "Obama O's" and "Cap'n McCains" (Spors, 2008).

*Figure 4 - Breakfast cereals "Obama O's" and "Cap'n McCains"*



*Source: Pando*

In two months, 800 boxes of cereal were sold at 40 dollars each, which generated more than 30.000 dollars for the company's incubation (Rusli, 2011).

This marketing strategy got the attention of Paul Graham, a famous venture capitalist, who invited them to the 2009 winter training session of his start-up incubator, Y Combinator, which provided them with training and 20.000 dollars in funding in exchange for a small share of the company (Carson, 2016).

In March of the same year they changed the company name into Airbnb and faced their first big challenge. The start-up was not growing, they had an average income of 200 dollars per week. It was on the verge of collapsing when one of the founders, Joe Gebbia, realized what the problem was: the accommodations were presented with bad looking and low definition pictures. Gebbia then decided to address the issue himself. He went to New York and, with a professional camera, took better quality pictures of the apartments and uploaded on their website. Immediately after, things changed and the platform started to have more and more reservations.

Despite the initial growth of the start-up, they got refused by many investors and, among them, the esteemed venture capitalist Fred Wilson, cofounder of Union Square Venture, who in 2011 admitted to having failed in judging their business “We couldn't wrap our heads around air mattresses on the living room floors as the next hotel room and did not chase the deal. Others saw the amazing team that we saw, funded them, and the rest is history” Wilson wrote in a blog post (Carson, 2016).

A step forward was made when the company founders decided to change the rule that obliged the host to be present in the house they were renting in order to offer breakfast. In fact, because of this rule, at that time, it was impossible to rent out an entire apartment. Things changed when Barry Manilows's drummer, David Rozenblatt, asked to put on the platform his own flat while he was on tour. The founders were first skeptical, but they decided to accept his proposal changing their policy and giving people a wider range of possibilities from which they could choose from. Two-thirds of Airbnb listings in New York City are now “entire home” listings (Wallace, 2015).

Despite this achievement, the company still needed fundings. The first one came with a seed investment of 600.000 dollars from Sequoia Capital, the venture-capital firm that had already funded Google, Apple, Oracle, and many more (Gallagher, 2017).

Afterwards they secured another funding for the amount of 7.2 million dollars from Greylock Partners and again from Sequoia Capital (Wortham, 2010).

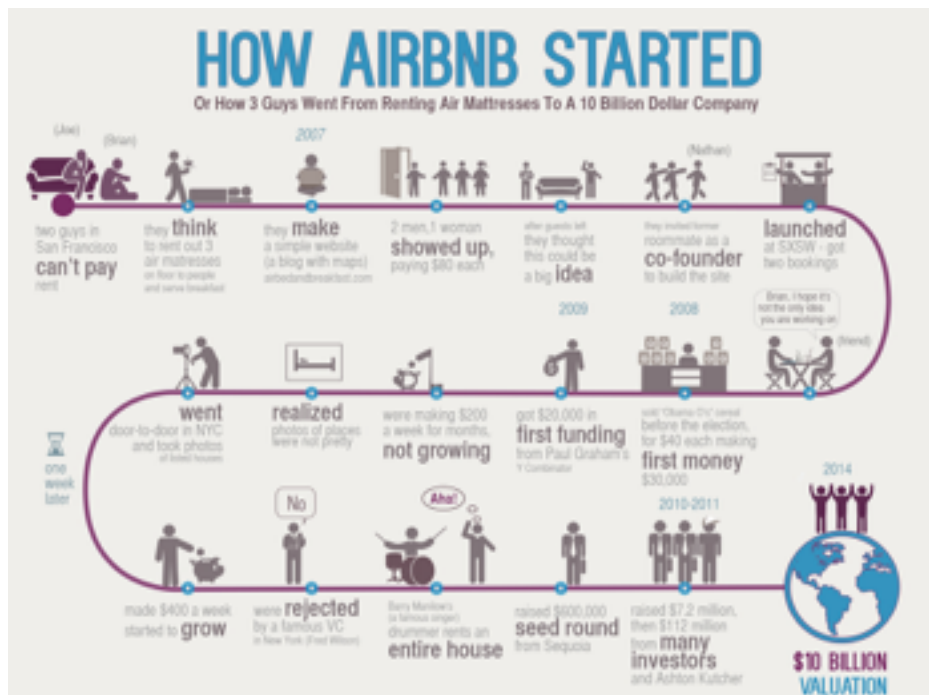
Thanks to these investments Airbnb improved the services offered to its customers and in 2010 they saw a growth of 800 percent. More specifically, they went from 100.000 nights booked in January, to 800.000 nights booked by the end of the year. “Travelers came from over 160 countries, and booked places in 89 different countries. We expect to hit 1 million nights booked sometime this spring” Chesky announced (Siegler, 2011). The Airbnb co-founder was somehow wrong, they actually did not have to wait for the spring to hit the 1 million nights booked, it already happened in February of 2011 (Lee, 2011).

In May of 2011 Airbnb acquired the German competitor Accoleo, opening its way in the European market and launching its first international office in Hamburg (Bradshaw, 2011). In the next few years Airbnb opened offices first in London and afterwards in Paris, Milan, Barcelona, Berlin and Moscow; helping to improve the range offer giving an alternative solution to standard Bed and Breakfast (Gallagher, 2017).

In 2012 Airbnb broaden its interests buying: Nabewise and Localmind. The first was helping tourists to match their tastes with a particular destination, the second one was specialized in connecting people with questions about places with locals (Venture Beat, 2012). “The role of social in travel is more important than ever,” Airbnb CEO and cofounder Brian Chesky stated: “We’ve seen connections shape the experience for our community, so we’re excited to have the Localmind team join us and lead this next wave of social products.” With these moves, Airbnb started to shift its interest in helping people connecting with locals (Geron, 2012).

By December of 2013 the company had reached the 10 million guests since its launch in 2007, adding 250.000 properties for a total of 550.000 listings worldwide (Lawler, 2013). According to *TechCrunch* in 2014 Airbnb took a 500 million dollars round of new investment, which valued the company at 10 billion dollars (TechCrunch, 2014).

Figure 5 - Airbnb development from 2007 to 2014



Source: Funders and Founders

In 2015 the start-up even expanded to Cuba, after Barack Obama opened business relations with them again, being one of the first US companies to do so (Olorunnipa, 2015).

The next year, Airbnb broadened up its interests and launched two new features: Trips and Places. The first service allows users to book travel experiences that can go from city tours to create personal perfume with professionals; everything correlated with reviews and recommendations (Meltzer, 2016). Places provides information from locals, about a destination, suggesting: restaurants, events and points of interest (Haines, 2016). In the next few years Airbnb is actually planning to broaden its horizons considerably by expanding into flights booking, car rentals, restaurant reservations, and grocery delivery services (Hatmaker, 2016).

All of these new products show Airbnb's ambition of becoming a complete travel platform. The company does not settle only with the accommodation market any more, it wants to play a bigger role in the tourism sector (Ting, 2016).

## 2.2 How Airbnb works

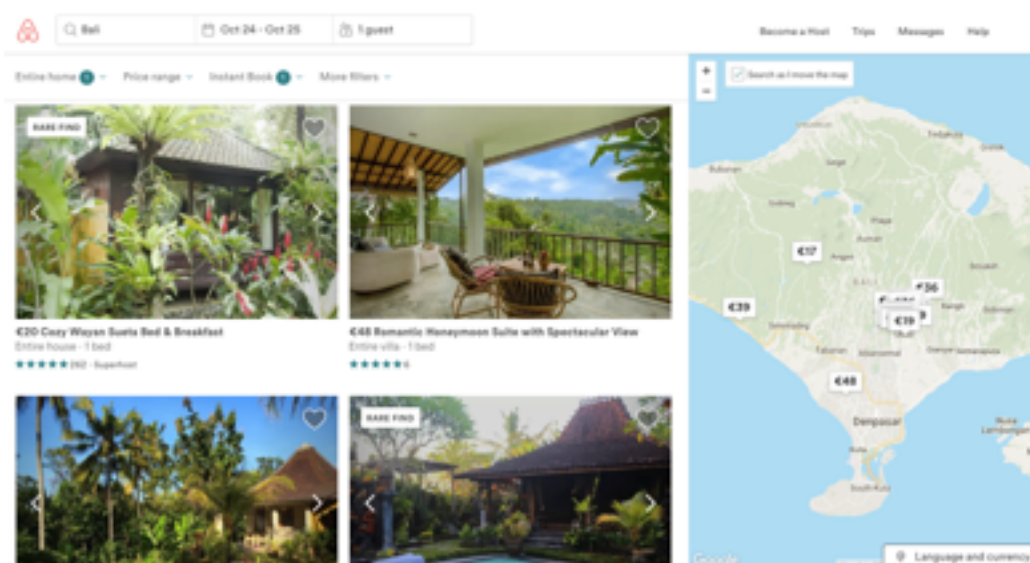
### 2.2.1 Airbnb mode of operation

“Airbnb is a trusted community marketplace for people to list, discover, and book unique accommodations around the world”, this is the description the company gives of itself on the website. The US start-up acts as a bridge between travelers (in the Airbnb system called “guests”) and locals who have rentable spaces (known in the community as “hosts”), and for this service, it takes a fee which is “charged to all reservations to help Airbnb run smoothly and offer 24/7 customer support” (“Airbnb service fee”, 2017).

Guests fees may vary from 6 to 12 percent and they decline as the reservation subtotal increases (“What Are Guest Service Fees”, 2017), for hosts the range is from 3 to 5 percent on every booking payment, while having their space on the platform is free of charge.

The hosts are asked to provide: a description of the place they want to rent, the price they want to rent it for, availability and photos. Guests look for available properties using: destination, dates of check in and out, and the number of travelers. At this point the portal offers a list of possible solutions from which the customer could choose. The spaces are listed with pictures (on the left-hand side) and the location on the map (on the right-hand side).

*Figure 6 - Example of an Airbnb listing in Bali*



*Source: Airbnb website*

Although the search can be conducted only with a few filters, many more could be added to narrow down the choices, such as price, size of the property (number of bedrooms, bathrooms and beds), instant booking, amenities (TV, wireless internet, pool, etc), the language spoken by the host, etc.

Once guests find a place they would like to book, they can contact the host, who, at this point, has the option to accept or decline the request (“How do I Host”, 2017). If the host consents, then Airbnb charges the traveler, but holds the payment until twenty-four hours after the guest checks in, in order to assure that the property is as described on the platform (Gallagher, 2017).

Currently, the company has reached the one hundred million guests, while the hosts number is considerably lower. According to the company, the listings are so far three million (“About us”, 2017). The demand is obviously higher than the offer because it is easier for travelers to get interested in an inexpensive place, instead of going through the trouble of opening up their houses to guests. When Airbnb gets into a new market, it has to grow both sides, but it is always more challenging to develop the host one. It is for this reason that the fee lies more on guests than on hosts. (Gallagher, 2017).

### **2.2.2 Building trust**

Despite the huge numbers Airbnb is dealing with these days, at first Chesky, Gebbia and Blecharczyk, founders of the company, struggled to convince investors to support their idea for one main reason: trust. Why should someone choose to sleep in a stranger’s place when there are perfectly safe hotel rooms everywhere around the world? “Guys, someone is going to get raped or murdered in one of these houses, and the blood is going to be on your hands” said the venture capitalist Chris Sacca (Ferris,2016) before deciding not to invest in their project. The founders knew this was an issue that they had to address not only for investors but also for users, they had to find a way to build trust among guests and hosts. They put all their efforts together and created a tool that is still very important for the company today: the review system. Both guests and hosts can review each other after the stay is completed, this means that only people who have actually benefited from the service can rate it. Guests can use star rating as well to

assess features of their stay such as: cleanliness, location, and communication, while both guests and hosts are encouraged to post public reviews of each stay on the platform (Zervas, Prospero, Byers, 2016). This assessment system makes it easier for guests to start to get to know the host before deciding to book a listing, trying to build trust among parties through other users' opinions. "Maybe the people that my childhood taught me to label as strangers were actually friends waiting to be discovered" Gebbia (2016) declared in a TED talk.

Reviews are used by the company also for another purpose: to reward good hosts. In fact, Airbnb is able to determine where a listing would appear in search results. So, if hosts are hospitable, make guests feel welcome and therefore gather positive reviews, Airbnb rewards them by giving them more visibility and consequently increasing their chances to have more bookings. On the contrary, obtaining negative reviews, make listings appear at the end of the search results, decreasing the chance to be booked (Gallagher, 2017).

Airbnb also uses another rewarding system which is the Superhost badge. The badge is an icon showed on the hosts listing, but only if, in the past year, they have: hosted at least ten trips, maintained a 90 percent response rate or higher, received a 5-star review at least 80 percent of the time they have been reviewed, as long as at least half of the guests who stayed with them left a review and they have canceled a reservation very rarely ("How do I become a Superhost?", 2017). This upgrade gives hosts not only the possibility to improve their position in the rankings but also to receive priority phone support, receive a 100 dollars travel coupon, be invited to preview upcoming releases and attend exclusive events ("What benefits do Superhosts receive?", 2017). This rewarding system is a powerful tool for Airbnb in order to have hosts offering a better service although the company do not have any real control on the quality people are offering.

### **2.2.3 Early challenges**

At the moment Airbnb operates in 192 countries and in 65.000 cities through its own website and a free app downloadable on android and apple devices. As explained before, the platform is quite easy to use by only inserting: destination and dates of



arrival and departure; travelers would already have search results; which of course can be refined by way more other filters. This is because the founders wanted the user experience to be the simplest it could get, based on the famous “three rule click” from Steve Jobs. The customer has to be only three clicks away from a booking (Gallagher, 2017).

Other challenges when they first built the website were represented by: payment, customer service and reviews, each one a significant engineering challenge, of which the most difficult was for sure defining the payment methods (Zhu, Kim, 2016).

They needed not only to take payments from guests but also to be able to remit that money to hosts. The founders first thought of collecting the money in their own bank accounts but in this way they could have been caught in middle of fraudulent transaction and being liable for responsible for a charge. For this reason they ultimately decided to adopt the Paypal solution, which allowed them to create an end to end payment system able to handle the complexity of different currencies and hundreds of times a day. The payment system has been evolving and although users may not really notice the difference, the work that has been done to improve it is really appreciated by engineers (Gallagher, 2017).

Another challenge was to refine the search mechanism in such a way that right listings would appear in front of the right people. At first, the company’s algorithm was too simple, just showing a list based on basic filters (location, dates, amenities). Nowadays Airbnb’s algorithm is able to take into consideration hosts’ behavior patterns or booking preferences as well, in order to show the results that would best fit guests and hosts.

Airbnb continued to improve the website features and in 2011 launched a wish list through which users can save their favorite listings and publicly show it on their profile. Moreover, in the same year, the possibility to link the Facebook account to the platform profile was introduced.

All the website features are available also on the Airbnb app, which was launched in 2012 and presented a redesign in 2014, which not only improved the application but introduced the new company logo as well.

*Figure 7 - Airbnb change of logo*



*Source: Hotel News Now*

The app used for iOS and Android users has achieved important results. According to Airbnb (2013), users who downloaded the application are more involved and more engaging in their response than before. It should also be noted that, at present, the application is available not only for mobile phones, tablets and iPad, but also for SmartWatch; and in more than twenty different languages.

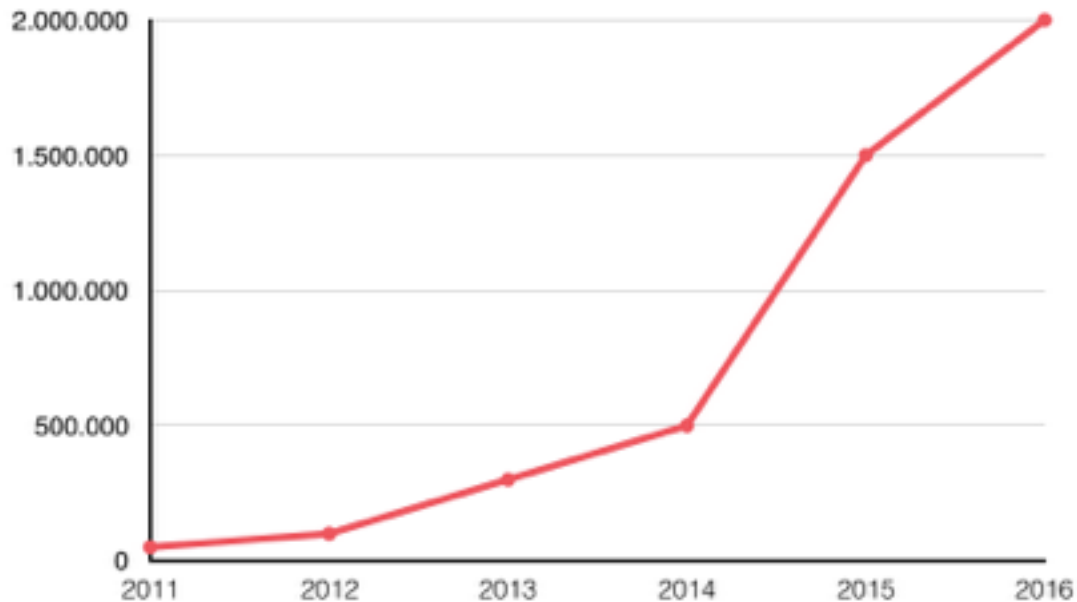
### **2.3 Airbnb growth**

Airbnb is one of the most popular and successful sharing economy companies in the world, for both growth and results. In nine years, Airbnb has been able to put together an offer of more than 3 million of listings (Ting, 2017), a community of 150 million of users (Somerville, 2017) and about 4 billion of dollars in funding (Benner, 2017). The growth rate is quite impressive, as described by the cofounder Brian Chesky: “It took Airbnb nearly four years to get its first million guests. Now one million guests stay on Airbnb every month” (Friedman, 2014). Airbnb has successfully created, in only few years, an inventory bigger than the one Hilton Worldwide created in 93 years (Rinne, 2015).

As it is shown in Figure 8 Airbnb listings have had an exponential growth. In 2011 on the website there were only 50.000 rentals, in 2012 the number raised to 120.000, and it

doubled in 2013 with 300.000 until getting to 2 million listing all around the world in 2016.

*Figure 8 - Airbnb listings growth from 2011 to 2016*



*Source: Produced from "Airbnb: Belonging anywhere" data*

In terms of funding, Airbnb investors include Y Combinator, Sequoia Capital, Greylock Partners, SV Angel, and Andreessen Horowitz. Recent late-stage investors include General Atlantic, Tiger Global Management and Technology Crossover Ventures (TCV). Traditional public equity investors such as Wellington Management, Fidelity, T.Rowe Price, and Baillie Gifford have also invested in Airbnb. In June 2016, Airbnb secured a 1 billion dollars debt facility from JPMorgan Chase & Co., Citigroup Inc., Bank of America Corp. and Morgan Stanley. In total Airbnb has raised around 4 billion dollars in investments since its launch (Phillips, Kulkarni 2017).

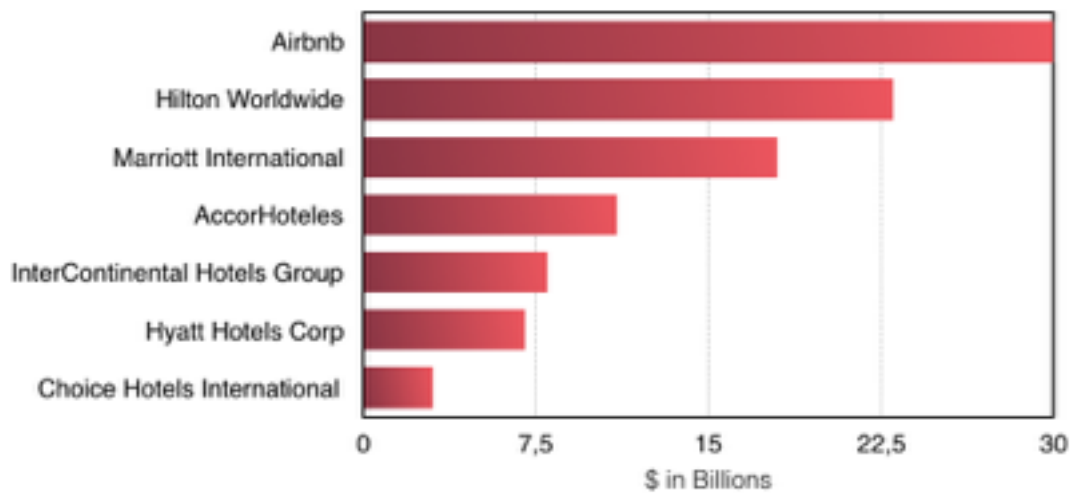
Figure 9 - Airbnb's funding rounds from 2009 to 2017



Source: Produced from SharesPost Research: Airbnb Certificates of Incorporation and related filings data

Moreover, this year Google Finance has announced the value on the market of Airbnb of 30 billion of dollars. As it can be seen in Figure 10 the US start-up is worth 7 billion more than Hilton Worldwide which has a market capital of 23.3 billion of dollars. By comparison, Airbnb is almost worth more than Hilton and Hyatt combined (30.2 billion dollars) (Ting, 2016).

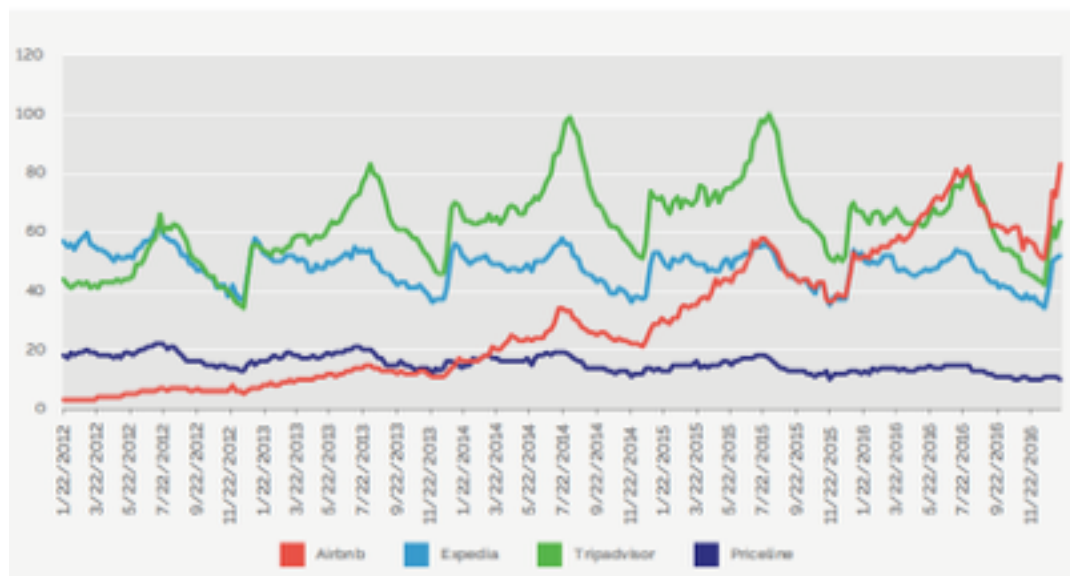
Figure 10 - Airbnb's valuation compared to big hotels chain in 2017



Source: Produced from Google Finance 2017 data

Airbnb is playing a competitive role not merely in the hotel industry, but as well in the online travel agencies market. As it can be seen in Figure 11, Airbnb traffic appears to be growing at a significantly faster pace than leading companies such as Priceline and Expedia. What is also interesting to be noticed is that Airbnb is close to surpass TripAdvisor's traffic in the near future.

Figure 11 - Airbnb's growth compared to Online Travel Agencies from 2012 to 2016



Source: SharesPost Research: Google Trends Report 2017

From the data examined before it is obvious that Airbnb is a reality that is still expanding and evolving. According to Jeroen Oskam and Albert Boswijk (2016), the main two explanations for the success of this platform: “idealistic” reasons, which in particular refer to the aspect of authenticity and direct contact between peers, and economic reasons, or better said, the possibility for guests and hosts to use the platform for their own economic benefits.

Airbnb and other forms of P2P accommodation are therefore recognized as models that connect people in a creative and innovative way and at the same time combining economic benefits.

## **2.4 Airbnb downsides**

### **2.4.1 Safety**

At first one of the main reasons investors were not supporting Airbnb was the safety issue (Sequeira, 2016). They were scared that strangers sleeping in someone’s place could cause serious problems. From the very beginning the founders started to address this problem by setting the reputation system, asking for detailed profiles, pictures (from guests and hosts) and later on with ID and contacts verifications.

Everything proceeded without problems until June of 2011, when a woman, named EJ, posted her story about how her house had been destroyed after she had rented it on Airbnb. According to her blog post tenants stole her camera, iPod, computer, her grandmother’s jewelry and her Social Security card. They burned her things in the fireplace, they found coupons and used them online, they poured bleach over her furniture, desk and printer. She declared to have her “spirit” broken and to suffer of panic attacks (EJ, 2011). EJ also mentioned in her story the support of the Airbnb customer service and how they assured her they would support her “emotionally and financially” until she would recover fully (Arrington, 2011). Nevertheless, when the episode went viral things changed. The company had just received new funding and investors had different ideas on how to handle the crisis (Gallagher, 2017). In July, Chesky released the company’s first response declaring that safety was the main priority to them, that someone was held in custody and that they were keeping in touch with EJ.

EJ responded with another post in which she declared that the customer service, after the story went viral, disappeared, that one of the founders called her and said that they had knowledge of the person in custody but could not share detailed information and that he asked her to take her previous post down because it could affect the company reputation. EJ ended her post suggesting other travelers in need to rent a place not to use Airbnb ever again (Arrington, 2011).

At this point, Chesky was still receiving controversial advise, especially from investors and lawyers who were worried about the impact that this could have on the company (Gallagher, 2017). Despite everything Chesky wrote again on the 1st of August, publicly apologizing for how the start-up had handled EJ matter. “We really screwed things up”, wrote the cofounder and he also added that the company was adopting a 50.000 dollars guarantee to protect hosts against damage, effective retroactively (Pawlowski, 2011). The guarantee was increased to 1 million a few months later (Ngak, 2012).

This was just the first of a series of stories appeared on the news. In 2015, Mark and Star King, married parents of two children, decided to rent their three-bedroom house in Calgary, Canada. The host was a man who declared to be in town with his family because of a wedding. When the stay was about to end, they received a phone call from a neighbor, who informed them that the police was at the house. When they returned, they found the house completely destroyed after what the police called a “drug-induced orgy” (Yuhas, 2015) .

The same year, another incident took place in Madrid. Jacob Lopez, nineteen years old from Massachusetts, was assaulted by his host during his stay. The host, a transsexual woman, allegedly locked him up in a room forcing him to have sexual acts. According to Lopez version of the story, while he was locked in the room, he texted his mother in the US, who immediately called the Airbnb customer service to ask for the address of the listing and to call the police (Lieber, 2015). The person she spoke to, though, refused to do either things, because the policy of the company was not allowing her. After this episode, Airbnb changed its policy and now it allows employees to call law enforcement if necessary.

These are just few of the cases in which personal and property safety was violated during the use of Airbnb services. Although the company seems to be responsive when problems like this arise, as it shows the 1 million guarantee and the policy change, there is no way for the company to actually stop them.

#### **2.4.2 Racial discrimination**

According to a research conducted in 2014 by Benjamin Edelman and Michael Luca, professors at Harvard Business School, personal profiles and photos on online marketplace platforms, generally used to build trust, can also have unintended consequences: to favor discrimination.

The paper focused on Airbnb listings in the city of New York in 2012, collected all hosts public profile pictures, their rental prices and information about characteristics and quality of their properties, in order to measure the magnitude of discrimination on Airbnb. The results showed that non-black hosts were able to charge about 12 percent more than black landlords, considering that location and quality were about the same level. Furthermore, it resulted that black hosts received a larger price penalty for having a poor location compared to non-black hosts.

At the time, the research did not draw great attention and the company issued a dismissive statement, underlining that the research was based only on one of the many cities Airbnb had listings and that the findings were “subjective” (Sparkes, 2014).

Two years later, the team published another paper. They created twenty identical Airbnb guest accounts of which ten had distinctively African-American names, and other ten White names, and sent around 6.400 messages to hosts in five cities about a specific date. The results showed that requests made by African-American names profiles were 16 percent less likely to be accepted than the profile with White names. “We find widespread discrimination against guests with distinctively African-American names” (Edelman, Luca, Svirsky 2016) the research stated.

This issue was brought up not only by research but also from real Airbnb guests. In 2016, a twenty-five year old African American declared that a host in Philadelphia had declined his request but then accepted him when he applied again with a fake profile of a white man (Glusac, 2016).



In North Carolina, a black woman booked a room in Charlotte but then the host cancelled her booking sending her a racist and offensive message. Other people with similar stories came forward and the hashtag #AirbnbWhileBlack was accompanying many of them (Parkinson, 2016).

The company assured that was condemning this kind of behavior and, moreover, that it was against their policy. After these episodes Chesky published a tweet: “The incident in North Carolina was disturbing and unacceptable. Racism and discrimination have no place on Airbnb. We have permanently banned the host” (Glusac, 2016).

Although the cofounder expressed his disapproval towards this kind of behavior, the company has argued that is not legally liable when hosts discriminate against guests.

### **2.4.3 Legal issues**

Another problem Airbnb needs to face regards legal issues. In the last years, business models based on new technology have outpaced legislations, having general legality and taxation problems. Sometimes Airbnb rentals result illegal and there are claims that the start-up is avoiding its full tax obligations (Guttentag, 2015). On the other hand, though Airbnb declares to follow the rules and to pay all the taxes owed in the places, it does business. Furthermore, the Californian based platform insists that the amount of money generated by Airbnb stays with hosts and their communities. A spokesperson said: “We follow the rules and pay all the tax we owe in the places we do business. Our France office provides marketing services and pays all applicable taxes, including VAT. The Airbnb model is unique and boosted the French economy by 6.5 billion of euros last year alone. It empowers regular people, boosts local communities and is subject to local tax. It also makes Airbnb fundamentally different to companies that take large sums of money out of the places they do business.” (Boffey, 2017)

Despite its declaration, Airbnb entered into a market which had few and sometimes outdated laws about short-term rentals. Therefore, cities are trying to address this issue. For example, last year, the New York governor Andrew Cuomo signed a law that made it illegal for individuals to advertise apartments being rented for more than thirty days if the landlord was not present (Gallagher, 2017). Meanwhile, in Barcelona hundreds of listings were removed from Airbnb because illegally rented out to tourists. In fact, in the

famous Spanish city, tenants who want to let their apartments need to get a license. The same logic applies in Dublin, where flat owners need permission to rent on Airbnb or similar platforms (Hickey, Cookney 2016).

In Berlin, people who rent their flat on the short-term platform without a permission risk a fine up to 100.000 euros, whereas in London a time limit of 90 days to short-term rentals was introduced unless granted a permission which would specify otherwise.

Cities have also other reasons why they are trying to regulate the use of short-term rentals. One of these reasons is because these new rental platforms are not obliged to comply with health and safety standards and to submit to applicable inspections (Guttentag, 2015). Another reason includes the discomfort caused to residents from Airbnb hosts, complaining for noise issues and having conflicts also with the Airbnb hosts (Leland, 2012). Moreover, the profit generated with short-term rental could cause unscrupulous behavior. As Jones (2013) noted in San Francisco area, landlords are evicting tenants in order to use their properties for short-term rentals.

Given that new regulations are being created in cities all around the world, Airbnb is actively working with regulators to find a compromise with municipalities in order to have hosts operating legally. An example is represented by Amsterdam which in 2014 reached an agreement declaring “The City of Amsterdam and Airbnb today announced an agreement that will promote responsible home simplifying the sharing and payment of tourist tax for hosts in the city”. (Legislation of Amsterdam, 2014). Key agreements have been established over the years with more and more cities like Paris, Chicago, Portland, Philadelphia, Shanghai; to create new laws or collect taxes, and the company is in the process of actively engaging with other municipalities (Gallagher, 2017).

### **3. AIRBNB AND THE HOTEL INDUSTRY**

#### **3.1 Is Airbnb disrupting the Hotel Industry?**

Hospitality industry experts have different opinions regarding whether considering Airbnb a threat for the hotel industry (Nguyen, 2014). It is a fact that, in the last few years, the relationship between the US company and hotels executives is getting more complicated.

A research conducted by the Airbnb team, showed not only that stays of people who chose the start-up services are longer, but also that the target customers are different than the hotel ones (“Airbnb economic impact”, 2014). Moreover, the same study had proven that more than the 50 percent of Airbnb listings are outside the areas where the big hotels are located. “For us to win, hotels do not have to lose” Chesky declared in an interview about this topic (Gallagher, 2017).

The Hyatt CEO Mark Hoplamazian, in a 2014 interview with Yahoo! Finance, seemed not to be worried about the Airbnb success: “There isn’t a need for a direct business response to Airbnb [...] because it is fundamentally a different product than [...] branded hotels” (Santoli, 2014). Also, Daniel Metz, Digital Marketing & Communications Manager at the Professional Convention Management Association, declared: “Airbnb seems poised to attract adventurous leisure travelers who don’t care about traditional perks such as in-room dining options or the hotel’s fitness center. These aren’t business travelers with expense accounts” (Metz, 2014). Top executives at Marriott, Four Seasons and Hilton have all showed no concerns for the sharing housing companies, not even Airbnb, claiming that these firms do not compete for their core market of accommodating high-end and business travelers (The Economist, 2014).

Nevertheless, other hotel professionals recognize that the impact of Airbnb on hotel business is undeniable. In 2014 the Professional Convention Management Association addressed Airbnb as a “serious threat to the hotel industry” after the company closed an important deal with the New York City Marathon (McMillin, 2014). Meetings & Convention Magazine wrote about short-term renting houses platforms, like Airbnb, as a “game-changer for meetings”, and it pointed them out to be the reason why hotel

rooms stay empty during conferences with great numbers of participants (Shapiro, 2014).

One of the tools that hotels use to maximize their profit is to change rooms rate, making them more expensive during periods of high demand. This process is also known as compression pricing. So, when an event is planned to happen in a city, visitors who are flexible about their stay can look for a place on Airbnb instead of paying higher rates. “The next time you go to a conference, you can ask a question: How many of you are staying at an Airbnb?” said Best Western’s CEO Kong “And you’d see more and more people raise their hands. So how can the hotel industry say it’s got no impact?” (Gallagher, 2017).

Compared with hotels, Airbnb has the ability to expand into new markets at marginal costs and at a fast pace. “Whatever our conclusions on the risks posed by Airbnb are today, we should be aware that the threat may be twice as significant within the next year alone, should this pace of growth continue” analyst of Barclays, Vicki Stern asserted (May, 2015).

Even though some experts, as discussed before, believe that Airbnb does not represent a threat for the hospitality industry, it is becoming always more difficult to sustain this theory, specially after the Californian start-up began to target hotel’s industry core market: business travel. In 2015 Airbnb launched a “Business Travel Ready” program, with the campaign “extend your business trip to make it more like a vacation with Airbnb” (Airbnb, 2016). According to Airbnb, more than a thousand companies use their listings for their business trips all over the world. What emerged from consumers’ feedback is that business travelers are now looking for larger spaces, team-building or family-friendly apartments, trying to combine business with leisure (bleisure tourism). “Since introducing Airbnb for Business, we have seen the number of companies using it grow enormously,” said Chip Conley, Head of Global Hospitality and Strategy at Airbnb. “Businesses have clearly been longing for a better way to manage their employees’ travel needs and business travelers seem eager for change from the traditional business travel accommodations” (Airbnb, 2016). In the first six months of launch, more than 50.000 employees from more than 5.000 different companies have booked through Airbnb for business. A program dedicated only to companies, offering a

simple service and a direct and fast payment system that made companies save an average of 30 percent more than traditional accommodation reservations (Carlson Wagonlit Travel Solution Groups, 2015).

By 2016 the company declared to have signed up to this program around 50.000 companies, and among them: Google, American Express Global Business Travel, BCD Travel and Carlson Wagonlit Travel. “It is time for hotels to really, truly worry about Airbnb” Alison Griswold (2016) wrote on Quartz Magazine when the deals were disclosed.

### **3.2 Literature review**

Research about the impact of Airbnb on the hotel market have been growing through the years. Even though there are still important elements to be analyzed, taking into consideration that the majority of these studies are focused on the US market and that they are based on data which are not officially provided by Airbnb, but from third parties, they still represent a significant step forward to evaluate at which level Airbnb is actually a threat to hotels.

Airbnb itself released a study in 2014 underlining that the company is not competing with hotels. The company claimed that 70 percent of Airbnb properties in Paris, 72 percent of Airbnb properties in London, 78 percent of Airbnb properties in Edinburgh, and 80 percent of Airbnb properties in Sydney are located outside the tourism areas. Therefore, the properties rented on the platform are located far away from hotels. The study showed as well that 31 percent of Airbnb guests “would have not been able to afford the trip if it wasn’t because of Airbnb”, and that the reservations were increasing, in the same period of time, both for Airbnb and hotels in the studied area (“Airbnb economic impact”, 2014). This suggested that Airbnb and hotel guests came from different market segments. Although when analyzing the study, it has to be taken under consideration that the data and the research method used were not made public.

One of the first public empirical research on the topic, was the one conducted by Georgios Zervas (2016) of the Questrom School of Business at the Boston University, and his associates. They studied the impact of Airbnb on hotels in the Texas considering

data collected from the online platform and other data collected from the Texas Comptroller of Public Accounts of 3000 hotels. They monitored the evolution of hotels' rates starting from 2003 and, in particular, they focused on the SXSW festival which takes place every year in Austin. Taking into account external factors such as hotel supply, economic environment and differences in quality between available rooms, the research estimated that hotels' pricing power in Austin weakened as the number of rooms available via Airbnb increased. The result of the study was that 10 percent increase in Airbnb supply resulted in a 0.39 percent decrease in hotel room revenue. They estimated that in Austin, where Airbnb inventory has had an extremely rapid growth, the revenue impact for the hotels has been of 8-10 percent. Moreover, according to their studies, hotels in low-price range would be more affected by the presence of Airbnb listings in the area. To confirm this theory, they analyzed the market in Dallas during the Dallas State Fair. The analysis once again confirmed their hypothesis.

A report conducted by Hotel Valuation Services (2015), a leading hospitality consulting firm, analyzed the impact of Airbnb in the New York hotel industry for 1 year, from September of 2014 to August of 2015. They also developed a forecast of potential growth of this impact through 2018. The study showed that in that moment Airbnb represented the 5 percent of the market in New York, which meant a loss for hotels accounted in 2.1 billion of dollars, in direct revenue and ancillary revenue. Moreover, Airbnb revenue growth is forecasted to get to 8000 million of dollars by 2018.

In 2016 CBRE Hotels' Americas Research, made a research to analyze the impact of Airbnb focusing on all the United States, through the period going from October of 2014 to September of 2015. The research found that during that period users spent 2.4 billion dollars in the US for accommodation. A 55 percent of that money was concentrated in only five cities: New York, Los Angeles, San Francisco, Miami and Boston. To discover how much of the amount was part of the Airbnb revenue the analysts have evaluated average room rates (ADR), occupancy, and revenue per available room (RevPAR). New York was the first one in the domestic market at risk from growth of Airbnb followed by San Francisco and Miami. In some markets Airbnb growth is still considered pretty low compared to the hotel revenue. During the analyzed year, for example, in the city of Los Angeles, hotels generated 4.4 billion in revenue and

Airbnb gained only 250 million of dollars. But moving away from top markets cities “Airbnb generates more than 2% or more of hotel revenue” wrote the researchers.

Airbnb has gained a lot of attention in the United States, only in the last few years research have begun to study the phenomenon in Europe as well. Coyle and Yeung (2016) published a study to analyze Airbnb’s data from September 2014 to April 2016 for 14 European cities. They estimated occupancy and revenues for Airbnb listings and hotels. They found out that an increasing number of Airbnb listings in a city was associated with a fall in the average hotel occupancy rate.

### **3.3 The Hotel Sector response**

As discussed before, hoteliers were first skeptical of the impact that Airbnb could have had on their businesses. With time, a number of research and the company exponential growth, have demonstrated that the Californian start-up has become a threat.

During the NYU International Hospitality Industry Investment Conference, in 2016, a few CEO started to move the attention to this topic. Javier Rosenberg, COO of Carlson Resider Hotel Group, said to the audience: “What is working is the home concept of Airbnb and this thing about being somebody’s host [...] The true host and the service he or she provides welcomes you with a smile, really takes care of you for five, six, seven days - from a leadership perspective, how do we battle that?” (Gallagher, 2017). To answer this question two schools of thought formed through the years: one trying to obstruct Airbnb and the other attempting to get into the short-rental market. Both will be presented and analyzed in the following paragraphs.

#### **3.3.1 The rivalry between Airbnb and Hotels**

Over time, an anti-Airbnb alliance has been formed by affordable-housing activists and representatives of hotel industry, whose arguments against Airbnb were that the company traffic could affect quality of life for the neighbors, create safety issues and they presented the problem of the proliferation of units exclusively dedicated to Airbnb rental, the so called “illegal hotels”.

In 2013 Eric Schneiderman, New York State’s attorney, subpoenaed Airbnb because he was investigating 15.000 “illegal hotels” on Airbnb and needed proofs of their

transactions. The company decided to fight back and the two parties reached a settlement: Airbnb supplied anonymous data of 500.000 transactions from 2010 to 2014. From the States' attorney report it came out that 72 percent of Airbnb listings violated the law, and while the 94 percent of hosts had only one or two listings on the platform, the 6 percent were "illegal hotels", and they accounted for more than a third in bookings and revenues in the city of New York. The host who had more listings of all counted with 272 apartments and an yearly income of 6.8 million of dollars (Gallagher, 2017). This was the first time that Airbnb data were provided to a third party and it showed the multi property activity on the platform.

Other studies have been presented on this topic, but Airbnb had always claimed for the data to be inaccurate. When asked about this issue Chesky, one of the founders, insisted in saying that they are working to solve it and that large real estate groups are not what the company aims for (Kong, 2016).

For hotel executives, "illegal-hotels" represent the real issue and they believe, in contrast to of what Airbnb declares, that if the company really wanted to, they could be able to track and ban them. "They say 'We can't get rid of them'. That's absurd. Around the world there is a sense they don't play but the rules and they're less than transparent" said Vijay Dandapani, CEO of the Hotel Association of New York (Gallagher, 2017).

In October of 2016 the New York Governor Cuomo signed a bill to fine Airbnb hosts who broke local housing rules. The next month during a presentation of the American Hotel and Lodging Association, the New York bill was recognized as a notable accomplishment for the hotel industry. The bill was later on found to be part of a bigger plan orchestrated by the hotel association to thwart Airbnb. The documents were obtained and published in April of 2017 by the *New York Times*. In the report, the group listed the progress already made to fight Airbnb and described how it would act in the future to keep obstructing it.

According to Vijay Dandapani, CEO of the Hotel Association of New York, Airbnb caused in many occasions (especially holidays, conferences and events), hotel prices to go down significantly, affecting in this way their profit (Kong, 2015).



After the plan went public, an Airbnb spokesman wrote in an email “the hotel cartel is intent on short-sheeting the middle class so they can keep price-gouging consumers” (Benner, 2017).

But according to the hotel association, the plan is to have Airbnb playing by the same rules hotels are obliged to comply. “Airbnb is operating a lodging industry, but it is not playing by the same rules” Troy Flanagan, the American Hotel and Lodging Association’s vice president for state and local government affairs, said in an interview (Benner, 2017). The group said it would focus its efforts in key markets, including Los Angeles, San Francisco, Boston, Washington and Miami. And, last year they already celebrated new laws in San Francisco, Los Angeles but also in Virginia, Tennessee and Utah, to restrict Airbnb activity.

The trade group began to build alliances with politicians, affordable housing groups and neighborhood associations (Gallagher, 2017). They even funded a research conducted by a professor at Pennsylvania State University to demonstrate that Airbnb hosts were breaking the laws. A member of the American Hotel and Lodging Association, said “We are trying to showcase and bust the myth that Airbnb supports mom and pop and helps them make extra money. Home sharing is not what this is about” (Davidson, 2017).

The intention for this year is not only to fund more research to underlie the irregularity of Airbnb but as well to rise a campaign formed by people that have been deceived by the home sharing. The campaign will “provide a counterweight to Airbnb’s strategy of presenting a unified, working-class face” and it will represent “a cornerstone of the 2017 communications strategy” as it can be read in the document (Benner, 2017)

### **3.3.2 A possible future collaboration**

The second school of thought, instead of keeping fighting Airbnb, focused on testing directly the short-term rental market. “The larger hotel chains are moving away from trying to combat Airbnb. Initially there were some knee-jerk reactions of ‘we have to lobby against this, we don’t exactly know what’s happening, they are not regulated well’. Most of the companies have moved on from that now and they have started to realize certain potentials that it brings” said Geerts, analyst for Euromonitor International, and he added “There is this movement of looking at short-term rentals not

as a negative, but more as a positive, and seeing the changing demands of consumers” (Hickey, Cookney 2016).

In 2016, the French group Accor Hotels, officially entered the world of sharing economy. The Hotel chain made three core investments: paid 169 million of dollars to acquire Onefinestay, bought a minority stake of Oasis Collections, and funded Squarebreak, all start-ups involved in the short-term rental market (Scott, 2016). Accor CEO, Sebastien Bazin declared to *Skift*, in 2016 “it would be foolish and irresponsible to fight against any new concept” above all if this change is driven by customers. That is why he decided to invest into this new market “A hotel company can’t just be a hotel company today” he said, “We will continue to do what we do with hotels but, at the same time, Accor is smart enough to know we should be embarking on new paradigms in which we should be participating, whether as a binary investor or a full investor controlling it” (Ting, 2016).

While RCI, a division of Wyndham Worldwide, acquired Love Home Swap, a UK-based start-up which lets people book time to stay in other people’s homes, while at the same time list their properties for people to book. Wyndham did not reveal the terms of the deal, but according to *Techcrunch* the company was sold for 53 million of dollars. About the acquisition Gordon Gurnik, president of RCI declared “Since first pioneering the vacation exchange concept more than 40 years ago, RCI has continually found new ways to evolve and grow its own business while also propelling the exchange industry further [...] Through this acquisition we expand the exchange options we offer travelers and strengthen our footprint in key growth markets across the globe” (Lunden, 2017).

Choice Hotels also decided to enter the game by launching Vacation Rentals around the United States, a new way to enjoy stays for customers, alternative to hotels. Stephen Joyce, CEO of Choice Hotels, when asked about Airbnb declared “We like that model and we’re emulating in a way that we think makes more sense for us. So, we actually like the idea of having new product introduced into our system that our customers can use in our points in that’s why we launched the vacation rental business.” (Ting, 2016).

Also, Intercontinental Hotels Group made a move in the direction of the sharing economy by concluding a partnership with Stay.com, a Norway company that offers information for travelers from locals (Ahmed & Moore 2015).

To be mentioned are also new hotel chains, such as the Room Mate Hotel or the Student Hotel, that apart from rooms in hotel offer apartment options as well. So that who chooses a flat can use the hotel to pick up or hand in the keys, they can as well enjoy the room service and advance preferences regarding how many times they would like the apartment to be cleaned. Many in the industry see this as a new way to think of hotels, a step forward to meet new customers' expectations.

Although hotels are trying to get into the short-term rental business, it is Airbnb that, at the moment, has the most extended distribution market in the whole world with its presence in more than 190 countries. Cheeky has declared to be open minded about a possible collaboration with bed and breakfast and some boutique hotels. "I do want small businesses and professionals to realize there's a place for professional hospitality on Airbnb" he said (Gallagher, 2017).

Despite this inclination on talking business from Airbnb towards its "enemy", not all the hoteliers see it as a positive step forward. David Kong, CEO of Best Western Hotels, is not willing to do business with the Californian start-up. In one of his online blog post he remarked this possibility as a mistake, comparing it to the one already committed with online travel agencies (OTAs). OTAs, in early years, represented only the 2 percent of the hotels business and now they get up to the 25 percent. He ended his article by quoting the author George Bernard "Success does not consist in never making mistakes but in never making the same one a second time" (Kong, 2016).

## **4. AIRBNB AND THE HOUSING RENTAL MARKET**

Airbnb has affected not only the hotel industry but the rental housing market as well. If the studies on the impact of Airbnb on hotel industry are scarce, there are even less research on the impact on the rental market. There are different ways in which the Californian company is influencing the real estate business. According to Said (2012) and Shih (2012) the average housing price may increase if the supply of residential housing reduces in order to make way for short-term rentals. The practice to use houses as small hotels is slowly implementing an housing crisis in many major cities. An example is Vancouver where Airbnb is considered responsible for the city near zero vacancy rate (Dyck, 2016).

According to Lee (2016) Los Angeles is also currently facing housing crisis. “Rents have increased by 7.3 percent in 2014 alone, and the median renting household already spends 47 percent of its income on housing”. As a result, this crisis has furthered the contention over Airbnb and gave more context as to why many officials are in favor of more restricting laws in an effort to protect the interests of the public (Gumbs, Dodds, Griffin, 2016).

### **4.1 Literature review**

In a recent study, published in July this year, authors Kyle Barron, Edward Kung and Davide Proserpio, analyzed data from 2012 to 2016 to evaluate the relationship between Airbnb growth and housing prices. They reported that for every 10 percent growth in Airbnb listings, a ZIP code’s average rent increased by 0.4 percent. The research was conducted in 100 of the largest metro areas in the United States. The study apart from the Airbnb effect, took under consideration also other factors which may have affected the increase for rental houses, such as population growth, income, and employment rates. In central Brooklyn for example every year from 2012 to 2016 rents grew about 7.7 percent per year and from a baseline average of 1.712 dollars per month in 2012 increased up to 2.236 dollars in 2016. The research findings though would suggest that Airbnb was responsible for an estimate of 27 dollars per year, of this increase.

Another important finding of the research is the pace of development in different kinds of listings. Apartments in which the landlords are owner-occupier, or better said when

the host is living in the house and has a spare room to rent; experience minimal increases in housing costs. Flats with absentee landlords, that are those in which the hosts do not live in the apartments they rent; affect the housing costs of that specific area.

For example, Huntington Beach, in California, has high rates of owner-occupancy listing, which is around the 51 percent. From 2012 to 2016 Huntington Beach has had a growth of 28 percent of Airbnb listings, but rent prices grew only 2.7 percent a year.

On the contrary, in Hollywood, there is a high rate in absentee landlord listings. As a result, the number of Airbnb listings grew by an average of 50 percent per year, and rent prices grew up to 6.4 percent.

Edward Kung, one of the authors of the research, claimed: “It has been argued that Airbnb income allows some hosts to stay in their homes in rapidly appreciating housing markets” but in order to confirm this possibility more research is needed to analyze the home-sharing service, including an analysis on how the extra income earned by landlords affect their lives (Boone, 2017).

Another research about the Italian lodging market was presented, conducted by the University of Siena (2017). The study showed that in Florence one in five properties in the historic centre is rented out on Airbnb.

“Almost 20 per cent of the entire housing stock in the historic centre of Florence is listed on Airbnb, which is a lot,” said Stefano Picascia, one of the authors and he added “Every single flat on a short-term let is one flat less in the regular long-term market” (Haines, 2017). The report shows a strong presence of Airbnb also in Milan, Rome and Venice, where the authorities became so concerned about the problem that they have forbidden the opening of new hotels in the most affected areas.

## **4.2 “Turismofobia”**

If on the one hand Airbnb might actually help people to earn extra income to live a better life. On the other hand, its listings have been spreading almost without any regulations until very recent years, and this has brought negative consequences. In addition to the increase of prices of the houses in the rental market, another important

element that has fomented negative feelings towards the company is the overpopulation of neighborhoods. This is helping to generate negative feelings towards tourists and given birth to what has been called in Spain “turismofobia”.

In Barcelona, in a survey realized by the City Council, although the 86 percent of the citizens considered tourism to be beneficial from an economic point of view, almost half of them declared that tourism has become an issue. This is what Claudio Milano (2017), professor of Ostelea, calls “index of irritability”. “The cities that live these phenomena go from an initial euphoria to a situation of conflict, not with tourists, but with tourist policies” he asserts. This phobia for tourists, he adds, it is not exclusive of Spain: “We have seen it in Venice, Berlin, Toronto, New Orleans or Southeast Asia”.

The City Council estimates that in Barcelona, due to tourists, the rental for citizens is increasing to a very fast pace. According to Joan Molas, President of the Spanish Confederation of Tourist Accommodations, “The real problem is the thousands of illegal tourists housing. And we worry, because it makes it difficult for us to find accommodation for our workers” (Pellicer, 2017).

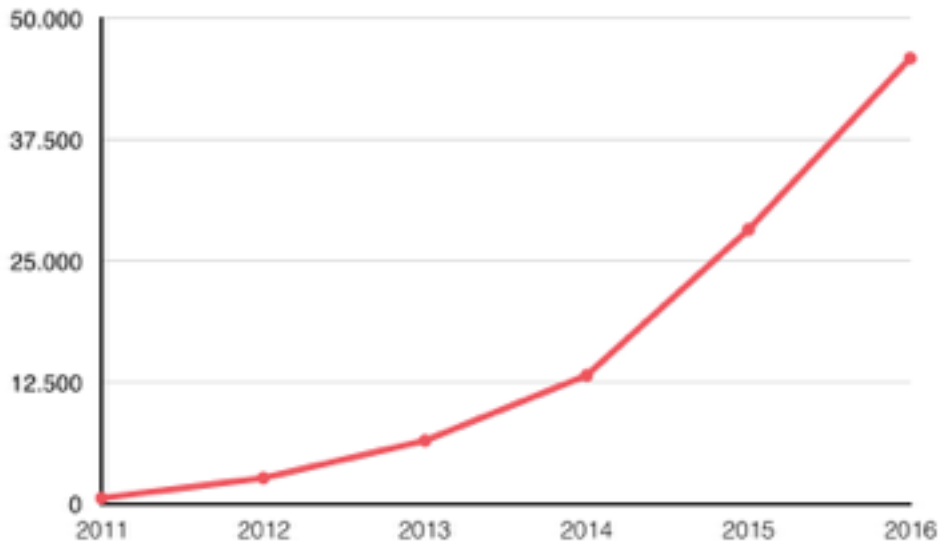
Venice, a city of 50.000 people, it has more than 30 million visitors every year. People counters have been installed in the main entrance of the city by the three access bridges where the cruise ships arrive.

Another country which had to deal with these problems is Iceland. The volcanic island, has been seen a growth in tourist visits in the last few years. In 2010, through its international airport, received almost half a million visits, last year these increased to 1.76 million. This boom has led the country's authorities to consider measures to increase the price of tourist accommodation to limit the arrival of visitors.

### **4.3 The Barcelona case**

Since its inception, Airbnb has had an exponential growth in the Spanish market and particularly in the city of Barcelona. As it can be seen in Figure 12, the listings in Barcelona have almost doubled every year with an average growth of the 62 percent per year.

Figure 12 - Growth of Airbnb listings in Barcelona from 2011 to 2016

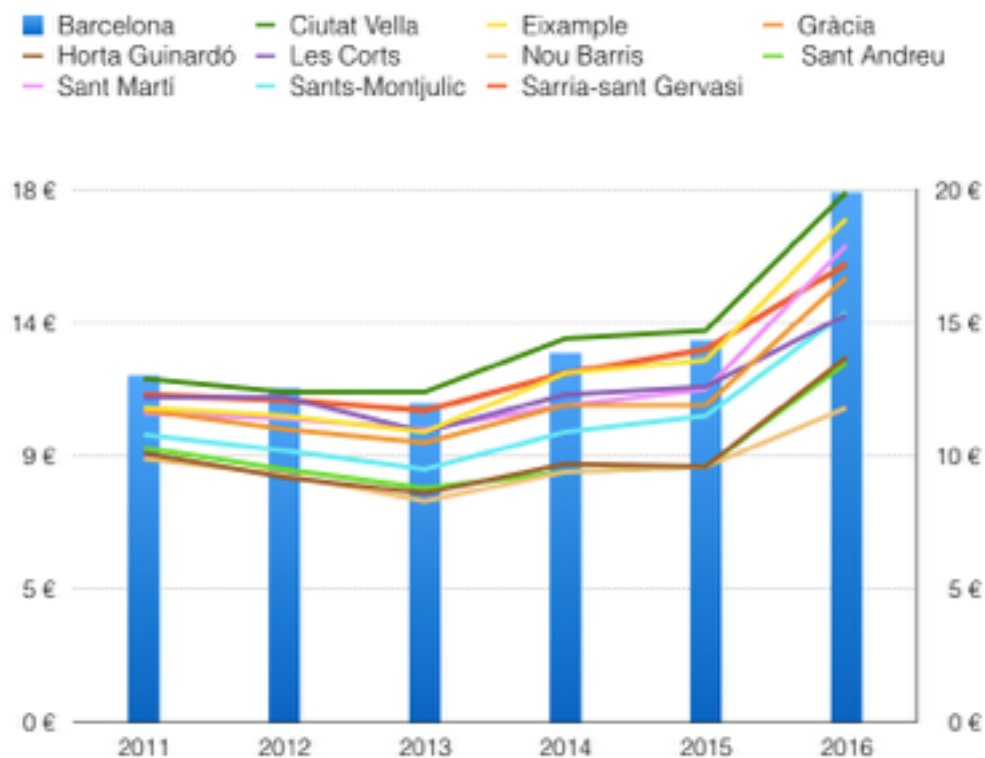


Source: Produced from Airdna data

Like everywhere in the world, even in Barcelona Airbnb has brought some complications. One of these is linked to the rental market. In fact, in some neighborhoods, where the percentage of Airbnb listings is particularly high, the offer for long-term rental is lower and more expensive than other areas. One of the example is represented by the district of Ciutat Vella, one of Barcelona's most popular areas. Here, in 2015, 18 percent of the population had to move somewhere else because landlords raised their rental prices (Verdú, 2015).

According to the real estate *Idealista*, the rental price per square meter in 2016 in Ciutat Vella was of 19,9 euros, followed by Eixample with 18,9 euros and Sant Martí with a price of 17,9 euros. Which means the rental price per square meter increased an average of 53 percent from 2011, when it was 12,9 euros, and had a raise of 39 percent only from 2015 to 2016. The inflation of the rental price occurs also in all the other district of Barcelona as it can be observed in Figure 13.

Figure 13 - Price evolution for the rental market per square meter in Barcelona from 2011 to 2016



Source: Produced from Idealista data

What is not possible to confirm, for the moment, is how much of the rental price increase in Barcelona is due to Airbnb business. In fact, as it is specified in a study conducted by the University of Aalborg (2016), which analyzes the evolution of the tourist accommodation in some European cities, the increase in rental price is not entirely caused by peer to peer accommodation platform, like Airbnb. This is because in all cities it is more profitable to rent a house in the short-term market instead of the long-term one.

Considering the data collected from the real estate *Idealista* and *Airdna* in 2016, and focusing on the Ciutat Vella district, the benefit is clear on renting an apartment on the short rental market over the long-term one. In Figure 14 an example is shown of an apartment of 60 square meters which rented per month would produce an income of 1.194 euros on the long-term market and of 1.716 euros in the short-term one.



Figure 14 - Average monthly price per square meter of rental housing market compared to Airbnb

		BARCELONA (Ciutat Vella)	
		Rental market	Airbnb
Average housing size rented by tourists	60 m <sup>2</sup>		
Montly rental price per square meter	19,9 €	28,6 €	
Monthly rent	1194 €	1716 €	

Source: Produced from Idealista and Airdna data

According to *El Mundo* (2017), Airbnb generated an economic activity of 1 million of euros in Barcelona last year, representing a 65 percent growth compared to 2015. Moreover, around 1.3 million of people used Airbnb to travel to Barcelona in 2016, which represents a 40 percent increase compared to almost 900.000 of the previous year.

Despite its success, Airbnb is still facing issues, specially about making its services completely legal. Only a few months ago the company was fined for a total of 630.000 euros by the Barcelona city council for not have complied with the city's lodging rental laws. According to a spokesman, Airbnb is willing to work with the city's executives to take care of its illegal listings on the platform (Hosteltur, 2017).

## CONCLUSION

The sharing economy concept is not new, but thanks to a series of factors and especially advanced technology, it spread worldwide and in different sectors. From its inception, the sharing economy has had an important role in the tourism industry, where it started to grow and is still growing thanks to online platforms.

One of the most iconic examples of the collaborative economy success is Airbnb, which in less than ten years has surpassed great names of the hospitality sector, such as: Hilton Worldwide and Hyatt (Ting, 2016). Airbnb today is valued at 30 billion dollars (Vignarelli, 2016) and is the leader in the field of the room-sharing market, a model for collaborative consumption that has completely changed the rules of the world of accommodation.

To this success, hoteliers at first reacted as Airbnb did not represent a threat to their businesses, but in recent years things have changed and hotel executives have seen themselves forced to face the issue. This challenge could be seen as an opportunity to renovate the traditional hotel industry, to differentiate their offerings and to demonstrate the value in hospitality. Hotels can actually take the cue from Airbnb in different ways. One of these ways is through the relationship that is immediately established between hosts and guests. In fact, on Airbnb guests can ask questions before they purchase a service and hosts are promptly willing to help. In hotels, the general belief is that the guest's stay starts at their entrance to the hotel, not giving the previous phase the importance it should have.

Communication is another point that could be improved. Airbnb hosts use different ways to communicate with guests: texts, apps and social media. Hotels should engage more with these resources because nowadays not everyone is willing to contact the reception.

Moreover, Accor Hotels, Wyndham Worldwide, and Choice Hotels have already started to move their focus to the collaborative tourism market by acquiring peer-to-peer platforms. This new attitude will probably pave the way for a possible collaboration in the future between hotels and Airbnb, although some hotel professionals think this could be a mistake (Kong, 2016).

If, on the one hand, Airbnb presents an opportunity to improve the hotel sector, on the

other hand it is true that the company has grown in a market where there were no regulations to limit its business; this has caused not only an economic impact on the hotel industry but also on the rental market. Airbnb has affected the price of rental lodging as well as the vacancy rate of rental houses. Research on this topic is still too scarce to have a precise estimation on how much Airbnb affects the rental housing market. Future projects should be conducted to analyze this phenomenon in order to help cities understand how to regulate this new reality. Although cities around the world, especially in the United States, are already emanating new regulations to control the issue, they are proceeding without having a previous mediation with Airbnb. This might trigger legal action which would only postpone the enforcement of new laws, like in the case of New York. On the contrary cities like Amsterdam, which have reached an agreement with Airbnb, have found a way to welcome tourists and, at the same time, to protect their citizens.

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