Platform Economy and Sharing Accommodation: levers of profitability of short-term rentals on different managing scenarios and impacts on the destinations.

Damiano De Marchi, Gianmarco Chiorboli and Mara Manente

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Introduction

The essay will focus on the business model of platforms and the reasons for their being so disruptive for the global market. Analysing the very nature of the platform economy and its dynamics, the paper will try to describe the birth of sharing economy as a branch of the platform economy and its impact on the accommodation system throughout the world. The sharing economy has increasingly become stronger for its capability of connecting providers and users for a good/service (Yang, S-B, 2018), because of constant development and innovation in the digital system space (Leoni, G., & Parker, L.D., 2018).

The chosen context is Italy and the cities of Venice and Treviso. The choice of these two destinations was carried out to provide a two-sided result of sharing accommodation impact: one for globally-attractive destinations and one for tourism-developing cities. The description of birth, growth and impact of the sharing accommodation system on two sparkly different kinds of destinations can give a glance of this business model locally and globally, providing some possibly positive chances and negative outcomes.

To understand the spreading of this phenomenon, it is necessary to focus on economy leverage: the profitability of sharing accommodation is the core of the analysis and it will be compared to the traditional forms of rental exposing why people nowadays are more likely to share a house with tourists rather than normal citizens. The Italian context appears to be fit for this analysis, considering its tourism appeal and its high number of tourism short-term rentals.

Purpose

In recent years, many studies and essays spoke about the newest forms of business model, especially the most disruptive: platform economy and sharing economy. The aim of this paper though is to shed some light on the actual profitability of short-term rentals as a new and more and more widespread way of employing under-used real estates. Circumscribing the actual profitability of this business model, the study has considered the incidence of economic leverage comparing to the other reasons for choosing listing a house online.

Considering the link between the nature of the platform economy and the one of sharing economy, the paper intends to clarify the dynamics of the two. The sharing economy is normally identified as a “socio-economic system enabling an intermediated set of exchanges of goods and services between individuals and organisations which aim to increase efficiency and optimisation of under-utilised resources in society” (Muñoz & Cohen, 2017, p21).

Furthermore, when it comes to sharing accommodation model, the essay takes care of defining a cost structure as to better define the actual profitability of that business model. As a matter of fact, many studies concerned about revenues, whereas just a small amount of those spoke of costs. Consequently, the spreading of these analyses, can lead to a deep misunderstanding of this form of rental. The paper, therefore, highlights the real convenience of short-term tourism rentals and reaches out for other leverages that contribute to making those more suitable than long-term rentals.

Methodology

First, the paper means to illustrate the basic dynamics of the platform economy, being so disruptive and so deeply impactful on the market. Platforms indeed can produce value collecting data and stimulating interaction between users in the first place. This is what normally is called “being data driver enterprises”. Building up a community of users and providers, platforms encourage interaction between them, promoting possess of a good/service over its property. This disruption showed a shift from firms to “plat-firms”, from the corrosion of the old value chain (Porter, 1985). Accessibility and digitalisation had a strong impact also on T&T industry: as the newspaper Sole24Ore states, 25% of reservations for travels in Anglo Saxon countries is made online, and a 13% for what concerns Italy. From this context of technology and data-driven innovation, the sharing accommodation system raised. Basing on the same principles of “interaction-first” and possess over the property, the sharing economy disrupted the traditional T&T infrastructure. “In the world of network effects, the ecosystem of users are the new source of competitive advantage and market dominance" (Platform Revolution, Geoffrey G. Parker, Marshall W. Van Alstyne, Sangeet Paul Choudary)

Hotels provide rooms, while platforms match supply with the demand for those services. Consequently, no wonder Italy is one of the most affected countries when it comes to the spread of the sharing accommodation model.

From this perspective, the paper investigated the size, the impact and the potential outcomes for the Venetian tourism market glancing on the global context as well.

Data Collection and Analysis

Providing a cohesive definition for the platform economy is no easy job. All academic texts and studies though agree on some common points: possess over property and interaction-based business which matches customers and providers. As Leoni, G., & Parker, L.D. (2018) state, the value creation and the financial performance of the organisation depends upon how the user performed on the platform. The chance of listing a house, a room or an apartment online with an additional income for privates and families is just one of the leverages for the spreading of this business model. The essay will try to shed light on the actual profitability of short-term rentals and carrying out some causes additional to the economic leverage.

Firstly, based on the last 2011 Italian real estate census, the essay considered the average profitability of traditional long-term rentals, basing on euros per square meter, deducing an average value of real estates in Venice and Treviso. Consequently, the value of the real estate was translated into monthly and annual income with the application of a long-term rental free. The taxation on long-term rentals were considered as a voice of cost for the owner and used to extract the annual net income.

Secondly, the short-term tourism rental was taken into consideration, not just with its average monthly and annual incomes but also with its related costs. The series of outflows of short term rentals must be considered along with its incomes to better define its profitability. The studies showed that short-term rental management implies some costs, which summed up the amount to 20% of incomes. The definition of the cost structure based on the analysis of the single cost voices on houses listed online, along with the confirmation by an expert manager which is currently playing in the market of tourism rentals. The percentage of the outflows was slightly more prudent than the one drawn by the famous Italian Economy newspaper Sole24Ore, which showed an incidence of 14% on annual incomes. The costs included gas, water and light consumption, waste tax, WiFi fee as a basis. When considering the hotel-like form it was added the fee for the agency. The cost structure of short-term rentals was then compared to one of the long-term rentals to define the overall profitability of both forms.

Along with this, there were carried out a series of other reasons for an individual to choose the short-term rental as a better solution for its real estate. The tourism rental can be carried out in three forms: home sharing, business, hotel-like.

1) Home sharing: managed by a private who shares a part of his house or the entire property when unused. The availability and the occupancy of the house are both limited in time and up to 90 days a year. This model normally shows a higher-than-average price.

2) Business: managed by a private but with the aim to maximise the incomes. This is normally done to earn money out of an unused second house or a holiday house, for example. The availability increases to 90-100% and the occupancy grow up to 50%.

3) Hotel-like: this model is implemented when an owner externalises the house management to an agency. The aim of the enterprise is to maximise revenues minimizing costs. To the average 20% of outflows, it should be added another 30% which represents the agency fee. Business and Hotel-like forms are similar except for the externalisation of the service. The agency will take care of check-in and out procedures, city tax payment, cleaning organisation, communication and promotion. Yet, the owner should pay for 20% of management costs. Data on availability and occupancy rate were extracted from InsideAirbnb and AirDNA.

Besides, it was told many times how the sharing soul of this business model was eventually overtaken by entrepreneurship since long. Analysing the Venetian context, however, data proved it wrong. Using filters to outline the size of entrepreneurship in sharing economy the result showed that, though it is present, it plays a small role in the market: in Venice, business and hotel-like apartments are the 20% of the total. The study sorted the properties by:

- Entire Houses
- High availability
- Booking and rating frequency
- Multi-listing (one single host can manage more than one house)

These discriminating factors are commonly used by most agencies to manage their houses and they apply even for privates listing their properties for work.

Thirdly, the comparison among a different kind of rental showed how the profitability does not play the major role in the choice of short-term form, but there are many others that induce an owner to like that more. Basing on InsideAirbnb and AirDNA data, the profitability comparison showed unexpected results for the understanding of the real estate market on the side of selling and buying and on rentals.

Results

Contrarily to what is normally reported by media and institutions, sharing private form is still alive and is now playing the major role in the competitive environment. In Venice, for example, data show an incidence of the 20% of the business/hotel-like form, while the remaining is occupied by the sharing form. It was made clear how economic leverage is not sufficient to shed light on the expansion of short-term rentals. Both in Venice and Treviso, the results show that the two forms of rentals are on the same level of profitability. The unique area that is benefitting from this new activity is the land of Venice, not the island. Not to mention Treviso, which is currently growing as a destination, where short-term rentals are a good choice economically just in the case of central real estates and managed in an hotel-like way. This analysis can be also applied to the buying-selling real estate market: if an owner does want to buy a house to list online, it could take even longer for him to extinguish a loan with the form of a short-term rental.

As a matter of fact, the reasons for the spreading of tourism rentals throughout the world are to be searched elsewhere. The very first aspect that plays a great role in the choice of short-term rentals is the so-called contractual leverage: in Italy, it is not compelling to make a contract for stays shorter than 29 nights. On the other hand, when applying a traditional rental, the parties bind themselves to a five or eight-years contract. Being bound to a contract can be an issue when a party is not complying. If some case of late payment of one or many rents, the lessor must proceed legally to evict the lessee from the house. The procedures for the evict can last for more than one year, with an average length of one and a half years and the spending can reach up to 5 thousand euros. All these criticalities should be added to the loss of earnings for the late payments and the time when the real estate is not available.

Short-term rentals, although they are not always more profitable, they surely are more dynamic and easy to be managed. An owner needs to fulfil a series of registrations duties, communicating the identity or the number of tourists to the competent authorities: police for terrorism, competent region for statistics, the city for the tourist tax. Besides, it is no difficult to quit the activity, but a private should just send some papers to the authorities to communicate his will.

Furthermore, the possibility of externalisation of the service to third-party, in the case of an entire house in a good position. This way, an owner can find a compromise between the comfort of an income every month for no effort and a certain loss of control over the house, making a contract with an agency.

The short-term rental can also be a strength for real estate agents when selling an over-priced house. Whether they evaluate a selling to last long to be done, they can find a compromise with the seller, implementing a tourism rental in the meanwhile (one or two years). This can represent leverage for lower the price of the real estate and make the selling procedures faster and easy-going.

Having stated that the sharing form is still most tourism rentals, it is evident that the business form represents a rewarding alternative. Though online listing can disrupt the traditional market with serious benefits for many players, many negative points can be found in this phenomenon. The proliferation of business and hotel-like forms can lead to an unregulated accommodation system, with some issues regarding taxation and security for both guests and hosts. Besides, the main concern of this paper is represented by the acquisition system of short-term rental management agencies: to minimize the costs for an apartment start-up, agencies tend to standardise their procedures, from interior design to the number of acquisitions per time. What they normally do is that they gain the management of many houses at a time, often in the same building/neighbourhood. Though this can imply the lowering of costs for logistics and management, social implications are not to be ignored: the growing of this kind of house management can lead to the creation of accommodation-neighbourhoods, building or part of cities which utility is directed to accommodation. This issue can bring to a displacement of residents and of local artisans, replaced by tourism-oriented enterprises and consequently to a loss of identity of cities themselves. Furthermore, security is not a small concern at this regard. Those hypothetical tourism-neighbourhoods could also be affected by seasonality and become ghost-towns in certain periods of the year.

Conclusion

All summed up, there are many implications to consider. The disruptiveness of the platform economy and the sharing accommodation model has only recently impacted on the economic environment and when it comes to regulation it has not been settled in most nations. Because of the fragmented character of destinations, which normally do not share a common system of politics, organisation and information, norms were promulgated just in the major European cities such as London, Barcelona, Paris, Amsterdam and only shortly in Venice. Considering though the spreading rate of the sharing accommodation model, politics must react promptly to set the phenomenon in control even in the developing destination, such as Treviso, as to prevent social and fiscal issues from happening. In tourism, the decision-maker shall be none than politics, for its intrinsic power to determine and direct the developing of a certain quick-growing reality.

However, as the analysis showed, it can be affirmed that the platform economy in accommodations is providing a series of chances for privates and enterprises to grow, new employment and potentially the improving of incomes for developing cities. Not only this, sharing accommodation is now shaking a crystallised real estate national asset, giving new life to it. Italy was one of the most affected countries with the real estate crisis: thousands of people through their lives invested in houses to make their equities be profitable. With the collapse of selling prices and more and more people avoiding buying, short-term rentals prevent unused houses to keep on being abandoned. Furthermore, a new complementary rewarding activity can raise the stimulate consumptions and improve the national GDP.

Finally, short-term rentals can provide a huge chance of development for private citizens, enterprises and therefore nations, but only if correctly communicated and regulated: while more and more media speak of tourism rental as a high-rewarding complementary job, many more reflections should be made and spread about the actual profitability of this activity. As a matter of fact, as an expert confirmed, a short-term rental can be from 20% to 30% more profitable than a traditional, but if implemented by an enterprise and with a notable house in the city centre. This finds justification in the analysis of the cost structure carried out in the paper.

Partial communication and unregulated spreading of this phenomenon can inevitably incise in some social issues such as displacement for residents and activities and the creation of tourism neighbourhoods. Concluding, short-term rentals must be regulated to represent a great chance of development for nations using under-utilised assets (Stephany, 2015).

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