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21 August 2018

PolyU Study Evaluates Airbnb - Friend or Threat?

Home rental sites such as Airbnb do not yet represent a threat to Singapore’s budget hotel operators, although the market is under considerable pressure from new entrants, according to a study by Professor Brian King and Edward Koh, student of the Doctor of Hotel and Tourism Management (D.HTM) programme, of the School of Hotel and Tourism Management (SHTM) at The Hong Kong Polytechnic University (PolyU). Their findings, however, suggest that the threat posed by the rapidly growing home rental market could intensify unless the government introduces regulations to “level the playing field” in the near future.

Technology has generated “huge disruptions” to the way people enact transactions by providing consumers with access to the sharing economy, the researchers observe. In the tourism sector, one of the greatest innovations has been the rise of the home rental market, led by companies such as Airbnb and HomeAway. These sites allow homeowners to “optimise their assets” and offer consumers diversified accommodation options, thus facilitating entrepreneurship, supplementing incomes and widening consumer choice.

Nevertheless, while the sharing economy seems to provide clear benefits for both buyers and sellers, there is concern over how these developments threaten industry incumbents, particularly those in direct competition at the budget end of the market. The researchers note that Airbnb entered the market in 2008 and has since undergone “exponential growth”: between 2010 and 2015, the number of rooms booked increased by 105 times and revenues by 115 times. Staying in local residences offers tourists more localised experiences at prices that compete with one and two star budget hotels, which may need to “differentiate with a view to ensuring their survival”.

Though some European cities have introduced legislation to regulate the growth of the sharing economy, the researchers note that the market is largely unregulated. In Singapore, the government recently enacted a law that makes it “illegal for private homeowner to rent out entire apartments and rooms for less than six months” without approval from the Urban Development Authority, but is currently considering a new category of private homes that will be permitted to offer short-term rentals.

The researchers argue that there is an “urgent need for a competitive mapping of the space occupied by the various hotel categories and Airbnb”. With that in mind, they conducted a qualitative study to evaluate whether Airbnb merely offers accommodation that complements existing provision, or whether it represents disruptive competition that may pose a threat to the traditional market.

First, the researchers searched Airbnb’s website to identify the available accommodation options in Singapore and compared prices with those offered by traditional hotels and hostels. The average price of S\$90 for a private room was roughly equivalent to the price of an economy hotel with an average rate of S\$105. Shared rooms on Airbnb averaged S\$55, slightly above the

Press Release

新聞稿

average room rate for hostel beds, which started at around S\$20. The average Airbnb price for an entire home, S\$229, was also higher than the equivalent mid-tier hotel price of S\$174.

The researchers conducted interviews with managers or representatives of four mid-tier hotels, three economy hotels and three hostels, and with a representative from Airbnb's Asia headquarters in Singapore. The interviews focused on participant views about competition in general, competition in relation to the perceived competition from Airbnb and the regulation of Singapore's home rental market.

All of the hotel and hostel representatives felt that competition had increased in recent years, and all but one attributed this to the "entry of new mid-tier and economy hotels". The increased capacity has not only resulted in lower occupancy rates for mid-tier and economy hotels and hostels, but has also created a price war that had seen prices drop by as much as 50%. As one hotelier noted, "owning and operating standalone hotels is making increasingly less commercial sense", while others said that they were finding it increasingly difficult to recruit personnel because of the increased demand from new hotel entrants.

Nevertheless, a majority of the mid-tier and economy interviewees did not perceive Airbnb as posing a direct threat to their business, and were unconcerned about a "prospective glut" of rooms. Although two of the hostel operators listed their rooms on the site, they said that the associated revenues were insignificant, leading the researchers to conclude that "Airbnb consumers are generally uninterested in hostel options" and that hostel users are "not active Airbnb users". Rather than representing a threat to existing operators, it seems that Airbnb has generated new markets by attracting budget conscious families. This, the researchers note, has "expanded the tourism economy for the benefit of all industry players".

All of the interviewees agreed that regulations are needed to guide the home rental market. In particular, they suggested that third party management companies should be allowed to "transact on behalf of home owners and tenants", which would allow them to be held accountable by the local authorities and ensure compliance in terms of "tax payment and other regulations". Airbnb rentals should also be made to comply with standard safety regulations, such as maintaining guest registers and installing CCTV cameras, because poor safety standards could compromise Singapore's reputation as a safe city. Another problem area that was highlighted by the interviewees is the employment of foreign domestic workers as chambermaids, which is "in clear contravention" of employment laws.

According to the interviewees, the current lack of regulation in the home rental market means that traditional operators and Airbnb hosts are not competing on a "level playing field". For instance, serviced apartment operators are only allowed to accept guests for a minimum of a week, while hostel operators must have at least six beds per room, making it impossible for them to offer single and twin-bedded rooms.

While the interviewees were unanimous in their view that some regulation of the home rental market is essential, they supported the Singapore government's "belief in fair competition and

Press Release

新聞稿

advocacy of extended consumer options”. Hence, they did not want to see overly cumbersome regulation that would prevent market entry. If the market continues to be unregulated, however, the interviewees expressed concern that conversions of private housing into home rental accommodation may proliferate and that such rapid expansion could certainly represent a future threat.

The Airbnb interviewee did not see the company as a direct competitor to traditional hotels, but rather as “filling a demand gap, namely the budget conscious family segment”. The interviewee emphasised that the company is quite different from a hotel chain, and merely offers a platform to facilitate transactions, with revenues flowing directly to homeowners. In response to calls by hoteliers to regulate the home rental market, the representative said that the company is “keen and ready to operate within a fair regulatory framework” and would adhere to any new legislation.

The findings of the study should be of some reassurance to economy and budget hotel operators who are concerned about the rapid rise of the sharing economy. Despite impressive growth, home rental accommodation sites do not seem to represent a direct threat to existing operators. The main concern is the lack of market regulation, with new hotels and hostels posing the main competitive threat. The researchers argue that governments should introduce legislation to level the playing field so that Airbnb and similar sites can operate as collaborators rather than competitors in future and the market can expand for the benefit of all.

Koh, Edward and King, Brian. (2017). Accommodating the Sharing Revolution: A Qualitative Evaluation of the Impact of Airbnb on Singapore’s Budget Hotels. *Tourism Recreation Research*, 42(4), 409-421.

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