



Airbnb: Fighting Hotel Price-Gouging, Saving Millions for Consumers

Consumers have long been accustomed to paying exorbitant rates for hotel rooms when trying to visit a community for a big event or during a popular weekend or holiday. While some price fluctuation can be attributed to basic supply and demand forces and is appropriate, there have been countless examples of hotels engaging in blatant price-gouging. Thankfully, Airbnb now offers consumers a new, more affordable option and has the potential to serve as the antidote to hotel price-gouging.

Hotel owners and executives believe Airbnb threatens their ability to price-gouge consumers. On April 17, the New York Times [reported](#):

“Airbnb has brought hotel pricing down in many places during holidays, conventions and other big events when room rates should be at their highest and the industry generates a significant portion of its profits, said Vijay Dandapani, chief executive of the Hotel Association of New York City, which works with the American Hotel and Lodging Association.”

Airbnb has prepared the following report in an effort to contribute more information and data to the discussion about hotel price-gouging and the hospitality sector in key markets in the US. The report is divided into three parts:

Part One: Price-Gouging is Rampant

Part One examines the hotel industry’s ability and willingness to price-gouge consumers, with examples of price-gouging in communities across the US.

Part Two: Hotels are Desperate to Keep Price-Gouging

In Part Two, we analyze the industry’s recent financial success and stated concerns about losing its ability to price-gouge as home sharing grows in popularity.

Part Three: Airbnb Saves Millions for Consumers

Part Three introduces evidence indicating how Airbnb can offer consumers affordable options by comparing average hotel rates to average Airbnb rates on key nights such as New Year’s Eve and major events such as the Super Bowl, the Boston Marathon, and the Indianapolis 500. The analysis indicates that Airbnb users on these nights have saved a combined total of more than \$16 million compared to what they would have spent had they been in a hotel.

Part One: Price-Gouging is Rampant

The hotel industry relies on price-gouging to boost its profits and take advantage of big events and other popular travel dates when hotels are largely sold out. [According to UBS](#), hotels make anywhere from 35 percent to 70 percent more revenue per available room increasing prices on the so-called “compression nights,” and [Reuters](#) noted that they contribute 25 percent to 30 percent to hotels’ annual profits.

These nights are a fundamental part of the hotel industry business model. [As one hotel industry pricing expert said](#), “Compression is a beautiful thing for revenue managers. On those nights when a market has occupancies above 95%, they can set rates at 50% or higher than normal.”

Examples of price-gouging are rampant:

- **Tragedies, Natural Disasters and Weather Events**

Countless unscrupulous hotel owners have seen challenging times as an opportunity to generate additional revenue. When the Oroville Dam emergency necessitated evacuations in Northern California, [media reported](#) one hotel raising rates from \$50 per night to \$350 per night. Hurricane Hermine in Florida was a pricing opportunity for at least one hotel, too, with the [Red Roof Inn charging](#) \$150 per night for a room normally priced at \$54. Even common storms can leave consumers stranded. During a 2016, winter storm in [Chicago](#), a guest whose flight was cancelled booked a room at an airport hotel for \$159; when she arrived, she was told the price would be \$499.

- **Sports Events**

Price-gouging during sports events is a hotel industry pastime. Hotel room rates [soared](#) ahead of the 2017 Super Bowl in Houston, with prices surging to upwards of [\\$500 or \\$600](#) a night a week before the game, and Cleveland saw hotel prices “[skyrocket](#)” for Game 6 of the 2016 World Series, with a Marriott hotel charging a staggering \$799 per night, some \$670 more than the average hotel tab in downtown Cleveland. The 2016 Indy 500 was similarly outrageous, with some hotels raising rates by [triple- and quadruple-digit percentages](#).

- **Cultural Events and Conferences**

Conferences and cultural events are also a magnet for price-gouging. For the nights of and before the inauguration the average hotel room in Washington, DC cost an astounding \$708.08, [according to Destination DC](#). Hotel rates also skyrocketed in Austin for the South by Southwest festival, with hotels increasing their rates by over [200% on average](#) during the festival's run. And [media reports](#) indicate that some hotels even “charged people for sitting” during the January 2017 JP Morgan Healthcare Conference

in San Francisco, when a single room at the Holiday Inn Civic Center cost as much as \$599 per night.

- **College Graduations**

During UC Berkeley's 2013 graduation, hotels in the area racked up prices dramatically, prompting the [San Francisco Chronicle](#) to jokingly tell visitors seeking to stay for the ceremonies to "bring a tent". One hotel near the university charged \$305 - twice the usual price - and another charged \$227 for a two-bed room. Hotels near [Harvard](#) Square also spiked for that school's graduation, with one night at a hotel near the university starting at \$1,000, compared to an average rate of \$350 during other times of the year, and each reservation requiring a three-night minimum stay.

Part Two: Hotels are Desperate to Keep Price-Gouging

There have been more than 160 million guest arrivals in Airbnb listings since Airbnb was founded in 2008. At the same time, hotels have earned record or near-record revenues and profits. Media and analyst accounts indicate that the hotel industry is thriving. TravelPulse noted that the hotel industry is more profitable than ever, with profits reaching a record \$73 billion in 2015, surpassing its previous peak in 2007 and signalling a year-over-year increase of 9.4 percent on a per-available-room basis.

Revenue has increased as well, [topping \\$189 billion](#) in 2015, a staggering \$14 billion increase over 2014's previous record. And while 2016 profits and revenue for the US hotel industry have not yet been reported, revenue per available room—the key performance metric for hotel profitability—grew 3.2 percent to a record \$81.19, strongly suggesting another record year for profits and revenue. Additionally, the average daily rate (ADR) for a hotel room in the US hit a record [\\$123.97 in 2016](#), the fourth straight year of record rates and [over \\$40 more](#) than the ADR in 2001.

As hotels enjoy record success, many hotel leaders and executives have grown concerned that Airbnb and the popularity of home sharing will limit their ability to earn even more money by price gouging in the future. While some analysts disagree on whether Airbnb has already limited the hotel industry's ability to price-gouge, it is clear that hotel executives are concerned about losing the chance to raise prices to stratospheric heights:

- In July 2015, Pebblebrook Hotels CEO and American Hotel and Lodging Association board member [Jon Bortz](#) said his company used to have an “ability to price at maybe what the customer would describe as sort of gouging rates,” but, because of Airbnb, hotels have “lost a lot of that ability at this point.”
- In July 2016 Kayak CEO [Steve Hafner](#) said that “in peak periods of demand—so Rio World Cup, or soccer championship, or the olympics—the hotels that used to be able to gouge you by taking the price way up because of limited supply don't have that same ability anymore because of the additional inventory that Airbnb has brought online.”
- In December 2016, [Laurie Paugh](#) of Marriott lamented the fact that they “don't get as much ability to really press pricing as much as we'd like” for leisure events because “we've got less demand compression because of Airbnb.”

- And in October 2016, LaSalle Hotel Properties CEO Mike Barnello [openly celebrated](#) a law passed in New York to restrict short-term rentals, saying that it would be a “big boost in the arm for the business, certainly in terms of the pricing.”

Hotel executives have acted on their fears. Recently leaked [hotel industry documents](#) detail how hotel executives have put in place a major campaign to try to prevent regular people from sharing the home in which they live.

Part Three: Airbnb Saves Millions for Consumers

Airbnb and home sharing already offer an affordable option to consumers looking for a place to stay during big events and over popular weekends and holidays. We wanted to learn more about the savings Airbnb has generated for consumers. To do so, we evaluated hotel average daily rates and Airbnb average rates in seven major cities—New York City, Los Angeles, Miami Beach, San Francisco, Miami, Boston, and Washington, DC—on New Year’s Eve. We also examined hotel rates around select popular events like Super Bowl LI in Houston, the 2016 Indy 500 in Indianapolis, 2016 Comic-Con in San Diego and the 2016 Boston Marathon. Our analysis indicates that Airbnb has saved consumers an estimated \$16.5 million booking rooms on Airbnb compared to what they would have spent on a hotel room during these events. More detailed daily pricing breakdowns of each event can be found in the appendix.

Airbnb vs. Hotel Prices in Houston during 4 Major Events, 7 Major Cities on New Year’s Eve

City	Event	Average Hotel Room Price	Average Airbnb Room Price	Airbnb Savings per Room	Total Room Nights Booked on Airbnb	Average Total Airbnb Savings
Houston	Super Bowl LI (2/3–2/5)	\$308	\$195	\$113	9,704	\$1,096,552
Indianapolis	Indy 500 (5/27–5/29)	\$219	\$150	\$69	2,254	\$155,526
San Diego	Comic-Con 2016 (7/20–7/24)	\$261	\$145	\$116	20,600	\$2,389,600
Boston	2016 Marathon (4/16–4/19)	\$321	\$150	\$171	6,000	\$1,026,000
New York City	New Year’s Eve (12/31)	\$515	\$140	\$375	23,177	\$8,691,375
Los Angeles	New Year’s Eve (12/31)	\$214	\$112	\$102	10,412	\$1,062,024
Miami Beach	New Year’s Eve (12/31)	\$564	\$193	\$371	2,540	\$942,340
San Francisco	New Year’s Eve (12/31)	\$262	\$130	\$132	3,571	\$471,372
Miami	New Year’s Eve (12/31)	\$238	\$120	\$118	3,060	\$361,080
Boston	New Year’s Eve (12/31)	\$225	\$94	\$131	1,304	\$170,824

Washington, D.C.	New Year's Eve (12/31)	\$167	\$96	\$71	2,102	\$149,254
TOTAL						\$16,515,935

Conclusion

In a dynamic economy, supply and demand forces will impact the price of a hotel room or an Airbnb listing. Some fluctuation is natural and appropriate. But for too long, hotels have had nearly unchecked power to raise rates and price gouge consumers at will. While more research into this matter is necessary, it is clear that Airbnb has given consumers more affordable accommodation options and left hotel industry officials deeply concerned about their ability to price gouge consumers in the years ahead.

Appendix

Methodology

Hotel room prices, known in the industry as average daily rate (ADR), were purchased from STR Inc., the premier provider of global data benchmarking, analytics and marketplace insights for the hotel industry. STR defines ADR as room revenue divided by rooms sold, with room revenue generally excluding fees and taxes. Additional costs such as resort fees and charges for amenities like wifi and parking are not included in this figure. These fees can add a significant additional cost to a hotel room: a [January 2016 study](#) by the consumer advocacy group Travelers United estimated that the typical resort fee amounted to \$24.93 per day, with the fees accounting for 16.6 percent of revenue collected in 2015 from consumer room bookings, up from 13.3 percent in 2014. The hotel industry collected [a record \\$2.55 billion in fees and surcharges in 2016](#), up from a record \$2.45 billion in 2015.

Airbnb room prices reflect the average price paid per room by guests for listings booked on Airbnb during the event. For example, a single Airbnb listing with two separate bedrooms was treated as two rooms for the purposes of this analysis. The room price includes all fees applied to the listing by the host and the service fee charged by Airbnb and excludes taxes. Shared room listings were not included in the analysis.

In the case of multi-day events, the daily hotel room and Airbnb room prices were weighted on the share of total room nights booked during the event. Daily rate analyses for each of the multi-day events are provided in the Appendix.

All prices are rounded to the nearest dollar.

Super Bowl LI in Houston

Airbnb vs. Hotel Prices in Houston during Super Bowl LI					
Night	Average Hotel Room Price	Average Airbnb Room Price	Airbnb Savings per Room	Rooms Booked on Airbnb	Total Airbnb Savings
Friday 2/3	\$303	\$140	\$163	2,764	\$450,532
Saturday 2/4	\$309	\$202	\$107	3,673	\$389,801
Sunday 2/5	\$312	\$234	\$78	3,297	\$257,166
TOTAL					\$1,097,499

2016 Indy 500 in Indianapolis

Airbnb vs. Hotel Prices in Indianapolis during the 2016 Indy 500					
Night	Average Hotel Room Price	Average Airbnb Room Price	Airbnb Savings per Room	Rooms Booked on Airbnb	Total Airbnb Savings
Friday 5/27	\$214	\$109	\$105	588	\$61,740
Saturday 5/28	\$227	\$154	\$73	918	\$67,014
Sunday 5/29	\$214	\$176	\$38	748	\$28,424
TOTAL					\$157,178

2016 Comic-Con in San Diego

Airbnb vs. Hotel Prices in San Diego during Comic-Con 2016					
Night	Average Hotel Room Price	Average Airbnb Room Price	Airbnb Savings per Room	Rooms Booked on Airbnb	Total Airbnb Savings
Wednesday 7/20	\$259	\$110	\$149	3,700	\$551,300
Thursday 7/21	\$282	\$140	\$142	4,375	\$621,250
Friday 7/22	\$282	\$152	\$130	4,804	\$624,520
Saturday 7/23	\$282	\$159	\$123	4,806	\$591,138
Sunday 7/24	\$185	\$159	\$26	2,915	\$75,790
TOTAL					\$2,463,998

2016 Boston Marathon

Airbnb vs. Hotel Prices in Boston during the 2016 Boston Marathon					
Night	Average Hotel Room Price	Average Airbnb Room Price	Airbnb Savings per Room	Rooms Booked on Airbnb	Total Airbnb Savings
Saturday 4/16	\$334	\$136	\$198	1,792	\$354,816
Sunday 4/17	\$340	\$157	\$183	1,767	\$323,361
Monday 4/18	\$336	\$157	\$179	1,569	\$280,851

Tuesday 4/19	\$266	\$153	\$113	872	\$98,536
TOTAL					\$1,057,564

New Year's Eve 2016

Airbnb vs. Hotel Prices on New Year's Eve 2016					
City	Average Hotel Room Price	Average Airbnb Room Price	Airbnb Savings per Room	Rooms Booked on Airbnb	Total Airbnb Savings
New York City	\$515	\$140	\$375	23,177	\$8,691,375
Los Angeles	\$214	\$112	\$102	10,412	\$1,062,024
Miami Beach	\$564	\$193	\$371	2,540	\$942,340
San Francisco	\$262	\$130	\$132	3,571	\$471,372
Miami	\$238	\$120	\$118	3,060	\$361,080
Boston	\$225	\$94	\$131	1,304	\$170,824
Washington, D.C.	\$167	\$96	\$71	2,102	\$149,242
TOTAL					\$11,848,257