Peer-to-Peer Home and Ride Sharing
Economic Impacts and Policy Recommendations for Local Governments

Stephanie Tsai
University of California, Los Angeles

Dylan S. Sittig
University of California, Los Angeles

The increased monetization of people's time, skills, cars, and homes for supplemental income has resulted in the rapid growth of the so-called "sharing" or peer-to-peer economy. Facilitated by recently developed technological applications and platforms, this phenomenon has created new economic trends that challenge existing market structures and regulations. Airbnb, Uber, and Lyft have emerged at the forefront of this peer-to-peer economy, and they have done so largely without regulation. Cities and states face the task of addressing the economic impacts of this quickly growing trend.

This paper briefly summarizes hidden costs and impacts of these businesses on their respective markets and provides recommendations for policymaking. The theme of our findings is that the sharing economy does not have the democratizing effects that its proponents claim. Preexisting socioeconomic status likely determines one's ability to market oneself on these platforms; these apps utilize technology in a way that may exacerbate society's existing inequalities. Local policies should aim to extract benefits from the economic activity generated by these companies while protecting both workers and consumers from negative impacts.

1. Introduction

The sharing or peer-to-peer economy allows people to bring to market the property and skills that they already own by connecting individuals to one another and facilitating exchange. In theory, this increases the output of the market because it takes advantage of previously unused or underutilized supply. However, the largely unregulated new supply created through this model has hidden costs for both workers and consumers in the various markets impacted by the peer-to-peer economy. We focus our discussion on the industries disrupted by Airbnb, Uber, and Lyft.

Airbnb, Uber, and Lyft have introduced new business models in their respective industries by drastically reducing barriers to entry on the supply side. These companies have created platforms for people to individually market their existing property and services at seemingly little to no cost. Yet the costs have not simply disappeared; they are hidden in the capital and operating expenditures already borne by hosts and drivers and/or avoided altogether because these companies' operations are unregulated. Without being subject to the liabilities and regulatory costs imposed on preexisting firms—liabilities and costs assessed based on the preexisting structure of the market—Airbnb, Uber, and Lyft are essentially operating with an unfair advantage.

In this case, the capital expenditures and liabilities of owning and running a business that provides accommodations or taxi services are borne by the independent hosts or drivers rather than by an employer. This type of asset and liability structure mimics an entrepreneurial model; however, other aspects of these companies suggest a more typical employer-employee relationship due to the central importance of the hosts' or drivers' services to the respective companies' business models (Kirkham, Mai-Duc, and Khouri 2015).

The most recent economic recession brought a sharp increase in unemployment, which many cities and communities across the country are still recovering from. In addition, wages have remained generally stagnant over the past few decades, while cost of living has continually increased. This combination of high cost of living, high household debt, low wages, and high unemployment and underemployment have created a crisis situation in many cities, which has fueled the rise of the peer-to-peer economy. Struggling to make ends meet, people have found alternative and additional sources of income in the monetization of their spare bedrooms, cars, skills, and time; Airbnb, Uber, and Lyft have capitalized on this opportunity and expanded rapidly as a result. As these companies claim, some of their hosts and drivers depend on their hosting or driving income. Airbnb, Uber, and Lyft have introduced new business models in the hotel and hospitality, housing, and taxi cab industries, which have been regulated by local and state governments for decades. The growth of these companies and their impacts present a crisis for cities to address.

We highlight the impacts and implications of the hidden costs of these peer-to-peer companies and recommend key regulations to maximize benefits and positive outcomes for both service providers and consumers. Local policy goals should be to extract benefits from the economic activity generated by these companies while establishing protections to mitigate the negative impacts.

2. Airbnb

Airbnb and similar home-share sites began as a means for people to rent out their homes or rooms in their homes on a short-term basis, providing travelers with an alternative to traditional hotels (Samaan 2015). Proponents claim that such arrangements are helping middle-class hosts to keep and stay in their homes. Detractors argue that Airbnb is removing units from the local housing stock, particularly in hot markets, because units being used for Airbnb could instead be residential housing. We look at the hyperlocal neighborhood economic impacts.

Airbnb can stimulate neighborhood economies by increasing travel and tourism, resulting in increased spending. A study by Airbnb on its economic impact in Berlin found that the average Airbnb guest visits the city four days longer than the typical hotel guest and spends about $500 more (Stone 2013). According to the company, 85 percent of Airbnb's Los Angeles listings are outside of zip codes where hotels are typically found (Owen 2014). Los Angeles listings are concentrated in Venice, Hollywood, and Miracle Mile (Samaan 2015). These neighborhoods do not have high concentrations of hotels compared to downtown, Santa Monica, and the Century Corridor. Airbnb claims to have increased the number of travel stays in less-visited parts of town, possibly generating increased economic activity in these areas.

Another common claim is that Airbnb is a lucrative source of income for some hosts. In some cases, as Airbnb purports, hosts may depend on the income from hosting to be able to afford their monthly rent. In cities like Los Angeles, high demand for short-term accommodations accompanied by high demand for rental housing may contribute to a growing number of housing units being removed from the long-term residential rental market to be used for Airbnb (Ibid.). Landlords may find Airbnb more profitable, convenient, and appealing than long-term residential rentals. If Airbnb hosts provide accommodations on a full-time or semi-full-time basis, they essentially act as de facto hotels or bed and breakfast businesses without any of the legal responsibilities or costs normally attached to this industry. Typical hotel obligations include tax payments, accessibility standards, and sanitation requirements, to name a few (Ibid.). Los Angeles City Council Member Mike Bonin represents the Venice neighborhood, which has 12 percent of the City of Los Angeles's Airbnb listings (Ibid.). Bonin decries Airbnb for bringing "a growing number of speculators [that] are eliminating rental housing and threatening the character of our neighborhoods" (Reyes 2015).

If great enough numbers of housing units are removed from the residential supply to be used as short-term rentals, the decrease in housing stock could cause an increase in real estate prices (Monkkonen 2014). Supply and demand for housing vary by location, so some neighborhoods with higher demand may be more affected.

Another aspect of the Airbnb market is the issue of taxes and liabilities and who should be responsible for them. The company advertises itself as a means for anyone with a spare room or air mattress to make extra money. The costs of space and accommodations are borne by the host rather than by an employer. Hosts' investments are absolutely crucial to Airbnb's business model—the company would not exist as it is without hosts, who bear the burden of not only the initial capital expenditures, but also the maintenance and upkeep costs. Who should pay taxes and other added costs that come with short-term rental activity? Who should be responsible for liabilities and additional insurance potentially needed on these properties?

On a broader note, those best suited to make money from Airbnb already possess access to significant capital. In Los Angeles, 98 percent of all revenue generated from Airbnb comes from hosts who do not reside at their listed accommodation (Samaan 2015). While we can speculate about the specifics of how someone is able to list a property that she does not live at, it is safe to assume that she has access to at least one additional property where she does reside. Airbnb could be further contributing to existing inequalities by providing a means for those with access to property or capital to gain from it, further separating the haves from the have-nots (Monkkonen 2014; Samaan 2015).

3. The Municipal Response to Airbnb

It is important for local governments to regulate short-term Airbnb rentals in order to benefit from the increased economic activity while maximizing housing stock for affordability. Governments can address these issues through local policies aimed at increasing the number of available units in the housing market and extracting revenue from Airbnb. To address the former, we propose the following:

- Establish a minimum residency requirement for short-term rental hosts. A host must reside at the listed property for a minimum number of days per year. No host may list multiple properties on Airbnb.

- Establish a maximum number of days per year that a unit may be rented through Airbnb.

Governments can achieve the goal of capturing more revenue from Airbnb's economic activity through fees and taxes. Examples include the following:

- Registration fees for hosts to be eligible to list property on Airbnb.

- Transient occupancy taxes similar to those in the hotel industry. To promote the development of affordable housing, a portion of the taxes could be allocated to an Affordable Housing Trust Fund which could provide loans or other funding for the construction and rehabilitation of below-market-rate units. Many cities have existing funds for affordable housing, but they are frequently insufficient to finance any significant number of affordable units; such is the case in Los Angeles.

Private right of action should also be established for enforcement. Instead of having reactive enforcement mechanisms and placing the burden on the City, organizations that meet certain requirements could be allowed to sue violators.

Variations on these proposed policies have recently been adopted in a handful of cities. In 2014, San Francisco passed an ordinance to regulate short-term rentals. It includes a residency requirement for hosts, a maximum number of days per year that a unit may be rented, a registration fee for hosts, an insurance requirement for hosts, hotel taxes, and other stipulations (Airbnb n.d.). It became effective February 1, 2015, and a measure on the San Francisco ballot for November 2015 seeks to impose tighter restrictions. Portland has allowed short-term rentals in privately owned homes and is collecting a 6 percent city lodging tax and a 5.5 percent county tax (Ibid.). Malibu is also requiring hosts to register with the City and pay a 12 percent tax (Stevens and Groves 2014). It is too soon to determine the impact of these regulations.

4. Uber & Lyft

Uber and Lyft are transportation network companies (TNCs) that facilitate real-time "ride-sharing." They allow anyone with the requisite mobile phone applications to summon and pay for a ride, essentially providing private, for-hire taxi service. The drivers are individuals willing to use their own personal vehicles to transport customers. The introduction of competition and new technology in the taxi industry has increased the available supply of taxi and taxi-like services in many local markets around the world. While taxi cabs have been heavily regulated for decades, TNCs have quickly expanded, largely without regulation. We focus on this particular model of peer-to-peer service, provided by Uber and Lyft through UberX and Lyft Line, respectively.

The taxi industry is strictly regulated in the City of Los Angeles. Taxi drivers act as independent contractors who either own or lease their vehicles from licensed franchise companies and pay operating fees (including mandatory insurance) to the companies. Fares are set by the City (Leavitt and Blasi 2009). Because taxi companies require predetermined fees from drivers regardless of the number of hours worked, the profit-making aspects of the companies are not directly connected to the service component of the business. Drivers perform work through a fee for service model—their incomes are directly tied to the number and length of rides they provide. Taxi drivers cannot determine the fees they pay, the rates they charge customers, or gasoline prices; drivers only decide on the number of hours they work. Given taxi drivers' current status as independent contractors, unionization is very difficult (Ibid.).

The UberX and Lyft Line TNC model is similar to that of the traditional taxi industry in that drivers act as independent contractors working on a fee-for-service basis. Like taxi drivers, TNC drivers determine their own schedules but do not have the ability to change the fixed cost of insurance or the variable costs of fares and gasoline prices. Since TNC drivers have been mostly unregulated until recently, many of them have been operating their own personal vehicles with inadequate insurance coverage. The fact that drivers must own their own relatively new vehicle represents a direct offloading of start-up capital and maintenance expenses to the drivers; thus, the TNC model does not allow everyone to participate in any of its perceived benefits.

Unlike taxi franchises, TNCs take a percentage of drivers' earnings, so they have a direct interest in the number and length of rides as well as the rates charged. The convenience of their mobile application and user rating system has won favor with consumers. Rates change based on real-time supply and demand, and the company utilizes surge pricing and other mechanisms to actively encourage and incentivize drivers to work when demand is high and supply is low.

In their efforts to compete for market share, TNCs have high rating standards for drivers. If a driver's average customer ratings are below 4.7 out of 5, his or her account can be "deactivated" (Asher-Schapiro 2014). TNCs may lower prices at their discretion (Ibid.). In such cases, they do not provide any buffer to protect drivers' wages. TNCs are not required to disclose fare changes or calculations to drivers.

In 2013, KPCC reported that "[taxi] ridership has been declining all over the country—anywhere from 10 to 30 percent—in cities where services such as Uber have entered the market, according to anecdotal reports compiled by the Taxicab, Limousine & Paratransit Association, an international trade group for the industry. Yellow Cab of Los Angeles—by far the city's largest taxi company—has 15 percent fewer calls coming in, after four years of double-digit growth" (Bergman 2013). Thus, the rise of TNCs has accompanied a decline in taxi use.

5. The Municipal Response to TNCs

The massive and increasing popularity of TNCs implies that they are providing desired services that fulfill a need. Governments should seek to regulate TNCs to promote fairness, equity, and safety for drivers and consumers, and to set and enforce labor standards. To address the former, we propose the following regulations:

- Require that TNCs provide their drivers with accurate itemization and full disclosure of fares and how earnings are calculated.
- Establish the authority to enforce state regulations on TNC driver licensing and insurance.

We propose the following to address the latter goal:

- Establish a wage floor for drivers, which could be tied to a minimum amount of time worked.
- Require companies to pay into an employee benefit fund, which could be used for various purposes such as workers' compensation, healthcare, social security insurance, and retirement savings.
- Establish an employment relationship between the companies and their drivers in order to set and enforce labor standards. This will facilitate legal protection for drivers facing company retaliation against organizing efforts.

In addition, our findings and comparison of TNCs and the taxi industry indicate that it would be beneficial and equitable to apply similar regulations to protect workers in both TNCs and the taxi industry. At this time, no city has taken broad actions to regulate TNCs aside from outright bans.

6. Conclusion

The sharing economy does not have the democratizing effects that its proponents claim. The social and economic features of capitalism still prevail in the realm of peer-to-peer exchange. Because the sharing economy is based in large part on preexisting access to capital and resources, self-promotion, and social networks, one's preexisting socioeconomic status likely determines one's ability to market oneself on these platforms. People who are able to spend time and resources or change their habits will be more able to advance while those outside of that demographic will be unable to access these economic gains. The proliferation and extralegal operation of the peer-to-peer economy present a crisis for our cities. Well-crafted local policies can generate benefit and protect people from some negative impacts of these businesses.

References

Airbnb. "In What Areas is Occupancy Tax Collection and Remittance by Airbnb Available?" Accessed November 10, 2015. https://www.airbnb.com/help/article/653.

Asher-Schapiro, Avi. "Against Sharing." *Jacobin*, September 19, 2014.https://www.jacobinmag.com/2014/09/against-sharing/.

Bergman, Ben. "Taxis vs Ride-Share: How One Cabbie Views the Industry's Transformation." Southern California Public Radio, November 14, 2013. http://www.scpr.org/blogs/economy/2013/11/14/15185/can-yellow-cab-save-the-taxi-industry/.

Kallis, Giorgos. "AirBnb is a Rental Economy, Not a Sharing Economy." *Press Project,* October 14, 2014. http://www.thepressproject.net/article/68073/AirBnb-is-a-rental-economy-not-a-sharing-economy.

Kirkham, Chris, Christine Mai-Duc, and Andrew Khouri. "Uber Worker Ruling Highlights the Legal Troubles of a 'Sharing Economy.'" *Los Angeles Times*, June 17, 2015. http://www.latimes.com/business/technology/la-fi-tn-uber-driver-employee-labor-commission-20150617-story.html#page=1.

Kwong, Jessica. "SF Cabdrivers Vote to Unionize as Industry Continues to Take Beating from Ride Services." *San Francisco Examiner,* August 15, 2014. http://www.sfexaminer.com/sanfrancisco/sf-cabdrivers-vote-to-unionize-as-industry-continues-to-take-beating-from-ride-services/Content?oid=2874896.

Leavitt, Jacqueline, and Gary Blasi. "The Los Angeles Taxi Workers Alliance." University of California Transportation Center, Fall 2009. http://www.uctc.net/research/papers/893.pdf.

Monkkonen, Paavo. "Planning for the Sharing Economy." Panel discussion at the American Planning Association, Los Angeles Chapter, October 14, 2014. Accessed October 10, 2015. http://apalosangeles.org/planning-for-the-sharing-economy-audio-now-online/.

Owen, David. "Keeping LA Competitive." Panel presentation at the Los Angeles Business Council 2014 Mayoral Housing, Transportation and Jobs Summit at the University of California, Los Angeles, October 29, 2014.

Reyes, Emily Alpert. "L.A. Proposal Would Block Airbnb Hosts from Creating 'Rough Hotels.'" *Los Angeles Times*, June 2, 2015. http://www.latimes.com/local/lanow/la-me-ln-airbnb-regulation-20150602-story.html#page=1.

Samaan, Roy. *Airbnb, Rising Rent, and the Housing Crisis in Los Angeles*." Los Angeles Alliance for a New Economy. March, 2015. http://www.laane.org/wp-content/uploads/2015/03/AirBnB-Final.pdf.

Stevens, Matt, and Martha Groves. "Malibu to Crack Down on Short-Term Rentals via Airbnb, Other Websites." *Los Angeles Times*, May 27, 2014. http://www.latimes.com/local/la-me-malibu-renting-20140528-story.html#page=1.

Stone, Zak. "The Battle over Airbnb Moves to Los Angeles," *Fast Company,* September 17, 2013. http://www.fastcoexist.com/3017486/the-battle-over-airbnb-moves-to-los-angeles.

Lead Photograph

Williamsburg, Brooklyn. The mostly vacant and shuttered block in the foreground of this late night photo of Broadway (in Brooklyn) contrasts with the distant lit storefronts and cars a block away. The development process that has already swept through the main arteries of North Williamsburg has slowly begun to transform the southern streets as well. Photograph by Rebecca Crane.