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The Visible Host: Does race guide Airbnb rental rates in San Francisco?

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ABSTRACT

Peer to Peer e-commerce is increasingly characterized by trends towards the personalization of buyers and sellers in the on-line marketplace. This personalization includes buyer reviews, personal pictures and profiles, and other biographical information intended to reduce buyers' perceived "purchase risk" or to facilitate trust in the sellers. However, this phenomenon is transforming what started as an essentially "anonymous" market to one susceptible to traditional market failures, including potential racial discrimination, in a manner similar to its brick and mortar counterparts. In this paper, we examine the effect of on-line host information (race, gender, sexual orientation, etc.) on the price of available rental listings in San Francisco on Airbnb.com. We find that on average, Asian and Hispanic hosts charge 8%-10% lower prices relative to their White counterparts on equivalent rental properties, after controlling for all renter-available information on rental unit characteristics, as well as additional information on neighborhood property values, area demographics, and occupancy rates. We do not find any differences in occupancy rates between minority and White hosts. This may suggest that minorities price lower because they are forward-looking, perhaps due to an expectation of discrimination in the online marketplace or have a preference to increase demand to either maintain their target occupancy level or to attract a larger pool of potential renters to choose from. Overall, our findings are consistent with but not conclusive of a market test of potential racial discrimination affecting Hispanic Airbnb hosts, manifested in an anticipation of disparate market demand for their rentals, and responded to by lower listing prices.

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1. Introduction

Internet commerce has grown dramatically over the past decade, moving from an interesting niche to a mainstream component of both business and consumer markets, accounting for over \$390 billion of American consumer purchases in 2016, (DeNale and Weidenhamer, 2017). A growing sub-market is the area of Peer-to-Peer or P2P e-commerce. P2P e-commerce involves individuals acting as buyers and sellers, purchasing and offering everything from used goods (EBay/Craigslist) to new craft products (Etsy) to personal services (TaskRabbit) to rooms for rent (Airbnb).¹ Accompanying this growth has been an evolution from the early anonymous transaction environment to a more personalized experience where the goal is to make a personal connection between the buyer and seller. This personalization involves on-line information such as buyer reviews and seller profiles, to give potential buyers more information. These techniques attempt to reduce perceived purchase

risk and create a personal connection, making the purchase from a stranger more palatable.

However, as P2P commerce has become more personal, it has also become less anonymous and more like traditional brick and mortar markets for both buyers and sellers. Along with traditional market failures, discrimination now becomes possible in the P2P marketplace. This can occur because the race and gender of participants are frequently revealed through photos and biographical information. So, while P2P e-commerce has opened opportunities for minorities to participate in a growing market, it has also generated questions about and possibilities for discrimination, similar to face-to-face markets. Buyers now have the information to bypass e-commerce sellers based on race or gender in a manner similar to bypassing a brick and mortar store. Airbnb incorporates multiple rating techniques to help increase buyer confidence including reviews by previous guests and available social media links of the hosts. To personalize listings, they also permit sellers offering room listings (the hosts) to provide both a picture and biographical/listing information, see Fig. 1 for an example Airbnb listing. This allows potential renters to identify both the race and sex of the host.

Recent research by Edelman and Luca (2014) looked at differences in the price of Airbnb listings in New York and found signifi-

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E-mail address: vkakar@sfsu.edu (V. Kakar).¹ At the end of 2014, Airbnb had 925,000 listings and over 25 million customers, (Todisco, 2015).

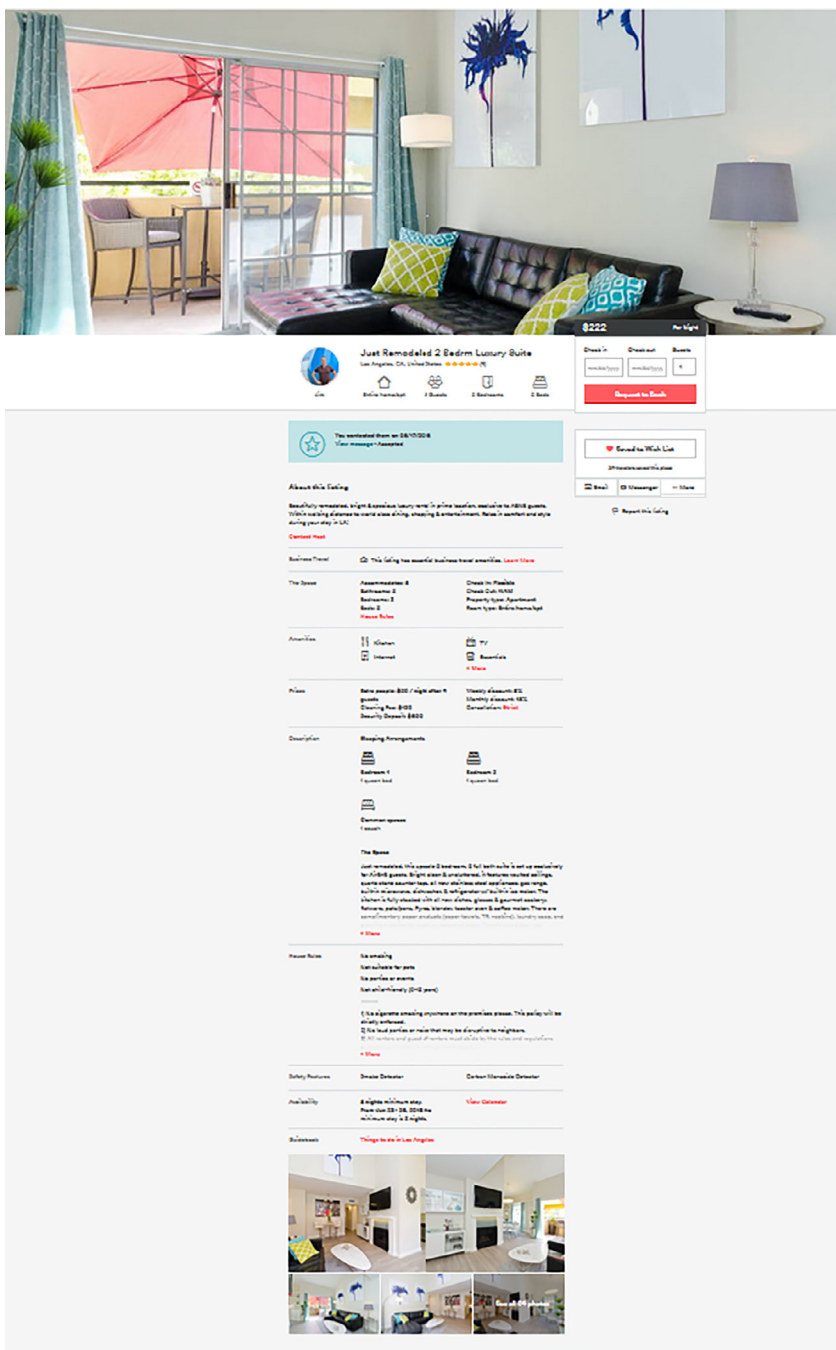


Fig. 1. Airbnb listing example.

cantly lower prices by Black hosts compared to non-Black hosts for similar rental units.² The authors attributed this gap to the prevalence of discrimination in P2P on-line marketplaces, suggesting an important unintended consequence of a seemingly benign mechanism for building trust. In this paper we examine the effect that in-

formation on the race, gender, and sexual orientation of the host of Airbnb listings has on the listed price of rooms in the San Francisco market. We chose San Francisco as the focus of the study because it has very different racial demographics than New York City.³ In

² Prices on Airbnb are voluntarily set by hosts and not by Airbnb.

³ San Francisco is 6.1% Black; New York City is 15% Black and also because we were interested in examining the possible effect on list-

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