To Lease in the Short or Long Term? Homeowners' Sharing Economy Exit Decisions Amid COVID-19 Uncertainty

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Abstract

This paper studies the financial impacts of the COVID-19 pandemic on investment property owners on Airbnb and what economic shocks from the pandemic reveals about their substitution between Airbnb and the long-term rental housing supply for the investment of their property. Prior to the pandemic, homeowners had increasingly used the peer-to-peer platform Airbnb to allocate investment homes to tourists in the short-term rental (STR) markets instead of to residents in the long-term rental (LTR) markets. This has raised policy concerns about the sharing economy's effects on housing affordability within supply price inelastic housing markets. Using a continuous difference-in-differences research design, I estimate the extent to which homeowners exited the STR markets in the short run of the 2020 pandemic. I find that 1 pp greater exposure to pre-pandemic tourism levels for a market at the monthly level causes 1.2 to 2.1 pp decrease in Airbnb supply on average. Furthermore, I show evidence that Airbnb property owners switched to LTR markets through short-run movements in LTR rents during the 2020 pandemic. Airbnb homeowners with two to three bedroom properties in areas with higher costs associated with homeownership, including mortgage payments and property taxes, tended to exit the STR markets at higher rates. This suggests heterogeneous effects that could depend on liquidity constraints or the financial leverage of investment property owners.

Keywords: sharing economy; Airbnb; liquidity constraints; housing rentals; investment properties; household finance; tourism; COVID-19; uncertain demand; difference-in-differences; continuous treatment
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