

How Airbnb Combats Middle Class Income Stagnation

by Gene Sperling

Gene Sperling has served as White House National Economic Advisor and Director of the National Economic Council to both President Obama (2011-2014) and to President Clinton (1996-2001). He currently is head of Sperling Economic Strategies, where he provides economic advisory services to several companies including Airbnb.

Summary

While middle-class incomes have stagnated, home sharing through the Airbnb platform can offer families the opportunity to earn supplemental income that can help make up for the fall in incomes over the past 15 years.

Introduction

There is wide consensus that overcoming middle-class income stagnation is one of our nation's great economic imperatives. Median incomes have fallen significantly over the last 15 years and have stagnated for much of the last three decades. The view that income stagnation is one of the central economic challenges for our nation is held across the political spectrum. The progressive Center for American Progress has stated that "It's impossible for America to increase demand and thereby build a robust economy until it addresses the dwindling budgets of middle-class families."¹ Republican presidential candidate Senator Marco Rubio has noted that "middle-class and upward-mobility stagnation has become more apparent" and said that "it's good that there's a consensus that's what we need to focus on."²

Policy solutions for growing stagnant incomes are no doubt complex and involve a multiplicity of efforts in a wide range of areas, from education and skills-training policies, to the minimum wage, to innovation and research policies, to efforts to increase demand for workers. While public policies are key to any solution, innovation in the private sector can also play an important role. One area worthy of examination is whether home sharing, the increasingly popular global practice of people sharing a room, or more, in their homes, can provide a platform for families to access supplemental income without taking risks with their long-term financial health.

¹ Center for American Progress, "Middle-Class Squeeze," September 24, 2014. <https://www.americanprogress.org/press/release/2014/09/24/97402/release-middle-class-squeeze-cost-of-key-pillars-of-middle-class-security-rise-by-10600-while-incomes-stagnate-new-cap-report-reveals/>

² LA Times, "Income inequality emerges as key issue in 2016 presidential campaign," February, 5, 2015. <http://www.latimes.com/nation/la-na-campaign-income-20150205-story.html#page=1>

Among other options, the Airbnb platform can offer middle-class households help in overcoming a significant portion of the squeeze caused by stagnant incomes. Indeed, the fall in annual real household income since 2001 is more than completely overcome by the amount of supplementary income made by the typical Airbnb host with just a single property.

1. The Problem of Middle-Class Incomes

Historically, middle-class incomes have risen in America. Yet, median income has been relatively stagnant over the last few decades. Real median household income in 2013 (the most recent year available) is virtually the same as it was in 1989, even with the exceptionally strong growth between 1994 and 1999. For most of the past 15 years, middle-class incomes have been stagnant or declining: they fell from \$56,451 in 2001 to \$52,770 in 2013 (as measured in 2014 inflation-adjusted dollars).

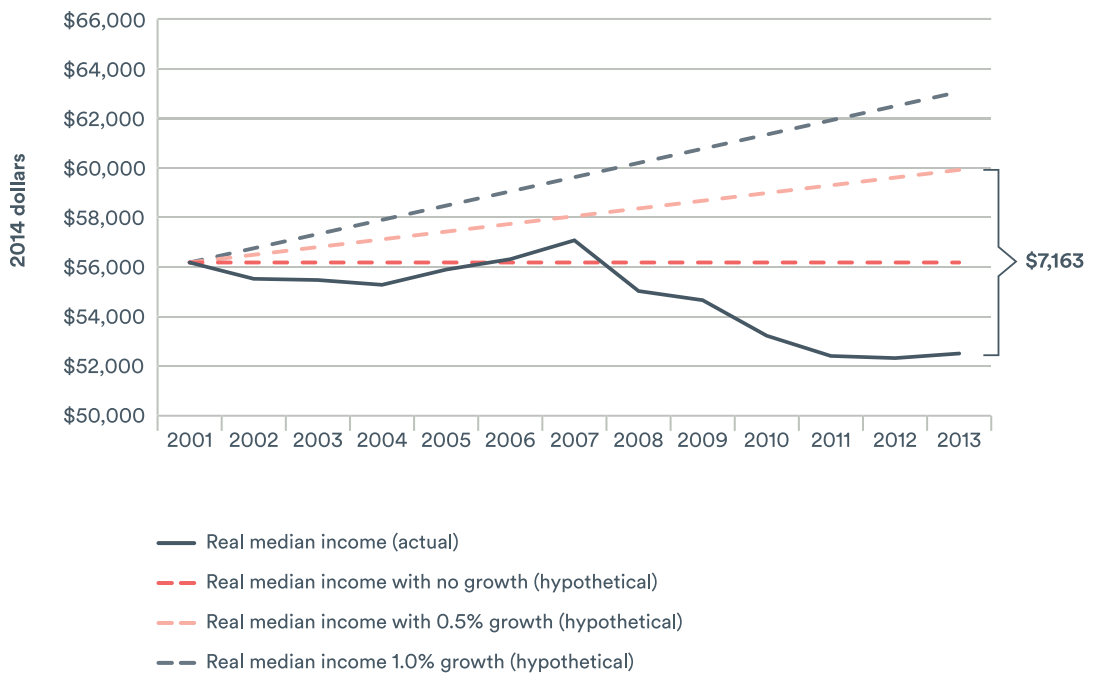
Figure 1. Real Median Household Income, 1967-2013



Source: U.S. Census Bureau (Current Population Survey) and Bureau of Labor Statistics

That means that the median household in the United States had \$3,681 less in income (after adjusting for inflation) in 2013 than in 2001 to manage daily life and to save for its children’s futures and its retirement. If real household income growth had surpassed inflation rates by even just 0.5% annually since 2001—the average between 1967-1993—the median U.S. household would have \$7,163 more in annual income than it does today.³

Figure 2. Actual and Hypothetical Real Median Household Income, 2001-2013



Source: U.S. Census Bureau (Current Population Survey) and Bureau of Labor Statistics

³ All income data from US Census, Historical Income Data, <http://www.census.gov/hhes/www/income/data/historical/index.html>. Data is converted to 2014 dollars by applying an inflation rate of 1.6 percent from CPI-U_RS. BLS, Consumer Price Index Research Series, <http://www.bls.gov/cpi/cpirsai1978-2014.pdf>.

2. How Airbnb Closes the Income Gap

Data on the supplementary income of a typical Airbnb host reveal that the Airbnb platform provides a powerful tool for middle-class households to help close the income gap created over the last 15 years.

The vast majority of Airbnb hosts rent only their primary residences—the homes in which they live—and they rent them out for approximately 66 days per year.⁴ Airbnb has conducted in-depth studies of the host population in five cities.

Figure 3. Characteristics of Hosts in Five Cities

	Primary Resident Hosts	Average hosting nights per year	Average age of host	Occupation of host
Portland, Oregon (2014) ⁵	84%	86	42	45% are self-employed, contractors, or part-time workers
Los Angeles, California (2014) ⁶	82%	59	43	43% work in the arts, entertainment, and recreation occupations
New York City, New York (2015) ⁷	90%	60	34	36% are not traditionally employed
San Francisco, California (2012) ⁸	90%	73	38	59% employed full-time
Boston, Massachusetts (2014) ⁹	82%	68	38	12% have used Airbnb income to support themselves while freelancing

⁴ Based on Airbnb bookings data for 2014 calendar year.

⁵ Airbnb, Impacts of Home-Sharing in Portland and its Neighborhoods, 2014.

⁶ Airbnb, The Impacts of Home Sharing in Los Angeles, 2014.

⁷ Airbnb, Airbnb's Support of NYC's Prosperity Agenda, 2013.

⁸ Airbnb, Growing the Economy, Helping Families Pay the Bill, 2015.

⁹ Airbnb, The Impacts of Home Sharing in Boston, 2014.

Typical Hosts Make \$7,530 Annually—A Meaningful Dent in Middle-Class Income Gap

Internal Airbnb data reveal that the typical single-property host makes an extra \$7,530 annually simply by renting this otherwise underutilized asset an average of 66 days throughout the year. Figure 4 makes clear that an extra \$7,530 would play a meaningful role in closing the income gap created by the stagnation since 2001.

- For the median household making \$52,770 a year in 2013, even \$3,681 of Airbnb host income—the equivalent of a 7% inflation-adjusted raise—would be enough to ensure that household was at least not experiencing any inflation-adjusted loss of income from 2001.
- For the median household, making the extra \$7,530 income that is typical for an Airbnb host renting out a single property would be the equivalent of a 14% raise, bringing the household income to over \$60,000.
- For the median household, making the \$7,530 income that is typical for an Airbnb host means that instead of having \$3,681 less to spend in real terms since 2001, that household has nearly \$4,000 more income than what they would have earned in 2001, adjusting for inflation.

Figure 4. Median Household Incomes in 2001 and in 2013, with Airbnb Supplement



Source: Census, BLS, and Airbnb

Figure 5. Potential Income Growth at Different Growth Rates, 2001-2013

What if real incomes had...	Cumulative percent raise for 2013 income:	Real increase for 2013 income:
Grown with inflation	7%	\$3,681
Grown at 1967-1993 average (0.50% annually)	14%	\$7,163
With Airbnb supplement	14.3%	\$7,530
Grown at 1967-2001 average (0.72% annually)	17%	\$8,745
Grown at 1.0%	21%	\$10,840

Airbnb Income Can Serve as a Transition Buffer

Finally, for middle-class households that do not have liquid savings sufficient to help during periods of economic transition or lost income, Airbnb provides a source of income that is not tied to their jobs and does not require drawing on retirement savings, often with a tax penalty. Here are some examples of how Airbnb income can be used as a source of income in difficult times:

- For the typical homeowner with a median-priced home, financed by a 30-year fixed-rate mortgage with 80% loan-to-value ratio and interest rate at 4.06%, the \$7,530 made by the typical Airbnb host with a single property covers 78% of the host’s monthly mortgage payments. For a homeowner who lost a job or went through a spell of illness that did not allow work, the amount of supplementary income made would cover over 9 months of mortgage payments, making it far easier for someone losing a job to not lose their home.
- For the average American household, the \$7,530 made by the typical Airbnb host could cover an entire year’s worth of a typical worker’s

contribution (\$4,823) to family employer-provided health insurance in 2014 while still leaving over \$2,700 left over.¹⁰

- For the average American household, the \$7,530 made by the typical Airbnb host could cover an entire year's food budget, with about \$800 left over.¹¹
- For the average American household, the \$7,530 made by the typical Airbnb host could cover nearly 10 months worth of transportation costs, including gasoline, vehicle expenses, vehicle insurance, and amortized vehicle purchase expenses.¹²

3. Airbnb Impacts Middle-Class Incomes

Data does not currently exist that can explicitly match up the employment incomes of Airbnb hosts with the money they earn from hosting on Airbnb. However, it is clear from evidence collected in five major cities that the large majority of Airbnb hosts are working families in the broad middle class, and that significant fractions have incomes at or below the median household incomes for their cities. In those five cities, substantial numbers of Airbnb hosts are either below median incomes in their areas or are among the nearly 80% of American households who make \$100,000 or less.¹³

¹⁰ Data from Kaiser Family Foundation/Health Research & Educational Trust (HRET) 2014 Employer Health Benefits Survey (September 2014), <http://kff.org/health-costs/report/2014-employer-health-benefits-survey/>.

¹¹ Data from Bureau of Labor Statistics, Consumer Expenditure Survey, 2013, <http://www.bls.gov/news.release/pdf/cesan.pdf>. Data is based on an average "consumer unit" of 2.5 individuals. Mean annual expenditure on food (at home and away from home) was \$6,708 in 2013 (in 2014 inflation-adjusted dollars).

¹² Data from Bureau of Labor Statistics, Consumer Expenditure Survey, 2013, <http://www.bls.gov/news.release/pdf/cesan.pdf>. Data is based on an average "consumer unit" of 2.5 individuals. Mean annual expenditure on transportation was \$9,148 in 2013 (in 2014 inflation-adjusted dollars).

¹³ U.S. Census Bureau, Income and Poverty in the United States: 2013 (September 2014), Table A-1 (Households by Total Money Income, Race, and Hispanic Origin of Householder: 1967 to 2013). In 2013, 77.5% of households had total money income under \$100,000.

Figure 6. Airbnb Host Household Income

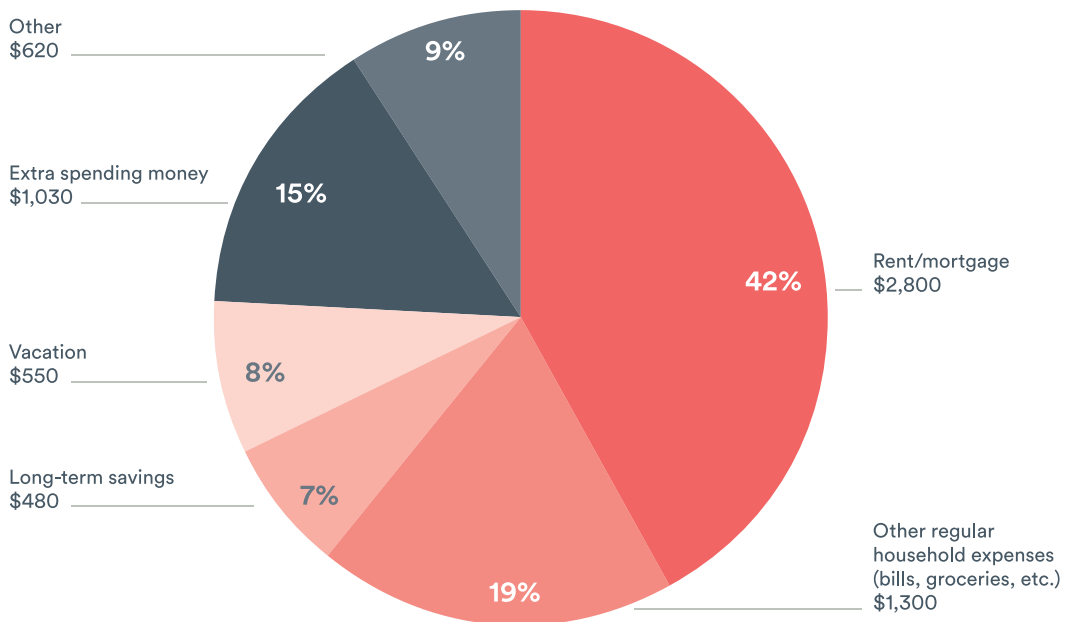
	Median household income in 2013 (2014 inflation-adjusted dollars)	Approximate percentage earning less than median ¹⁴	Percent of households with incomes below \$100,000 ¹⁵
Portland, OR (2014)	\$56,460	>40%	>80%
Los Angeles, CA (2014)	\$49,241	30%	70%
New York City, NY (2015)	\$53,058	29%	>50%
San Francisco, CA (2012)	\$78,724	>40%	>60%
Boston, MA (2014)	\$54,440	17%	>50%

¹⁴ Percentages are of hosts reporting income; hosts who declined to report annual household income in survey are not included.

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Portland

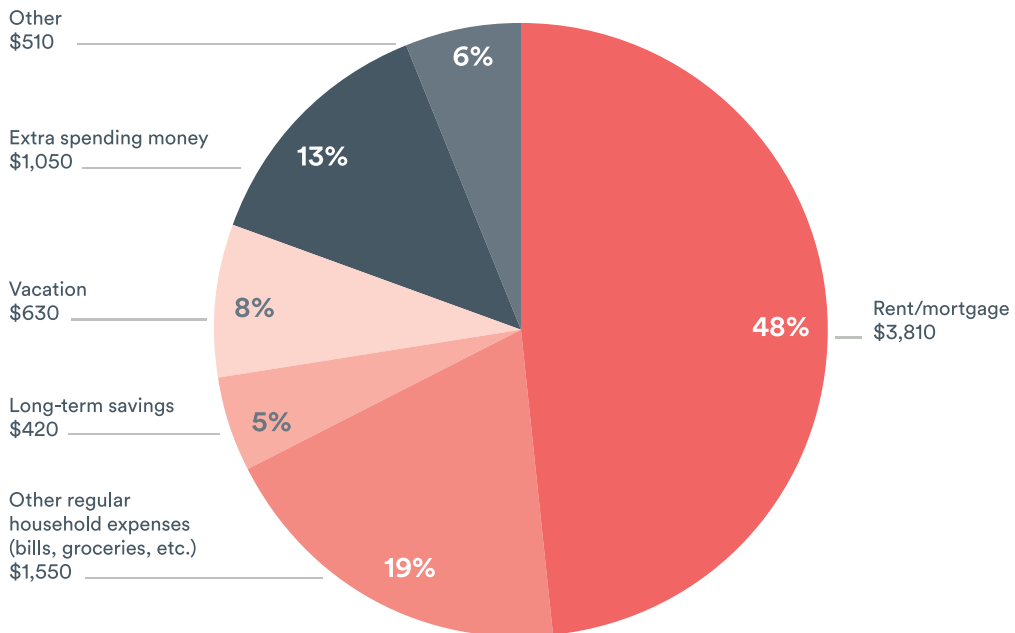
Approximately 80% of Portland Airbnb hosts reported household incomes of less than \$100,000 in 2013. The typical Portland Airbnb host earns \$6,860 each year, renting out her home about 86 nights out of the year. Sixty-five percent of Portland hosts report using income from Airbnb to help them afford staying in their homes. The median household income in Portland was \$56,460 in 2013 (in 2014 inflation-adjusted dollars); more than 40% of Portland hosts reported household incomes less than this.¹⁶



¹⁶ 2009-2013 American Community Survey 1-Year Estimates, Median Household Income in the Past 12 Months (In 2014 Inflation-Adjusted Dollars), Portland city (Portland-Vancouver-Hillsboro OR-WA Metropolitan Area).

Los Angeles

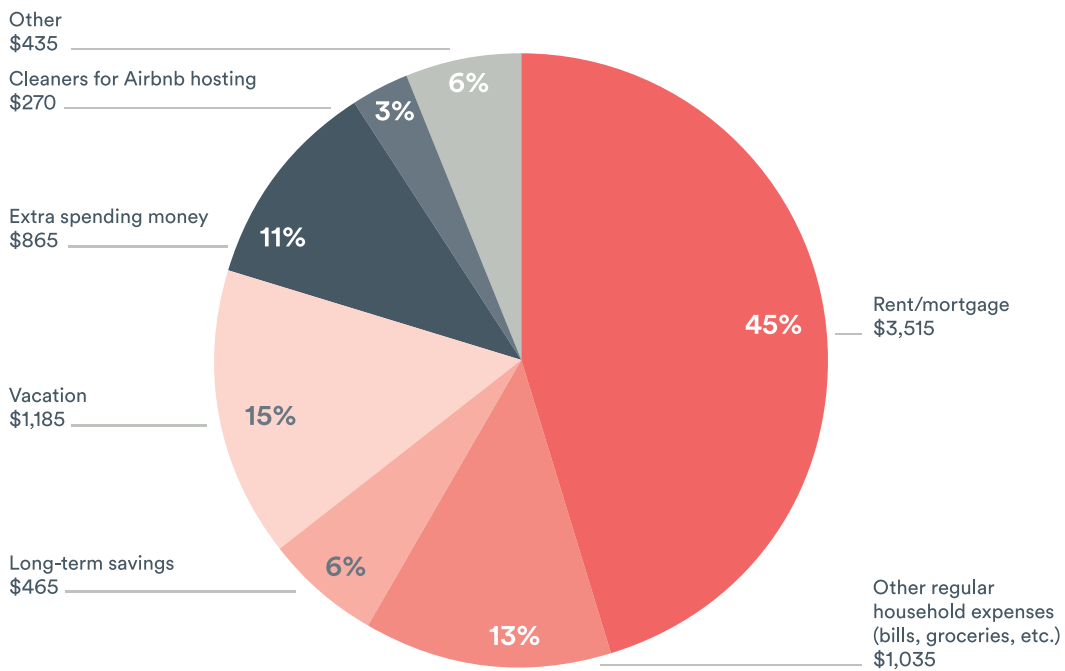
Approximately 70% of Los Angeles Airbnb hosts reported household incomes under \$100,000 in 2013. A typical Airbnb host in Los Angeles earns \$7,920 each year, renting out her home about 59 days per year. Seventy-one percent of Los Angeles hosts state this income helps them stay in their homes. Two-thirds of Airbnb hosts in Los Angeles are non-traditionally employed, with 34% saying that income from hosting has allowed them to support themselves while freelancing and 28% saying that income has helped them start a new business. The median household income for Los Angeles in 2013 was \$49,241 (in 2014 inflation-adjusted dollars); nearly a third of Los Angeles Airbnb hosts reported household incomes less than this.¹⁷



¹⁷ 2009-2013 American Community Survey 1-Year Estimates, Median Household Income in the Past 12 Months (In 2014 Inflation-Adjusted Dollars) for Los Angeles city (Los Angeles-Long Beach-Anaheim CA Metro Area).

New York City

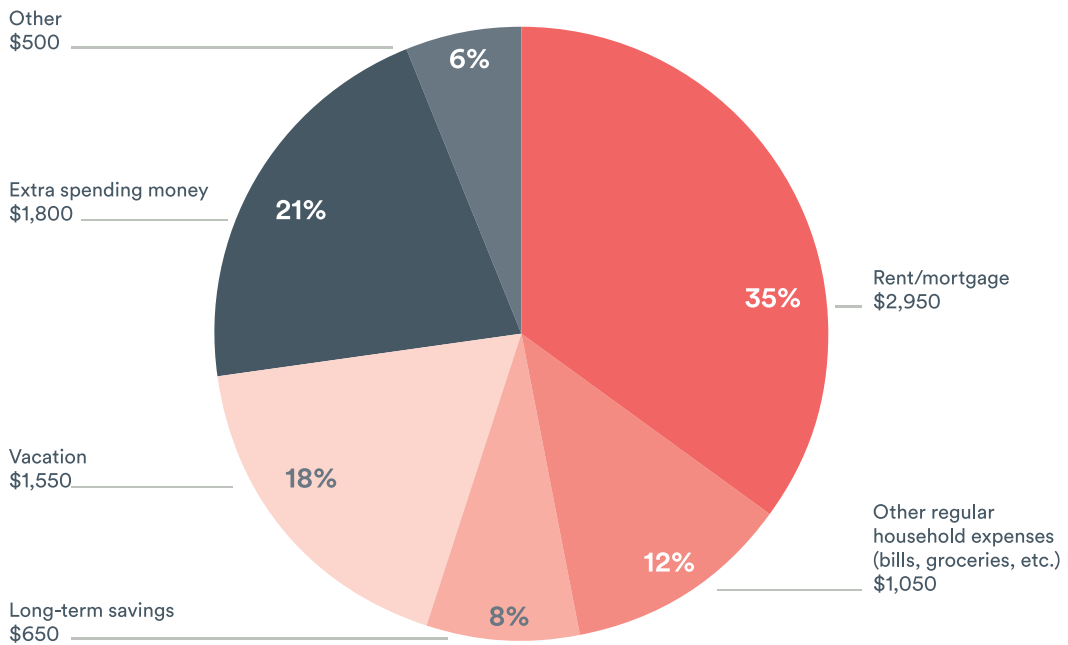
As of the latest 2015 study, approximately 67% of New York City Airbnb hosts reported household incomes under \$100,000 in 2013. The typical New York City host earns \$7,770 per year renting out her house 60 days per year. Seventy-two percent of hosts report that Airbnb income has helped them stay in their homes. The median household income in New York City was \$53,058 in 2013 (in 2014 inflation-adjusted dollars); approximately one-third of New York City Airbnb hosts reported household incomes less than this.¹⁸



¹⁸ 2009-2013 American Community Survey 1-Year Estimates, Median Household Income in the Past 12 Months (In 2014 Inflation-Adjusted Dollars), New York City (New York-Newark-Jersey City NY-NJ-PA Metropolitan Area).

San Francisco

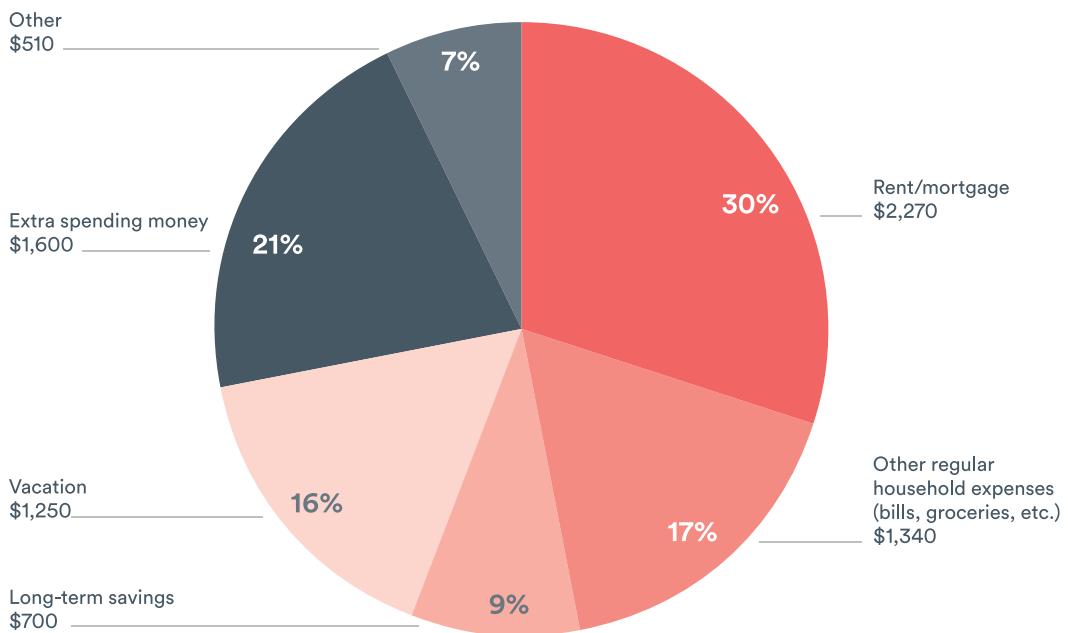
As of the latest 2012 study, approximately 60% of San Francisco Airbnb hosts reported household incomes under \$100,000 in 2013. Today, the typical San Francisco Airbnb host earns \$13,000 per year renting a room out on 78 days per year. Approximately 56% of San Francisco hosts from the most recent 2012 data reported using their income to help make rent or mortgage payments. The median household income in San Francisco was \$78,724 in 2013 (in 2014 inflation-adjusted dollars); over 40% of Airbnb hosts reported household incomes less than this.¹⁹



¹⁹ 2009-2013 American Community Survey 1-Year Estimates, Median Household Income in the Past 12 Months (In 2014 Inflation-Adjusted Dollars), San Francisco city (San Francisco-Oakland-Hayward CA Metropolitan Area).

Boston

Approximately 55% of Boston Airbnb hosts reported household incomes under \$100,000 in 2013. The typical Airbnb host in Boston earns \$8,020 per year renting out her home about 68 nights per year. More than half of hosts, 53%, report that this income has helped them stay in their homes. The median household income in Boston in 2013 was \$54,440 (in 2014 inflation-adjusted dollars); over 17% of Airbnb hosts reported household incomes less than this.²⁰



²⁰ 2009-2013 American Community Survey 1-Year Estimates, Median Household Income in the Past 12 Months (In 2013 Inflation-Adjusted Dollars) for Boston city (Boston-Cambridge-Newton MA-NH Metro Area).

Conclusion

Thoughtful policy solutions are critical to combatting stagnant incomes. Increased demand from infrastructure expansion, improved education and skills opportunities, increases in the minimum wage, improved collective bargaining for workers, innovation and research policies, and other policies encouraging job creation and wage increases are needed to solve this challenge. The Airbnb platform does not replace the need for those policies, but it does offer middle-class families facing the squeeze of stagnant incomes help to make up the difference. While it is important to develop common-sense regulations to ensure that our economy achieves the benefits of innovations in the sharing economy while minimizing potential downsides, those who claim that income stagnation is among the nation's leading economic challenge cannot ignore the positive difference the Airbnb platform can make on helping families overcome income stagnation.