

# “A Bargain With the Devil:” Bill Comes Due for Airbnb Hosts

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## Short-term renters vanish under lockdowns, leaving mortgages to pay

For years, Cheryl Dopp considered the ding on her phone from a new Airbnb Inc. booking to be the sound of what she called “magical money.” A property she rented out in Jersey City, N.J., on Airbnb could gross more than \$8,000 a month, she said, double what long-term tenants would pay. Now, Ms. Dopp associates the dings with cancellations and financial misery. The 54-year-old information-technology contractor said she had about \$10,000 in bookings evaporate overnight in March. She has \$22,000 in monthly expenses for a largely Airbnb portfolio, she said, that included another Jersey City home and a house in Miami. In her mind, the promise of more rental income offset the growing debt, she said. “I made a bargain with the devil.”

Ms. Dopp is part of an upper-crust dimension of the gig economy: property owners and speculators who bought or leased real estate in pursuit of Airbnb profits. Airbnb spawned a cottage industry of homeowners running their own property empires, turning the startup into a hotelier without any hotels. The coronavirus's spread has exposed swaths of the U.S. economy that were ill-suited for a crisis – great for offering inexpensive goods and services quickly, terrible in an economic disaster.

The sharing economy has proven particularly unstable in the pandemic. Silicon Valley championed the concept of turning America into a land of entrepreneurs taking advantage of flexible hours, unimpeded by regulations or specialized training. People who bought into the idea turned their cars into work stations for Uber Technologies Inc. and Lyft Inc. or became couriers for food-delivery services like DoorDash Inc. They have taken a hit, but with Airbnb, the problems are broader. Hosts brought with them cleaning services, interior designers and property-maintenance workers who helped build miniature property empires – so their plight has ripple effects that go far beyond their own listings.

Airbnb hosts saw \$1.5 billion in bookings vanish in mid-March as the travel industry froze, according to market-research firm AirDNA LLC, which analyzes bookings. Airbnb gave guests full refunds and forced hosts to dip into their pockets or beg for leniency on April loans and rent. “Hosts should've always been prepared for this income to go away,” said Gina Marotta, a principal at Argentia Group Inc., which does credit-risk analysis for real-estate loans. “Instead, they built an expensive lifestyle feeding off of it.”

The startup that gave rise to the short-term rental economy is slashing expenses and secured \$2 billion in financing this month, including a \$1 billion loan at a hefty interest rate. *The Wall Street Journal* reported last month that Airbnb had racked up hundreds of millions in losses due to the pandemic. The company hasn't publicly reported figures. Though most real-estate economists say there are too few Airbnb properties to ignite a housing crisis, the breakdown of the Airbnb economy could strain lenders, undermine property values, and validate some local governments' long-held suspicions that Airbnb contributed to the affordable-housing crisis.

“No one anticipated that a global pandemic would require the country to shelter in place, upend the economy,” said Airbnb spokesman Nick Papas. “This is temporary: Travel will bounce back and Airbnb hosts – the vast majority of whom have just one listing – will continue to welcome guests and generate income.” Mr. Papas said the company accounts for a fraction of the global housing stock and would have minimal effect on the broader market. Airbnb has more than 3 million hosts and more than 7 million listings globally, he said.

Airbnb hosts’ backgrounds, financial circumstances, and businesses vary, which makes addressing their woes challenging. They operate in a gray market in many cities because short-term rental laws are still evolving. Their models range from owning property to signing long-term rental agreements for apartments. AirDNA estimates that a third of Airbnb’s U.S. listings for entire homes or apartments – excluding shared rooms – are by hosts with a single property. Another third are run by hosts with between two and 24 properties. The remaining third involve hosts with more than 25 properties. Some of those hosts renting 25-plus properties are managed by startups such as Sonder Corp. and Lyric Hospitality Inc., which pay to rent hundreds of apartments they sublease on Airbnb and elsewhere. Many of those companies have furloughed or laid off staff in recent weeks.

Airbnb’s Mr. Papas said the company doesn’t break down data by properties and can’t comment on the accuracy of AirDNA’s data. He said more than 70% of hosts world-wide have only one listing, and those listings account for about half of Airbnb’s listings. He declined to break down the percentage of hosts listing entire homes versus those subletting rooms.

### **No bookings**

Smaller players have spent hundreds of thousands of dollars each buying homes for short-term rentals. Jennifer Kelleher-Hazlett of Clawson, Mich., spent about \$380,000 to buy two Michigan properties in 2018. She said she and her husband cashed out their financial investments and borrowed \$100,000 from employers to furnish them. The 47-year-old expected to net up to \$7,000 a month from Airbnb after mortgage payments, supplementing her income as a part-time pharmacist and her husband’s as a schoolteacher. Before the virus struck, the couple was considering buying more homes. Now, they can’t make mortgage payments because no one is booking, she said. “We’re either borrowing more or defaulting.”

Airbnb let hosts set their own refund policies over canceled stays. Hosts with strict policies would receive half the money on canceled stays. Many factored a steady stream of income when planning for the future. Airbnb’s Mr. Papas said the majority of active listings didn’t have strict cancellation policies. Hosts’ sense of control disappeared as the crisis took hold and the company stepped in to ameliorate travelers’ panicked cancellations. Airbnb granted guests full refunds for stays between March 14 and May 31, wrenching the finances of those who had used Airbnb income to underwrite and sustain their mini-empires. Airbnb has said while it gave hosts the flexibility to set their own cancellation policies, hosts agreed to an “extenuating circumstances policy” that allowed the company to override them – as it did when the pandemic hit.

Some hosts feel Airbnb hung them out to dry. “I don’t think that hosts ever thought their policies would be overridden,” said Ms. Kelleher-Hazlett. “They’re very guest-centric.” Later, Airbnb said it would pay hosts 25% of what they would have received for canceled bookings and created a \$17 million fund to help top-rated hosts cover mortgages. Airbnb said it would cap grants at \$5,000 per host. That sum would provide little relief to hosts such as Jennifer and David Landrum of Atlanta. In 2016, they started a company named Local, renting the 18 apartments they leased and 21 apartments they managed to corporate travelers and film-industry workers. They spent more than \$14,000 per apartment to outfit

them with rugs, throw pillows, art and chandeliers. They grossed about \$1.5 million annually, mostly through Airbnb, Ms. Landrum said. They spend about \$50,000 annually with cleaning services, about \$25,000 on an inspector and \$30,000 a year on maintenance staff and landscapers, Ms. Landrum said, not to mention spending on furnishings.

When Airbnb began refunding guests March 14, the Landrums had nearly \$40,000 in cancellations, she said. The couple has been able to pay only a portion of April rent on the 18 apartments they lease and can't fulfill their obligations to pay three months' rent unless bookings resume. They have reduced pay to cleaning staff and others. Adding to the stress, Georgia banned short-term rentals through April. "It's scary," said Ms. Landrum, who said she has discounted some units three times since mid-March. The Landrums have negotiated to get some leniency from apartment owners on their leases. If not, Ms. Landrum said, they would have to sell their house.

Florida, Pennsylvania, Vermont, and Delaware also have clamped down on short-term rentals, instituting temporary bans on Airbnb properties and similar listings. Local governments including California's Sonoma County and Myrtle Beach, S.C., have enacted similar restrictions. The measures have made it harder for some Airbnb hosts to fill properties with families looking to quarantine outside their homes or near relatives.

Nearly one in five hosts that Airbnb recently surveyed said hosting on the platform helped them avoid eviction or foreclosure. The company presented these findings to U.S. Congressional leaders and successfully lobbied to have hosts covered under the Coronavirus Aid, Relief, and Economic Security Act – known as the Cares Act – making them potentially eligible for small-business loans and unemployment assistance, among other things. That program's funds ran out but were replenished with Congress' approval this month of another \$484 billion in aid. It wasn't clear how many hosts would qualify or whether disbursements would be fast enough to cover their losses.

In March, the Federal Housing Finance Agency said owners of investment properties with loans backed by Fannie Mae or Freddie Mac could seek forbearance if they couldn't pay their mortgages due to loss of income related to the coronavirus – a change that could help some Airbnb hosts. The agency later moved to help mortgage companies facing a cash-flow crunch, capping at four months the period the companies are on the hook to make monthly payments on behalf of homeowners who fall behind on their loans.

#### **“No rescue”**

The pandemic's financial hit could cause lenders to re-evaluate their exposure to Airbnb, said Susan Wachter, a real-estate professor at University of Pennsylvania's Wharton School of business. “There's no rescue in place for this.” Many Airbnb hosts are desperate to sell properties, say real-estate brokers like Greg Hague, who runs a Phoenix real-estate firm and helped state lawmakers draft short-term-rental legislation. “There's been a flood of people. You have people coming to us saying, ‘I'm a month or two away from foreclosure. What's it going to take to get it sold now?’ “ he said. That has diminished overall property values, he said.

Airbnb's Mr. Papas said there was no statistical evidence suggesting home sales or prices had been affected. As short-term-listings bans were passed around the country, Airbnb said it was shifting to focus on long-term stays and encouraged hosts to allow them. Some hosts under pressure to generate income have pursued traditional 12-month leases on Zillow, Craigslist and other sites.

In Nashville, Tenn., which grants permits to hosts, about a dozen of the city's 3,600 nonowner-occupied listings – which include Airbnb properties – surfaced in the first days of April as advertisements for one-

year leases on Zillow or Craigslist, according to Host Compliance LLC, a software provider tracking permits for the city. City leaders said they feared more would follow.

### **“Magical thinking”**

One of the apartments is in City View, a development with a swimming pool and rooftop views of downtown. When City View was completed in 2015, councilman Freddie O’Connell, who represents the district and has worked to rein in short-term rentals, hoped it would lure young professionals and families and help ease the city’s housing shortage. Instead, he said, it became a haven for short-term rentals. “With Airbnb, magical thinking got out there,” said Mr. O’Connell. “People have taken on a lot of risk, and we’re seeing the consequences of that now.” City View declined to comment.

Ms. Dopp, the IT contractor, bought two Jersey City properties in 2015 each with multiple apartments. She listed one apartment for \$140 a night and generated \$4,200 from it that month, she said. She also bought a Miami house that she listed on Airbnb and other short-term rental sites under a pseudonym and used the anticipated revenue from the properties to support a six-figure loan for maintenance, she said.

When states began locking down, Ms. Dopp said, “I thought, ‘Holy God. We’re about to lose everything.’ ” Though some of her properties had long-term tenants, she lost most Airbnb bookings through spring, she said, and can’t cover April’s mortgages, property taxes and insurance. A family rented her Miami home at a discounted rate on Airbnb, she said, providing some relief. She also plans to apply for a small-business loan, seek forbearance from banks, find long-term tenants independently of Airbnb, and sell one property. She has begun shutting down her Airbnb account, she said. “I don’t want to bargain with the devil anymore.”