

# Price attributes of private accommodation: The case study of Split

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# Croatia



Price attributes of private accommodation: The case study of Split

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## ABSTRACT

As the sharing economy concepts such as Airbnb are new to Split, Croatia, the market is still unsettled and how to determine the appropriate price is a question. The focus of this research was to find out the current price determinants (attributes) and provide a model of analysis so that sensible recommendations could be given. Using observation method and statistical analysis, the research showed that overall rating and market situation of private accommodation in Split is at the top of Airbnb market. Also, it showed that attributes influencing the price mostly are cleanliness, communication and superhost status, with significant differences from the literature information.

**Key words:** *Private accommodation, Airbnb, sharing economy, pricing, Split*

## INTRODUCTION

### *Sharing Economy and Airbnb: Shaping the Tourism Industry*

The concept of sharing economy become popular when the peer to peer internet platforms were developed with the purpose of exchanging goods and services in a globalized market. (NSW Business Chamber, 2015). Woskowiak (2014) defines the sharing economy as online platform(s) that help people share access to assets, resources, time and skills. Sharing economy is marked with high growth of both businesses and the number of its end users. The growth can be explained by the fact that the concept of sharing economy has provided solutions and consumption methods that are satisfying to both businesses and users. This is due the broad availability that comes from the online community, social aspect (peer to peer concept) and lower cost systems. (NSW Business Chamber, 2015)

Interest in the impact and nature of the sharing economy is rapidly growing, as the two dominant sharing economy platforms, Airbnb and Uber, were transformed within five years from entrepreneurial start-up companies to internationally operating multi-billion

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corporations. Up to 2013, within 5 years of operations, Airbnb reached 11 million guest users and was operating in more than 160 countries, with future predictions estimating its growth to continue exponentially (Konrad & Mac, 2014).

Airbnb, an online platform/ sharing economy phenomenon quickly disrupted the traditional hospitality business system with its rapid expansion of booking services to private accommodation owners. The new concept lies on the grounds of offering services that are of a peer to peer nature, accessible to a wide range of both suppliers and those in demand, while matching the supply with demand and, in that way, influencing the pricing. Such concept revolutionized the processes in the hospitality sector and shifted the tourism destinations' framework. In short, it has changed the face of hospitality worldwide (Richardson, 2015).

### *Tourism Industry in Croatia and the City of Split*

Split, the second largest city in Croatia by the population, is placed in the south-eastern coast and is the capital of Split-Dalmatia County. Split-Dalmatia County had 18.1% of overall tourist arrivals and 19.3% of tourist overnights in Croatia in 2017, which places the county on the second place. The city of Split counted 720,000 tourist overnights which is only 4.3% of tourist overnight in its county. (Ministarstvo turizma Republike Hrvatske, 2018). Possible reason why Split holds only 4.3% of tourist overnight in Split-Dalmatia County is the blooming offer of private accommodation which is dominantly placed in the regional villages.

### *Private Accommodation: Characteristics, Growth and Trends*

According to the Croatian Ministry of Tourism, private accommodation is defined as an “accommodation type of unit such as rooms, studio apartment, apartment, house for rent, camping site with certain household area well as the village type of houses used for leisure activities” (Petrić & Mimica, 2011). Since 2000 to 2017, the number of tourist beds in private accommodation has almost tripled, taking 61, 4% of all tourist beds offer in Croatia in 2017.

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The private accommodation today is the most dominant accommodation offer in Croatia, having 47.4% of tourist overnights in 2017, while hotels had 22.8%. (Ministarstvo turizma Republike Hrvatske, 2018)

Increased popularity of private accommodation is not only due to sharing economy phenomena such as Airbnb, but also because there is a considerable shortage of quality hotels in Croatia as total, as well as in the city of Split and its region. (Mikačić, 2018) In Croatia, in 2017, only 6% of hotels were five stars hotels, while 4 star hotels and 3 star hotels had 41% and 44%, respectively. Furthermore, the number of tourist beds offer in 5 star hotels was only 10% and 4 and 3 star hotels had 80% of tourist beds in total. In Split-Dalmatia County, the number of total tourist beds in hotels has decreased from 2016 to 2017, while the number of private accommodation beds has increased (Ministarstvo turizma Republike Hrvatske, 2018).

This all points to the fact that Croatians find this type of economy a relatively convenient source of revenue. However, the problem with the dominance of private accommodation presents is the low utilization rate; the peak of the season is busy, but the shoulders of the season are slow. It is highly sensitive to seasonality and does not significantly contribute to the off-season tourism development. According to the Institute of Tourism Croatia, which defines off-season tourism as the period from October to April, hotels in Croatia in that part of the year provide approximately 50% of their total annual offer of beds. On the other hand, private accommodation offers in the off-season only 11% of its total annual tourist bed offer. (Institute of Tourism Croatia, 2016) This effectively means that private accommodation, particularly those in the small coastal towns, practically shut down at the end of the season.

### *Socio-Demographics of Private Accommodation Owners*

In terms of socio-demographic characteristics of private accommodation owners, 78% of rent permit holders are women, 39.1% of whom are between 36-55 years old. There is an almost identical percentage of 38.9% of women in the age from 36 to 65 with this permit, which

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bears witness to the fact that these kinds of services are provided by an older age group, mostly as an additional revenue source. As was expected, the majority of private accommodation providers have a medium-level professional qualifications (55.6%), while 37, 7% have a university degree or higher qualification, and 6.7% only completed elementary school (Cerovic 2012, 17). Also, the research done by Petric and Mimica (2011) showed that half of permit holders are currently employed, while a third are retired. The results concluded that private accommodation rentals are substantially provided by the older age group and for many permit holder this is an additional revenue source.

### *Attributes of private Accommodation and their impact on the pricing*

Pricing has been the most critical factor for success of the hospitality accommodation business, or at least one of most critical factors in some researches (Hung, Shang, & Wang, 2010).

According to Portolan (2013), the prices of the private accommodation offer are set in majority based on intuition of the owner and their personal competition observation. Her research conducted in Dubrovnik established that the price of the private accommodation is in a close relationship with attributes of their offers, the most important being those of hedonic nature, such as balcony, garden, peaceful area, as well as parking availability. In the order to achieve better occupancy and higher profit, owners should set prices based on their valuation of the hedonic attributes of their offer.

On the other hand, research done by Wang and Nicolau (2017), in which they compared price determinants (attributes) of hotels and private accommodation on Airbnb in 33 different cities, showed that the most important ones for private accommodation are host attributes (i.e. being ranked as “super host” on Airbnb allows price increase). For hotel industry, the most important price determinants are the stars ranking and chain affiliation. Price determinants common to both hotels and private accommodation are location, amenities, customer reviews

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and services offered. The most important services offered at private accommodations, which make tourists willing to pay higher prices are pets allowed, smoking allowed and wireless internet.

### *Pricing in the tourism industry and price sensitivity of customers*

Price is one of the most critical factors in lodging business. According to the Tourism Industry blog (2010), pricing is highly variable depending on the geographical location, type of and quality of accommodation offer, and market segment it attracts. Furthermore, when the price of the offer is set, the pricing decision influences the type of the guests it will attract. Examples for pricing strategies are: rack rates, seasonal rates, last minute pricing, discounting, per person or per unit pricing, packaging, etc.

Another research suggests that the modern tourist is more sensitive to price due to technological advances, increase of tourist offer and information sharing. The same is applied to pricing of private accommodation. The price therefore must be set carefully, since the guests is looking to pay less and the owner to charge more. (Raju & Zhang, 2010) The definition of pricing can be finding of equilibrium between the market supply and demand. However, in the case of private accommodation, it is often difficult to identify the point of market equilibrium and pricing is continuously adjusted. Finding the equilibrium leads to a maximization of the profit which is often the main objective of private accommodation owners. (Babić, 2011) That is the reason why price should be adjusted according to the current demand and supply, which are often a subject to change, leading to the conclusion that, in order to match the price with market supply and demand, pricing needs to be elastic and dynamic.

### *Dynamic pricing strategy in tourism industry*

The majority of hotels use some form of dynamic pricing as part of their routine revenue management practices. Some forms of dynamic pricing are: increasing the price at times of

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high occupancy and opposite, adjusting the price to competition and demand rates, time sensitive pricing (lower price before check-ins to fill the rooms on weekend for leisure segment and opposite for business segment), etc. Dynamic pricing is used in response to perishability of accommodation which, like any service, cannot be stored for later use. Research shows that the more stars the hotel has, the less dynamic pricing will be. Research also suggests that dynamic pricing is more common in the low stars hotels, camps and private accommodation. Finally, it is also suggests that dynamic pricing can used as a strategy to increase the occupancy days in the season, thus increasing the utilization rate. (Abrate, Fraquelli, & Viglia, 2012)

## METHODS

Since the sharing economy concepts such as Airbnb are new to the majority of renters in Split, who are, by and large, limited in the scope of insights, experience and education, the market is still relatively unsettled in the sense that there seems a lot of confusion as to what constitutes the fair price. The main focus of this research is to find out the current price attributes (determinants) with the aim of providing a model of analysis so that sensible recommendations can be given. The main outcomes of this analysis would be to manage occupancy and revenue based on the sensible manipulation of the private accommodations' attributes.

The data used in this descriptive-relational research attempting to discover relationships between attributes of private accommodation in Split was acquired through the observation of the official Airbnb website. The sampling was targeted to 111 of around 900 private accommodations from the Split city center, listed on official website of Airbnb. Only those offering 2 bedrooms and 1 bathroom were included in order to ensure the uniformity of the sample. All 111 samples had all data necessary for the research.

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Data used for the research was the rating of the property, number of amenities offered, superhost status, rating of communication, cleanliness and check in experience, house rules (smoking and pets policy), price for one night and occupancy between dates 20th of July and 20th of August, 2019. This period was chosen because it best represents the industry since it is the high season. It is also a limitation of this research because the data could only be collected for future period and ending occupancy and price cannot be determined. Other limitations are its relatively narrow focus (one specific location - Split town center) and the sample size, which provides the confidence level of 95%, with the possible margin of error of cca 9%.

The instrument used to gather data was excel spreadsheet, where all the participative accommodations and their attributes were listed. The method of research was statistical analysis using average, median and standard deviation formulas and linear regression analysis. Relational analyses were conducted to determine relationships between variables. Also, the comparison of means was used to see the differences between attributes.

## RESULTS

Descriptive analysis show that 51% of private accommodation offer in Split has a superhost status, 35% allow smoking and 36% allow pets (see Table 1). The average rating on a 5 star scale of properties is 4.8 stars (SD=0.27). Within specific ratings (see Table 2), communication rating average is 4.94 stars (SD=0.17), while cleanliness and check in experience are at 4.9 stars (SD = 0.23 and 0.26). The average number of amenities provided in a property is 24 (M = 24.02, SD = 8.92). The average price per night between 20th of July and 20th of August is €131 and middle price is €119/per night (M=131.31, SD=52.56, Mdn=119). The average number of bookings for this period is 15 and middle is 16.5 (M=14.71, SD=9.49, Mdn=16.5), which is 46% of occupancy on average and 51.6% would be the middle occupancy (see Table 1).

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Relational analyses were conducted to determine relationships between variables. Linear regression was used to establish if variables are connected and to confirm the significance of correlation found. Also, the comparison of means was used. All the attributes were compared to 3 dependent variables: stars, price and occupancy.

The first linear regression analyses showed that the significant relationship was found between stars and cleanliness and check in (corr. coeff. = 0.435, 0.233) and it is a positive relationship, meaning higher the cleanliness or check in, higher the stars rating (see Table 3). However, the R square of the analysis was 42% which shows that the parameters are not significantly connected due to the large dispersion of data, therefore the result cannot be completely relied on. Another relationship was found between stars and pets allowed (corr. coeff = -0.123) which is negative. The analyses showed that the superhost status (corr. coeff = 0.238) and price (corr. coeff = 0.001) influence positively stars, but only slightly (see table 4). However, the R square of this analysis was 49% which shows that the parameters are not significantly connected due to a large dispersion among the data, therefore the result cannot be completely relied on. In the analyses with the price, the R square is only 5%, meaning that the resulting connection of price and stars can be completely ignored.

Second linear regression analyses showed that attributes that are related to price are stars (corr. coeff. = 0.42) and number of amenities (corr. coeff. = 1.498). All relationships are found positive, the higher the independent variables the higher the price. The average price of properties with superhost status is €132.8 and €129.76 for those with no superhost status, which might show a slight influence of superhost status on the price (see Table 5). However, these analyses also had low R square (0.048 and 0.073), which shows that the parameters are not significantly connected and there is a large dispersion among the data, therefore the result cannot be completely relied on.

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Third analyses found that there is no significant relationship between occupancy and attributes researched.

The analyses of averages showed that the following attributes influence the price, order by the influence amount from highest influencer to the lowest: cleanliness (20%), stars (19.7%), communication (11.2%), pets allowed (-10.2%), smoking allowed (-6.4%), check in experience (6%), and superhost status (2.3%). Pets allowed and smoking allowed negatively influence the price, meaning that allowing pets reduces the price for 10.2% and allowing smoking reduces it for 6.4%. On the other hand, other attributes have positive influences, for example, increasing the cleanliness rating by 0.5 allows an increase in price by 20% (see Table 6 and Figure 1).

### DISCUSSION

This research was inspired by our initial perception that the Airbnb market in Split lacks rationality and this was actually confirmed by the research findings. The context of the Split market denies the finding of Portolan (2013) in Dubrovnik, that hedonic attributes aka amenities, such as garden, balcony, peaceful location and parking, play a decisive role in the formation of the price. It also refutes the findings of Wang & Nicolau (2017) that the policies of allowing smoking and pets are raising the price of accommodation, because in Split those two attributes, lower the price by 6.4 and 10.2% respectively, which boggles the mind. Although the superhost status was stated to be one of the most important price determinants, in Split, this is absolutely the lowest one (2.3%).

In Split it would appear that cleanliness is the most important price determinant, followed with the number of stars, communication and check in, which is really puzzling, because, for example, cleanliness was not observed as a major issue in customer reviews. To add to the mystery, the linear regression analysis of all collected data has shown that the collected data is dispersed to the level of lacking any sense. This would mean that it is impossible to derive

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any predictability from the collected data in the sense that the improvement of the attributes measured by Airbnb would result in a higher revenue. Therefore, attributes measured by Airbnb cannot be seen as price determinants and, by the same token, value determinants, which hardly makes any sense.

This all begs the question why. In our opinion, the reasons could be twofold. The first reason is connected to Ashby's Law aka the First law of Cybernetics, which states that "the degree of control of a system is proportional to the amount of information available." (Ashby , 1956). This would imply that we must have an adequate amount of information in order to gain control of the system. However, if the system has some hidden properties, the information is incomplete and there is uncertainty about its behavior. In other words, junk (data) in, junk out. This effectively means that there probably exist other powerful attributes/ price determinants which were not captured by our observational study.

Those could be twofold. One is the possible manipulation of guests' reviews through the means of corruption. There have been widespread rumors corroborated by a decent amount of evidence that online reviews are bought and paid for, and that interested parties see it as a "legitimate" form of marketing and budgeting expenses, in spite of the illegality of those acts. It would appear that emerging (low trust) markets would be more prone to such manipulation. In other words, service providers ask their customers to write a favorable review in exchange of a financial reward (Durden, 2019). This deserves a further study with a possible comparison of our data with the same set of data from a high trust destination, such as, for instance, Stockholm, Tokyo, Geneva, and Munich or similar, where such behavior would be less likely to happen, as the research of 33 touristic cities shows (Wang & Nicolau, 2017). In this research, out of 33 cities, 32 cities were located high-trust countries/cultures destination which would fit the parameters established by Fukuyama (1996), whereas Split, due to its

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geographical location and the demographical attributes of the renters, could be seen as a typical low trust area.

The skewing of the results could be happening not on the side of the service providers, but on side of Airbnb, because it is widely believed that Airbnb incentivizes users to leave only positive reviews (Mann, 2019). This results in the culture on Airbnb site where guests are somehow expected to leave 5 star reviews or nothing, because they can also get negative reviews from their hosts which could result in the next host rejecting them (FlyerTalk, 2016). This also deserves a further study.

The second possible reason could be unpredictability and irrationality of human beings, in this case guests. It could be that the guests in Split are so much enchanted with the general attributes of the destination, the sea, monuments, nature, countryside, food, wine, etc., and that enchantment influences the rationality of their reviews. This could also be a part of a separate study.

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## APPENDICES

Table 1

<b>ATTRIBUTES</b>	<b>MEAN</b>	<b>ST. DEVIATION</b>	<b>MEDIAN</b>
Price	€131.31	52.56	€119
Occupied days	15 (46%)	9.49	16.5 (51.6%)
Pets allowed	36%	-	-
Smoking allowed	35%	-	-
Amenities	24	8.92	-
Superhost status	51%	-	-

Table 2

<b>ATTRIBUTES</b>	<b>AVE. RATING</b>
Communication	4.94
Cleanliness	4.9
Check in exp.	4.9
Stars	4.8

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Table 3

SUMMARY OUTPUT								
<i>Regression Statistics</i>								
Multiple R	0.649813							
R Square	0.422257							
Adjusted R Square	0.400248							
Standard Error	0.211113							
Observations	110							
<i>ANOVA</i>								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	4	3.420281	0.85507	19.18542	7.18E-12			
Residual	105	4.679719	0.044569					
Total	109	8.1						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	0.434874	0.656439	0.662475	0.509119	-0.86672	1.736472	-0.86672	1.736472
Amenities	0.004087	0.002376	1.720454	0.088296	-0.00062	0.008798	-0.00062	0.008798
Communication	0.199432	0.14267	1.397856	0.165102	-0.08346	0.482321	-0.08346	0.482321
Cleanliness	0.435859	0.091652	4.75557	6.33E-06	0.254129	0.617589	0.254129	0.617589
Check-in	0.23346	0.113496	2.056979	0.042167	0.008417	0.458502	0.008417	0.458502

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Table 4

SUMMARY OUTPUT								
<i>Regression Statistics</i>								
Multiple R	0.487722							
R Square	0.237873							
Adjusted R Square	0.216303							
Standard Error	0.241326							
Observations	110							
<i>ANOVA</i>								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	3	1.926772	0.642257	11.02815	2.32E-06			
Residual	106	6.173228	0.058238					
Total	109	8.1						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	4.706048	0.040404	116.4741	1.1E-113	4.625942	4.786153	4.625942	4.786153
Superhost status	0.238403	0.046696	5.105424	1.46E-06	0.145824	0.330983	0.145824	0.330983
Smoking allowed	0.047739	0.056376	0.846796	0.399016	-0.06403	0.159511	-0.06403	0.159511
Price	0.001098	0.000492	2.234179	0.027551	0.000124	0.002073	0.000124	0.002073
Pets allowed	-0.12384	0.055589	-2.22788	0.028001	-0.23405	-0.01364	-0.23405	-0.01364

Table 5

SUMMARY OUTPUT								
<i>Regression Statistics</i>								
Multiple R	0.250625							
R Square	0.062813							
Adjusted R Square	0.036288							
Standard Error	51.59934							
Observations	110							
<i>ANOVA</i>								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	3	18915.37	6305.125	2.368129	0.07487			
Residual	106	282224.1	2662.492					
Total	109	301139.5						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	-83.1987	97.42772	-0.85395	0.395057	-276.359	109.9613	-276.359	109.9613
Amenities	1.4985	0.58802	2.548381	0.012255	0.332693	2.664307	0.332693	2.664307
Stars	47.08286	20.49885	2.296853	0.023593	6.441889	87.72382	6.441889	87.72382
Superhost status	-7.67504	11.11341	-0.69061	0.49132	-29.7085	14.35838	-29.7085	14.35838

Table 6

<b>ATTRIBUTE</b>	<b>INFLUENCE COEFFICIENT</b>	<b>TYPE OF INFLUENCE</b>
Superhost status	2.30%	Positive
Pets allowed	6.40%	Negative
Smoking allowed	10.20%	Negative
Communication	11.20%	Positive
Cleanliness	20%	Positive
Check in experience	6%	Positive
Overall stars	19.70%	Positive

Figure 1

*Influence of Attributes on Price*

