ReformBnB
For a socially responsibility home sharing industry
This report provides an overview of the short-term rental industry at a global level, largely working from a public policy perspective. It does this through a review of the significant literature available and by drawing on numerous discussions with academics, politicians, civil servants, hoteliers, concerned citizens and other people working on the topic. It aims to give readers a global perspective on the key policy challenges the industry poses.
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Untaxed, un-regulated, and illegal - An introduction to the new short-term rental industry

In just ten years ‘home sharing’ has been transformed from a marginal activity largely used by backpackers into a multi-billion dollar industry, in the process transforming the way we travel. Accompanying this growth, and in many ways driving it, is a new phenomenon: the conversion of houses and apartments into permanent short-term lets. This conversion has had a significant impact on communities, hotel owners and operators, and social and economic cohesion. It is time for government, industry and the platforms themselves to come together and reform the short-term rental sector. Reform is needed. It is also possible.

1.1 The rise of the STR Industry...

In just ten years, the short-term rental industry (hence ‘STR industry’) has grown from a marginal activity serving a small niche of customers into a 150 billion US dollar alternative accommodation industry, an industry growing at twice the rate of the hotel lodging sector.

The growth of the STR industry can best be illustrated in the story of its leading company – AirBnB. Over the last ten years, AirBnB has grown from a start-up operating from a design school graduate’s living room into a multinational company with operations in over 200 countries, revenues of $3.5 billion US, profit of $0.1 billion USD, and an estimated value of over 30 billion USD — though some put it’s value at double that. AirBnB’s capacity is roughly equivalent to the top-5 hotel chains and over 400 million people have booked a stay in one of them over the last ten years. It is still growing rapidly.

While AirBnB is by far the most successful STR platform (hence P2P platform), with around 30% market share of the online accommodation market, it is not alone. Its success has spawned several copycat companies (the most successful Booking.com and HomeAway) and auxiliary businesses supporting host’s with cleaning, pricing, etc.

The P2P platforms present this growth story as the democratisation of capitalism. Their lobbyists write that they allow, ‘ordinary people...[to] use their homes, typically their greatest expense, to generate supplemental income to pay for costs like food, rent and their children’s education’. Their ideal user, and the one most often mentioned in their documents, is a person, perhaps temporarily unemployed, who would lose their home without the little extra bit of income that letting their apartment short-term provides.

While it is true that thousands of ordinary people do use the platforms in this way, this is only half of the story — and from the perspective of the platforms revenue base even less — behind the boom of the STR industry. The other half are the illegal hotels.

1.2 ... and the rise of illegal hotels

Hiding in the shadows of the legitimate home sharing industry are a significant number of real-estate operators using the P2P platforms to rent whole apartment and houses (hence ‘housing units’) on the short-term rental market on a permanent basis. In effect, these operators are turning homes into unregulated, untaxed and, in many jurisdictions, illegal hotels.

Normally, these operators do not rent just one housing unit in this manner. Instead, they rent multiple apartments, building property empires by sub-letting ten, twenty and, in one case, over one hundred housing units to tourists.
Quite often the guest has no idea they are renting a commercial unit, nor do the landlords approve their property being sub-let.

Multiple academic and government studies have demonstrated that in many major cities, these real estate operators can generate between 30 and 80% of markets revenue (see Key Debate 1 for further details). From a revenue perspective, at least, the STR is no longer just about ordinary people sharing their homes. It’s about real estate operators running illegal hotels. The STR industry has been commercialized. The P2P platforms are not just a tool for ordinary people, they are also a marketing agent for illegal hotels.

The emergence of the real-estate operators on the P2P platform has created a major problem. When the STR industry was really a matter of ordinary people sharing their homes, its impact was small. In that situation, hosts stayed with guests, supervising their behaviour and minimising risks. Because lets were irregular the residential character of the neighbourhood was maintained. Nor was there any competition between locals and tourists for limited supplies of housing, as all units had a long-term resident. This sort of STR activity, true “home sharing,” was a net positive for the economy.

However, commercial operations are different, especially as regulations do not distinguish it from home sharing. The conversion of residential properties into illegal hotels makes it harder for locals to find a home; destroys the habitability of apartment buildings and neighbourhoods; undermines feelings of local community; poses a range of safety and security risks to guest and neighbours; exposes neighbours and co-tenants to anti-social behaviour; and deprives governments of necessary tax revenue by shifting business activity from the highly taxed hotel accommodation industry to the low or de facto no-tax STR industry. (See chapter 2 for further detail)

### 1.3 ...

... A marriage of convenience

While the P2P platforms state they want to find solutions to this problem, when faced with regulation which would stop real-estate operatives, they push back. And they push back hard, funding, in some cases, multi-million dollar campaigns against reforms. Instead, they proposing light-touch regulation which will not get in the way of their business activities, nor, despite their claims, stop the conversion of apartments into digital hotels (see Chapter 3, 4).

They do this with good reason, over the last ten years the commercial operators have been key to the P2P platform’s growth. Commercial operators generate three major benefits for the P2P firms:

A) Commercial lets are rented out more often and for a higher price than home shares. As the platforms normally generate revenue from fees of between 9 and 15% on each booking, this translates directly into the platform’s revenue.

B) The conversion of units significantly increased the
The illegal hotels represent a significant chunk, estimated at between 10-20% of all listings, of the P2P platform’s total supply. More importantly these listings, unlike home shares, are available all the time. The size of the company attracts customers.

C) The illegal hotels represent a different and more professionalized type of listing. Commercial listing services, for instance, can have professional cleaners, food services, and other such offers, making for a higher end product. At the other end of the market, commercial operators can turn properties into “Party Houses”, catering to bucks night. This significantly widens the range and type of clients the P2P platforms can attract.

Several groups have tried to calculate the value of this benefit (in revenue terms) for the platforms. One study, by the Los Angeles Alliance for a New Economy (LAANE), found 89% of AirBnB’s revenue in Los Angeles came from commercial operators. These figures, because they only deal with the quantitative benefits ignore the other advantages (e.g: the wider product range) these commercial operators bring. (See chapter 3 for a discussion of the platforms efforts)

1.4 \textbf{The Road to Reform}

Despite the P2P platforms efforts, however, many governments are moving to reform the STR sector, introducing registration systems, night-caps, primary residency requirements, and other rules to control the industry, prevent the conversion of housing units into illegal hotels, protect building habitability and communities, and create a level playing field between the STR and other accommodation providers. (These reforms are discussed in Chapter 4). Their efforts will likely continue, the problems caused by the STR industry demand a response.

This report looks at the STR industry globally from a policy perspective, exploring the key challenges it creates, how government and industry have responded, and identifying the key principles for effective regulatory reform. It also engages with some of the key debates regarding the sector, such as the industry’s exposure to regulatory risks and the importance of illegal hotels to their business model.

\begin{center}
\textbf{Eight Principles of Reform}
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1. Home Sharing is for homes
2. Registration is a must
3. Neighbours, co-tenants, and landlords must have a say
4. Neighbourhoods must be protected from AirBnB-ification
5. Short-term rentals must be safe, secure and accessible
6. Compliance must be monitored and enforced
7. The STR industry must pay the same level of tax as the hotel and other accommodation service providers
8. The P2P platforms must take responsibility and be legally liable for collecting relevant taxes and stopping illegal behaviour.

Ultimately, the report calls for reform of the sector based on eight principles, many of which have already been trialled in countries and cities across the world. If introduced en-masse, they can transform the short-term rental industry from one dominated by illegal operators into a socially responsible and sustainable part of the economy, purging the real-estate operatives and returning the STR industry to what it was meant to be; a platform for “regular people to rent their own home”. It will be difficult for the industry to adopt this system, they do very well under the one. However, in the long-run it is necessary.

Governments and city populations around the world are increasingly challenged by the conversion of long-term housing into short-term accommodation, the impact on building habitability, the safety and security risks, and the other problems created by STR industry. Already groups of locals are protesting against over-tourism in cities across the world, governments are imposing hundreds of thousands of dollars in fines on the platforms, and the P2P platforms are involved in significant lawsuits with governments and other groups. If the platforms do not respond to this rising concern, they risk losing their social license to operate. This has already happened in places like Palma, Spain, where STR have effectively been banned.

To avoid this outcome, the platforms should support effective regulation, based on the principles outlined above, to create a socially responsible home sharing industry. All players will benefit from a short-term rental industry which is fair, safe, tax-paying and socially responsible. Effective legislation is needed to make it a reality.
Case Study  Homeless by BnB

This is Chris, standing in what used to be his apartment after it was turned into an illegal hotel. Chris moved into this apartment, in the fashionable Kensington Market area in Toronto in 2015, making it his home. “My friends and I painted the stairs,” he relates. One year later, the property was sold to a new owner, who forced (some tenants claim with highly aggressive tactics) Chris and other tenants to move out. In Chris’ case this was done with the threat of a large rent hike. Following their expulsion, the new owner re-developed the property into luxury apartments. It was up till this point, a classic story of gentrification.

However, unlike a classic gentrifier, the owner did not try to rent the property out to highly paid professionals. Instead, he put the property on AirBnB, renting out to tourist. In effect, he was running an illegal hotel. Long-term residents were replaced by short-term guests. This lead to widespread protest, complaints to government, and significant media coverage. Chris became the poster child of gentrification through AirBnB, a phenomenon noted in several studies.

To be fair to AirBnB, after Chris’ case came to media attention, they kicked the property owner of the platform (it remains unclear whether he simply did not move to another). However, this is not their normal behaviour. Normally, they turn a blind eye to real-estate operators – except, as in this case - when it threatens to become a PR nightmare.
How important are commercial operators to the short-term rental industry?

The P2P platforms have argued that “illegal hotel operators” are a relatively small part of their business, repeatedly pointing out that their average user only makes a few thousand dollars a year.

The alternative claim is that a significant portion of the sector’s revenue is generated by a small number of illegal hotel operators, who make significant amount renting properties full-time. If the overall average is low, these critiques point out, it is because the real estate operators are diluted by tens of thousands of hosts who let their properties one or two times a year. This argument has been made by academics, the hotel industry, activists, and various governments in various studies. Below are three examples:

For David Wachsmuth, an academic based in McGill University, commercial operators that control multiple entire-home/apartment listings or large portfolios of private rooms are only 12% of hosts but they generate more than 28% of revenue in New York City. He has come to similar conclusions in key Canadian geographies.

For the InsideAirBnB team of digital activists, which has been providing data on the STR for over 5 years now, it is clear that commercialisation is rampant. On their website you can see their attempt to estimate its size in many cities.

CBRE a real estate property research company, in a study commissioned by the AHLA and based on data from 13 cities, found that entire-home, multi-unit hosts – the very group...
most likely to be illegal hoteliers – generated $1.8 billion dollars in gross bookings on AirBnB in 2016 in the US (earning AirBnB between $162 and $270 million in revenue). Of this 1.8 billion, over 40% was earned by people letting two or more properties. In the sample of 13 cities which the study covered in detail, 68% was earned by hosts operating 3 or more apartments. 14% by those letting more than 10. It seems highly unlikely that people renting more than 2 – 3 units are commercial operators.

Finally, the French Inspecteurs Des Finances (a government audit body), found that between 4,000 and 9,000 apartments were being rented short-term for more than 120 days a year – the equivalent of between 20 and 40% of AirBnB listings in Paris at the time. While the Inspecteurs did not draw out the implications of this for revenue, as these properties were rented more often and at higher prices than other lodging it is safe to assume they represent a much larger portion of AirBnB revenue. There is little reason to believe that the structure of the STR industry in France has changed since then, if anything it has probably gotten worse, though the recent enforcement campaign by the city hall may have been effective. These results may surprise the hosts.

As one of the Inspecteurs on the project said, “We were shocked when we discovered that, since it went against everything they [AirBnB] told us in the past. We asked them, then, to provide us with data to disprove it and told them that if they didn’t this view would be published officially. They never got back to us.”

This sample of four studies, each from very different sources, is indicative of a larger number of studies of a wide variety of markets. These studies have all come to the conclusion that a significant proportion, between 30 and 80%, depending on the market, of STR industry revenue is generated by commercial operators. The implications are significant. In most geographies mentioned, turning residential properties into commercial property is illegal. This is the case in Paris, where renting an apartment short-term for more than 120 is considered a change of use requiring a difficult to obtain permit. If the laws start to be enforced, the P2P platforms, then, may face significant legal risks to a big chunk of revenue (see Key Debate 2 for a further exploration of this point).

The P2P platforms have repeatedly objected to this conclusion, claiming that research based on scraped data from their website is not accurate. At the same time, despite requests from academics and governments, they refuse to share the data needed to come to a conclusive decision, or share it only with groups they’ve hired. This leaves them in the un-scientific position, of claiming something un-testable by independent verification.

In this situation, independent researchers and policy analysts have little choice but to rely on web-scraped data, data which multiple different bodies have found to be accurate. If the P2P continue to object to this, all we can do is repeat the message of the French Inspecteurs de Finance – share the data to disprove the charge. Sadly, it appears the P2P platforms will never get back to us.
2.1 Housing Affordability

Based on multiple studies, it is clear that the conversion of housing units into all-the-year round STR units is decreasing the availability and increasing the cost of housing. Most of the impact is in small number of touristic neighbourhoods (e.g: Mid-town Manhattan), with more modest spill-over effects in other markets.

The conversion of housing into short-term rentals significantly reduces the number of long-term housing units on the market. In Toronto, for example, the town council recently found that there were 3,200 properties being rented on AirBnB without a long-term resident. At the same time, there were only 3,350 vacant units to let on the long-term rental market. If even half of these units, the report concluded, were returned to the long-term market there would be a significant increase in housing supply. On the other side of the Atlantic, the deputy Mayor of Paris, Ian Brossat, has stated, based on government research, that 20,000 homes have been turned into permanent STR units in Paris. Many other city governments have come to the same conclusion.

By reducing the supply of housing, the conversion of apartments and houses into short-term rental units increases the cost of housing. First, by reducing the supply and, second, by creating an alternative option for property owners to renting out long-term. By having an alternative to long-term rental, landlords can wait longer and demand a higher price from tenant than they could afford without the option of letting to tourists as they searched for the right guest. Both dynamics push up the price of housing.

This conclusion, based on the laws of demand and supply, is backed up by multiple studies. The most significant such studies has been undertaken in New York, led by the Canadian academic David Wachsmuth. His study found that AirBnB increased the median long-term rent in New York City by 1.4% between 2015 and 2018, adding $380 to the average New Yorker’s annual rent. For the average Manhattanite, the same study found short-term lets increased median rents by $700 a year. A related study completed by the NYC Comptroller’s office found this added $616 million to New Yorkers rent bill. Another study, based on a different methodology, found AirBnB caused rents in Barcelona to rise by 4%. A third from academics working in MIT, UCLA, and USC found that across the U.S. a 10% increasing in AirBnB would lead to a 0.39% increase in rent and a 0.64% increase in home prices, adding hundreds to the average person’s bill. There is, therefore, a significant evidence base showing the connection between professionalised short-term letting and the worsening housing crisis.

2.2 Safety Issue

The STR industry creates significant and un-acknowledged health, safety and security risks for guests and neighbours. Hotels and other hospitality settings present unique fire and safety challenges. Transient occupants are unfamiliar and don’t understand the layout of their building, the electric and gas heating systems, and their surroundings. In some cases, they don’t even know who to call in case of emergency. Many of these risks fall not just on the guest, but also on neighbours and the general public. To address these risks, hotels are required by law to meet strict health and safety standards, such as installing...
sprinkler systems, smoke detectors and fire passageways. In many jurisdictions, guest arrivals must be reported to the police. In traditional inns and 'bed and breakfasts' too, strict rules apply. Compliance is regularly inspected, with large fines imposed if the hotel is found to violate the law. This protects guests and the public.

These laws do not apply in the STR industry. There, properties need only comply with the building safety rules for private residences. These standards are written for private homes with permanent residents who are familiar with the systems. They are much lower than those imposed on hotels. Further it is impractical, for financial and operational reasons, for city governments to inspect these properties. This leaves significant safety risks in many short-term lets. These risks are multiplied when the guest is not given a formal induction to the property, as is often the case in commercial rentals.

This has real world consequences. People have died while staying in STR properties. Others have been seriously injured. In a tragic case reported in September 2018, a four-year old boy died in an Australian AirBnB while playing on poorly constructed swing-set. In another, a woman had her pelvis shattered in three places after a balcony in her let collapsed from beneath her and three other people. This is dangerous for guests, but also for the general public. For example, in March 2018, two Argentinian were killed in a gas explosion while staying in Mexico, this was a busy area and it was only with luck that other’s were not injured. There are many more cases of this nature.

The P2P platforms are aware of this, however they oppose making minimum safety requirements and inspections a requirement of doing a short-term let, arguing that it' is too great aburden for their users. They are also deny any liability for injuries taking place in stays they facilitate. Some offer insurance, however their policies have significant limitations and exclusions, leaving guests and hosts exposed to significant financial losses in the case of a severe accident.

The STR industry has tried to cover up this problem by paying compensation to victims. According to multiple sources, AirBnB has paid large settlements (sometimes 2 million USD) to guests injured in the let, while refusing to acknowledge liability. One can understand why the platforms make these large payments, not wanting to test their denial of liability claims in the courts.

However, a system based on inadequate insurance and one-off gifts from P2P platforms is not optimal. It leaves guests at risk of injury or death with no legal rights against the P2P platforms. This situation should be addressed, first to prevent incidents and, second, to make sure harmed parties are adequately compensated. This requires more than just acts of generosity by the platforms, it requires legal reform.

2.3 Anti-Social Behaviour and the loss of public amenity

Short-term lets are increasingly associated with anti-social behaviour. While many transient occupants are respectful of their neighbours and try to minimise their impact on others, some are not. Instead, they are noisy, messy, have disruptive schedules, destroy common areas, menace neighbours, leave garbage out on the street,
host house parties, flood bathrooms, rob their hosts and neighbours, and threaten members of the public, among other things. There are more extreme cases than this, and many of them can be found on websites (such as airbnbhell.com) dedicated to publishing them.

The actions of these bad guests destroy the sense of community, safety and peace which are essential for a long-term residents quality of life. Here, it is useful to listen to the voices of people affected by this behaviour. One Australian woman laments: “I've lived with short-term lets, and let me tell you, I wouldn't wish it on my worst enemy”. Another woman from England relates how she saw “fights which left blood smeared on the walls” from drunken guests staying near her home. A third, from California, writes: “it is total hell – worse than hell – living next to an AirBnB”.

This is a common experience for people living with short-term lets. In most cases, neighbours have no one to turn to address these problems – except a very inadequate company helpline.

2.4 The Uberisation of Neighborhoods

However, the problems of short-term lets goes beyond issues of safety and anti-social behaviour or, to put it more concretely, the fact that guests are rude and don’t know how to use the heating system. In fact, the STR
industry disrupts the very nature of communities and neighbourhoods.

Since the explosion of the STR industry in 2015, touristic areas like Le Marais in Paris, the Barrio Gotico in Barcelona, or mid-town Manhattan, have been so saturated with short-term lets that the very character of the neighbourhood has changed. Changed from a residential community, filled with family, couples, and other long-term resident, into open-air hotels with residents replaced with a constant flow of transient occupants. This phenomenon has been described as the “Uberisation of the city,” by Ian Brossat, deputy Mayor of Paris.26

This transformation typically occurs in a few central and touristic districts in a city, where hosts can charge a significant premium for tourists due to their scenic and convenient location. Understanding the significant profits they can make, real estate operatives move in, turning housing units into short-term lets, making it hard for long-term residents to find a home in the area. Eventually this changes the socio-economic character of the area as businesses which cater mostly to locals (e.g: pharmacies) close down, to be replaced by coffee chains and souvenir shops. Community organizations and institutions (e.g: schools) also close down due to a lack of local population. The noise and nuisance associated with concentrated tourists numbers make life painful for residents, leading more to leave. Ultimately, a vibrant community is destroyed, to be replaced by a tourist ghetto.

Ironically, this “uberisation” destroys the authentic “local” environment which the P2P platforms claim to offer. The P2P platforms have always sold their properties as an

Case Study

L’Ile Saint-Louis

The Ile Saint-Louis, a small island next to Notre Dame in Paris, is an interesting example of the an Uberised neighbourhood. There, approximately two-thirds of the apartments have been turned into short-term rental units.

The impact on the community has been severe. Businesses catering to locals have shut down, the number of locals at the school has declined sharply, church attendance has fallen sharply, and there is no longer the feeling of a tight community on the island which existed before its AirBnB-fication. Indeed, as one local resident put it, perhaps exaggerating, “French people don’t live here anymore”. In the words of another, “It’s sad to look down your street and know that half of the apartments contain tourists.”

While the STR industry is only one driver of the depopulation of the L’Ile Saint Louis, it is clearly the major one. Unless, controlled, L’Ile Saint-Louis will cease to exist as a residential area, instead becoming a large open-air hotel in the centre of Paris, with most of the rooms listed sold under the brand of AirBnB. Many neighbourhoods are facing a similar fate.
opportunity to “live like a local.” Sadly, it appears that letting tourists live like locals, has the potential to destroy the local.

2.5 Taxation

The housing and quality of life issues raised by the STR sector have attracted significant public interest, as one would expect given the stories which have emerged. However, there is another issue which has attracted less attention: taxation.

The hotel industry is a major taxpayer. In addition to corporate income taxes, they normally pay higher rates of property tax, business registration fees, and the social security charges for their staff and owners. Hotel owners must also collect, on behalf of the government, VAT/ sales taxes and transient occupancy or “bed” taxes. All this generates substantial revenue for the government, and adds significantly to the cost of running a hotel business. In comparison, the STR sector is, either de jure or de facto, exempt from most of the taxes paid by hotels, and contributes very little to the government’s coffers. This is true of both the P2P platforms and individual hosts.

At the level of the P2P platforms, the largest of them engage in aggressive tax avoidance, using complex corporate structures to minimise their tax obligations. While all companies try to pay less tax, the P2P platforms have taken it beyond what is socially responsible or acceptable. Airbnb, for example, paid just €92,944 ($109,000) in French taxes in 2016, despite France being the firm’s second-largest market and generating hundreds of millions of dollars in revenue for the firm. Similarly, in the UK, the FT reports Airbnb paid just £650,000 in tax on revenues of around £280 million. In many countries, Airbnb, a company worth over USD 30 bn, pays less tax than a twenty-room hotel. Naturally, this has led to significant political outrage.

Individual hosts, whether peers or professional operators, also avoid taxes. First, under the law, hosts are not expected to pay the same taxes as hotel operators (being exempt, for instance, from sales taxes and the higher rates on business property) despite providing the same service and benefitting from the support of a multinational brands like Airbnb and Booking.com. In some cases, such as Denmark and the UK, hosts are given an income-tax exemption on the first few thousands of dollars they make renting their property. This is particularly outrageous in the UK where hosts can earn £7,500 tax free under the “rent-a-room” relief scheme without paying tax (to be wound up in April 2019). As the average revenue of UK hosts is significantly less than that, it would appear the majority of hosts pay no tax on their STR income. This is particularly outrageous because the “rent-a-room” relief scheme was meant to encourage home owners to rent to long-term residents, not tourists. This case illustrates a broader problem: archaic tax codes, designed before the birth of the P2P economy, favour the STR industry over hotels. Lower rates of tax and, in some cases, outright tax breaks are, in effect, a secret subsidy to the STR industry.

However, looking beyond these de jure tax advantages, there is greater problem: tax fraud. A significant proportion of STR operator do not pay the legally required levels of tax on the money they earn, either out of ignorance of the law or from a wilful desire to pay less tax. It is extremely difficult for tax authorities to monitor the STR industry, allowing tax avoidance to flourish. In some cases, Airbnb has made it harder for authorities to monitor user tax receipts by, for example, setting up the Payoneer card which allows European hosts to have their money paid into a bank based in Gibraltar, a notorious tax haven. With this card Airbnb, which has described itself as democratizing capitalism, appeared to be democratizing tax fraud. In France, the public outcry against Payoneer was so strong that Airbnb withdrew this service from that market, it remains in others.

The growth of the STR industry is shifting economic activity from the hotel sector, which is heavily taxed and easily auditable, to a STR industry where the tax rate is low and tax fraud is easy and common. Ultimately, two groups lose out. First, the hotel industry, who have to compete with an un-taxed rival. Second, the government who lose out on billions of dollars of tax revenue, revenue they need to fund vital services.

2.6 Unfair Competition

The STR industries growth has come, largely, at the cost of the hotel sector. According to one consumer survey, over 50% of Airbnb guests state that they would have stayed in a hotel if not for the platform. This has impacted on the sustainability of hotel businesses, particularly in cities like Paris, New York, Perth, and Barcelona, where there is significant market pressure.

If the STR industry was competing with hotels on a level playing field the hoteliers would have no right to complain. Policy generally focuses on lowering prices and increasing competition, rather than protecting incumbents. A position which is justified. However, the STR industry is a special case. There, the challenger firms benefit from major regulatory advantages, such as lower taxes and freedom from regulations, which allows them to offer lower prices than hotels. This is not real competition, rather it is regulatory arbitrage: the use of loopholes and legal grey areas to gain financial advantage.

This unfair competition and regulatory arbitrage has hurt the hotel and regulated B&B industry, forcing them to
compete with un-regulated and un-taxed operators. This competition has brought many hotels to their knees, especially where there was already significant over-capacity. This makes it difficult for hotel owners to expand their businesses, create new jobs, and offer training and a career path to their employees. This represents a loss of middle-class jobs from the economy.

2.7 Employment
While hard data is not available, it is almost certain that the STR industry generates less jobs per dollar spent than the hotel accommodation sector. Hotels must employ front-desk, valet, telephone operators, security and janitorial teams, to name a few of the key positions in the industry. Normally, STR units do not have these employees, either because the service (e.g: regular room cleaning) is not provided every day or because the hosts often do it themselves. One study argued that AirBnB only employs one-fifth of the number of people as a similarly sized hotel.

One must also look beyond the numbers and ask about the quality of the jobs generated. Hotels generally pay above minimum wage rates, their employees are unionised, and they benefit from being part of an organization which can invest in talent and give it responsibility. A concierge in a hotel, for instance, can see a pathway to one day being the manager. In the STR industry, however, this dynamic does not exist. Instead, most employees are employed on flexible work contracts, which do not give a fixed number of hours, are paid less, and have no clear career-path. A domestic cleaner, for instance, working for a host, has fewer protections and opportunities than her hotel sector colleague.

Unfair competition from the STR industry, then, does not just impact hotel owners. It impacts their staff and workers, and the many unemployed people who can no longer find a position in the industry.

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**Tax advantages in the STR industry - London**

In many markets, short-term rental operators are exempt from many taxes and pay a lower level of other taxes. This gives them a significant regulatory advantage over traditional operators - in the UK over $30 dollars in sales and property taxes alone.

Source: Financial Time, Press research

<table>
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<tr>
<th></th>
<th>USD</th>
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The fight for reform: The battle between the P2P platforms and the coalition for socially responsible home sharing

In cities across the world, there is a political battle over the regulation of the STR industry. On one side, are the P2P platforms and their key ally, hosts who earn substantial revenues from the platform. This side fights aggressively to prevent legal changes which would affect their business. On the other side, stands a loose coalition of hotels, affordable housing and public advocacy organizations, and elected officials coming together to fight for reform of the industry. These groups have united to call for a socially responsible STR sector, operating under sensible and effective rules.

3.1 “One of the most aggressive companies I’ve ever dealt with” - Regulatory entrepreneurship in the STR industry

The P2P platforms have acknowledged that sometimes things go wrong in the short-term rental industry. They will also intervene in individual cases (especially if those cases are becoming a PR problem).

They also, according to their public statements, want the rules governing their industry to be reformed, believing clear rules will give certainty to their hosts and guests. For this reason, they say they want to partner with the cities for reform to create sensible rules for the industry. In the words of AirBnB spokesman Chris Nulty:

“We have always seen regulators as partners, not adversaries, and our collaborative approach works.”

And AirBnB and the P2P platforms have, indeed, partnered with some cities, offering to collect sales and hotel occupancy taxes in return for legalisation. In this way, it has struck tax deals with hundreds of cities across the world. In some cases, such as London and Amsterdam, AirBnB has also agreed to put limits on the number of nights a single listing can be advertised (although these listings are easy to get around, see Case Study: London - Why Self-Regulation is not enough).

However, there is a clear limit to this partnership. While the P2P platforms are happy to collect taxes from their guests, they generally oppose any rules which would address the key problems in the industry: namely the conversion of housing units into illegal hotels. When governments propose regulations (such as registration requirements) and ask the P2P platforms to support this by, for instance, removing non-compliant lets. The platforms refuse and, in some cases, sue the governments in questions and spend millions of dollars to lobby against reform. In these situations, the P2P platforms do not partner with governments for reform, they wage a political war to stop it happening.

The leader in the STR industry’s war against reform is
Chris Lehane, AirBnB’s global head of policy. Backed by a staff of 300 lobbyists and armed with a budget of 85 million USD (not to mention AirBnB’s broader communication/sponsorship spend), Lehane fights any attempt to seriously regulate the STR industry. And he fights hard. One New York Senator lobbied by the company described AirBnB as “one of the most aggressive companies I’ve dealt with.” Members of the Boston city council has described AirBnB’s approach as “bullying.”

AirBnB has been equally critical of their government “partners”. When the city of New York passed a tough bill requiring P2P platforms to furnish regulators with hosts’ names and addresses, Chris Lehane described city council members as “bellhops” for the hotel industry, and published a report listing donations New York politicians had taken from hoteliers, not mentioning the many donations AirBnB had made to politicians historically. Given that, under the new law, AirBnB stands to lose half their business in New York (the equivalent of 70 million US dollars), his irritation is understandable. AirBnB is currently challenging New York’s new law in court.

(It is important to note, in the contexts of AirBnB’s regular claims about the overwhelming power of the “hotel lobby”, that the STR outspends the hotel industry in nearly every political contest, sometimes by a factor of 16 to 1 – as in the case of the Proposition F Referendum in the San Francisco.)

This is not unusual, AirBnB is currently involved in legal fights in cities across the world. It has been involved in major lawsuits with cities like Barcelona, San Francisco, Boston, Paris, and Miami and many other cities where governments have tried to regulate the sector. Their aim is not just to overturn particular regulations, they also use the lawsuits to intimidate other cities, stopping them from introducing similar laws. The suits have a demonstrative function.

From a commercial perspective, the P2P platforms have good reasons to do this. The STR industry is highly exposed to regulator risks (see Key Debate 2: How exposed is the short-term rental industry to regulatory risk?). Multiple studies have shown that commercial lets, the very type of STR activity regulators want to stop, represent a significant portion of the P2P platform’s revenue. Regulation represents a major threat to these commercial operators and, therefore, the platforms. Faced with this problem, the P2P have decided to fight, spending hundreds of millions of dollars and devoting significant energy to stopping rules meant to reform the STR sector. However, they do not always or, indeed, usually succeed, as the story of San Francisco shows (see Case Study 3 – BnB by the Bay), sometimes playing hard backfires.

3.2 ReformBnB: A network for a socially responsible short-term rental industry

Against the P2P platforms efforts to block regulation, and responding to the many problems created by the STR industry, a broad coalition has formed to push for stronger regulation. It has two core constituencies.

The first is the traditional accommodation sector, led by hotels but including traditional B&Bs, tourism accommodation associations, and hotel employee unions. AHTOP, this report’s commissioner, is an example of this sort of group. This constituency is primarily concerned by the STR industry’s impact on their business. Their call has been for a level regulatory playing field between the STR industry and traditional accommodation providers.

This group has formed a, somewhat surprising, partnership with city councils, political parties, and activist groups
concerned by the conversion of housing into short-term lets. These groups aren’t interested in issues of fair competition, as one Parisian councillor told a hotelier when issues of tax equality was raised “why does this matter to us? We don’t get that tax”. Instead, their goal is the protection of housing, the prevention of gentrification, and the preservation of neighbourhoods. Working with the hotel industry, they have formed a powerful movement advocating for tougher rules on short-term lets.

It is important to note here that, with some obscure exceptions, this coalition does not call for the outright banning of the STR industry (except in a small number of areas). This coalition believes, in fact, believes that real home sharing, where the hosts are renting their own home, in the context of equal and fair regulations and taxation, is good for consumers, good for business innovation and, ultimately, good for the economy. Everyone acknowledges that STR are here to stay.

What this coalition calls for is social responsibility on the part of hosts and the P2P platforms, with clear and enforced rules to eliminate bad actors. The coalition has centred in on two issues: equal and fair regulation and rules to prevent the conversion of housing units into permanent short-term lets. They have had significant success in achieving this objectives.
AirBnB was founded in San Francisco and the firm grew up there. While, at first, they were one of the darlings of the city government, as time passed the relationship between the city council and the tech firm disintegrated, reaching a low ebb in 2016. Ultimately, after a multimillion dollar referendum, a lawsuit, and a war of words, the two came to a settlement - at significant cost to AirBnB.

**AirBnB founded**
Brian Chesky and Joe Gebbia unofficially found AirBnB by offering airbeds in their SoMa apartments to people attendees of S.F design conference. Interestingly, this was illegal under San Francisco law at the time. Prior to 2014 residential rentals of less than 30 days were forbidden. A rule Chesky and Gebbia widely ignored.

**AirBnB Legalised**
In October 2014, the SF city government passes a law legalizing AirBnB in the city, specifying hosts must register with the city, pay hotel occupancy taxes, and not rent their home un-hosted nights for more than 90 days.

**Proposition F Rejected**
In November 2015, voters rejected proposition F. During the campaign AirBnB spent $8 million fighting the initiative; the pro-prop F side spent less than $500,000.

**The government of S.F becomes increasingly concerned by the conversion of housing into more lucrative holiday lets, eventually leading them to propose Proposition F which significantly tightened the rules governing the industry.**

Despite being de jure illegal in S.F and many other cities, AirBnB grew quickly, by October 2013 they claim to have served over 9 million guests.

**Despite the defeat of Proposition F, public concern about illegal hotels, housing unaffordability and the refusal of the P2P platforms to work government continues to rise, forcing the city to respond**

**The fight between AirBnB and S.F continues, becoming increasingly bitter. At the same time, AirBnB is involved in several other cases and is forced to settle with New York over a similar case.**

**New Law Holds AirBnB to Account**
City supervisors, complaining existing laws are “un-enforceable,” pass new laws banning P2P platforms from collecting fees from short-term lets which do not comply with S.F law. AirBnB sues S.F in U.S District Court, claiming the laws violate the U.S Communications Act and their first amendment rights.

**AirBnB and S.F Settle, Unregistered Listings Removed**
Facing growing legal pressure and a court order to negotiate, AirBnB settles their case with San Francisco. Agreeing to remove 6,000 un-registered properties, costing AirBnB millions in revenue.

Since the passage of the new law, relationships between S.F and AirBnB have stabilised
How Exposed is the STR industry to regulatory risks?

A key uncertainty hovering over the P2P platforms is how exposed they are to regulatory risks. With AirBnB’s IPO planned for 2019, this is a question many analysts are asking. The P2P platforms claim that regulation has not had a major impact on their growth rate so far and, further, that their end-markets are so diversified that regulations in any one market will have only a minor effect on their business. The questions observers must ask: is this true? To answer it requires a look at the numbers. In doing this, the report uses figures relating to AirBnB, the industry leader and the company where their is the most information. However, the comments probably apply to other groups as well.

1. **AirBnB listings are highly concentrated, as is its revenue growth**

   Although AirBnB claims a presence in over 200 countries, the countries listings are in fact concentrated in only a few: the US, France, Italy, Spain, and the UK represent 47.5% of their listings. These countries also, generally, have higher average prices, suggesting their revenue value is higher still.

   Despite the attention paid to exotic locales, within these countries, most listings were urban housing units in major cities. Prices and occupancy rates for urban properties are higher than in regional locations. This suggests that, in dollar terms, most of the industry’s revenue is generated in major cities. Studies back this view, for instance, showing that between October 2014 and September 2015, c. 55% of AirBnB’s US revenue was generated from only 5 major cities: New York, Los Angeles, San Francisco, Miami, and Boston. While this data is sadly dated, it is likely that AirBnB’s US revenue remains focused in these cities, where a lack of hotel capacity and strong tourist demand make short-term rentals commercially interesting.

   Within these cities, the STR industry is further concentrated in a small number of boroughs. In London, for instance, nearly 50% of all listings, and the most book among them, were located within just five boroughs: Westminster, Tower Hamlets, Camden, Kensington and Chelsea, and Hackney. Similar statistics can be seen in other cities.
Finally, much of AirBnB’s revenue is generated by professional operators. For instance, in Spain, 48.2% of listings are offered by hosts offering more than one property. While some of these are, undoubtedly, legal operators, a significant proportion of them are, undoubtedly, illegal hotel operators – the key target for activists and politicians seeking to reform the sector.

AirBnB’s concentration in key markets leaves the company exposed to significant regulatory risks. Many cities around the world are trying to tighten the rules around the sector. AirBnB’s top 5 cities (responsible for 55% of US revenue between 2014 and 2015) have all tightened or plan to tighten the rules on the STR industry since then. The same can be said of several other markets.

In other cities, tightening rules have been effective. UBS notes, for instance, that following regulatory crackdowns in Barcelona and New York, had a dramatic effect on bringing down supply and demand growth for AirBnB. In Berlin, following the introduction of stiff fines for unregistered short-term lets had an immediate effect on the number and types of properties being offered. Even though the absolute number increased, the rate of growth slowed and the number of entire property listings fell sharply.

If other cities follow the lead of these Berlin, New York, San Francisco and Barcelona, it seems likely that the growth rate of AirBnB’s core business may decline or stabilise. This seems likely, in nearly every city and where the STR industry has grown large, there have been serious discussion and actions to control it. Even in the UK, one of the most pro-AirBnB markets in the world, certain councils are calling for stronger regulation. As AirBnB’s revenue is concentrated, the rules need only tighten in some twenty or thirty key cities for their to be a significant flow-through onto AirBnB revenue.

This combination of reliance on a small number of key urban, tightening regulation, and the effect this regulation can impact their listing suggests the P2P platforms are exposed to substantial regulatory risks. Clearly AirBnB is seeking to minimise these risks by moving into new markets and offering new products (such as hotels and experiences) while, at the same time, lobbying heavily to protect their core business. Whether they are likely to succeed in this, is the question potential investors will have to ask.

Although AirBnB has an excellent brand and may well succeed in its diversification, it is unclear other P2P platforms will be as successful.
Two steps forward, one step back: Policy progress and problems in the STR industry

Over the last ten years, the STR industry has grown in a hot-house of low-regulation. The near total lack of rules has allowed the P2P platforms to grow rapidly, and with unprecedented and rapidly rising profits. However, this growth has created a range of social and economic problems, creating a political backlash. Government are increasingly moving to regulate the industry. Different cities and governments are introducing widely different rules, reflecting their different constitutional and cultural backgrounds. However, there are significant challenges to making these rules work.

4.1 Common Approaches

The approach taken by different governments to the STR industry vary massively, reflecting the unique regulatory, economic and cultural environments each government finds itself in. This has led to a great diversity of regulatory strategies to confront the problem of short-term lets. In nearly all geographies the key priority, however, has been protecting the limited stock of housing.

Housing

To protect housing, some authorities have introduced primary residence requirements, demanding that the host be on the property during the stay and limiting the number of nights a property can be let without a host (as in San Francisco, Santa Monica, Amsterdam, New York, and other jurisdictions). Where properties are being sub-let, guests are often required to obtain their landlord’s permission (e.g: Berlin, Barcelona). Other measures include; capping the amount hosts can make from short-term lets at their current rent and banning short-term lets in subsidised apartments. These rules are normally combined with registration requirements. In a small number of jurisdictions struggling with overtourism, short-term lets have been banned outright (e.g: Palma de Mallorca).

Building Habitability and Public Amenity

Governments are deeply concerned by the short-term rental industry’s impact on building habitability and public amenity. Some governments have addressed this problem by allowing building associations to ban STR in their buildings (as in Paris, Amsterdam, Chicago and, soon, Sydney). Others have put limits on the number of guests a short-term let can hold. To prevent a harmful concentration of short-term lets, cities like Denver and Chicago have created density caps on the number of listings in particular neighbourhoods or in a particular building.

Guest Safety

Guest safety is a complex issue for governments. While they are aware of the risks associated with short-term lets, few have imposed strict safety standards, fearing they would be difficult to enforce and believing, falsely, that in most cases the host’s presence would minimise the danger. However, some cities have taken action, requiring hosts to meet minimum fire safety standards (for instance, in Chicago, Amsterdam), an even smaller portion requires hosts have safety inspections as a condition of registration (Portland).

Tax Equality

One area where authorities have made little progress is on tax equality between the platforms and the hotel accommodation sector. Many jurisdictions require short-
term rental platforms collect bed night taxes (including Santa Monica, Quebec City, Amsterdam, Paris, Milan, Berlin, and Berne). Some, recognizing that the STR has a larger impact on public amenity than traditional hotels, have put a surcharge on the normal rate. Chicago, for instance, put a 6% surcharge on short-term rental taxes on top of the already existing hotel taxes.

In many countries (e.g.: the US, Denmark, and soon France) the P2P platforms are also required to share information with the government. Italy has gone even further, requiring the platform’s to withhold and transmit a certain portion of host revenue to the government. These measures have proven effective at reducing tax fraud.

However, very few government have implemented true tax equality. In most countries, short-term lets do not collect the sales or value-added taxes (India being a notable exception). In most cases, hosts still do not pay social security charges on revenue earned, and business property charges are taxed at the lower rate.

Platform Responsibility

A small minority of governments have sought to enshrine the principle of platform responsibility in the law. This is the principle that the P2P platforms must take some responsibility for controlling illegal activity taking place on their platforms. In Japan, San Francisco and France laws have been passed which force platforms to remove un-registered or otherwise non-compliant listings (though in France, these laws rest un-enforced). Further, many jurisdictions demand that the platforms transfer data to the government on STR activity in the area - though quite often the platform’s simply refuse to comply with the request.

4.2 Compliance: A common challenge

The most important challenge for regulators is compliance, particularly when the city has not set strict penalties for infractions, nor devoted significant resources to catching scoff-laws. When forming their laws, many governments assumed that, simply by introducing rules, the short-term rental sector would change.

Sidebar London: Why self-regulation is not enough!

AirBnB points to self-imposed rules and community guidelines as proof that they don’t need regulation. Arguing that they can – unlike every other industry – self-regulate to deal with the problems they create. One example AirBnB points to is their decision, to introduce a ninety-day cap on nights booked through their platform in London. An approach they have taken in several other cities.

While the cap is an admirable gesture on AirBnB’s part, it is ineffective in stopping the conversion of properties into illegal hotels. To show this, this report’s writer performed a simple experiment. Their question: how difficult is it to get around the 90-day cap?

Answering this question was not difficult. We simply created several accounts on the platform, each one renting out the same apartment. We then used multiple fake guests accounts to book the property for more than 90 nights on the platform. In approximately two hours and without any technical skills we got round AirBnB’s voluntary cap. To further prove our point, we also created an account on Booking.com, where we booked the apartment for a further 20 nights, a fact AirBnB would have been completely unaware of.

The conclusion of experiment is clear, voluntary caps by the platforms, especially when not harmonized across the industry, are ineffective and easy to overcome.
San Francisco

San Francisco is the birthplace of AirBnB and the spiritual home of the P2P economy, it was also one of the first geographies to regulate the industry. It now has an effective set of rules for governing the sector which, best of all, the platforms support. While the road to get there was long, the current regulations represent a case study of well-balanced short-term rental regulation.

**Registration and Licensing Requirements**
Before listing their property, host must register as a business with the Office of the Treasurer and Tax Collector. After obtaining this certificate, they must register and receive a certificate from the Office of Short-Term Rentals. This number must be listed on all STR listings. To defray the costs of this system, hosts must pay a small fee.

**Insurance**
To register hosts must show they have $500,000 in property insurance.

**Reporting**
Host must, to maintain good standing, must report the number and nature of stays on their unit on a quarterly basis. This can be done online.

**Taxation**
Hosts are required to collect and pay the transient occupancy tax of 14%. Hosts must also pay a “furniture tax” on the portion of their property used to make money, the rate is set at 1.1% of the “furnitures” total value, amounting to $60 dollars for the average user.

**Public Amenity**
The city supports a member of staff to handle complaints regarding short-term lets, allowing the public to raise concerns regarding particular lets. Host’s certificate will be revoked in the case of ongoing noise/event/party complaints.

**Platform Responsibility**
The P2P platforms may only collect a fee for a short-term let in San Francisco when they have taken reasonable care to confirm the lets are operating in accordance with the law (i.e: have the relevant certificates). What counts as “reasonable” is explained is set out in guidelines by the Office of Short-Term Lets. The P2P platform must also maintain, for up to three years, records of all lets, hosts and guests and provide them to the city by request.

**Conclusion:**
San Francisco’s system is by no means perfect. One particular concern, raised by hosts, is that the “furniture tax” is extremely complicated to calculate, with many calling for it to be pro-rated. More could be done to confirm the property is safe. Another question is why the Business and Short-Term Rental certificate application processes cannot be ruled into one. However, overall the rules succeed in addressing the core issues of the short-term industry: tax equality, protecting housing, consumer and neighbourhood safety, while allowing peers to share their homes. On the key issue of housing, the registration system, according to reports, eliminated thousands of illegal hotels. Even AirBnB has endorsed the new system, with Chris Lehane stating, perhaps disingenuously given his lawsuit, that the final deal was “winner, winner, chicken dinner.”
In June 2018, the city of Barcelona had a major victory over illegal short-term lets. On June 1, the city and AirBnB agreed to give Barcelona officials access to data about what’s being listed around town. For the first time, city officials will be able to refer to host data that details where the activity is taking place, who the registered hosts are, and how many nights the property is listed. This will make the difficult task of finding and removing illegal lets much easier for the government.

However, getting this data from the platform did not come easy. In fact, it required a massive, five year-long clamdown. In 2016, Airbnb was fined (still unpaid and contested) €600,000 fine for listing unlicensed apartments (the fine remains unpaid and contested). In 2017, the city’s new tourism plan stipulated that vacation apartments must pay the highest rate of property tax. And the city has worked incredibly hard to identify and track down scoff-laws through other means.

In the words of one city official from Portland:

“We adopt laws and sometimes those laws are aspirational at best and they’re meant to signal and provide a culture ... and I think that [for STRs] is a misstep.”

It is a misstep because the profits from non-compliance are so high and the likelihood, in most cases, of getting caught so low, that professional operators choose to scoff at the law. A regulatory approach based on operator’s voluntary compliance generally fails. Thus in cities like New York, Paris, and Barcelona where most listings are illegal.

Strong enforcement efforts can overcome these compliance issues. The cost, however, is high. Under many legal systems, proving that a STR unit is violating the law requires repeated inspections by city officials, who must comb tens of thousands of listings for the many thousands which are breaking the law. Data based systems are also expensive. Chicago’s data based system for regulating the short-term rental sector required $1.2 million to set up a database of STRs, $240,000 for administration, and $570,000 for attorneys and staffers. Unfortunately, many cities, whose budgets are already stretched, lack the tools and resources to enforce the sector properly.

Conceivably, the P2P platforms could address this problem. They have access to their hosts data and significant resources which they could use to remove non-compliant lets, reducing much of the social tension surrounding the STR industry. Unfortunately, The P2P platforms do not, generally, co-operate. Indeed, as already noted, the P2P have actively sought to frustrate the process. In many cities, Barcelona and Paris for example, they refuse to remove non-compliant listings from their platforms.

This is natural, as one local government interviewee has stated:

“I think you have to be realistic about how cooperative platforms want to be...you know we’re coming from different angles, they want to protect their hosts and we want to know who they [the hosts] are because we want to bring them into compliance.”

While it is possible to overcome this resistance, it requires massive and consistent pressure from the government (see side bar on Barcelona).

Finally, there are often jurisdictional issues getting in the way of enforcement, with national and (in a European Union context) international issues holding back legal reform. For instance, in the UK, national regulation allowing hosts complete freedom to rent their property for up to 90 days makes it extremely difficult – in the words of one government official: “impossible” for local governments to control the STR industry allowing illegal activity to flourish (see side bar: London – Testing Self-Regulation). Similarly, “Safe Harbour” rules for electronic communications in the US and EU - which specify that digital communication service providers have no legal liability for what is published on their platforms - have been used by the P2P platforms to challenge attempts to regulate their industry. This represents a significant barrier to all regulations.

The problems described above make regulating the short-term rental industry difficult and complex, an equally complex solution is needed.
Regulation around the world

Many governments across the world have passed laws to better regulate the STR industry and address the key challenges it poses. Below is a survey of some of the measures taken in 10 major jurisdictions.

1. **Amsterdam**
   In Amsterdam, hosts are only allowed to rent out their primary residence. When hosts are physically present on the property, they can rent their home for an unlimited number of nights. However, there is a strict 30 day cap on un-hosted lets.

2. **India**
   India is one of the few countries that requires all hosts to collect the GST. To simplify collection in the case of small users, the P2P platforms must be responsible for collection. This measure has raised significant amounts for the Indian government.

3. **Italy**
   Italy has gone a step further in terms of tax collection, asking the P2P platforms to withhold a portion (21%) of host’s revenue and remit it to the tax office. Host can claim back this revenue through their tax return however, as 21% is significantly less than the normal income tax rates, few do so. The Italian government took this step to address widespread tax fraud on the platforms.

4. **Palma**
   Palma de Mallorca made the news by being one of the first cities in Europe to ban AirBnB. This was done to end the competition between locals and tourists for the limited housing supply, a competition which locals could never win.

5. **Chicago**
   Chicago requires all hosts to register their property before renting. In large apartment complexes, tenant associations have the right to rule their building a “no-BnB” zone. Hosts seeking to rent in these properties will not be registered.

6. **San Francisco**
   San Francisco is nearly unique, at least in the Western world. It has successfully forced the major P2P platforms to remove non-compliant listings from their site. While this was by no means an easy process (see Case Study: BnB by the Bay), today the P2P platforms in San Francisco remove listings which do not comply with the city’s laws. San Francisco achieved this by banning platforms from making money from non-compliant listings. Only one other jurisdiction has similarly succeeded in getting AirBnB to remove all non-compliant listings: Japan.

7. **Paris**
   Paris sets a strict limit on the number of nights a property can be let (120 nights), before it must obtain a rarely given “change of use” permit. Host are also expected to register with the government.
8. Copenhagen
Copenhagen was one of the first countries to form an agreement with the P2P platforms on tax agreements. Airbnb and certain other platforms agree to share the revenue earned by hosts with the tax authorities.

9. Toronto
The Toronto City Hall has decided to monetize their STR industry by charging the P2P platforms a fee to operate in the city. To operate in Toronto, platforms must pay a flat fee of $5,000 plus $1 for every night booked.

10. China
In China, Airbnb has agreed to transfer all of their guest data to the central authorities. While this is required by law, it is strange that privacy, the reason Airbnb gives for not sharing information with democratic city governments like New York, does not appear to concern them in authoritarian China. That said, Airbnb is not the first tech company to abandon their principles for access to the Chinese market!
Eight Principles for a Socially Responsible Short-Term Rental Industry

Despite the compliance challenges described in the previous chapter, it is possible to regulate the STR sector in a way which allows peers to share their home while stopping the conversion of housing into illegal hotels. Based on an overview of regulations in multiple cities and countries, this report proposes eight core principles to guide regulation. These principles, translated into national and local laws form the basis of a tax-paying, home-preserving, transparent, and socially responsible home sharing industry.

1. **Home Sharing is for homes**

   **Explanation**
   
   Regulation must allow people to rent out their homes with the intention of “sharing” it with transient visitors provided local laws are complied with. In most cities this requires hosts are within their homes when they are “shared”. For entire homes to be rented, once again local laws permitting, there should be a limit on the number of days in a year that they are rented for tourism (30-60 days may be appropriate). If people want to rent apartments and houses to tourist on a permanent basis, this can be allowed through existing laws. Normally this requires planning permission from the city. However, they must make clear that they are businesses and follow the same regulations as traditional, commercial Bed and Breakfasts.

   **Rationale**
   
   • Such regulations will prevent the conversion of housing units into short-term rental units while allowing peers to share their home.

   **Cities where such rules apply**
   

2. **Registration is a must**

   **Explanation**
   
   All host must be required to register with the relevant authorities and, in the process, specify whether they are peers sharing their home or commercial operators. The P2P platforms must remove all un-registered listings.

   **Rationale**
   
   • Registration systems will allow authorities to monitor STR activity in a cost-effective.
   • The registration process, and the ability to remove a non-compliant listing can be used to enforce other laws.

   **Cities where such rules apply**
   
   San Francisco, Paris, Bordeaux, Amsterdam, Barcelona, Santa Monica, Montreal, Toronto, Japan and many other locations.
3. Neighbours, co-tenants and landlords must have a say

**Explanation**
Regulations must give co-habitants the right to know about and veto STR activity in their building. Landlords must have a similar right enshrined in regulation. Both groups must have simple mechanisms to enforce these rights without going to court.

**Rationale**
- Neighbours are significantly impacted by transient occupants, especially when the hosts are irresponsible, neighbours (especially in shared buildings) must have a say
- Similarly, landlords must have a say regarding whether their property can be sub-let.

**Cities where such rules apply**
Paris and Switzerland (in tenancy law guidelines), Chicago, Berlin, Barcelona, Amsterdam.

4. Neighbourhoods must be protected from AirBnB-fication

**Explanation**
City governments, acting as representatives of communities, must be able to limit or ban short-term rental activity in certain areas.

**Rationale**
Such rules are necessary to prevent situations (such as the Bario Gotico in Barcelona, l’Ile Saint-Louis in Paris, or midtown Manhattan) where the concentration of short-term lets changes the character of the neighbourhood.

**Cities where such rules apply**
Chicago, Barcelona, Balearic Islands, Paris (proposed).

5. Short-term lets must be safe, secure and accessible

**Explanation**
Regulations must protect guests and neighbours from risks by requiring short-term rental properties meet minimum safety standards and ensure hosts comply. Measures to ensure guest and public security and access for people with disabilities must also be developed. The regulations currently applicable in the legal Bed and Breakfast industry are the benchmark.

**Rationale**
- Short-term occupancy comes with a unique set of risks, while it is impossible to eliminate all these risks, simple safety measures (such as fire alarms) can significantly reduce them, protecting guests, hosts and the public.
- In many countries, the state demands certain measures (such as guest registration) to maintain civil order, this objective must also apply to the STR industry.
- Disabled users deserve access to the benefits sharing economy, platforms should try to build listings they can use, a standard New York hotel needs 3% of its room accessible.

**Cities where such rules apply**
China and Milan (guests details must be handed over to the authorities), Portland and Amsterdam (hosts must meet minimum safety standards).
6. Compliance must be monitored and enforced

<table>
<thead>
<tr>
<th>Explanation</th>
<th>Rationale</th>
<th>Cities where such rules apply</th>
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</thead>
<tbody>
<tr>
<td>Cities must create action plans for enforcement and customise their</td>
<td>• Without harsh penalties and clear enforcement procedures, it is unlikely that hosts will follow the law – the profits available through non-compliance are too great.</td>
<td>New York, Paris, San Francisco, Japan</td>
</tr>
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<td>regulations to facilitate it. Significant fines must be defined for people</td>
<td>• By creating punishments for the P2P platforms you force the key intermediary, to support necessary law, unlike the current situation where the P2P platforms turn a blind-eye to the issue</td>
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<td>who break the law and for P2P platforms when they facilitate these violations.</td>
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7. The professional STR industry must pay the same level of tax as hotels and other accommodation service providers

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<tbody>
<tr>
<td>Professional STR providers should pay the same levels of tax as the</td>
<td>• The sharing economy must pay a fair portion of tax to support vital government spending</td>
<td>India, San Francisco, Los Angeles, and several other cities have moved to partial equality in tax treatment.</td>
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<td>hotels with whom they compete. Tax laws must be reformed to impose equal</td>
<td>• Tax law should be equalised so they do not – as now – favour the P2P sector over hotel accommodation sector, based on simple principles of fairness</td>
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<td>levels of tax between the two industries and to make tax evasion harder for</td>
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<td>hosts and P2P platforms. This means, in most countries, requiring STR</td>
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<td>operators to collect and pay VAT, sales, hotel occupancy, income, and social</td>
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<td>security taxes and charges. Business property taxes are also a key issue</td>
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<td>with hotels charged significantly higher rates than their competitors in</td>
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<td>the STR industry. Governments should ensure that peers also pay the taxes</td>
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<td>(e.g: income, bed, etc.) due.</td>
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</table>
The P2P platforms are the key intermediaries in this industry and must take responsibility and be legally liable for collecting taxes and stopping illegal behaviour.

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<td>The P2P platforms must support government rules and regulation by sharing data with the authorities, removing and refusing to host non-compliant listings and hosts, and making the seven principles outlined above core to their business models. Further, they should obey the laws of the national and local jurisdictions they operate in. Regulations must be written to force the P2P platforms to comply with the law.</td>
<td>The seven principles listed above form a basis for controlling the worst excesses of the short-term rental industry. However, to work effectively, they need the co-operation of the key intermediaries in the industry, the P2P platforms, who have the data, powers and resources to facilitate law enforcement. Without this support it will be extremely difficult for cities to enforce the law.</td>
<td>New York, San Francisco, France, Japan, Chicago, China (partially)</td>
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The eight principles outlined above are not new. Regulations based on all or some of them have been successfully introduced in San Francisco, Japan, Amsterdam and other jurisdictions. If introduced en-masse, they can transform the short-term rental industry from one dominated by illegal operators into a socially responsible and sustainable part of the economy, purging the real-estate operatives and returning the STR industry to what it was meant to be; a platform for “regular people to rent their own home”. It will be difficult for the industry to make this transformation. However, in the long-run it is necessary.
Conclusion -
The long road to socially responsible home sharing

The shift to social responsibility will be a hard one. It is, however, necessary for the long-term sustainability of the STR industry. All players will benefit from the creation of a socially responsible STR industry, governments, the P2P platforms, and industry must work together to realise it.

The shift to socially responsible home sharing will be a difficult one for the P2P platforms. Purging the illegal hotel operators, monitoring hosts for compliance, sending tax data to relevant authorities, and the other ideas suggested above will have a negative impact on the P2P platform’s revenue and profitability. However, in the long-run this shift is necessary.

Governments and city populations around the world are increasingly concerned by the conversion of long-term housing into short-term accommodation, the impact on building habitability, the safety and security risks, and the other problems created by STR industry.

Already groups are protesting against over-tourism in cities across the world, governments are imposing hundreds of thousands of dollars in fines on the platforms and individual hosts, and the city have launched significant lawsuits against the P2P platforms, demanding that they support law enforcement. If the platforms do not respond to this concern, they risk losing their social license to operate in key markets. This has already happened in places like Palma, Spain, where STR have effectively been banned. Other cities are following their lead. This is a significant regulatory risk for the P2P platforms, one which threatens their growth prospects and their ability to list on the public stock markets. As the political strategist and former adviser to Uber Bradley Tusk puts it, “It’s unclear to me how Airbnb eventually pushes the buzzer at Nasdaq if they’re basically illegal in New York City.”

The P2P platforms should, therefore, make the eight principles outlined in this report a core part of their business and support the regulation necessary to standardise them across the industry. While this will have a short-term hit on their revenue, it will make their industry sustainable in the long-term. All players will benefit from a short-term rental industry which is fair, safe, tax-paying and socially responsible. It is the win-win option.

However, with or without the co-operation of the platforms, local and national governments must move ahead with reforming the STR industry. It’s current impacts are severe and must be addressed. A new regulatory settlement is needed, one which allows real home sharing while stopping the conversion of housing units into the illegal hotels. This, interestingly, will return the industry back to what it was meant to be, in the words of AirBnB; a way for ordinary people to make a bit of extra money by sharing their home with strangers.
Palma De Mallorca: The AirBnB Bubble Bursts

Rising in rose-coloured stone from the Balearic sea, boasting some of the best beaches in Europe, and heavy with the archaeological treasures of its rich history, the isle of Mallorca is almost the ideal of a Mediterranean island, an ideal which brought 13.8 million tourists to its shores in 2017.

However, supporting this ideal has become an increasing burden for the local population. The huge and temporary influx of tourists in the summer months comes with a host of problems; including congestion, waste, late-night parties, and price inflation, which make life harder for locals and has contributed to public opposition to the “touristification” of the city. This has led to several large protests against the tourism industry, with protesters spray painting buildings, attacking tourists, and greeting cruise ships with loud anti-tourist slogans. These protestors do not want to stop tourism which, at 40% of GDP, is essential to the island’s economy. However, they want to manage it properly. They want it to stop being, in the words of one resident, “out of control.”

AirBnB is an almost totemic target of these protestors rage. The high profits which can be made by renting property through AirBnB has led thousands of hosts to turn their properties into permanent short-term lets. Some even bought second, third, and fourth homes for the purpose! Partly because of this the price to rent or buy the remaining properties has shot up, with house prices rising by 40% in a 2-year period. For locals looking to buy or rent a home, this is a disaster. The average salary on Mallorca is EUR 1,800 a month, before tax. There is no way they can compete with the tourist dollar.

AirBnB took no serious steps to stop the conversion of homes into short-term lets or to address the many other problems protesters had with their platform. Instead, they said they rested on the claim they “democratising tourism,” ignoring the complaints of locals. The other home-sharing platforms quietly followed AirBnB’s lead.

Ultimately, this contempt for the public led to a backlash against the platform. The public protested, the government responded, laws were passed, local governments empowered, and, in July 2017, Palma became one of the first cities in Europe to ban AirBnB. Under Palma’s new rules, only owners of detached houses will be allowed to rent to tourists. Anyone offering short-term rental in apartments faces fines of as much as 40,000 euros. “We want Palma to remain liveable for its inhabitants,” Antoni Noguera, the mayor, said in an interview following the decision.

On its own, this ban will not hurt AirBnB. Palma is a small market, generating only a few million dollars of its c. USD 4.5 billion global revenue. However, as a sign of problems to come, the ban is significant. Significant because it is becoming a trend.

Across the world, city governments are losing patience with AirBnB and they are responding with harsh rules to control the platforms. In many cities, including in some of AirBnB’s biggest markets Paris, Barcelona, and Berlin, politicians are considering banning short-term lets in part or all of their jurisdiction.

In Palma, the STR industry lost its social license to operate and was banned. Unless they change their ways, they could be banned globally.
11. InsideAirBnB.com
12. CBRE (2017) “Hosts with multiple units – A key driver of AirBnB Growth”
14. Toronto (June 2017) “Proposed Regulations for Short-Term Rentals For Consultation”
17. NYC (May 2018) “The Impact of AirBnB on NYC Rents”
21. Kidspot (September 27 2018) “How an AirBnB holiday ended in a boy being killed just meters from his dad”
22. The Guardian (29 November 2016) “AirBnB denies liability after guests plunge two storeys from balcony”
23. The Yucatan Times (October 25, 2017) “Two Argentine Tourists die after gas explosion in rented PDC Apartment”
25. AirBnBhell.com
27. The Financial Times (October 7 2018) “AirBnB faces questions from UK tax authorities”
28. Morgan Stanley (2017) “Global Insight: Who will AirBnB hurt more Hotels or OTAs”
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33. Ibid, p. 4