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# ReformBnB

## For a sustainable home-sharing industry

**We, the undersigned represent some of the largest hotel and lodging associations across the world, and are brought together in New York today on one issue: short-term rentals. This booming industry is having an impact on communities, hotel owners 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.**

Originally, the short-term rental industry (hence, “STR industry”) was about home-sharing: regular people renting out a spare room in their home, or their entire home while away on holidays, to tourists to make extra money. The short-term rental platforms (hence, “P2P platforms”) facilitated this by connecting hosts with a place to rent with travellers looking for a place to stay. As the host normally stayed on the property to supervise his guests, risks were minimised. Nor was there any competition between locals and tourists for limited supplies of housing. This sort of STR activity, true “home sharing,” was a net positive for the economy.

However, systems originally designed for regular people renting their own home have been co-opted by professional real-estate operatives. These operatives use the P2P platforms to rent apartments and houses short-term 365 days a year, turning homes into un-regulated, un-taxed, and illegal hotels and replacing long-term residents with transient occupants. We estimate that 50% or more of AirBnB’s revenue in key cities comes from these illegal hotels. The short-term rental industry has been professionalized. AirBnB’s slogan ‘Live like a Local,’ should be re-written as ‘Live in an Apartment Appropriated from a Local.’

This new, professionalized STR industry is a problem. 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 no-tax STR industry.

Finally, because of the problems it creates, the STR industry pours fuel on the fire, burning in many cities around the world, of anti-tourist sentiment. This poses a threat to the broader tourism industry and the many people who rely on it for their income.

Competition from the STR industry poses a further threat to the hotel industry, the threat of unfair competition. Because the real-estate operatives are exempt from many of the taxes, safety regulations, urban planning rules, and normal standards of corporate social responsibility, they can rent their rooms at lower prices than hotel owners, who are constrained by significant regulatory requirements and tax obligations. This undercuts hotel prices and pushes down occupancy rates. This is not healthy competition, it’s regulatory arbitrage; the use of loopholes and legal grey areas to obtain financial advantage. The hotel industry is expected to compete with STR, but not on a level playing field.

Seduced by the idea that AirBnB was “innovative,” “collaborative” and “cool,” governments have long ignored these problems, allowing them to build-up. This cannot continue. The STR industry is no longer the new kid on the block, it is an increasingly professionalised industry growing at twice the rate of the hotel accommodation sector. The P2P platforms are no longer “start-ups running on a dream”, they are billion-dollar, highly profitable companies. It’s time for governments to look, with a clear eye, at the social and economic consequences of this industry and introduce common-sense regulation to address them.

# 8 Principles for a socially responsible home-sharing industry

We have identified eight principles for reforming the STR sector. Transferred into government regulation, these principles can transform the industry. Transform it from a wild west of tax avoidance, unsafe and unsecure lets, disruptive guests, and the conversion of homes into unlicensed hotels, into a socially responsible and sustainable part of the economy. This transformation is possible while still allowing regular people to rent out their homes, the original goal of AirBnB and the other P2P platforms. For a fuller treatment of the topic, please refer to the policy paper “ReformBnB – For a Socially Responsible Home Sharing Industry.”

01

## Home Sharing is For Homes

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 that they 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). Such restraints will stop the conversion of residential property into permanent tourist accommodation, while allowing real home sharing.

If people want to rent apartments and houses to tourist on a permanent basis, this can be allowed if local laws permit this conversion. 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.

02

## Neighbours, co-tenants and landlords must have a say

Neighbours should not be forced to live with short-term lets, nor should these be operating in their building without their consent. Regulations must give co-habitants the right to know about and veto short-term rental activity in their building. Landlords must have a similar right enshrined in regulation.

03

## Neighbourhoods must be protected from AirBnB-fication

City governments, acting as representatives of communities, must be able to limit or ban short-term rental activity in certain areas to prevent situations (such as on L’île Saint-Louis in Paris, midtown Manhattan, or the Barrio Gotico in Barcelona) where intense short-term rental activity damages the character of the neighbourhood and community.

04

## Short-term rentals must be safe, secure and accessible

Short-term accommodation comes with a unique set of risks, risks which can and have led to multiple injuries and deaths in short-term rental units. Regulations must protect guests and neighbours from these risks by requiring short-term rental properties meet minimum safety standards and ensure hosts comply. Measures to ensure guest security and access for people with disabilities must also be developed. The standards currently applicable in the legal Bed and Breakfast industry are an excellent benchmark.

05

## Compliance must be monitored and enforced

Regulators cannot create rules for the short-term rental sector without devoting significant efforts and resources to ensure their enforcement. In anticipation of widespread non-compliance with regulations, cities must create action plans for enforcement and write their regulations to facilitate it, one of the best approaches being requiring hosts to be registered and licensed before listing their properties. Significant fines must exist for people who break the law and for P2P platforms when they knowingly facilitate these violations. Cities which have not introduced such penalties have been shocked by high levels of non-compliance and the lack of support given by the P2P platforms.

06

## The STR industry should pay for its regulation

However, monitoring the STR industry is expensive, requiring complex data monitoring systems and teams of enforcers, local governments often lack the funds to do it. The STR industry generates substantial profits for its participants and the P2P platforms. Some of this money should be used to defray the cost of enforcing the law and eliminating bad actors. Regulations should include registration fees for hosts and platforms to generate this needed revenue.

07

## **The STR industry must pay the same level of tax as hotels and other accommodation service providers**

Short-term rental providers should pay the same levels of tax as the hotels with whom they compete. Tax laws must be reformed to impose equal levels of tax between the two industries and to make tax evasion harder for hosts. This means, in most countries, requiring STR operators to collect and pay VAT, sales, hotel occupancy, income, and social security taxes and charges. Business property taxes are also a key issue with hotels charged significantly higher rates than their competitors in the STR industry.

08

## **The P2P platforms must take responsibility and be legally liable for collecting taxes and stopping illegal behaviour**

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: AirBnB, HomeAway, Expedia and the other P2P platforms. The law must be structured to compel the platforms to share data with the authorities and remove non-compliant listings and hosts. To simplify tax collection, and to eliminate the rampant tax avoidance in the industry, the platforms must also be responsible for collecting tax on behalf of their hosts and providing information to tax authorities.

# **The need for reform**

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. For AirBnB and the other P2P platforms, purging the real-estate operators means losing one of their most important revenue streams, a very difficult sacrifice. However, in the long-run this transformation is necessary.

Governments and city populations around the world are increasingly enraged 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 the STR industry in cities across the world, governments are imposing hundreds of thousands of dollars in fines, and the P2P platforms are involved in significant lawsuits with governments and other groups. If the platforms do not respond to this anger, they risk losing their social license to operate. This has already happened in places like Palma, Spain, where STR have effectively been banned.

In the short-term, AirBnB and the other P2P platforms may be able to fight off regulatory reform (AirBnB alone has an 85-million-dollar lobbying budget for this purpose), but in the long-term an on-going battle with governments across the world is not in the STR industry’s best interest. Such a battle would permanently expose the P2P platforms to fines, bans, criminal charges, and other regulatory risks. The platforms, therefore, should support effective regulation, based on the principles outlined above, to create a socially responsible home sharing industry. Effective legislation is key to the survival of their industry.

To promote this regulatory framework, and to increase awareness of the problems created by the STR industry, we, the undersigned, have formed a network of hotel associations to push for the reform of the short-term rental sector and have created the position of permanent secretary to maintain it.

We call upon other hotel and landlord associations, housing advocates, public interest bodies, and other interested parties to join this network. We call upon governments to start implementing effective legislation to reform the short-term rental industry. And we call on AirBnB and the P2P platforms to make the eight principles a core part of their business and support the regulation necessary to standardise them across the industry. All players will benefit from a short-term rental industry which is fair, safe, tax-paying and socially responsible. We are working to make it a reality.

# Signatories

