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Why Cities like New York Are Looking to Heavily Regulate Short-Term Rentals to Stabilize Their Housing Market

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You and your friends are excitedly planning out your long-awaited weekend getaway in New York, you start brainstorming what restaurants you want to hit up and what fun activities you want to take part in. All is going well until you start looking for an Airbnb that would be fitting for your desired location and price range. Bad news for you and friends because New York adopted the Short-Term Rental Registration Law, also known as Local Law 18, in January of 2022.¹ This law essentially mandates short-term rental owners to register with the Mayor's Office of Special Enforcement and prohibits short-term rental platforms from processing unverified transactions.² Airbnb challenged this law in court in June 2023 and the lawsuit was dismissed.³ After the lawsuit, New York City proceeded to enact the law in September of 2023.⁴

Not only is New York starting to heavily regulate short-term rentals, an increasing number of other cities are also following in its footsteps. For one, the city government of Aspen, Colorado has been considering new taxes on short-term rental properties.⁵

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¹ NYC Office of Special Enforcement, *Short-Term Rental Registration and Verification by Booking Services*, <https://www.nyc.gov/site/specialenforcement/registration-law/registration.page> (last visited on Mar. 6, 2024).

² *Id.*

³ Zaw Thiha Tun, *Top Cities Where Airbnb Is Legal or Illegal*, INVESTOPEDIA (Sept. 5, 2023), <https://www.investopedia.com/articles/investing/083115/top-cities-where-airbnb-legal-or-illegal.asp#:~:text=Some%20localities%20have%20outlawed%20or,hotels%20that%20do%20pay%20taxes.>

⁴ *Id.*

⁵ Jordan Pandey et al., *Anyone Hoping to Make an Easy Buck off Vacation Properties Must Contend with an 'Airbnbust' and a Growing Number of Places Looking to Regulate Short-Term Rentals*, BUS. INSIDER (Apr. 5, 2023), <https://www.businessinsider.com/cities-fighting-airbnbs-with-regulations-for-short-term-rentals-2022-5>.

Burlington, Vermont, known for its beautiful autumn leaves, breweries, and natural attractions, has passed a city law that requires owners to also live on their short-term rental properties and pay an annual fee and tax of \$110 and 9% of revenue respectively.⁶

Short-term rentals have been a lucrative source of income for many people in recent years, especially after the end of COVID-19 lockdowns when travelling became more convenient again. As of 2024, there are over 5 million hosts on Airbnb and over 7 million active listings.⁷ Worldwide, Airbnb listings are active in over 100,000 cities and Airbnb has more than 150 million users.⁸ Reportedly, Airbnb broke its own record in fourth quarter of 2022, with its revenue growing 24% over the year to a whopping \$1.9 billion.⁹

So why are cities cracking down on the short-term rental market when it has proven to be so profitable? There have been concerns about Airbnb and other short-term rental services alike aggravating the housing shortages and rising prices in different localities.¹⁰ Others have complained about the nuisances brought in by the influx of tourists and the businesses that these short-term rental services take away from traditional hotels.¹¹

In particular, the so-called “Airbnb effect” has been exacerbating housing issues. What has been coined as the “Airbnb effect” is essentially residents being priced out of the cities and towns that they grew up in due to the gradual price increases in housing properties brought by the short-term rental craze.¹² This effect has seemingly taken its most detrimental form in the most popular cities all around the world. Studies done in cities like Los Angeles and Barcelona have shown that being popular tourist destinations has negatively impacted rents for the local communities. In neighborhoods with higher listing clusters, rent increases a third faster than the citywide average.¹³

With growing concerns about the wellbeing of the local residents, many cities have taken action to address these issues. Other than New York’s famous Local Law 18, cities like San Francisco and Seattle started to limit the number of properties a host can list, and Dallas started to prohibit properties in certain residential areas to be listed as vacation

⁶ *Id.*

⁷ Matthew Woodward, *AIRBNB STATISTICS [2024]: USER & MARKET GROWTH DATA*, SEARCH LOGISTICS (Mar. 1, 2024), <https://www.searchlogistics.com/learn/statistics/airbnb-statistics/#:~:text=There%20are%20currently%20over%205,have%20Airbnb%20listings%20in%20them.>

⁸ *Id.*

⁹ Kyle Wiggers, *Airbnb Posts a Record Q4 as Travel Recovers Post-Pandemic*, TECHCRUNCH (Feb. 14, 2023), <https://techcrunch.com/2023/02/14/airbnb-posts-a-record-q4-as-travel-recovers-post-pandemic/>.

¹⁰ Tun, *supra* note 3.

¹¹ *Id.*

¹² Gary Barker, *The Airbnb Effect on Housing and Rent*, FORBES (Feb. 21, 2020), <https://www.forbes.com/sites/garybarker/2020/02/21/the-airbnb-effect-on-housing-and-rent/?sh=71e644c82226>.

¹³ Daniel Guttentag, *What Airbnb Really Does to a Neighborhood*, BBC (Aug. 29, 2018), <https://www.bbc.com/news/business-45083954>.

properties.¹⁴ Many others have started capping the number of nights a property can be rented out or mandating a minimum number of nights a property must be rented out.¹⁵

Despite all these efforts to counter the “Airbnb effect,” enforcement of these policies has been an issue as many hosts have gone out of their way to circumvent them. In New York, people that complained about their rule-breaking neighboring units have experienced retaliatory evictions.¹⁶ Montreal has reportedly revealed a lack of policing of its short-term rental market despite very stringent policies and found almost 80% of the listings in the city to be either not officially registered or using fake registration numbers.¹⁷ Airbnb and other similar sites have also been uncooperative in sharing data to the city officials, making it hard to enforce the rules since officials cannot tell who is actually breaking the rules.¹⁸

With all these circumventions and jumps through the loopholes, it sure looks like the “Airbnb effect” will have to be continually studied and more effective ways to curb short-term rental hosts from violating the policies need to be developed.

¹⁴ Feargus O’Sullivan & Jessica Loudis, *Airbnb Hosts Try to Evade City Regulations, From Copenhagen to Catalonia*, BLOOMBERG (Aug. 2, 2023), <https://www.bloomberg.com/news/features/2023-08-02/cities-keep-trying-and-failing-to-regulate-airbnb-nasdaq-abnb>.

¹⁵ *Id.* See Pandya et. al., *supra* note 5.

¹⁶ O’Sullivan & Loudis, *supra* note 14.

¹⁷ *Id.*

¹⁸ *Id.*