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Overview of Sharing Economy and Short-Term Rentals

LEGISLATIVE ANALYST'S OFFICE

Prepared for:
Committee on Local Government
Hon. Brian Maienschein, Chair

Assembly Revenue and Taxation Committee
Hon. Phil Ting, Chair

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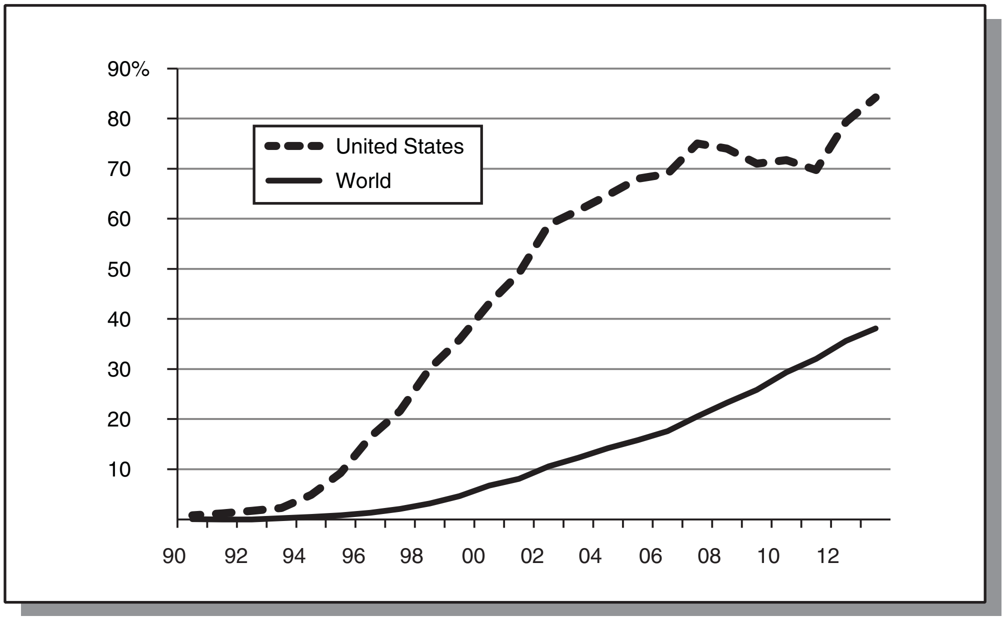
Internet Use Drives Societal and Economic Change

Percent of Population Using the Internet



☑ **First Wave of Change**

- Most of the Internet-driven societal and economic change between 1990 and early 2000s pertained to how people and organizations shared information and bought things.
- Wave examples: Facebook, Amazon, Ebay, and email.

☑ **Recent Wave of Change**

- Beginning a decade ago, a new wave of change started called the “sharing economy” or “peer-to-peer” (P2P) market.
- This wave relies on the strengths of the Internet to allow consumers and suppliers to complete transactions easily.
- Wave examples: Airbnb, HomeAway, and FlipKey (lodging); Uber and Lyft (transportation); and Kickstarter, Prosper, and Lending Club (financial services).

A Look at the Sharing Economy

☑ ***Key Characteristics.*** Renting goods and contracting for short term services is nothing new. In the past, however, some desired transactions did not occur due to information limits or other barriers. Sharing economy businesses use the strengths of the Internet so that:

- Consumers can quickly search among myriad suppliers, compare information and reviews on suppliers, and complete transactions efficiently.
- Suppliers have wide access to consumers interested in using underutilized assets such as vacation homes and vehicles.
- The focus shifts from ownership of physical and human assets (like time, space, and skills) to access to these assets.

☑ **Technological Change Frequently Triggers Public Policy Questions**

- The first wave of Internet changes prompted government to examine regulatory structures about data privacy and tax laws related to purchases of retail goods from businesses outside of California.
- Sharing economy changes are prompting policy debate in part because many of the affected businesses are in industries where government (1) has established a significant regulatory framework, including land use, business, and consumer protection regulations, and/or (2) collects taxes, such as transient occupancy taxes and business license taxes, that pay for government programs.

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Lodging: Part of the Leisure and Hospitality Industry

Share of Wages and Business Income by Major Industry

2013

Sector	California	United States
Finance, Insurance, and Real Estate	**8.8%**	**9.2%**
Government	**17.4**	**17.1**
Health Care and Social Assistance	**9.5**	**10.9**
Manufacturing	**9.5**	**9.7**
Professional and Technical Services	**12.0**	**9.8**
Wholesale and Retail Trade	**10.5**	**11.0**
Leisure and Hospitality	**4.7**	**4.2**
Food service	*2.4*	*2.4*
Arts, entertainment, and recreation	*1.6*	*1.1*
Lodging	*0.7*	*0.7*

- ***Many Visitors.*** Industry experts estimate California had about 230 million "person-trips" in 2013. About 80 percent of these trips were for leisure.

- ***California Residents Accounted for About Three-Quarters of These Trips.*** Residents of other states accounted for about one-fifth of these trips and visitors from other countries accounted for about 7 percent. Travelers from Mexico and Canada accounted for more than half of the international trips.

- ***Tourism Spending.*** Visitors are estimated to have spent over $110 billion in 2013. This includes spending for lodging, food services, recreation, transportation, and retail businesses. Foreign visitors accounted for about 20 percent of this spending.

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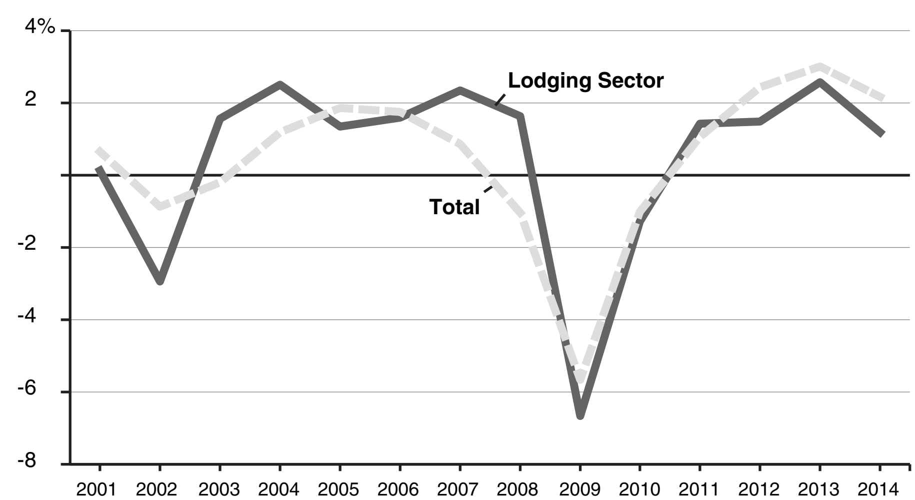
Employment Growth in State's Lodging Industry

Annual Change in Number of Jobs In California



- ☑ ***Lodging Industry Employment Growth Generally Tracks State Employment.*** Nearly 210,000 people worked in the lodging industry in 2014, up from about 197,000 in 2000. (The employment data in this figure is drawn from employer surveys and likely excludes many people offering lodging through Internet sites.) While employment in the lodging industry generally tracks growth in overall state jobs, growth in total state employment has outpaced job growth in the lodging industry

- ☑ ***Industry Wages Are Below the State's Average.*** In 2012, the average earnings for a private sector worker in California was about $54,000. The average pay for a person in the lodging industry was almost $28,000. Part of this difference in annual wages may reflect a greater likelihood that lodging industry employees work part-time.

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Changes to Lodging Industry: Short-Term Rentals

- ☑ ***Historically, Many Alternatives to Hotels.*** California has long had vacation home rentals, time-shares, bed and breakfasts, hostels, boarding homes, extended stay facilities, and campgrounds. In addition, many travelers stay with relatives and friends.

- ☑ ***The Internet Has Made it Easy to Rent Residential Lodging for a Short Stay.*** It has allowed for the creation of a two-sided marketplace that matches people who rent out their homes ("hosts") with people looking for a place to stay ("guests"). Searching, information gathering, and contract completion is simple.

- ☑ ***How it Works.*** Host creates a listing that describes the room or residence offered, price, location, and house rules. The host usually posts photographs.

  - Potential guests message hosts directly. When a potential guest puts in a reservation request, the host has a day or so to accept or decline it.

  - If a host accepts a reservation, the host and guest coordinate meeting times. After the visit, users (and, sometimes, the hosts) post reviews of one another. Reviews provide references for other guests and hosts. The site also may examine reviews to assess whether to bar a host or guest from using the site in the future.

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Growth in Short-Term Rental Sector

- ☑ ***Airbnb.*** Started in 2008, this privately held company reports that it has over 1 million listings in 190 counties, including room rentals and rentals of entire homes. Airbnb states that it made its millionth booking in 2011 and its 25 millionth booking in 2014. Various media accounts estimate Airbnb's 2013 revenue at $250 million.

- ☑ ***HomeAway.*** Started in 2004, this company held its initial public offering in 2011. Like Airbnb, HomeAway reports that it has over 1 million listings in 190 countries. HomeAway's listings are primarily entire homes, not rooms. Total revenues grew by 23 percent in 2014 to over $119 million. HomeAway acquired and operates many other short-term rental sites, including VRBO.com, VacationRentals.com, and BedandBreakfast.com.

- ☑ ***Major Traditional Lodging Providers.*** In 2014, Marriot had more than 3,900 properties, with over 700,000 rooms in 79 countries, and reported revenues of nearly $14 billion. In 2014, Hyatt reported having nearly 600 hotels, over 150,000 rooms, and revenues of over $4 billion.

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Short-Term Rentals From a Public Policy Standpoint: Attributes

☑ **Generates Income for Providers**

- ***Most Rental Income Remains With Hosts.*** Combined administrative fees (paid by host and guest) typically are in range of up to 10 percent to 15 percent of rental costs.
- ***Provides Supplemental Income for Many Households.*** Two studies of Airbnb usage—one of a four-year period in New York City and one of single day in San Francisco—found that roughly 90 percent of hosts had two or fewer properties. Households typically rented out their own residence (in part or in full) or a second property. There is some evidence that these households have lower than median income.
- ***Ongoing Business Income for Other Hosts.*** Some property owners rent many properties year round and are using these sites to facilitate their property management business operations. The New York City study estimated that these hosts received about a third of Airbnb rental income in the city.

☑ **Visitors Save Money**

- Short-term renters may save 20 percent or more, relative to the cost of a hotel. These savings can allow visitors to stay longer, or spend more on other leisure and tourism activities.

☑ **Community's Lodging Infrastructure Expands**

- Repurposing idle capacity in a community expands the community's lodging infrastructure without new construction.
- This can be particularly advantageous if a community experiences unusually high demand for lodging (such as during a major sporting event), or is located in an area where new construction poses environmental concerns.

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Short-Term Rentals From a Public Policy Standpoint: Concerns

☑ **Despite Prevalence of Short-Term Rentals, Their Legal Status Is Murky**

- Short-term rentals have been called “illegal hotels” because some are inconsistent with local land use or business regulatory policies.
  - While many California communities have land use policies that limit or bar rentals of less than 30 days, short-term rental companies show listings throughout the state.
  - The New York State Attorney General estimated that over 70 percent of the Airbnb properties rented in New York City violated one or more local planning or business regulations.
  - The New Orleans Times-Picayune reported finding hundreds of short-term rentals listed for the French Quarter, despite a local law banning rentals of fewer than 60 days in the neighborhood.
- Governments worldwide are reconsidering their policies to more clearly allow, regulate, or prohibit short-term rentals.
  - France legalized short-term rentals of primary residences throughout the country.
  - Amsterdam adopted a law allowing residents to rent their homes for up to two months of the year to up to four people at a time, provided they pay the relevant taxes.
  - San Francisco’s new ordinance allows permanent residents to rent rooms if they register with the city, carry liability insurance, pay the city’s 14 percent hotel tax, and satisfy other criteria.
  - Burbank enacted rules banning short-term vacation rentals in residential zones.

Short-Term Rentals From a Public Policy Standpoint: Concerns *(Continued)*

☑ **Short-Term Rentals Can Disrupt Community Expectations About Residential Neighborhoods**

- Many land use policies aim to separate residential properties from areas used for transient lodging. As a result, neighbors may be surprised if a residential property is used for business purposes.
- Although a host may screen prospective guests, neighbors may not have access to this information or know where to complain if problems arise on the property.

☑ **Hosts May Not Pay Business and Tourism Taxes**

- Short-term rental companies typically advise hosts that they need to comply with local tax laws, but actual practices vary.
  - A study by the San Diego City Treasurer's Office in September 2014 found that 50 percent of short-term rental owners did not pay hotel occupancy taxes.
  - Some companies collect transient occupancy taxes directly from the customer. Airbnb collects these taxes only in six cities: San Francisco, San Jose, Amsterdam, Portland, Chicago, and the District of Columbia.
- Because California cities charge relatively high transient occupancy taxes, noncompliance can result in significantly reduced tax revenues.
- Resolving taxation issues related to short-term rentals is difficult without resolving the related regulatory issues. It is difficult to collect taxes from an industry sector that a city does not permit to operate.

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Potential Changes to Economy

☑ **Growth in Short-Term Rentals Might Affect Traditional Lodging Sector**

- Economic theory suggests that prices fall when supply increases or substitutes become available. While research is limited, there are some signs that growth in the short-term rental sector has placed downward pressure on the traditional lodging sector's prices and gross revenues.
- A recent Boston University study found that every 10 percent increase in the number of Airbnb rentals in Texas resulted in a 0.35 percent reduction in monthly hotel revenue. In the City of Austin, where Airbnb supply is large, the study concluded that this was equivalent to a 13 percent reduction in hotel revenue, with the effect concentrated among lower-cost hotels and hotels not catering to business travel.

☑ **Changes to Employment Patterns and Tax Revenues Possible**

- ***Employment Patterns May Change.*** If more tourists stay in short-term rentals and fewer in traditional hotels, jobs in the traditional lodging sector might be negatively affected. At the same time, however, tourists and hosts involved in the short-term rental sector might spend their savings/earning on other goods and services, leading to increased jobs in these other sectors.
- ***Tax Revenues May Change.*** If a greater percentage of travelers stay in short-term rentals, tourism taxes might decline because these rentals typically cost less and some hosts currently do not pay taxes as required. The net effect on state and local tax revenues, however, would depend on the extent to which (1) visitors travel more or stay longer in response to these cost savings, (2) travelers and hosts spend their savings on items subject to other taxes, and (3) hosts' personal income tax liabilities increase due to their rental income earnings.