

# AIRBNB RENTALS CAUSING HOUSING CRISIS?

Since its founding in 2008, Airbnb, a peer-to-peer accommodation rental platform, has transformed the tourism industry and sparked a lively debate about its impact on the real estate market.

By offering travelers an authentic and cost-effective experience, Airbnb has attracted millions of users worldwide. However, a completely different reality lies beneath the stories of enriching trips and attractive gains for guests.

Let's delve into how Airbnb, through its disruptive business model, has influenced the real estate and tourism market, often to the detriment of aspiring property owners.

From the skyrocketing real estate prices to the lack of available housing for locals and its effect on the hotel sector, let's explore the various impacts of the Airbnb rentals on global tourism.

## **The Story of Explosive Growth**

The Airbnb adventure began in 2007 when two San Francisco roommates, Brian Chesky and Joe Gebbia, were looking for a way to pay their rent. They turned their apartment into a temporary reception space for those seeking overnight accommodation, offering an inflatable mattress and breakfast for \$80 a night. This humble beginning, a solution to a problem, quickly became a promising business idea.

Their friend Nathan Blecharczyk joined them, and together, they launched the website "Airbed & Breakfast," which was the precursor to Airbnb.

The startup grew from a few ads to 500 in just two years, with 10,000 users and 15 employees. The founders secured \$7 million in funding to develop an app and expand their concept.

2011 marked a significant milestone with a \$120 million fundraising effort, which facilitated Airbnb's international expansion. With Germany and the United Kingdom in the lead, Europe rapidly embraced this alternative to traditional hotels, lured by a new way of traveling and utilizing real estate. This global acceptance validated Airbnb's disruptive business model.

With a staggering \$20 billion raised in 2015 and a presence in 30,000 cities across 192 countries, Airbnb has evolved from a simple solution to a major player in the tourism sector. Its hundreds of millions of customers and 1.5 billion bookings in 2019 underscore its disruptive growth and its profound impact on the global tourism landscape.

## **The "Airbnb Effect" on the Real Estate Market**

The rapid growth of short-term rentals through Airbnb-like platforms has profoundly impacted neighborhoods, often at the expense of local residents and potential homebuyers. This has led to a notable increase in real estate prices in many cities.

The transformation of residential properties into short-term rentals has reduced the availability of homes for sale or long-term rent, leading to an upward pressure on prices. This is particularly impactful in tourist hubs, where there is a high demand for authentic local experiences through Airbnb.

Furthermore, Airbnb's influence on the traditional rental market is equally significant. Enticed by the potential for higher short-term earnings (150 to 300% more than conventional rentals), property owners choose to forego long-term leases.

This shift has resulted in a housing shortage for permanent residents, exacerbating affordability challenges in many cities. Consequently, local communities are experiencing a decline in their social fabric as housing becomes increasingly occupied by transient visitors rather than long-term residents.

The impact of Airbnb rentals on neighborhoods can lead to issues for residents, including noise and safety concerns, which can decrease the overall quality of life. In response, cities worldwide have started implementing strict regulations, such as limiting the days a property can be rented out or requiring specific check-in procedures for hosts. These measures are intended to restore balance to the real estate market and maintain the residential feel of neighborhoods while still allowing for a reasonable and regulated approach to tourism through platforms like Airbnb.

### **The Hotel Sector Is another Victim**

Airbnb rentals have become popular among travelers seeking affordable and authentic accommodations, leading to decreased hotel occupancy. This shift in consumer preferences has caused tension between Airbnb and traditional hotels due to differences in taxation and regulations. Specifically, Airbnb rentals are subject to less taxation than professional hotel businesses, particularly benefiting those classified as lessors of furnished tourist accommodations under the micro regime, who receive a 71% allowance for calculating their income on property taxes, an allowance not available to the hotel sector.

Professionals in the hotel sector believe there is unfair competition, especially when comparing the prices of Airbnb rentals to hotels, as the former lacks the level of service the latter provides.

### **Controversial Development**

Cities worldwide are acting to regulate short-term rentals, aiming to mitigate negative impacts while retaining the economic benefits of tourism. These measures vary from city to city and are a testament to the global response to the disruptive effects of platforms like Airbnb on the real estate and hospitality markets.

For instance, in France, it is now mandatory to register at the town hall and declare your property to the tax authorities and tourist office. Additionally, obtaining a unique number is required, and there are restrictions on the number of nights one can rent out, which is set at 120 per year.

Those who violate these regulations, including Airbnb for failing to fulfill its control obligations, may face substantial fines ranging from 25,000 to 50,000 euros.

These regulations' main goal is to prevent residential housing from being turned into permanent tourist accommodations, thus ensuring an adequate housing supply for Paris residents.

In the United States, cities like New York and San Francisco have implemented strict measures. In New York City, a law prohibits renting entire homes for less than 30 days, aiming to preserve homes for permanent residents. Meanwhile, San Francisco, where Airbnb originated, has established a mandatory registration system for hosts and limits short-term rentals to 90 days a year when the host is absent.

These regulatory challenges aren't limited to the United States. Barcelona, facing significant tourism pressure, has imposed strict restrictions on new tourism licenses to rebalance the local property market and reduce the impact of mass tourism.

### **The Giant's Response**

Amidst global pressure, Airbnb initially refused to share its customers' private data with the authorities due to privacy protection. However, facing increasing regulatory challenges, Airbnb engaged in lobbying efforts and appealed to the European Union for arbitration to find common ground on rental property regulations. Despite these efforts, the European Union implemented a single registration system for all hosts, compelling Airbnb to provide indirect access to its data. As a result of this system, the unique registration number must appear on all ads, making it easier for European authorities to identify ad managers and potential fraudsters.

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