

# The Negative Consequences of Short-Term Rentals – Arizona’s Recipe for Disaster



February 2021

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## **Preface**

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This research report was initiated to study the secondary or indirect impacts of the short-term rental (STR) industry on cities and neighborhoods, with a particular focus on Arizona – a state with some of the most STR industry-friendly laws that eliminate local oversight over these activities where they occur. During the course of the study, it became obvious that the so-called “unintended consequences” of the STR industry, often directed by Airbnb, are actually direct attempts to undermine local land use control, health and safety regulations, and tax collection all in an effort to maintain and grow revenues for this industry and, in the case of Airbnb, preserve its stock market valuation (currently more than Marriott and Hilton combined). The conclusion of this research report is that any supposed unintended consequences of the STR industry are instead direct, intentional consequences that will continue to affect local governments, the housing market, and residential neighborhoods until STR platforms are willing to negotiate in good faith to resolve these issues. Moreover, Arizona’s unique, STR industry-leaning regulatory framework is intensifying adverse impacts on Arizona neighborhoods and the State. These negative impacts cannot be addressed adequately until and unless Arizona returns to a more mainstream approach that re-empowers local communities to use oversight and enforcement tools: tools that have proven effective in many other jurisdictions across the country that are not impeded by state-level laws like those in Arizona.

## **Executive Summary - Observations and Conclusions**

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The sharing economy, in its simplest terms, is a system in which assets or services are shared between private individuals, either free or for a fee, typically by means of the internet. Some of the best-known sharing economy platforms are those focused on short-term rentals exemplified by Airbnb. The STR industry is based on the premise that a person can rent a home they live in or a room in their home or a separate unit on their property (guest house, granny flat, auxiliary dwelling unit) to another person for income. This is the perception the STR industry tries to portray in its marketing efforts, but the industry has transformed into a variety of different business models, many of which involve exploiting regulatory loopholes all under the guise of innovation.

### **Findings and Conclusions**

The review of business trends of the STR industry outlined in this study and the experiences of cities in dealing with the negative impacts of short-term rentals exposes a number of operating tactics of the industry and how local jurisdictions have been thwarted in their efforts to deal with STRs. In Arizona, current law encourages the growth of the STR industry which has proven harmful to neighborhoods, the traditional hotel industry, and the available housing stock for long-term renters. The primary findings and conclusions of this paper follow.

1. Airbnb and other STR platforms have consistently misrepresented the context of their business model within the “sharing economy” label. Instead, it has transformed over the years into a model that more and more relies on multi-unit hosts who operate miniature hotel chains, often within residential neighborhoods. In Arizona, this activity takes place without the traditional local oversight and controls that used to exist and do in fact broadly continue to be applied to STRs in many other localities around the country and the world. The STR platforms also significantly overstate their economic impact on local economies by failing to recognize that the vast majority of visitors would continue to travel to their destinations even if Airbnb did not exist.
2. Arizona’s prohibition on the regulation of short-term rentals through SB1350 has clearly created a wide range of problems for local jurisdictions, particularly for those communities that have tourism economies. There are differences between the impact of STRs on cities such as Phoenix and Scottsdale just as there are differences between Scottsdale and its neighbor Paradise Valley. The rural communities of Arizona, exemplified by Sedona, also present a completely different set of circumstances compared to the urban areas of the state. There is not one set of regulatory standards that applies to all cities for land use and neighborhood issues. Each community needs to develop its own set of requirements relative to its own situation. Tourism-oriented

communities have been impacted the most by STRs and likely need the most tools to deal with their negative effects. Laws such as SB1350 are not the recommended path forward in Arizona for neighborhood stability and economic sustainability and growth.

3. Zoning is the bedrock foundation of local government land use protections. It helps to establish and maintain the character of a community in accordance with local desires and protects property values by separating uses that may be incompatible. Zoning is and always has been under local authority, subject to certain standards delegated by the state. The inability of local jurisdictions to regulate short-term rentals due to statewide bans such as SB1350 usurps citizens’ and local communities’ rights to determine and preserve the character of the community in which they live and to protect their property rights. At the very least, the STR issue should be subject to debate and input among all levels of government, as it is in other parts of the country.
4. Communities across the country have experienced the conversion of traditional rental units and owner-occupied homes to short-term rentals. The result is a decline in the available housing supply often impacting residents who depend on affordable housing for shelter. Conversely, the reduction in the supply of long-term rental housing also causes prices to rise as units are bid up in price by STR investors. Demand for housing is inelastic - households have little ability to forgo housing when it becomes more expensive. And even small changes in the supply can cause housing prices to rise. While large cities and metro areas may be able to absorb some of the loss of units to STRs, the result in smaller towns is quite different, affecting the fabric and character of neighborhoods and whole communities and regions.
5. A common theme found across most communities, which generates most of the complaints to local governments, is the negative impact of non-owner-occupied or investor STRs operating in residential neighborhoods as quasi-commercial uses. Complaints about STRs are commonplace from neighbors who live near these units concerning noise, crime, parking, and neighborhood peace. Most cities target their regulations at these types of units – but this is something that cannot be done in Arizona due to state-level laws preempting and preventing such traditional exercise of local laws and enforcement authority. Indeed, in Arizona, local authorities must expend taxpayer funds to react problems caused by STRs, typically with police forces or code enforcement that can have no lasting helpful impact under current law, that are avoided altogether in communities that are empowered to use traditional zoning and other legal tools.
6. The STR industry is growing and is poised to take advantage of a business model that, without adequate oversight, will continue to leverage their lower operating costs compared to traditional lodging and as key STR operating costs are, in effect, subsidized by other taxpayers. In 2019, STRs accounted for more than 10% of the traditional U.S.

hotel room inventory. Absent the COVID-19 pandemic, the STR inventory was expected to reach a 12% penetration rate of the hotel market in 2020 with the addition of 100,000 new units. While the traditional hotel industry has always been highly competitive, STRs in Arizona are operating at an unfair advantage due to the relative lack of oversight and regulation at the state and local level. STRs do not need to pay staff and are not regulated like hotels, which increases costs for traditional lodging operations substantially but is found to add value to the communities in which they operate. Indeed, many of the costs traditionally associated with building and running a hotel – on-site staff, security personnel, cleaning personnel, ADA facilities, fire safety systems, adequate parking, buffering from residential areas, commercial property taxes – are either avoided entirely by non-owner occupied STRs, or are externalized onto society at large by expecting neighbors of an STR to call local police forces when experiencing criminal activity, noise, or partying from an STR. Over the long-term, this will result in a loss of jobs in the hotel industry that are not directly replaced by the STR industry. Many STRs do not charge tourist bed taxes which further deepens the unequal competition. The unregulated and unrestricted growth of STR units is placing pressure on the hotel industry which ultimately will negatively impact (1) a reliable and consistent revenue source for state and local governments and (2) employment in the tourism/lodging industry.

7. STRs are here to stay in one form or another. There needs to be constructive discussion between STR platforms and adversely impacted communities on how they can continue to operate while minimizing impacts on local communities. There is a balancing act between the rights of certain property owners to use residentially-zoned properties in any manner they desire and the greater community good. The perceived property rights of a few STR owners should not infringe on the property rights of the majority.
8. STR platforms like Airbnb need to be more cooperative in assuring that there is tax compliance for their host operators and more transparency in sharing information with tax authorities. STR platforms should not list STRs on their websites unless they are registered with the local jurisdiction as legal short-term rentals. Most cities have been inundated with illegal STRs. The technology to provide host information to cities and assure that all STRs are legal in the eyes of the city or other governing authority is clearly available. STR platforms also need to self-monitor their hosts’ activities and those of their guests.

In summary, there are significant negative economic impacts imposed on state and local jurisdictions by the STR industry.

- Housing disruption is one of the most significant negative impacts of the STR industry, affecting both the supply and price of housing units. At a time when housing affordability

has become a problem across the country, the loss of long-term rental units to transient, short-term use will only exacerbate the issue.

- STR hosts are operating at an unfair advantage compared to the hotel industry by not abiding by building, safety, and taxing requirements imposed on traditional hotels, motels, and other lodging facilities, and externalizing those costs onto taxpayers generally, who in effect are forced to subsidize this niche business.
- State and local jurisdictions may see hotel tax revenues they depend upon decline or be less reliable due to ineffective STR tax collection efforts.
- Established tourism-related employment will decline as the number of multi-unit hosts listed on STR platforms increases. While there may be some offset of increased employment by STR operators, a net loss of employment will result causing distress across all hotel management levels with adverse impacts to job retention and growth.
- At the city level, property values will likely be affected as STRs invade traditional residential neighborhoods.

The true costs of the STR industry are externalized on many segments of society, from residential neighborhoods that must deal with disruptions, crime, and noise, to the hotel industry that is facing unfair competition, to reduction of jobs, and to the housing market that is facing rising costs and reduced supply.

## **Short Term Rentals and The Sharing Economy**

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Short term rentals, units rented by homeowners to persons typically from a few days to a few weeks, are part of the “sharing economy”. In its simplest terms, the sharing economy is a system in which assets or services are shared between private individuals, either free or for a fee, typically by means of the internet. When not needed, a person can rent out his car, her apartment, or his bike to another person, all done digitally. The sharing economy depends upon technology-based companies that use the internet to bring people together to sell or rent services. These companies are often described as “disruptors” who use technology platforms to revive stagnant sectors of the economy and increase the quality of goods and services to the general public. They typically also provide persons with the opportunity to earn income.

Two of the best-known sharing economy platforms are Uber and Airbnb. Uber connects drivers with people needing to get somewhere. While conflicts have been noted throughout the world with unlicensed persons performing a service historically filled by licensed cab drivers, the model is based on the sharing economy. A person has a car and agrees to essentially rent it out and drive someone to a destination. That model has not changed over the years although skirmishes with state and city regulatory authorities continue to affect the company’s business.

Airbnb is the most widely used platform in the short-term rental industry. It is based on the premise that a person can rent a home they live in or a room in their home or a separate unit on their property (guest house, granny flat, auxiliary dwelling unit) to another person for income. This is the perception Airbnb tries to portray in its marketing efforts, but the STR industry has transformed into a variety different business models, many of which involve exploiting regulatory loopholes all under the guise of innovation.

In the top 30 STR metro area markets in the U.S., about two-thirds of the units are in the entire-home or apartment category, meaning that the renter occupies the unit without the owner or host being present. The units where the owner is not present on the property have largely generated the most complaints from nearby residents, particularly in the case of single-family homes in residential neighborhoods. Apartments and condos, by comparison, typically have some type of monitoring of renter conduct and the properties are often located in commercial-type areas.

In 2019, there were more than 1.5 million STR units listed on various platforms in the U.S., about seven times the amount listed in 2014.<sup>1</sup> Not all the units were active or available for booking year-round. In the top 30 STR markets in the U.S. more than one-third of STR rentals are a house where an owner is not present.



<b>2019 Short-Term Rental Supply By Type in Top 30 Markets</b>				
<b>Property Type</b>	<b>House</b>	<b>Apt./Condo</b>	<b>Other</b>	<b>Total</b>
Entire Home/Apartment	34.4%	32.2%	1.3%	67.9%
Private Room	19.1%	8.9%	0.2%	28.3%
Shared Room	1.0%	0.6%	0.0%	1.6%
Hotel/Hostel	-	-	1.6%	1.6%
Bed & Breakfast	-	-	0.5%	0.5%
<b>Total</b>	<b>54.5%</b>	<b>41.8%</b>	<b>3.7%</b>	<b>100.0%</b>

Source: AirDNA, CBRE Hotels Research 2019

As a whole, the STR industry represents a failure to engage with regulators and abide by local ordinances and regulations. It is a business model that largely ignores the impact of its hosts and guests on various aspects of the local housing market and neighborhood stability. The exploitation of regulatory loopholes includes avoiding or ignoring zoning regulations, building and safety regulations normally imposed on the hospitality industry, and sales and bed taxes normally collected from hotels, motels, and licensed bed and breakfast operators. In the case of Arizona, the avoidance of established local zoning and other regulations took the form of SB1350, which explicitly overrode those standards. In addition, the lack of oversight of host operators by STR platforms and the competitive advantages over traditional lodging enjoyed because of this pattern of behavior has led to the proliferation of STRs owned by a small number of hosts that operate multiple housing units as miniature hotel companies. At the heart of the discourse between the STR platforms and government regulators is whether the STR platforms operate as pure technology companies, providing a match-making service to willing participants, or whether they are operating in effect as a hospitality company.

The purpose of this report is to outline the negative consequences of the STR industry on local communities, which in many situations have transitioned into “intended” consequences as platforms such as Airbnb continue to defend their business model and disregard local regulatory and taxation policies. The expansion of Airbnb in Arizona has been fueled by a state law that is intended to block local oversight and enforcement. Significant questions have arisen about STRs’ negative effects on local housing cost, affordability, and availability; the quality of life in residential neighborhoods; and local governments’ ability to enforce municipal codes and collect appropriate taxes. An overview of the negative consequences STRs in Arizona and across the country are outlined hereafter in this report.

## **Arizona’s Experience With Short Term Rentals**

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Arizona has among the most STR industry-friendly laws of which we are aware. SB 1350 enacted by the Arizona legislature in 2016 purposely and significantly restricts the ability of local governments to regulate STRs and, in fact, eliminated existing local laws that had traditionally applied to such activities. The law states that a city or town may not prohibit, restrict the use of, or regulate STRs based solely on their classification, use, or occupancy. In other words, an STR must be treated exactly the same way as an owner or long-term-tenant occupied home.<sup>2</sup> The law was originally promoted to the legislature as a way for Arizonan’s to be able to rent an extra room in their homes more easily while they are present, but like other markets with STRs, this has not been the common experience.<sup>3</sup>

Representative John Kavanagh of Fountain Hills has sponsored legislation in 2021 to address the shortcomings of the current law and suggests a number of reforms to correct the negative consequences of STRs and externalities imposed on local communities. These reforms would reduce the concentration of STRs in neighborhoods, prohibit outdoor activities at night, limit ownership to persons in their primary or secondary residences, and establish occupancy limits. Legislative proposals to further amend current STR laws are expected in the 55<sup>th</sup> legislative session.

What SB 1350 fails to address is the proven value of traditional local oversight and enforcement along with the differences in local communities across Arizona. The state has a robust tourism industry. Some of those tourist destinations are in the rural areas of the state where housing opportunities are limited. Businesses who rely on employing persons in those rural communities need to have an available housing stock for their workers. In the urban parts of Arizona, housing opportunities are much more available, but affordability is often an issue. Many communities also wish to protect their residents from intrusion of commercial type uses into residential neighborhoods. This is particularly true in communities such as the Town of Paradise Valley which was founded in 1961 to create and preserve a low-density, residentially zoned community. The bottom line is that one blanket restriction on prohibiting the regulation of STRs at the local level does not work. Each community has different characteristics and may react differently to the introduction of STRs into their jurisdiction.

Indeed, in response to the concerns with the STR industry outlined above and the impact of SB1350 on local control of short-term rentals, 33 mayors of cities and towns across Arizona, including the largest cities in the state, signed a letter to the CEOs of Airbnb and Expedia Group requesting that the companies end their efforts to block local regulation of STRs in the state. The letter outlines how the ground swell of complaints from citizens for regulation of STRs in Arizona

will eventually disrupt the industry’s business model. The authors of the letter recognize that STRs can operate compatibly in Arizona, but that local control is the best approach to a sustainable STR industry. A copy of the letter is included in the Appendix to this report.

STR data was collected from AirDNA, a provider of short-term vacation rental data and analytics that tracks the daily performance of over STR listings on Airbnb, Vrbo, and other platforms. The data below shows the number of active STR units in Phoenix, Scottsdale, Paradise Valley, and Maricopa County relative to their housing inventory as of January 2020. Overall, the percentage of active STRs in Maricopa County compared to its housing stock stands at 0.7%. Phoenix has a low percentage of STRs relative to its housing supply while Scottsdale’s STR inventory stands at 2.8% of total units. On a per unit basis, Scottsdale’s housing stock is only 22% the size of the Phoenix housing stock yet it has 720 more active STR units than Phoenix. As one of the Valley’s premier tourist destination, Scottsdale has experienced a more dramatic influx of STRs than Phoenix. Paradise Valley by comparison, which has a population of only 14,300 persons, has an even higher estimated level of STRs relative to its housing inventory at approximately 3.8%.

<b>Short-Term Rentals in Selected Communities</b>				
	<b>Phoenix</b>	<b>Scottsdale</b>	<b>Paradise Valley</b>	<b>Maricopa County</b>
Population	1,680,988	258,064	14,362	4,485,414
Housing Units	637,511	145,936	6,091	1,789,265
Active STRs	3,372	4,092	234	12,219
<b>% Active STRs of Total Units</b>	<b>0.5%</b>	<b>2.8%</b>	<b>3.8%</b>	<b>0.7%</b>
Sources: AirDNA, American Community Survey 2019 5-Year Estimates				

The above estimates point to the fact that some communities will react differently to the STR issue. Scottsdale’s former Mayor Jim Lane, for instance, testified in front of the Joint Ad Hoc Committee on the Impact of Short-Term Rentals on Arizona Communities in December 2019 pointing to the concern of commercial enterprises renting out single-family homes for tourists. He indicated that short-term rentals, if they continue to grow in number, could potentially change the entire complexion of neighborhoods. In addition, STRs are also in direct competition with the city’s resorts and hotels and there needs to be some equalization of regulation. The city has also dealt with crime and shootings at STRs over the last few years.<sup>4</sup>

The Town of Paradise Valley has expressed great concern about negative impacts related to STRs and the introduction of commercial uses into the community. Paradise Valley is a low-density residential community that enjoys the highest property values in the State, low crime, and is home to many of the State’s executives, entrepreneurs, and notable citizens. Since its founding

by former Supreme Court Justice Sandra Day O’Connor and other prominent citizens in 1961, Paradise Valley has relied on stringent local zoning laws and restricted commercial lodging uses in the town to a handful of high-quality hotels and resorts which are highly regulated through zoning and other laws, buffered from residential areas, well-staffed, and required to monitor and protect against loud or unruly behavior. Arizona’s current state law does away with this long-standing traditional balance. Now, the Town commonly sees the use of entire homes as locations housing dozens of STR visitors on a nightly basis, which has introduced unwanted commercial activities, crime, and other serious and uncontrolled nuisances directly into residential neighborhoods.

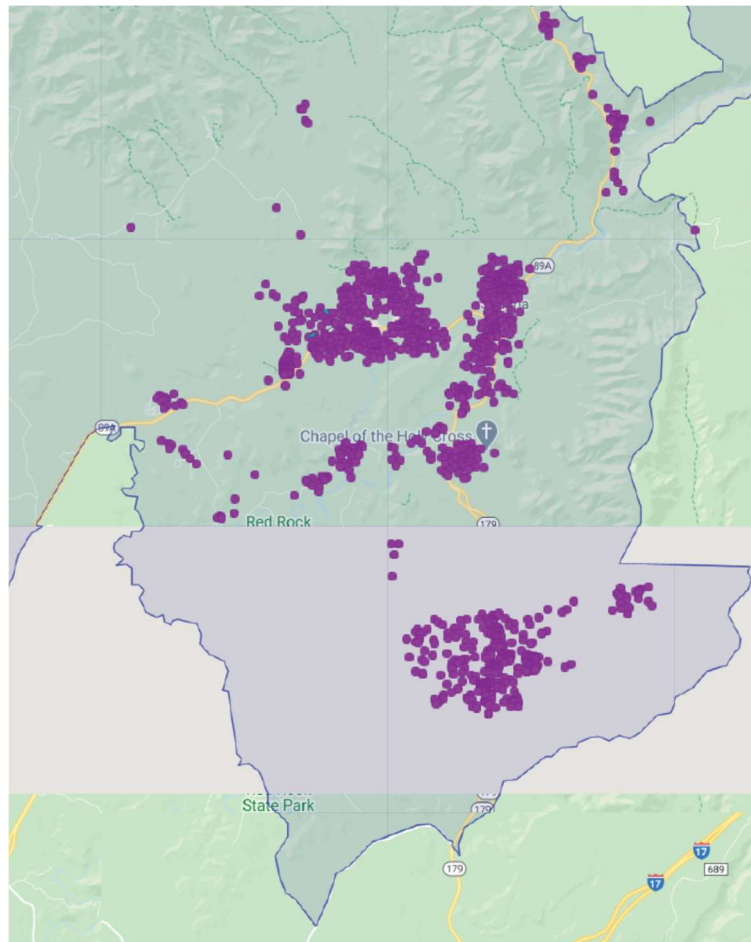
A frontpage article in The Wall Street Journal from December 10, 2020 further highlighted some of the difficulties faced by Arizona’s communities and other cities across the U.S. in dealing with STRs. The article outlines how with the passage of SB 1350 investors poured into affluent communities like Paradise Valley and Scottsdale, snapping up homes to rent on the STR platforms. Nearby residents have complained about declining home values, loud parties into late hours of the night, and neighborhood disturbances such as shootings. In response, grassroots efforts are underway across the country to overturn laws such as SB 1350. In fact, Airbnb has warned investors in its stock filings (Airbnb went public in late 2020) that “managing its success in the face of angry neighbors and unfavorable local laws is among its biggest challenges in the U.S. and around the world”.

Of additional concern is the impact of STRs on Arizona’s small, rural tourism-oriented communities.

**Sedona**

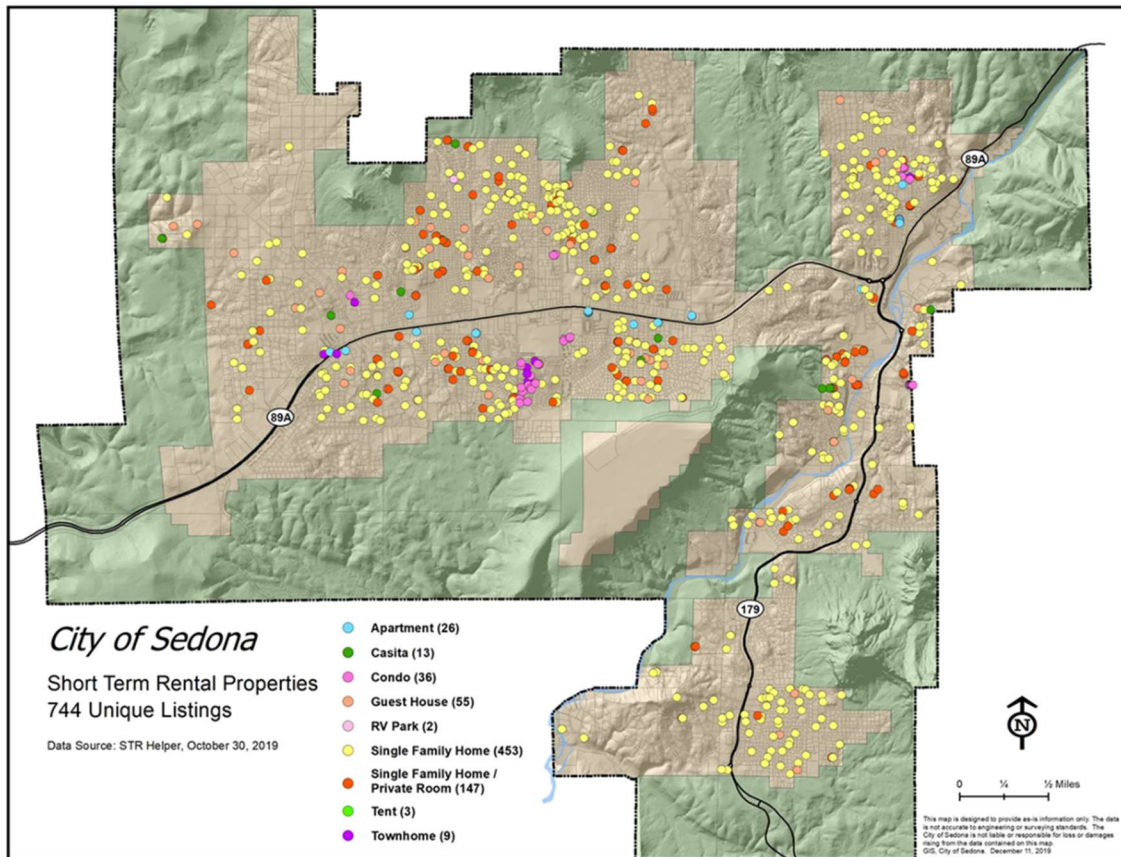
Sedona is a world-renown tourist destination that has experienced significant negative impacts from the STR industry. These impacts include the disruption of neighborhoods, zoning and building safety violations, nuisance violations, and the loss of housing for its residents and persons working in the city. In January 2021, there were 2,378 active STRs listed on the AirDNA website for Sedona and Village of Oak Creek, including some units that are outside of Sedona city boundaries. However, a number of hotels and time share properties list their units on the STR platforms. Applying a 20% reduction for these types of properties results in an estimate of 1,902 active STRs or approximately 16.9% of the 11,200 housing units in the two communities. The map below shows the concentration of those STR units according to AirDNA.

Active STRs in Sedona Area				
	Sedona	Village of Oak Creek	Total	Less 20% for Hotels, Timeshares
Housing Units	7,096	4,147	11,243	11,243
STRs			2,378	1,902
<b>Percent STRs</b>			<b>21.2%</b>	<b>16.9%</b>
Sources: AirDNA, American Community Survey 2019 5-Year Estimates				

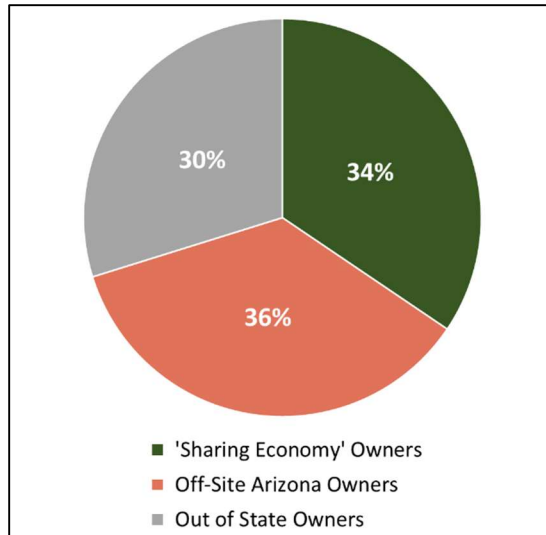


The City of Sedona is among communities highly active in voicing concerns with STRs due to their proliferation over the last few years. In 2019, the city collected available data on STRs and cleaned from the data hotels, timeshare units, and other traditional guest units that advertise on the STR platforms. The result is a total of 744 unique listings within city boundaries or 10% of the housing units in the city. The STR units were categorized by type with a majority being single family homes (61%) followed by homes with a private room. The database also includes RVs and tents that have popped up around the city. The

dispersion of the units is shown on the exhibit below indicating substantial clustering of units in single family areas.



Of significant concern is the ownership pattern of the STR units. Only 34% of the units are associated with a property that is occupied by the owner, shown in the chart below as “sharing economy” owners. The remaining two-thirds of STR units are owned by out-of-state persons or persons who do not live on the STR property.



Sedona has historically had high housing prices which created affordability issues for its workforce. Between 2015 and 2019, the average home price, including single family homes, condos, and mobile homes, increased by 45% to \$636,000. While the lack of affordable housing and rising prices cannot be fully attributed to the proliferation of STR units, it certainly has contributed to the problem. There is a significant amount of anecdotal information on the conversion of long-term rentals to short-term. Stories abound of residents being forced to move at the end of their leases as properties are converted to use for short-term visitors.

The decline in the supply of long-term rental units has torn at the fabric of the community. In 2019, the school district closed one of three elementary schools. The high school graduating class is down to about 50 students, about one-half of what it was five or six years ago. The district has now added 7<sup>th</sup> and 8<sup>th</sup> grades to the high school so the building can be fully utilized. Little league baseball and football programs are no longer organized because young families are leaving the city.

Data from the U.S. Census appears to verify the trends that are visible to city residents. The Census indicates that between 2010 and 2019 the number of owner-occupied households in Sedona increased, but the count of renter households declined by 22%. In addition, the loss of renter households is in the prime child-rearing age groups of 24 to 59 years old. Even owner-occupied households in the 45 to 64 year-old age groups declined in number as well. The loss of these households correlates with the decline in families with children and in school enrollment in the Sedona area. The decline in population has significant financial impacts for local governments including a potential decrease in state shared revenues which typically comprise a significant portion of community revenue.

<b>Tenure By Age of Householder 2010 - 2019</b>			
<b>Tenure and Age of Householder</b>	<b>Sedona</b>		
	<b>2010</b>	<b>2019</b>	<b>Change</b>
<b>Total Households</b>	<b>5,307</b>	<b>5,542</b>	<b>235</b>
<b>Owner Occupied:</b>	<b>3,660</b>	<b>4,262</b>	<b>602</b>
15 to 24 years	-	8	8
25 to 34 years	53	17	(36)
35 to 44 years	217	247	30
45 to 54 years	608	494	(114)
55 to 59 years	687	569	(118)
60 to 64 years	526	455	(71)
65 to 74 years	866	1,500	634
75 to 84 years	514	578	64
85 years +	189	394	205
<b>Renter Occupied:</b>	<b>1,647</b>	<b>1,280</b>	<b>(367)</b>
15 to 24 years	34	51	17
25 to 34 years	340	97	(243)
35 to 44 years	366	351	(15)
45 to 54 years	322	157	(165)
55 to 59 years	190	170	(20)
60 to 64 years	79	163	84
65 to 74 years	265	269	4
75 to 84 years	11	22	11
85 years +	40	-	(40)
Sources: ACS 2010 and 2019 5-Year Estimates			

Beyond the change in the character and mix of Sedona’s population due to the proliferation of units and the number/density of STRs in certain neighborhoods, Sedona has heard many complaints from permanent residents about what is perceived as commercial business activity in residential neighborhoods which leads to the loss in the character of the neighborhoods. People don’t know their neighbors anymore which ultimately damages the fabric of the city. RVs have been placed on vacant lots and advertised on STR websites. Some of the new home construction activity has involved large buildings with eight to ten bedrooms, bunk rooms, and large outdoor entertaining areas often without the appropriate number of parking spaces. These miniature hotels are not meeting building and safety standards normally imposed on hotels. The City’s small staff has been strained in its enforcement efforts of building activity and complaints.

Sedona is just one tourist-oriented, rural community that has had to deal with the consequences of the STR industry and the inability to regulate the rentals. The number of



STRs in Sedona relative to the total housing inventory, estimated between 10% and 17%, is excessive and well beyond what is found in the urban parts of Arizona. Unless there is some way for communities similar to Sedona to deal with STRs, absentee owners and investors will continue to build and/or convert units from long-term to short-term rentals.

**Page, Arizona**

Page is situated in an isolated area of northeastern Arizona, surrounded by the Navajo Nation reservation. The city was established in 1957 as the camp site for workers and their families during construction of the Glen Canyon Dam. Since that time, the community has transitioned to a tourist economy as the gateway to Lake Powell and other natural sites such as Antelope Canyon and Horseshoe Bend on the Colorado River. Page attracts an estimated 3 million visitors a year.

According to AirDNA in January 2021, there were an estimated 358 active STRs in the city representing 12.6% of the community’s 2,840 housing units. Due to its isolated area, housing is at a premium for its workforce. The existing housing market is facing increased demand for both temporary and permanent lodging for service industry employees. The hotel industry has grown significantly with an increase of 860 rooms since 2012. At the same time, the vacation rental market has also grown limiting housing opportunities for workers. The city notes that even with the growth of the hospitality industry, few of the new service sector workers have resulted in an increase in the permanent population of Page. The city is now attempting to attract housing developers to the city to expand its permanent housing supply.

## **Impacts of the Short-Term Rental Industry**

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### **1. Adverse Impacts to Residential Neighborhoods by Circumvention of Zoning Laws**

Zoning is the bedrock foundation of local government land use control. It helps to establish the character of a community in accordance with local desires and protects property values by separating uses that may be incompatible. It also provides certainty for those that are living in the community that they are protected from the intrusion of unsuitable uses. Zoning is, and always has been under local control, subject to certain standards and conditions delegated by the state.

The potential for negative impacts of STRs on a community’s neighborhoods is a primary consideration that led to zoning regulations that banned STRs in residential areas. The inability of local jurisdictions to regulate short-term rentals due to statewide bans on regulation usurps that local authority’s right to respond to citizen voices that determine the character of its community and to protect the property rights of its residents. At the very least, the STR issue should be subject to debate and input among all levels of government.

One of the primary negative consequences of STRs continually faced by local communities and residents is the circumvention of zoning laws – the use of a home or housing unit as a commercial transient lodging business in a residential neighborhood and the consequences that flow from it. In Arizona, this problem is at the most extreme because current state law does not allow local governments to treat STRs as commercial activities for zoning purposes, or to engage in proactive measures to mitigate the impacts of STRs on neighborhoods. This is particularly an issue resulting from absentee owners who rent their properties out to short-term visitors who may not respect the surrounding neighborhood from the standpoint of noise, parking congestion, and other externalities. There are even examples of Airbnb hosts who rent units on long term leases, then sublease their units to short-term travelers. Through this arrangement, the ultimate property owner is shielded from the externalities that are imposed on neighbors. Complaints are often made to local authorities who have little or no ability to deal with the issue.

Homeownership is one of the foundations of the American way of life that separates us from other countries. It provides stability to our communities and creates wealth. Anything that threatens the ability of citizens to reap the expected benefits of their primary residence – a cornerstone of the “American Dream” – should be carefully considered and appropriately balanced.

While we cannot find any empirical studies on the impact of STRs on neighborhood desirability and property values in Arizona, in theory, a prospective buyer of a home located adjacent to or

near an unregulated STR unit would likely offer a reduced price for the home or cancel the purchase outright. The end result is declining property values for owner-occupied homes, while STR investment homes enjoy distorted valuations as commercial investment assets. The inability to regulate STRs at the local level is bad economic policy that, among other problems, eventually could cause a decline in homeownership rates, neighborhood stability, population, and school enrollment. States with STR-leaning laws, such as Arizona, may likely find themselves at a competitive disadvantage to retain and attract people who desire to live in stable and safe neighborhoods. This is particularly a problem in Arizona’s tourism-dependent communities.

## **2. Rising Housing Costs and Loss of Long-Term Rental Units**

Communities across the country have experienced the conversion of traditional rental units and owner-occupied homes to short-term rentals. The result is a decline in the available housing supply often impacting residents who depend on affordable housing for shelter. While large cities and metro areas may be able to absorb some of the loss of units to STRs, the result in smaller towns is quite different, affecting the fabric and character of neighborhoods and whole communities. School districts in some of these communities are faced with declining enrollments as families are forced from their rental homes and must search for housing farther from their place of work.

The most significant and best-documented cost of the short-term rental industry is the reduced supply of housing as properties are converted from long-term occupancy to short-term occupancy for travelers. The outcome is that housing prices rise as units are bid up in price by STR investors. Over the past few years, housing affordability has become a significant issue across the U.S., causing economic stress for moderate and lower-income households. Since demand for housing is inelastic, households have little ability to forgo housing when it becomes more expensive. And even small changes in the supply can cause housing prices to rise.

A number of empirical studies have evaluated the impact of Airbnb on the long-term housing supply and prices in major cities.<sup>5</sup> These studies include:

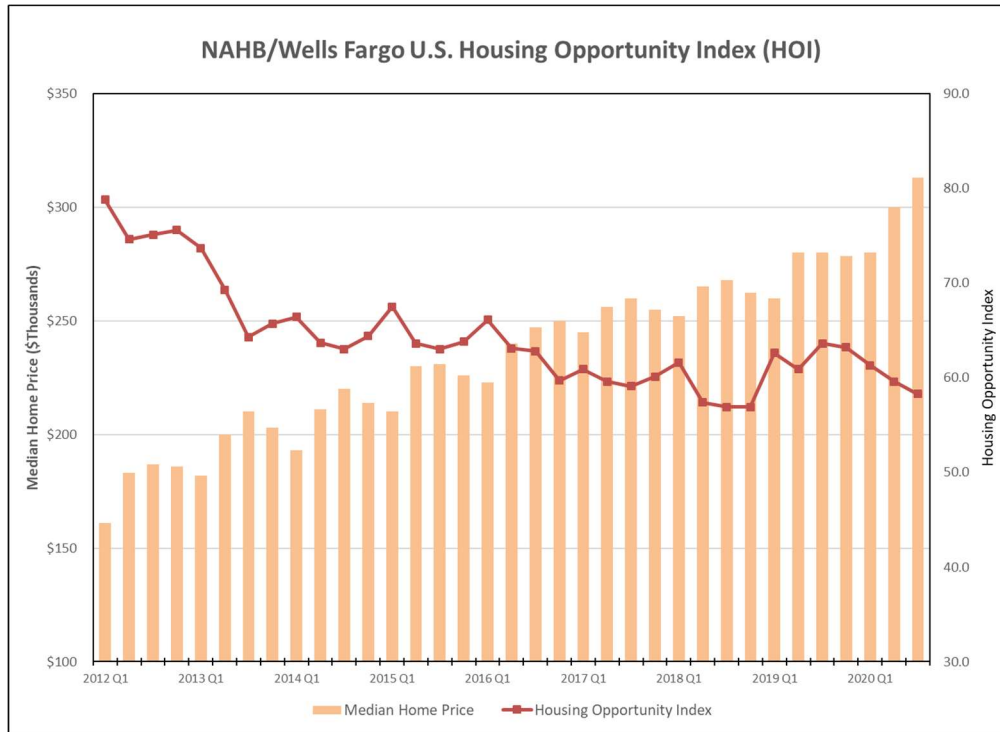
- A study of Airbnb’s growth in Boston estimated that asking rents for long-term rentals between 2015 and 2019 would increase as much as \$178 per month if short-term rental growth continued. In addition, the authors forecasted that an increase of 12 Airbnb listings within a single census tract correlated with a 5.9% decrease in the number of rental units offered for rent.
- A study conducted in New York City suggested that a doubling of Airbnb activity in a small geographic area was associated with a 6 to 11 percent increase in home sales prices.

- A further study of the large increase in Airbnb rentals in New York City found that it contributed to a 1.4% increase in rents from 2015 through 2017, implying a \$384 annual increase in rents.

Particularly for New York City, the availability of affordable housing is at crisis levels. The influx of Airbnb rentals is aggravating housing conditions even more. The City is also concerned about the safety risks of transforming homes and apartments into illegal hotels.

Cities that have strong tourism economies have seen a dramatic increase in the growth of STRs. New Orleans, with its year-round festivals and events, is another city that has experienced an affordable housing shortage as investors bought up homes for short-term rentals. In some areas of the city, entire blocks have been converted into units for tourist. In 2018 there were 4,319 whole-unit Airbnb listings in the city, more than double the 1,764 units in 2015. Neighborhoods with the highest concentration of units saw increasing rents, rising property tax bills, and the removal of longtime residents from their residences. The result is a reduction in the number of available rental units.<sup>6</sup>

Over the past five years during the recovery from the Great Recession, housing affordability has evolved into a significant issue for households earning at or below the median income. For instance, the NAHB/Wells Fargo Housing Opportunity Index (HOI) is defined as the share of homes sold in the U.S. that would have been affordable to a family earning the median income, based on standard mortgage underwriting criteria. For the third quarter of 2020, 58.3% of new and existing homes sold between the beginning of July and end of September were affordable to families earning an adjusted U.S. median income of \$72,900. This is down from the 59.6 percent of homes sold in the second quarter of 2020 that were affordable to median-income earners and the lowest reading since the fourth quarter of 2018. Since 2012, the HOI has been on a downward trend although it rose slightly since 2019 due to historically low interest rates.



For individual cities, the loss of housing units due to their conversion to short-term rentals has exacerbated the problem.

**3. The Net Economic Benefits of STRs are Questionable and Grossly Overstated in STR Studies**

Research reports reveal that much of the economic activity generated by Airbnb would have occurred in any case in the absence of Airbnb units, likely by the guests staying in traditional hotels. By comparison, the STR platforms would like the public to believe that they are independently generating travel that would not have otherwise occurred.

The STR platforms have produced a variety of studies that are intended to show the positive economic impact of the STR industry. One of the most noted report is “Airbnb’s Global Support to Local Economies: Output and Employment” prepared by NERA Economic Consulting in 2017. The report focused on the impact of Airbnb on the 200 cities across the globe that had the largest number of STR stays. In summary, NERA estimates that Airbnb supported about 730,000 jobs in the 200 cities and supported more than \$60 billion in output. The U.S. accounted for approximately \$14 billion of the global output and 130,000 jobs. These estimates include not only the amount a tourist might spend to rent the STR (which is considered income to the host), but also spending on food, retail goods, local transportation, entertainment, and other normal expenditures made during their visit.

In summary, the methodology used by NERA is flawed and fails to consider that virtually all the money spent by Airbnb visitors is money that likely would have been spent elsewhere if Airbnb had not existed. The possibility that Airbnb visitors would still have visited a city even if Airbnb units were unavailable is completely excluded from the NERA analysis. Empirical research, by comparison, finds that Airbnb and traditional hotels are seen as potential substitutes by travelers. A study of Airbnb’s entry into Texas found that it had a negative impact on hotel room revenue in 2017.<sup>7</sup>

A further survey of Airbnb users showed that only 2% of Airbnb users would not have taken the trip except for the ability to rent an Airbnb unit. The remaining 98% felt they would have made the trip but stayed in other lodging accommodations. A survey by Morgan Stanley suggests that between 2% and 4% of Airbnb guests would not have taken their trip but for the presence of Airbnb. And roughly 75% of Airbnb guests indicated Airbnb was a substitute for a hotel.

The above research suggest that the NERA study overstates the economic impact of Airbnb by somewhere between 96% and 98%.

A similar economic impact study of the San Diego STR market prepared by the National University System Institute for Policy Research (NUSIPR) used a similar methodology as NERA. NUSIPR estimated the number of short-term rentals in 2015 at more than 6,000 with an economic impact of 1,842 jobs and \$285 million in economic output. However, the study assumed that all STR rental income and additional visitor spending was directly attributable to the STR industry without consideration that the tourist spending would likely have occurred in any case if STR units were not available.<sup>8</sup>

In summary, economic studies prepared for Airbnb and the STR industry overstate the impact of the short-term rental market on the local economy without consideration that a variety of optional accommodations are available. They also overlook the fact that many STRs are illegal in the eyes of regulatory authorities and may not be paying bed and other taxes required of the hotel industry.

#### **4. Local Government Taxation Problems**

One of the most important considerations in the regulation of STRs is the fiscal impact on state and city revenues. Bed or lodging taxes are significant sources of revenue for many communities. This is true, for example, for the Town of Paradise Valley which does not have a local property tax, and typically generates around 40% of its revenue from tax collections from its hotels and resorts. In Sedona, approximately 34% of the city’s general fund operating revenue comes from hotel sales taxes and bed taxes. The reduction in hotel tax revenues due to the influx of STR

units, many of which may not be properly licensed or paying sales and bed taxes, could have long term financial impacts for these tourism-oriented communities.

Airbnb has consistently attempted to avoid the payment of lodging taxes by arguing that it is a platform that does not operate a lodging business. In its efforts to demonstrate that it wants to help local governments to collect taxes, it has entered into what are referred to as VCAs – Voluntary Collection Agreements – with state and local jurisdictions. A report entitled “Airbnb Agreements with State and Local Tax Agencies” prepared by Dan R. Bucks for the American Hotel and Lodging Association<sup>9</sup> outlines a number of problems with these agreements that include unjustified favoritism for Airbnb and its hosts. The agreements also typically violate standards for transparency in tax collection. The conclusions of the report are summarized as follows.

- The Airbnb VCA agreements do not guarantee accountability for the proper payment of lodging taxes because tax agencies cede substantial control of the payment and audit processes to Airbnb. The agreements provide a shield of secrecy for lodging operators that prevents their discovery by public agencies and creates a de facto tax and regulatory haven for those operators. Essentially, tax agencies are not able to audit the lodging operators or hosts because Airbnb will not identify the names and addresses of the hosts. That secrecy is most valuable for the commercial-style lodging operators who now fuel Airbnb’s growth, but that are also most likely to violate zoning and housing laws. Thus, the agreements facilitate unimpeded and often illegal conversions of residential property into commercial-style lodging facilities. Tax agencies signing these agreements enable this process.
- SB 1350 enacted by the Arizona legislature in 2016 is specifically cited in the report as an example of laws that limit the effectiveness of tax compliance. The law (1) severely narrows the grounds on which local governments can regulate short-term rentals, (2) allows online marketplaces to collect and pay taxes for the lodging operators, but only in returns that do not identify the lodging operators, and (3) exempts the returns submitted from a major portion of information exchange laws. The latter includes prohibiting information sharing with local governments, other Arizona state agencies, other state governments and the Internal Revenue Service. For the limited disclosure that is allowed, the online marketplace must give written consent to the disclosure.

The report concludes that tax agencies should seek legislation updating lodging laws to require registration, reporting, and collection and payment by online booking companies and lodging operators with a single payment process. At the very least, legislation should be enacted to

require online booking companies to provide the names and addresses of lodging operators to tax agencies.

### **5. Adverse Impacts of STRs on Jobs and the Hotel Market**

In 2019, STRs accounted for more than 10% of the traditional U.S. hotel room inventory according to a report by CBRE Research released in 2020.<sup>10</sup> Absent the COVID-19 pandemic, the STR inventory was expected to reach a 12.2% penetration rate of the hotel market in 2020 with the addition of 100,000 new units. While the traditional hotel industry has always been highly competitive, STRs are often operating at an unfair advantage due to the lack of oversight and regulation at the state and local level including building and safety standards, tax collection, and local zoning issues. In addition, STRs do not need to pay staff and are not regulated like hotels which comparatively increases hotel costs substantially. Over the long-term, this will result in a loss of jobs in the tourism/hotel industry that are not directly replaced by the STR industry. Many STRs do not charge tourist bed taxes which further deepens the unequal competition. Without regulation, the STRs industry will continue to have preferential, unfair treatment relative to the hotel sector over the long term.

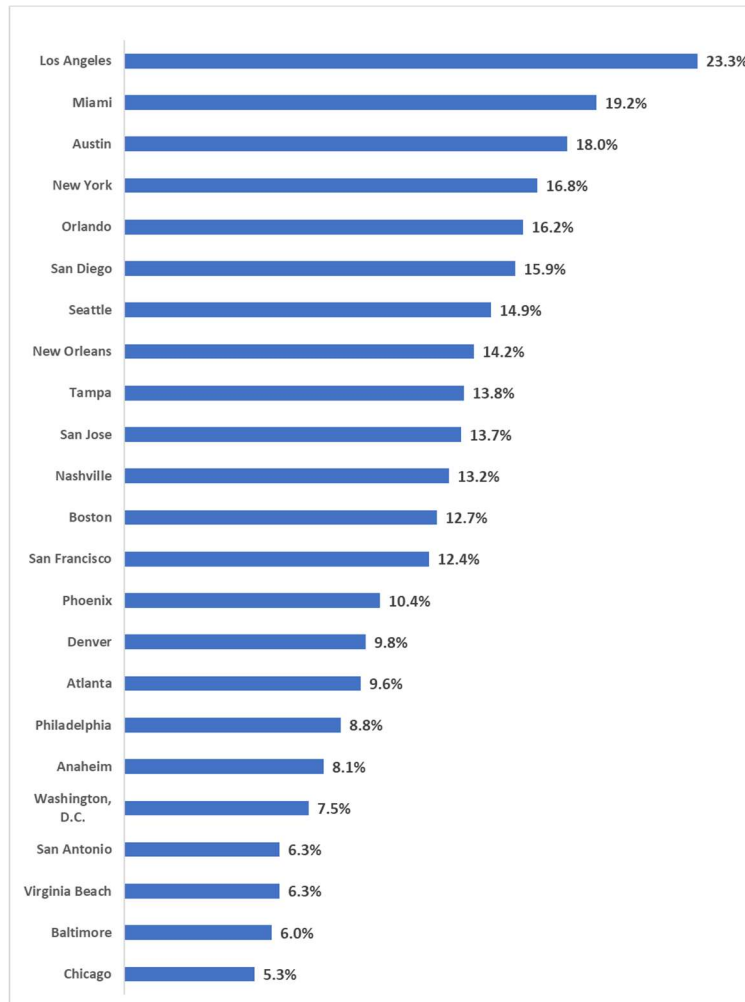
The impact of the shift of occupancy from hotels to STRs means a less reliable source of revenue for state and local governments. This impact evolves from the inability of state and local governments to depend upon verifiable revenue from STRs platforms. Through its agreements with state and local governments, Airbnb has been awarded preferential treatment on the collection of lodging taxes, a significant benefit that is not bestowed upon traditional hotels.

The hotel markets in the U.S. that are most penetrated by STR units are in traditional leisure and destination areas that include Los Angeles, Miami, Austin, New York, and Orlando. All these metro areas have an STR inventory relative to the hotel room supply that ranges from 16% to 22%. In Phoenix, the STR market represents 10.4% of the total hotel room supply. However, between 2018 and 2019, Phoenix had the second highest growth rate in STR units at 44.4%. Only Atlanta, which benefitted from the 2019 Super Bowl, had a faster growth rate.

The CBRE report suggests that the traditional hotel industry has not experienced growth in average daily rates (ADR) since 2016 (adjusted for inflation), despite record occupancy levels. The growth of STR units and increase in the supply of hotel rooms has restricted increases in ADR. The unregulated and unrestricted growth of STR units is placing pressure on the hotel industry which ultimately could affect a more reliable and consistent revenue source for state and local governments as well as a negative impact on employment in the industry.



### 2019 STR Rental Unit Penetration to Hotel Supply



Sources: AirDNA, CBRE Hotels Research 2019

The rapid growth of STRs in unregulated and illegal locations in the end will affect the hotel industry and the collection of taxes by local jurisdictions that would normally be paid for by hotel operators. The unfair competitive advantages of STRs relative to the hotel industry include:

- Lower operating costs since STRs do not pay commercial property tax rates in Arizona if located in residentially zoned areas,
- Limited or no regulation of safety or building requirements, and
- Limited or no staff to hire, train, and pay.

Some of the costs of STRs are also externalized to local governments to enforce and monitor unruly behavior of guests and other complaints from neighbors, a role traditionally supplied by hotels and their trained staff members.

## 6. The Growth of Multi-Unit Hosts

The reason that tax collection and reporting from STR platforms is so important is the growth of multi-unit owners. These absentee owners are often the primary target of complaints by neighbors in residential areas because they are not present on the site of the STR unit to control activity on the property. A report released by CBRE in 2017 outlines how Airbnb is expanding primarily by the growth of multi-unit operators and how they are a key component of Airbnb’s revenue. The VCAs outlined in the previous section shield these owners from tax audits by state and local governments.<sup>11</sup>

The CBRE study evaluated revenue trends for the U.S. and the top 13 Airbnb markets in the country in 2016. Those hosts with two or more entire-home units (either a single-family home, condo, or apartment) accounted for only 7.1% of the total hosts and 20.5% of total Airbnb units, but generated 32.1% of Airbnb’s \$5.7 billion in revenue. Hosts with ten or more properties generated one quarter of all multi-unit host revenue in the 13 metro areas studied.

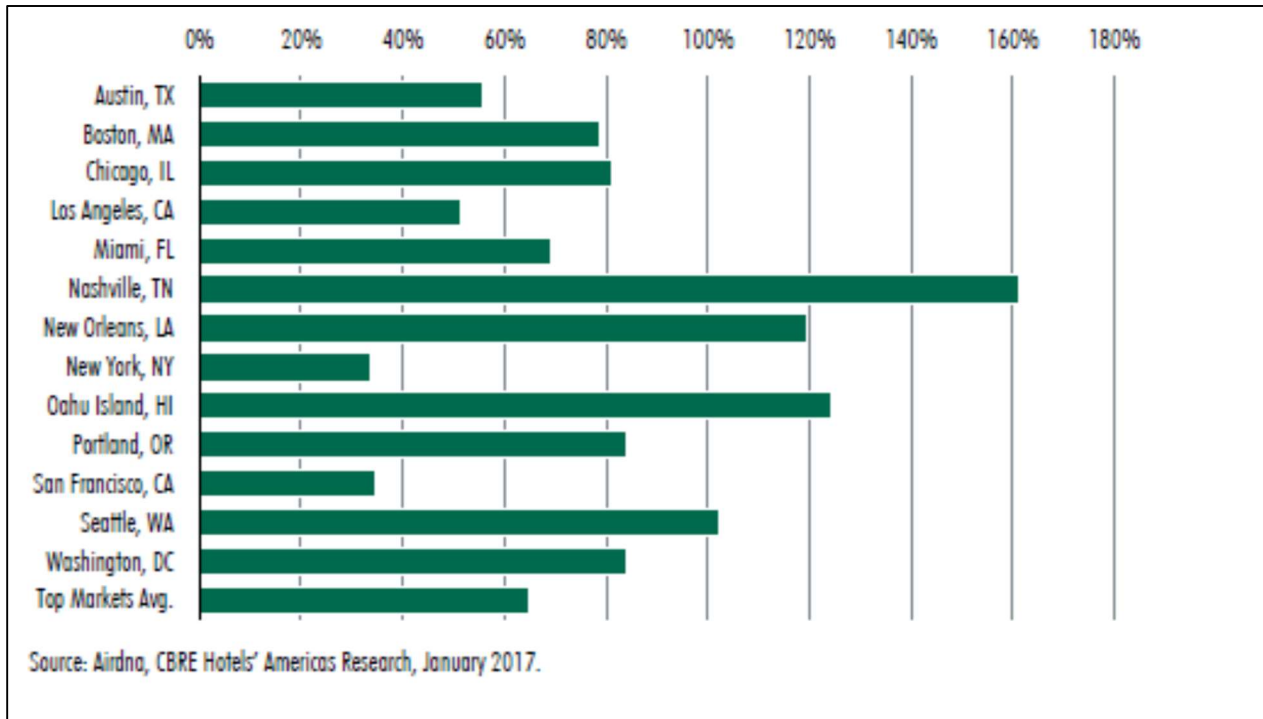
Type	Host Units	Annual Totals			% of Entire-Home Rentals			% of Total		
		Hosts	Units	Revenue	Host	Units	Revenue	Host	Units	Revenue
Entire-Home	1	236,413	258,133	\$2,787,695,396	88.9%	66.1%	60.4%	56.8%	40.0%	49.0%
Entire-Home	2+	29,381	132,224	\$1,828,166,706	11.1%	33.9%	<b>39.6%</b>	7.1%	20.5%	<b>32.1%</b>
Entire-Home	Total	265,794	390,357	\$4,615,862,102	100.0%	100.0%	100.0%	63.9%	60.5%	81.1%
All Other		150,321	254,493	\$1,074,193,112				36.1%	39.5%	18.9%
Market Total <sup>1</sup>		416,115	644,850	\$5,690,055,214				100.0%	100.0%	100.0%

Sources: Airdna, CBRE Hotels' Americas Research, January 2017

<sup>1</sup> Includes all Airbnb rentals including entire homes, private rooms, shared rooms, unique properties, and units with a minimum stay requirement of 30 days or more.

Of the 13 top markets for Airbnb, all realized an increase in the total number of units managed by multi-unit hosts. Four markets had a year-over-year growth rated above 100% including some of the primarily leisure and vacation markets in the country - Nashville, Oahu, and New Orleans.

**Airbnb Multi-Unit Hosts Unit Growth by City 2015-2016**



A report entitled “From Air Mattresses to Unregulated Business: An Analysis of the Other Side of Airbnb” estimated in 2016 that 40.8% of the Airbnb revenue generated in Greater Phoenix came from multi-unit hosts who represented only 14.7% of the total host count. While the data is now dated, it is suspected that multi-unit host operators have expanded significantly since 2016.

The CBRE study verifies the fact that Airbnb and other STR platforms have transitioned from a pure home sharing model to a business venture for persons who own multiple units. In many cases, these multi-owned units are managed by a single entity and often situated in residential areas where there is little oversight and monitoring of on-site activities. Most of the complaints received by local governments about STRs evolve from these units that are essentially commercial operations. From a tax standpoint, they may be avoiding taxes normally paid by traditional hotels. Under the cover of Airbnb’s VCA, there is little way in which these operations can be audited.

A further example of the expansion of multi-unit hosts/operators using STR platforms to generate business is the master lease model. Several companies have used this model in which they lease a block of apartment units from a landlord, typically on a long-term lease of five years or so, then furnish and manage the units for short-term stays. The model depends once again on the conversion of traditional long-term rental units into short-term modified hotel operations. This affects not only the supply of apartment units available in the community but the hotel industry

as well by expanding the supply of short-term guest units. Cities will need to evaluate how short-term rentals in apartment buildings are regulated, the impact on the supply of rental units, the payment of hotel taxes, and any zoning or building safety code violations.

## **Regulatory Efforts of Local Governments**

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Cities and towns across the country have attempted to regulate short-term rentals since the inception of the STR platforms. These efforts are noted for their contrast to the current Arizona model, which generally does not allow for local oversight or enforcement. Most efforts have been met with lobbying of elected officials on the benefits of STRs - and then lawsuits if and when lobbying efforts fail.

### **New Orleans**

New Orleans has had a long running battle with Airbnb to preserve its owner-occupied and renter housing stock from conversion to STRs. It forged an agreement with Airbnb in 2016 to legalize STRs, ban illegal listings, provide sharing of names and addresses of hosts, and create an online system that registers hosts with the city. However, the surge in STR conversions continued primarily by out-of-town owners. Approximately 11% of operators owned 42% of the city’s STRs. However, Airbnb did not provide an adequate registration system and did not provide information on the hosts and owners. Eventually the registration system was disabled, and Airbnb was accused of deliberately hiding data and not cooperating with the city.<sup>12</sup>

Later in 2019, the New Orleans City Council decided to ban whole-home rentals in residential neighborhoods due to the disruption caused by party houses and the reduction in the available housing stock for long-term occupants. The City created two categories of permitted STRs: (1) units in residential areas where an owner-occupant could, with a permit rent out up to three units on the property and (2) in commercial areas (usually condos and apartments) where up to 25% of the units on the property could be rented. The ordinance also bans STRs in the French Quarter.<sup>13</sup>

In the end, Airbnb criticized the new rules but pledged to work on their implementation. The new restrictions are supposed to be enforced by the STR platforms to remove listings that violate city rules. The city is also raising taxes on STRs, part of which will be used for enforcement efforts. At the end of 2019 when the ordinance went into effect, there were an estimated 8,500 STRS in the city but only 2,500 registered with the city.

### **San Diego**

San Diego has had a long history of short-term rentals primarily available within its beach neighborhoods. Because of that history, the short-term rental market does contribute to the local economy and provide income for property owners, many of whom are absentee owners. However, the proliferation of units throughout the city, now totaling close to

13,000, has caused the city to consider a new set of regulations. Under a proposal approved by the city planning commission in December 2020, the number of absentee-owners renting units for less than 30 days would be capped at 6,500 including a carve-out for 1,100 units in the Mission Beach neighborhood. The cap represents 1% of the city’s housing inventory. Expedia, which owns VRBO, supports the regulations. The hotel worker’s labor union lobbied for a lower cap on STRs. Airbnb did not comment on the regulations but did advocated for a 1.2% cap on units.

This represents an about-face for Airbnb which funded a referendum to overturn San Diego’s STR regulations in 2018 to ban short-term rentals that were not the owner’s primary residence. Faced with nearly twice the number of signatures needed to force a city-wide vote, the city council rescinded the ordinance. At the time, Airbnb’s position was that the ordinance “would have devastated the local economy, impacted property rights in every San Diego neighborhood, and cost the city millions annually in tax revenue.”<sup>14</sup> As noted earlier in this report, Airbnb’s economic impact studies significantly overstate the true impact of the STR industry.

### **Nashville**

With a significant tourism economy, Nashville saw an explosion of STRs across the city. The city was faced with illegal STRs that exceeded more than 4,500 units on STR platforms. In 2017 based on neighborhood complaints, the city considered prohibiting non-owner-occupied homes used for STRs referred to as mini-hotels. Nashville subsequently passed a law in early 2018 phasing out STRs that aren’t occupied by their owners. These properties would be required to cease doing business in June 2020. At the same time, Airbnb was lobbying the state legislature to ban local restrictions on STRs, spending between \$225,000 and \$350,000 on this effort. In early 2018, Airbnb signed a VCA with the state of Tennessee that requires Airbnb to collect the 7% state sales tax on its bookings, but not the 5% Nashville occupancy tax. It was shortly thereafter that Nashville passed the STR ordinance prohibiting mini-hotels.<sup>15</sup>

Airbnb subsequently formed a political action committee called the Committee to Expand Middle Class by Airbnb and started to donate funds to state legislators. A bill was introduced specifying that STRs should not be considered hotels under state law. It also included a provision stripping cities of the power to ban existing STRs and grandfathers in non-owner-occupied STRs. The bill passed in April 2018.

The Tennessee state law preempts the Nashville regulations passed in February 2018. Nashville had taken a reasoned approach to STR regulation by allowing STRs in multifamily

or mixed-use areas plus permitting STRs that are occupied by their owners. STRs in residential areas owned by absentee owners would have been banned due to their negative impacts on neighborhoods. Another 27 cities in Tennessee also had rules that prohibited non-owner-occupied STRs in residential areas. Those local rules are now preempted as well.

The Nashville example demonstrates the lengths to which Airbnb will go to eliminate restrictions on STRs. Because Airbnb will not collect the city’s occupancy tax, Nashville must now develop a system to identify STR addresses and hosts. In addition, Nashville was faced with illegal STRs and growing concern from citizens. Over 4,500 STRs were listed on 60 active websites. Due to staffing limitations, a consulting firm was retained to develop software solutions. As a result, more than \$2.8 million in STR revenue was collected in the first year.

### **Austin**

Austin has been at the forefront of the STR issue in Texas for several years. It revamped its STR ordinances in 2016 by creating three types of STRs.

- Type 1: An owner-occupied residence (owner living on-site a minimum of 51% of the year) including the rental of an entire unit or part of the unit.
- Type 2: A non-owner-occupied unit including single family and duplex units in a residential zoning district.
- Type 3: A non-owner-occupied unit that is part of an apartment or condo property in a commercial district.

The ordinance prohibited the issuance of new Type 2 STR licenses and discontinued existing Type 2 STRs in residential neighborhoods by April 2022. The city ordinance also established STR occupancy limits, regulations on sound equipment, regulations of live music, a prohibition on outdoor assemblies after 10 p.m., and restricted the density of Type 2 STR units in neighborhoods.

In 2019, the city had 10,000 STRs advertised on websites, but only 2,500 had licenses to operate. Of 1,312 complaints in 2019, citations were issued to 581 properties, 93% of which were unlicensed. City enforcement primarily focused on complaints but finding and tracking down thousands of illegal STRs was well beyond city resources. The city hired a consulting firm to identify those unregistered STRs.<sup>16</sup>

In 2016, a number of STR property owners sued the City of Austin, claiming that the regulations were unconstitutional. In November of 2017, the trial court sided with the

City and upheld the city’s STR ordinance, but the issue was appealed. In 2018, the Texas Attorney General intervened in the lawsuit in support of the STR owners stating that “city governments do not have the authority to trample Texas constitutional rights and protections for property owners and their guests.”

In November 2019 the Third Court of Appeals ruled that Austin’s provision banning non-owner-occupied Type 2 STRs was void because of the effect on property rights. The opinion also stated that people have the right of assembly on private property, voiding addition provisions of the city ordinance. The case is now on appeal to the Texas Supreme Court.

The involvement of the Attorney General indicates there are political undertones to the STR issue. The dispute is grounded in the competing rights of STR owners, STR tenants, online platforms, government regulators, and neighboring owners. The primary question is whether the right to rent property on a short-term basis is a fundamental privilege of private property ownership. The outcome will establish the guidelines between the rights of a few to infringe on the property rights of the majority and the rights of local governments to maintain the character of their communities.<sup>17</sup>

### **Summary**

The efforts of the above communities to regulate short-term rentals illustrate the range of issues that STR platforms have imposed upon state and local governments. While these issues exist everywhere STRs do business, their impacts are pronounced in Arizona, where state-law disables local communities from using traditional measures such as zoning to prevent and deal with these adverse consequences. These issues include many complex and controversial matters such as local control over land uses, private property rights and citizen expectations for safe, quiet, and peaceful neighborhoods, building and safety requirements, tax collection, and equity in the treatment of hotel operators. Each city has its own individual issues, but the one that stands out the most is each city’s attempt to protect residential neighborhoods from the intrusion of non-owner-occupied STRs and multi-unit owners operating as miniature hotel chains.



**Appendix**

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Letter from Arizona mayors to Airbnb and Expedia Group CEOs

December 9, 2020

By Federal Express & Email

Mr. Brian Chesky  
CEO, Airbnb, Inc.  
888 Brannan Street  
San Francisco, CA 94103  
brian.chesky@airbnb.com

Mr. Peter M. Kern  
CEO, Expedia Group, Inc.  
1111 Expedia Group Way West  
Seattle, WA 98119  
pekern@expediagroup.com

Dear Messrs. Chesky and Kern,

As you know, Arizona's state law SB1350 gutted local authority over short-term rentals in Arizona, including the local zoning and enforcement authority that traditionally applied to such activities. We, the undersigned mayors of cities and towns across the great State of Arizona, are taking the unusual step today of sending this letter to ask that you immediately end lobbying activities designed to prevent reform of this disastrous state law which your industry promoted.

All of us can provide examples of how SB1350 is causing serious harm to our citizens and neighborhoods, and we are deeply concerned that short-term rentals operating without appropriate local government oversight are causing long-term damage to our communities and the entire state.

Brian Chesky recently admitted that "We really need to think through our impact on cities and communities." Thank you, Mr. Chesky, we agree. But your industry's actions in Arizona are inconsistent with this stated concern.

There is no question that Arizona's SB1350 weakens our communities and has left us defenseless in the face of harmful and undesirable activities. Specifically:

- Once peaceful neighborhoods suffer from unsupervised groups coming in and out for daily stays, which include unruly, disruptive and noisy large gatherings;
- Neighborhoods are experiencing dangerous criminal activity from short-term rental properties, including shootings, sexual and physical assaults, and the use of short-term rental properties as locations and staging places for other criminal activity (over the summer, looting and rioting);
- Affordable housing stocks are being gobbled up by investors who are focused on short-term commercial uses of their properties, rather than neighborhood stability and prosperity;

- Hotels and resorts, which provide jobs for our citizens and a tax base for our communities, face unfair competition under the current Arizona law while they follow a different, more responsible, set of rules.
- As bars and restaurants have been in limited service during the pandemic, short-term rentals have emerged as alternative venues. Many have hosted unsafe and unwelcome parties for hundreds of people during the closures. Cleaning standards are not uniform, if there is recommended cleaning at all, and there typically are no responsible owners present;
- The State of Arizona doesn't have the interest to monitor and identify short-term rental "hosts." Local communities experience hosts avoiding required local registration, platform fees, and taxes by booking "off-line." Local government cannot currently partner with you effectively on this mutual issue;
- Some communities have seen over half of citizen police calls relate to problems with short-term rentals. This is a direct result of our local communities' inability to enact and enforce responsible regulations.

These are just a few of the issues our communities are confronting with no relief in sight under current state law. Earlier this year, bipartisan state legislation that would have substantially returned appropriate authority and effective tools to local communities was advancing through the state legislature with our support. The legislation did not impose bans on short-term rentals, but rather restored to local governments the longstanding right and ability to protect residential neighborhoods. As you know, this is the way things work across the nation, except for Arizona. Unfortunately, the COVID-19 pandemic forced the state legislature out of session before the broadly supported bill could become law.

Your companies have actively and cynically opposed needed reform through public relations and paid lobbying efforts. Your support of Arizona's SB1350 is tearing at the fabric of our communities and is an affront to every Arizona homeowner who aspires to the "American Dream" of peaceful homeownership. The time has come for you to get on the right side of this issue and recognize that supporting our neighborhoods is also in your long-term economic interests and the long-term interests of your investors.

Your current Arizona business model is unsustainable. Until the law returns local control of short-term rentals to locally accountable elected officials, the demand from our citizens for reform will continue to amplify and become a business disruption that cannot be ignored, perhaps with unintended consequences for your companies' larger aspirations.

We believe there are ways for short-term rentals to compatibly and successfully operate in a variety of settings. We also believe that allowing local leaders to manage activities in their communities is the wise and business-savvy approach to creating a sustainable short-term rental industry. All we ask is that you end your efforts to block Arizona’s needed return to local standards governing your activities in neighborhood areas.

Thank you for your attention.

Sincerely,

Scott Anderson  
Mayor, Gilbert

Mila Besich  
Mayor, Town of Superior

Jerry Bien-Willner  
Mayor, Town of Paradise Valley

Tom Brady  
Mayor, Bullhead City

Ginny Dickey  
Mayor, Town of Fountain Hills

Tim Elinski  
Mayor, City of Cottonwood

Coral Evans  
Mayor, City of Flagstaff

Kate Gallego  
Mayor, City of Phoenix

John Giles  
Mayor, City of Mesa

Kevin Hartke  
Mayor, City of Chandler

Stephanie Irwin  
Mayor, Town of Pinetop-Lakeside

Mike LeVault  
Mayor, Youngtown

Georgia Lord  
Mayor, City of Goodyear

Thomas McCauley  
Mayor, City of Winslow

Craig McFarland  
Mayor, City of Casa Grande

Greg Mengarelli  
Mayor, City of Prescott

Jen Miles  
Mayor, City of Kingman

Tom Morrissey  
Mayor, Town of Payson

Frederick W. Mueller  
Mayor, City of Sierra Vista

Douglas J. Nicholls  
Mayor, City of Yuma

Eric Orsborn  
Mayor, City of Buckeye

David Ortega  
Mayor-Elect, City of Scottsdale

Rui Pereira  
Mayor, Town of Wickenburg

Les Peterson  
Mayor, Town of Carefree

Micah Powell  
Mayor, City of Eloy

Regina Romero  
Mayor, City of Tucson

Thomas L. Schoaf  
Mayor, City of Litchfield Park

Cal Sheehy  
Mayor, Lake Havasu City

Bob Teso  
Mayor, City of South Tucson

Anna Tovar  
Mayor, Tolleson

Kenneth Weise  
Mayor, City of Avondale

Joe Winfield  
Mayor, Town of Oro Valley

Corey Woods  
Mayor, City of Tempe

- cc: 1) Ms. Sara Garvin, VP – Global Communications and Corporate Brand, Expedia Group Inc.
- 2) Mr. Nick Wilkins, Director of Communications, Airbnb, Inc.

## Endnotes

<sup>1</sup> CBRE Research. *Short-Term Rentals: A Maturing U.S. Market and Its Impact on Traditional Hotels*. 2020.

<sup>2</sup> Arizona’s law does permit a city or town to regulate STRs if the regulation is narrowly tailored to protect public health and safety for the purposes of fire and building codes, health and sanitation, transportation or traffic control, solid or hazardous waste, and pollution control.

<sup>3</sup> HB 2672 passed in 2019 provided limited relief to cities and towns by requiring STR operators to (1) secure a sales tax license, (2) providing owner or owner’s designee contact information to local governments for responding to complaints, and (3) prohibiting STR owners from renting their properties for nonresidential purposes such as a special event or uses such as retail, restaurant, or banquet space. However, SB1350 still prohibits cities and towns from regulating the use of STRs particularly in residential neighborhoods and imposes a state-level enforcement regime.

<sup>4</sup> Rosequist, Melissa. “Short-Term Rental Reforms Appear at Play at Arizona Legislature”. Daily Independent. December 31, 2019.

<sup>5</sup> Bivens, Josh. *The Economic Costs and Benefits of Airbnb*. Economic Policy Institute. January 2019.

<sup>6</sup> Adelson, Jeff. “Stricter Limits Will Hit New Orleans Short-Term Rentals After Council Vote; Here’s What to Know”. NOLA.com news article. August 8, 2019.

<sup>7</sup> Bivens, Josh. *The Economic Costs and Benefits of Airbnb*. Economic Policy Institute. January 2019.

<sup>8</sup> National University System Institute for Policy Research. *Short-Term Rentals in the City of San Diego: An Economic Impact Analysis*. October 2015.

<sup>9</sup> Bucks, Dan R. *Airbnb Agreements with State and Local Tax Agencies: A Formula for Undermining Tax Fairness Transparency and the Rule of Law*. March 2017.

<sup>10</sup> CBRE Research. *Short-Term Rentals: A Maturing U.S. Market and Its Impact on Traditional Hotels*. 2020.

<sup>11</sup> CBRE Hotels America Research. *Hosts with Multiple Units – A Key Driver of Airbnb Growth: A Comprehensive National Review Including a Spotlight on 13 U.S. Markets*. March 2017.

<sup>12</sup> Martineau, Paris. “Inside Airbnb’s ‘Guerilla War’ Against Local Governments”. WIRED.com. March 3, 2019.

<sup>13</sup> Adelson, Jeff. “Stricter Limits Will Hit New Orleans Short-Term Rentals After Council Vote; Here’s What to Know”. NOLA.com news article. August 8, 2019.

<sup>14</sup> Martineau, Paris. “Inside Airbnb’s ‘Guerilla War’ Against Local Governments”. WIRED.com. March 3, 2019.

<sup>15</sup> Avalara MyLodgeTax Blog. “Nashville Votes to Phase Out Non-Owner-Occupied Short-Term Rentals”. February 9, 2018.

<sup>16</sup> Sokolowsky, Jennifer. “New Data Helps Austin Crack Down on Illegal Short Term Rentals”. Avalara MyLodgeTax Blog. July 30, 2019.

<sup>17</sup>Badgett, Rebecca. Coates Cannon Blog. “Short Term Rental Regulations Found Unconstitutional in Texas: Renting is a Fundamental Privilege of Property Ownership”. UNC School of Government. April 7, 2020.

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