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# Short-Term Rental Restrictions: Why and How?

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Airbnb faces yet another restriction proposal in Washington DC, the likes of which is paralleled only by New York City and San Francisco. The bill, which went to a preliminary vote on October 16, would bar short-term rentals on secondary homes and place a 90 day restriction on rentals of primary residences when the owner is not physically present. However, there would be no restrictions on short-term rentals if the owner is there.

The bill distinguishes between three groups of Airbnb hosts: those who own secondary homes, those who wish to rent out their home while away, and those who wish to rent out spare rooms. With regards to the latter two groups, the bill seems to recognize that home sharing is not new. The ability to rent out one's home has existed in the context of lodging throughout American history and can even help to preserve home values because it shares the burdens of home ownership.

The bill does not exercise the same deference toward secondary home owners. This creates two questions: first, why seek such restrictive regulation in the first place; second, are there less intrusive means to achieve the same end?

Secondary home owners seek the short-term rental market over the long-term rental market because it's more profitable and allows more flexibility. This effect is exacerbated in heavy tourist destinations, such as San Francisco, New York, and Washington D.C. In such an environment, locking yourself into a long-term commitment restricted by rent control becomes unappealing when the alternative enables you to rent your home out at market rates, enjoy substantially the same occupancy rate, and retain your ability to enjoy your secondary home. As market rates for rental apartments continue to rise faster than what is allowed under rent control, more secondary home owners will seek the short-term rental market over the long-term market. Considering Washington's housing crisis, as a matter of public policy, Washington cannot allow secondary home owners to favor tourists over prospective long-term residents.

Airbnb points out that Washington's stock percentage of secondary home rentals is less than one-quarter of one percent and, therefore, only has a trivial effect on the housing crisis. However, its argument inaccurately assesses the relationship as a stock rather than a flow. A study done by researchers at National Bureau of Economic Research, UCLA, and USC concluded that on a national basis "a 10% increase in Airbnb listings leads to a 0.42% increase in rents and a 0.76% increase in house prices.” These researchers also found that the effect was smaller in zip codes with larger shares of owner-occupiers, consistent with the view that secondary home renters have a more profound effect on rent and housing prices.

At the very least, the bill seeks to limit the reallocation from long-term rentals to short-term rentals without discouraging home-sharing of primary residences. Because the dichotomy stems from the asymmetric net benefits from renting short-term versus long-term, a less intrusive approach could be to levy an additional tax for secondary home owners seeking short-term rentals, effectively increasing the cost of favoring the short-term market over the alternative. A potential fallback to this preliminary framework could be the complexity of calculating the tax because the efficacy of the tax would depend on how accurately it closes the incentive gap between long-term and short-term rentals.