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Affordable Housing and the Impact of Short-Term Rentals

December 30, 2021 by Steve Butler
Category: Housing, Tourism

Short-term rentals (STRs), sometimes also referred to as "Home Sharing," are very popular with travelers. They are viewed as a way for visitors to temporarily feel part of a local neighborhood rather than staying in a hotel or motel situated in a commercial area.

Short-term rentals have been in existence for several decades but widespread usage of them exploded with the advent of online platforms such as Airbnb and VRBO. The market took a major hit during the early days of the COVID-19 pandemic, but its popularity has been rising now that more people are traveling again.

With the ever-increasing popularity of STRs, however, has come unanticipated and unwanted problems, particularly for residential neighbors living close to them. Negative impacts caused by some short-term rental visitors include excessive noise, after-hours partying, and parking conflicts, to name just a few of the major ones. In response, several communities have adopted regulations to address those negative impacts (for more details, see my blogs: 12 Examples of Short-Term Vacation Rental Regulations; Local Government Catching Up with Airbnb and Other Short-Term Transient Rental Businesses).

One major item that has recently been facing increasing local government scrutiny, however, is the impact that STRs have on the supply of affordable housing. The worry is not about a homeowner renting out a room or two to help with monthly mortgage payments. Instead, there is a concern that investors will purchase existing residential units and rent them out on a short-term basis to out-of-town visitors, thereby taking those units out of the long-term rental housing market.

STRs Effect on the Local Affordable Housing Supply

While not the primary cause of affordable housing problems, many experts believe that STRs do have a negative impact on affordable housing at the local level, especially in high-tourism communities. Several organizations, such as The Pew Charitable Trusts and the Harvard Business Review (HBR), have conducted or published research showing that as the number of short-term rentals increase in a community, the quantity of affordable housing units decrease.

The authors of a 2019 HBR article focusing on the effects of Airbnb observed that, "because of Airbnb, absentee landlords are moving their properties out of the long-term rental and for-sale markets and into the short-term rental market." The authors noted that as *absentee* landlords reduce the housing supply, it increases the housing cost for local renters:

> (I)n aggregate, the growth in home-sharing through Airbnb contributes to about one-fifth [or 20%] of the average annual increase in U.S. rents and about one-seventh [or 14%] of the average annual increase in U.S. housing prices.

But what about *non-absentee* property owners using online platforms like Airbnb to rent out their properties, you might ask? The HBR researchers found that "owner-occupiers" who rent out their spare rooms or even an entire house (when they are away for a set period of time) to short-term visitors using a virtual house-sharing platform do not impact the long-term rental market.

Regulations That Address STRs and Affordable Housing Concerns

Affordable housing impacts caused by the conversion of long-term housing to short-term rental use are such a concern that it is becoming a major rationale for regulating STRs, with one U.S. community — the ski resort town of Aspen (CO) — taking the dramatic step of enacting a one-year STR moratorium.

While not going so far as Aspen, several Washington State cities have adopted plans and STR regulations that explicitly identify the impact on affordable housing as a major policy rationale. Examples include:

- Chelan County Municipal Code Sec. 11.88.290(C) — This section on short-term rentals references affordable housing as one reason for regulation.
- Kirkland Ordinance 4607 — Cites housing affordability in the third 'whereas.'
- Olympia Housing Action Plan — Strategy 2b states: "Adopt short-term rental regulations to minimize impacts on long-term housing availability."
- Walla Walla Municipal Code Sec. 20.139.010(B) — The purpose statement in the short-term rentals section cites regulation of STRs as "necessary to provide adequate housing opportunities to low- and moderate-income persons."

In addition to having a clear affordable housing policy statement, Chelan County has recently updated its STR regulations to provide more flexibility for owner-occupied units. These are categorized as "Tier 1" rentals and must meet one of the following characteristics:

1. Is a room in a dwelling in which the owner is personally present during the rental period;
2. Is a unit located on the same parcel as the owner's principal residence and the owner is personally present during the rental period, or;

3. Is the entire dwelling, which is rented for no more than 15 total days in a calendar year provided that an on-site qualified person is there during the owner's absence.

STRs that don't meet one of these three Tier 1 criteria are categorized as Tier 2 or Tier 3 and are more strictly regulated by the county, in large part due to affordable housing concerns. In fact, the Chelan County code requires that new short-term rentals deemed to be Tier 2 and/or Tier 3 "cannot be located in specified areas where short-term rentals make up more than the maximum share of the total housing stock in [those specifically identified] residential zoning districts..." For most of the specified areas in Chelan County, the maximum share is 6%, with two exceptions being the Manson urban growth area (UGA) at 9% and the Peshastin UGA at 0%.

Conclusion and Additional Resources

There may be many reasons behind a local government's decision to regulate or not regulate the local STR market. On the one hand, mitigating the negative impacts of ill-behaved visitors on local residents may prompt a jurisdiction to adopt STR regulations. Conversely, allowing property owners to rent out an extra room, which may make it easier for them to pay their mortgage, is sometimes the reason why restrictions on STRs are more limited or nonexistent in some communities.

For those communities wrestling with a tight housing supply and a strong tourist/visitor market, however, affordable housing is another significant policy factor to weigh when a local government is considering how strictly to regulate short-term rentals.

For more information on how STRs impact the local housing marking and what some cities and counties have down to regulate them, here are additional resources:

- When Airbnb Listings in a City Increase, So Do Rent Prices — Harvard Business Review
- A Practical Guide to Effectively Regulating Short-Term Rentals on the Local Government Level — Prepared for the City of Santa Cruz (CA) by Ulrik Binzer, Host Compliance LLC
- Cities Tell Airbnb to Make Room for Affordable Housing — Stateline, Pew Charitable Trusts
- The Airbnb Effect on Housing Markets and Rent — Forbes

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About Steve Butler

Steve joined MRSC in February 2015. He has been involved in most aspects of community planning for over 30 years, both in the public and private sectors. He received a B.A. from St. Lawrence University (Canton, New York) and a M.S. in Urban and Regional Planning from the University of Wisconsin-Madison. Steve has served as president of statewide planning associations in both Washington and Maine, and was elected to the American Institute of Certified Planner's College of Fellows in 2008.

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