

# The Airbnb Effect On Housing And Rent

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Airbnb currently hosts over 7 million listings and is active in more than 100,000 cities across 220 ... [+] SHUTTERSTOCK

*The Wall Street Journal* reported earlier this month that [Airbnb](#) had recorded a **\$322 million** (£248.65 million) net loss in the first nine months to September in 2019. That's a considerable drop from the \$200-million profit reported by the world's largest online marketplace for lodgings in 2018.

For a company with a valuation of \$31 billion, according to [Pitchbook](#) in 2017, it's a sign that the horn of this start-up unicorn might just be a carrot ahead of its hotly anticipated public IPO later this year.

However, although this is disappointing news for Airbnb stakeholders and investors, cities and countries around the world suffering from extended housing crises may celebrate its diminishing market influence.

The influence of the so-called 'Airbnb effect' on local housing markets has grown into a significant cause for concern, particularly when looking at its impacts on housing stock, prices and communities.

But even if Airbnb really is damaging local housing markets, can anything be done to stop the hugely popular, multi-billion-dollar juggernaut?

## The cost of the world's largest holiday platform

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Airbnb currently hosts over [7 million listings](#) and is active in more than 100,000 cities across 220 countries and regions. It's not lacking in vision either – Airbnb aims for [1 billion guests](#) annually by 2028.

The platform is widely enjoyed for its access to holiday lets ranging from single rooms to entire properties, varying in quality and affordability, *and* offering a markedly different experience to that found in a hotel.

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Then there are the clear economic benefits for local economies that stand to gain from the increase in tourists supported with a wider variety of affordable and available holiday listings. Homeowners and landlords also benefit, as turning their rooms and properties into short-term lets can offer an alternative and lucrative source of revenue.

But in recent years the impact of Airbnb's service on local economics and rental markets has come under the spotlight. And analysis conducted by the [Economic Policy Institute](#), a non-profit, non-partisan American think tank, found that the economic costs of Airbnb likely outweigh the benefits:

‘While the introduction and expansion of Airbnb into cities around the world carries large potential economic benefits and costs, the

costs to renters and local jurisdictions likely exceed the benefits to travellers and property owners.'

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The 'Airbnb effect' is to some extent [remarkably similar to gentrification](#) in that it slowly increases the value of an area to the detriment of the indigenous residents, many of whom are pushed out due to financial constraints.

Cities, popular ones especially, seem to fare the worst. In major cities such as Amsterdam, Barcelona, Edinburgh, and Los Angeles, studies on the 'Airbnb effect' have found that over-tourism facilitated by platforms such as Airbnb negatively impacts on [house prices and communities](#).

The short-term rental sector is just as affected. Research conducted by the [Harvard Business Review](#) across the US found that Airbnb is having a detrimental impact on housing stock as it encourages landlords to move their properties out from out of the long-term rental and for-sale markets and into the short-term rental market.

A separate [U.S. study](#) found that a 1% increase in Airbnb listings leads to a 0.018% increase in rents and a 0.026% increase in house prices. It might not seem like much on the surface but there's a cost creep for those looking to rent long-term or buy.

It would be a mistake to say all markets are equal, but housing markets in the U.S. have a socioeconomic cousin across the pond, and for the city with the world's highest number of Airbnb listings, it should indicate a warning.

### **A case study: What's happening in the U.K?**

Airbnb's U.K. growth has been rapid and extensive. If you were wondering which global city has the greatest number of Airbnb

listings, it's London, with over [80,000 listings](#) – and 55% plus of these listings are for entire properties.

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Some see this as an opportunity for agents, that 2020 could be the 'year of Airbnb'. That certainly could be true for short-term landlords, and agents looking to take a bite of that market. But of this I would be wary, as short-term gain can undermine long-term sustainability.

A [recently published report](#) from the London-based economic research consultancy [Capital Economics](#), commissioned by [ARLA](#), analysed the scale of U.K.'s short-term lets sector and the wider implications for the private rented sector. The research found that active listings on Airbnb in the U.K. increased from 168,000 in 2017 to 223,000 in 2018 – that's a 33% leap, and a significant market share of the growing U.K. lettings market. It's also not the whole picture though, as data for similar short-term lettings services like Booking.com and Homeaway are unavailable.

The report further showed that 2.7% of the U.K.'s 1.5-million strong landlord population have already made the switch from long-term rental properties in the private rented sector to short-term lets, equating to 50,000 homes made unavailable to long-term tenants.

And worryingly, around 10% of U.K. landlords surveyed responded that they are considering moving their private rented properties to the short-term market.

The factors behind this are myriad, but over one-third of landlords surveyed acknowledged that it was because of changes to mortgage interest relief, which from April this year will be reduced to a 0% deductible.

Other forms of long-term regulation including higher stamp duty, the Tenant Fees Act, and the abolishment of Section 21 legislation currently under consideration are also cited as factors persuading landlords in the buy-to-let sector that the grass is greener on the other side.

Here's the kicker. If every landlord in that 10% does move their properties to the short-term market, up to an estimated 470,000 properties would be removed from the private rented housing supply – around 8.7% of the entire U.K. rented sector stock. And that would significantly stretch already strained housing supply.

I've said previously that [supply and demand](#) in the lettings market is a leaking ship that threatens to capsize landlords and tenants if not navigated correctly through rough waters. If more stock is moved into the short-term lettings market through platforms like Airbnb it could have collateral impacts on the wider market.

Airbnb claims that between July 2017 and July 2018, the [U.K. economy gained £3.5 billion](#) from hosts and guests using the platform, with an estimated 8.4-million inbound guests using the platform over this period.

Great for the economy, you might think? But a healthy housing market is the real bedrock of a healthy economy, and the U.K. housing market is not in great straits at the moment.

Restrained confidence and uncertainty due to the earlier election and Brexit are only now loosening up. But whilst market confidence is returning, low stock in both the sales and rental markets is pushing up prices.

The latest [Home Asking Price Index](#) reports that total sales stock is down 10.1% year-on-year in February; and it's worse for the rental



sector, with the supply of available rental properties in the U.K. down 18% over the same period.

Low supply and increasing rents in the U.K. are a major concern. The latest [official government statistics](#) on U.K. rental housing show that private rents have increased 1.5% year-on-year in the 12 months to January 2020. But an extended trend outlook reveals that between January 2015 and December 2019, private rents increase by 8.6%. That's a significant increase.

It's even worse for the London, Airbnb's bread and butter. According to Rightmove, asking rents in the capital have [increased almost twice as quickly](#) compared with the rest of the U.K.

Many Londoners are now paying more than half their income on rent each month. And with more than [1 in 50 London homes](#) listed as short-term lets, it's questionable whether Airbnb can continue its free reign throughout the capital and the U.K. when the country is in such dire need for affordable housing stock.

### **Pushing back against the short-let industry**

With spiralling costs fuelling a chronic housing crisis, the voices calling for [regulation of Airbnb-style short-term lets](#) are getting louder.

The U.K. lags behind other countries when it comes to regulation for short-term letting sites like Airbnb, and it might be time to reconsider that. Research unveiled by *The Guardian* on February 20 reveals that in some parts of the U.K. [one in four homes](#) is an Airbnb listing.

Simultaneously produced research from the publication highlights that Airbnb's presence in certain barrios (neighbourhoods) in Spain has pushed rent increases by [as much as 50%](#), forcing locals to

move to more affordable areas. It's a warning sign the U.K. would do well to take note of.

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Several countries and cities have started to push back against Airbnb and other short-term lettings platform because of the impacts felt on local communities and housing costs:

[Berlin](#) has enforced restrictions against short-term lets on platforms like Airbnb since 2016, requiring landlords to acquire a permit if they want to rent 50% or more of their main residence as a short let.

[New York City](#) is currently embroiled in a legal battle with Airbnb regarding the turn-over of host data. In fact, since launching in 2008, Airbnb has been involved in [at least 11 lawsuits](#) against an American city or state, with the majority of cases taking place within the last two years.

[Edinburgh](#) will soon bring in a licensing scheme from 2021 empowering councils to regulate 'holiday-style' lets if they feel it's better for local communities. And in 'control areas', landlords will require planning permission before they can convert a whole property for short-term lets.

Perhaps to pre-empt any future legislation in London, Airbnb introduced in January 2017 the '90-Day Airbnb Rule', whereby short-term rentals for entire homes are capped at 90 days per year. But this has had mixed results, and research commissioned by City Hall has suggested that as many as [23%](#) of London's approximately 80,000 listings at the time of study were in breach of the 90-day limit.

Airbnb has disputed the figures, claiming the data is wrong as it comes from third-party scrapers which it considers inaccurate.



There have been calls to introduce a licencing scheme for the rest of the U.K., similar to what's being introduced in Edinburgh. But this scheme is not being introduced by the government or city councils, it's an Airbnb initiative.

## Who really has the lead on legislation?

Back in January, Airbnb won a significant victory in a top E.U. court to be ruled as an 'information society service', or an online platform rather than an estate agency, if you will. It means that they get to avoid stringent regulations in place across Europe affecting how the company operates, and for the time being (whilst the U.K. remains part of the E.U.) gives them stronger freedoms against regulation in cities such as London.

Airbnb is certainly happy with the result, but does it match with the platform's recent corporate pledge to make a 'positive contribution to society'? That could be the intended impression.

The platform this month kicked off a series of registration roadshows in cities across the U.K. The aim of which is to 'consult on proposals for a clear, modern and simple registration system for short-term rentals in collaboration with policymakers, communities and local hosts.' In a recent ITV interview, they stated that: "We are good partners to cities and we have worked with more than 500 governments and organisations around the world to help hosts share their homes and follow the rules. We were the first platform to work with London to limit how often hosts can share their homes and we have led calls for a national registration system in the UK."

It should be taken as a positive that Airbnb is trying to lead the way on responsible legislation. But forgive the cynic in me if I'm a little less optimistic. What's more likely is that Airbnb is well aware of

the impacts of their service in many cities and is trying to control the narrative and build a favourable impression ahead of their expected IPO later this year, whilst safeguarding against any threats towards their future revenues.

## In summary

Whilst it's easy to slay Airbnb as the cause of rising prices and lack of rental stock in popular cities, one can't help but wonder if they aren't merely the backdoor escape for landlords that have been cornered into an impossible scenario, with everything from scrapped tenant fee bans to zero mortgage relief, to a list of compliancy legislation so lengthy that it's near impossible to self-manage a property, counting against them. Perhaps Airbnb is just the tip of the iceberg, where an unforgiving approach to landlords and a lack of government capacity to deliver on their house-building promises are the bulk of the problem that's propping up Airbnb as the visible, easily targeted problem.

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