



HAWAI‘I APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Out-of-state
ownership

Rampant investor
speculation

Skyrocketing
housing costs



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PRICED OUT OF PARADISE

Illegal short-term vacation rentals are overrunning Hawai‘i’s four counties. How can local governments reverse the trend?

Executive Summary

THE VACATION RENTAL INDUSTRY HAS exponentially expanded with the growth of online home-sharing platforms such as Airbnb, Flipkey, and Homeaway. The state of Hawai‘i alone hosted approximately 23,000 vacation rental units (VRUs) in 2017,¹ meaning one out of every 24 of our housing units is a VRU.²

The number of VRUs across the state increased by 35 percent between 2015 and 2017, and VRU growth shows no signs of slowing down.³ Vacation rentals are proliferating rapidly because of the incredible profit-making opportunities they provide. A 2015 study by Honolulu’s Office of Community Services indicated that, at 80 percent occupancy, the average Airbnb unit brings in about 3.5 times more revenue than a long-term rental.⁴

Nonresidents can speculate in VRUs, investing their money for virtually guaranteed returns while taking on little risk. Hawai‘i’s low property tax—the lowest in the nation⁵—and favorable inflation rate (up 2.5 percent from 2016 to 2017 in Honolulu⁶) ensures this. Moreover, at least 52 percent of VRUs in Hawai‘i are owned by nonresidents, suggesting that it is mainly out-of-state investors who reap these benefits.⁷

While VRUs can increase visitor expenditures, bolster tax revenues, and help locals make ends meet, allowing their unfettered proliferation is ultimately detrimental. VRU-saturated cities across the world have begun to experience reduced affordable housing availability, increased housing costs, resident displacement, and threats

to neighborhood quality of life. As a result, many are beginning to regulate VRUs.

From May of 2018 to August of 2018, Hawai‘i Appleseed researched VRU ordinances to identify key cities, then made efforts to contact those cities’ VRU enforcement teams. For nonresponsive cities, Appleseed attempted to speak to organizations involved in VRU regulation advocacy instead.

Appleseed spoke to city officials in Barcelona, New Orleans, New York City, Portland, San Francisco, Santa Monica, and representatives from Puget Sound Sage in Seattle and the Los Angeles Alliance for a New Economy (LAANE) in Los Angeles. Appleseed conducted only online research for Chicago, Berlin and Boston. Based on this research, Appleseed finds that the most effective VRU ordinance:

- Holds platforms liable for illegal transactions on their websites;
- Requires platforms to provide data on VRUs to cities;
- Imposes meaningful fines;
- Focuses on bringing major offenders and commercial hosts into compliance;
- Empowers neighbors;
- Limits the number of units a host may rent and nights a unit may be rented;
- Bans VRUs from operating in inappropriate types of housing; and
- Provides clear restrictions on Non-Conforming Units (NCUs).

Glossary

Vacation Rental Unit: Unit rented to visitors in less-than-30-day increments

Unhosted Unit: Unit without host on site

Hosted Unit: Unit with host on site. Some cities equate hosted units with Bed and Breakfasts (B&Bs), although in other places B&Bs must meet additional requirements (such as offering meals, providing a communal space, etc.)

Commercial Host: Host who rents more than two units. Commercial hosts can be large corporations or persons renting multiple units

Individual Host: Host who rents out only one or two units

While not every city has adopted such a comprehensive strategy, Hawai'i's counties have the opportunity to model their ordinances off successful VRU regulations from around the world. The stakes are high: our housing costs are among the highest in the nation,⁸ and we have the lowest wages when adjusted for cost of living,⁹ the highest rate of chronic homelessness,¹⁰ and the highest rate of overcrowding in housing.¹¹

Commercial operators already dominate

our VRU industry: as of November of 2018 73.5 percent of Hawai'i hosts operate multiple listings, and 84.8 percent of Hawai'i listings are entire homes or apartments.¹² VRU conversion will not go away on its own; the financial incentive to operate VRUs is so great that only powerful enforcement tools can save our valuable housing stock. It is imperative that our counties employ enforcement strategies that will help, not hurt, our residents.

Key Enforcement Strategies

TOGETHER, THE FOLLOWING STRATEGIES REPRESENT THE “GOLD STANDARD” FOR VACATION RENTAL ENFORCEMENT. CITIES ACROSS THE WORLD HAVE BEGUN TO SUCCESSFULLY CONTROL VACATION RENTAL PROLIFERATION BY INCORPORATING THESE PROVISIONS AND APPROACHES INTO THEIR ENFORCEMENT EFFORTS.

PLATFORM LIABILITY

In many cities, platforms avoid liability through disclaimers, waiving their responsibility to ensure that hosts comply with local regulations. Under platform liability, enforcement teams hold platforms accountable for facilitating illegal transactions, rather than placing the responsibility for compliance on hosts alone. Platform liability saves resources, leads to more cooperation from platforms, and turns fines from mere threats into meaningful deterrents.¹³ Enforcement teams benefit from increased cooperation from platforms in blocking unpermitted listings and/or the ability to penalize platforms instead of tracking down individual hosts.

One noteworthy complement to platform liability is the pass-through registration system. Under this system, hosts register with the city through vacation rental platforms. Platforms are required to gather registration application information and send it directly to city authorities; applications must be approved before units can be listed. This ensures that unregistered hosts cannot post advertisements. Paired with platform liability, pass-through registration can dramatically decrease a city’s enforcement burden. When hosts must register for a permit through a platform, platforms will not be able to plead ignorance about unregistered listings on their sites.



Spotlight: San Francisco

Before Platform Liability: In 2015, San Francisco required host registration without platform liability. Owners did not apply for VRU permits and platforms ignored calls from the city's enforcement team and dissatisfied residents. The team relied on inefficient enforcement strategies, like driving to properties to investigate violations, submitting countless individual subpoenas, and engaging in frequent guesswork to determine listing addresses. In March of 2016, only 1,647 people had registered their VRUs, while Airbnb alone listed 7,046 San Francisco hosts.

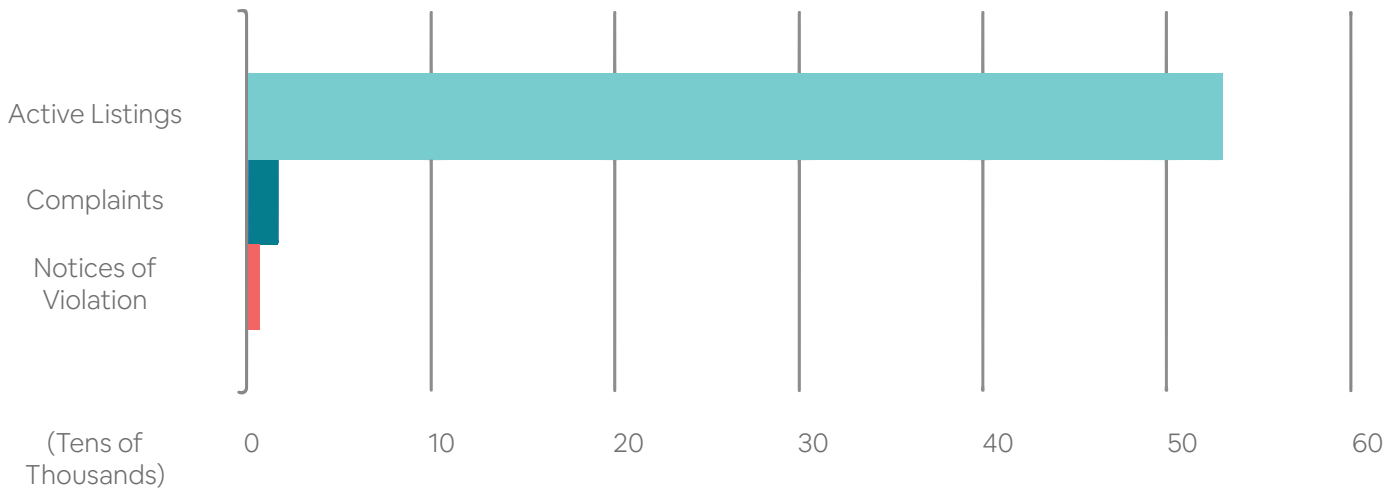
After Platform Liability: In 2018, San Francisco instituted platform liability, including a pass-through registration system. Platform liability has significantly improved the city's enforcement efforts. In the eight months after the policy went into effect, San Francisco's VRU listings decreased 70 percent, from approximately 10,000 VRUs to 3,500. Platform liability has also helped San Francisco's enforcement team navigate the complications accompanying landlord/tenant relationships and VRUs. Some landlords do not permit subletting or short-term renting. Now, when landlords report that a particular tenant has been denied the ability to homeshare, platforms must cancel that tenant's existing reservations.

PLATFORM TRANSPARENCY

Platform transparency provisions require platforms to share data with a city's enforcement team. Data often includes information about particular listings, individual hosts, and the platform's level of activity across the city. Data is necessary for effective enforcement: Deprived of address listings, it is nearly impossible for enforcement teams to know whether units operate in compliance with the law. Without platform transparency, cities must resort to more labor-intensive data analysis strategies.¹⁴



Spotlight: New York City



Before Platform Transparency: In 2017, New York City’s 48-member enforcement team took approximately 1,700 complaints and issued 650 notices of violation. However, these numbers pale in comparison to the city’s 53,000 active VRU listings. Determining that the guesswork associated with further in-person inspections would be cost-prohibitive, New York City passed a platform transparency requirement in July of 2018.

After Platform Transparency: Now platforms must report information on their activities as well as data on their hosts. Required data includes unit addresses, host contact information, and names and URLs associated with bookings.

The State of New York enacted legislation in October of 2016 that imposes fines on hosts who advertise illegal VRUs. The law broadly defines advertising as “any form of communication for marketing that is used to encourage, persuade or manipulate viewers, readers or listeners into contracting for goods and/or services.”¹⁵

This measure bolsters the enforcement team’s ability to target illicit operations at the source. In conjunction with platform transparency, the ability to issue fines for advertising violations gives regulators a powerful tool to deter illegal activity and limit its impact on vulnerable communities.

FINES AND PENALTIES

Fines and penalties that have been successful across the world include:

- Large fines, such as fines upwards of \$20,000;
- Scaled fines, such as larger fines on commercial operators than individual hosts; and
- Material penalties, such as disconnecting electricity and water, suspending permits, placing liens on properties, etc.

Cities need serious fines and/or penalties to deter large companies and commercial hosts. These operators make significant nightly profits off their illegal transactions, and if fines and penalties are not carefully set, they will simply factor them in as the cost of doing business.¹⁶

Spotlight: Berlin vs. Santa Monica

Berlin: In 2016, Berlin's \$100,000 fine led to a 49 percent decrease in total listings and a 60 percent decrease in listings posted by hosts with multiple units.

Santa Monica: Santa Monica's 2015 ordinance includes a \$500 fine. While the city's enforcement team has significantly reduced illegal VRU activity across the board, it has not been able to target multi-unit operators as successfully as it had hoped. In the year after Santa Monica enacted its ordinance, entire-home listings dropped by 37 percent and entire-home listings posted by hosts with multiple units dropped 40 percent.

The one factor setting Berlin and Santa Monica apart is the magnitude of the fine included in the ordinance, suggesting the power of large fines to curtail commercial VRU operators.

FOCUS ON REPEAT OFFENDERS AND COMMERCIAL HOSTS

Enforcement teams should focus on bringing major offenders and commercial hosts into compliance before addressing individual hosts. Focusing on major offenders and commercial hosts helps cities prioritize more pressing cases, which is key for small, under-resourced enforcement teams.¹⁷

Prioritizing enforcement against commercial hosts in particular seems to be the best way to address the affordable housing crisis and work with limited resources. A recent study found that hosts with 10 or more properties generated a quarter of all multi-unit host revenue.¹⁸ It should be noted that the study was conducted by a group with ties to the hotel industry but, if even close to accurate, it paints a compelling picture of who is benefiting from VRUs and who is driving VRU proliferation. Enforcing against commercial hosts helps take large chunks of illegal activity off of platforms in one fell swoop.

Spotlight: Santa Monica

According to Santa Monica officials, the majority of its enforcement team's resources fund close investigations of commercial hosts. Santa Monica's law itself does not treat individual and commercial operators differently since it bans unhosted VRUs altogether. However, the enforcement team determined that its highest priority is targeting commercial hosts, who illegally remove multiple units from the rental market. After commercial hosts, the team then prioritizes repeat offenders, or hosts that have been fined and yet continue to operate, and cases originating from complaints.

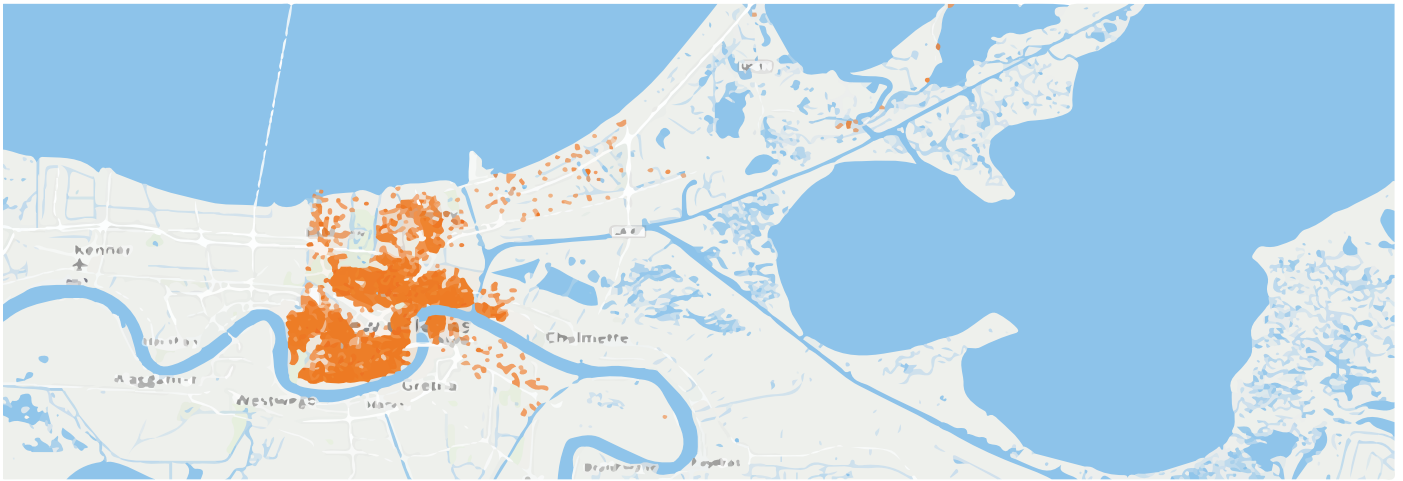


NEIGHBOR EMPOWERMENT TOOLS

Neighbor empowerment strategies involve residents in the VRU enforcement process by educating them about their city's regulations, the complaint process and the VRU units operating in their neighborhood. Specific examples of neighbor empowerment tools include:

- A hotline or tip website for neighbors to call in complaints related to vacation rental noncompliance;
- An online map, allowing neighbors to search by address or permit number to determine a unit's permitted usage;
- Notification letters to inform neighbors of new VRUs in the area;
- An education campaign,¹⁹ which can include passing out flyers, posting announcements in local newsletters, social media outreach and in-person presentations on neighbors' rights and vacation rental law;
- A clear complaint process that sets out a timeline for complaints, hearings and notifications and indicates who is responsible at each stage of the process; and
- A private right of action to allow neighbors to sue for VRU violations.

Neighborhood empowerment is critical, as it extends the power of a city's enforcement team. Empowered neighbors can remove some of the burden of in-person investigations from enforcement teams by notifying them of potentially noncompliant units in their neighborhoods. As many teams are small and under-resourced, insight on units requiring their attention allows them to work more efficiently. Ideally, easily-available information on local VRUs and open lines of communication between communities and local officials would enable neighbors to act as partners in the search for VRU enforcement solutions. Neighbors who are affected by VRUs in their daily lives have valuable perspectives that should be taken into account.



Courtesy City of New Orleans Open Data

Spotlight: New Orleans

New Orleans publishes an online map featuring all VRUs in New Orleans (both permitted and pending applications), in addition to all hotels, motels and B&Bs. The database can be searched by property address, license number, or enforcement case number.

This informative and user-friendly website is an important part of New Orleans' successful enforcement efforts. Since June of 2017, the city has had at least 10 VRU hearings a week. Most New Orleans VRU investigations originate from neighbor complaints.



LIMITING THE NUMBER OF UNITS A HOST CAN RENT

Most cities limit a host to one or two VRUs. In several cities, hosts are only allowed to use their primary residence as a VRU.²⁰ Primary residences generally must be occupied by the owner for at least half the year; in cities with a primary residence requirement, unhosted VRUs therefore cannot be on the market full-time by definition.

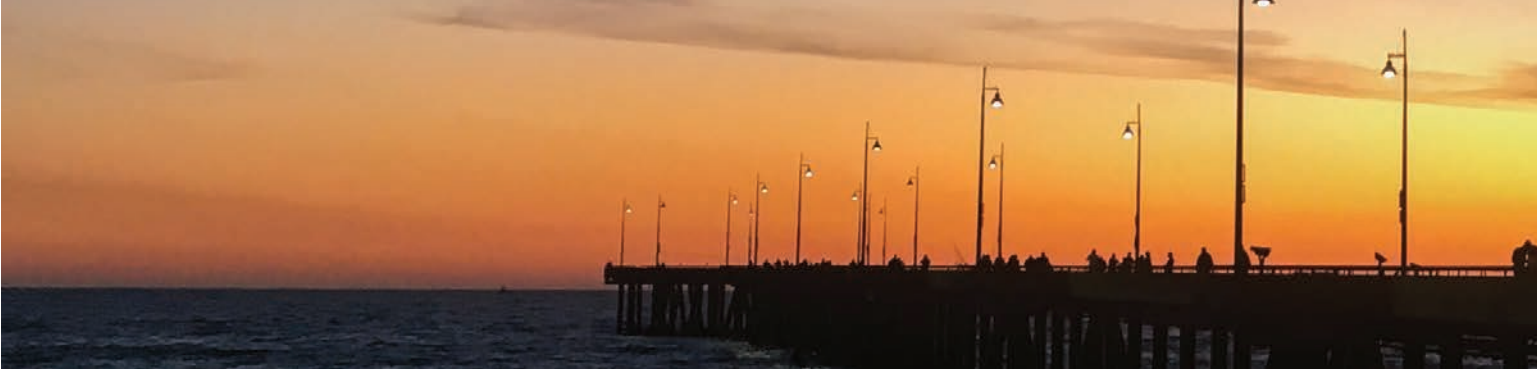
Limitations on the number of units a single person may operate are in accordance with the spirit of home-sharing. VRU platforms were created for locals to supplement their income and tourists to access affordable accommodations. Their purpose was not to turn neighborhoods into de facto hotels or support nonresident investors.



Multi-unit operators make up an inordinate share of the VRU market, and enacting hard-and-fast limits on the number of permits granted to each operator allows for widespread enforcement against illegal operations without time- and resource-intensive legwork from investigators.

Spotlight: Miami

In Miami, a host may only rent out a unit if it is his or her primary residence, defined as the dwelling that the operator lives in for at least 6 months out of the year. Although Miami cannot regulate the frequency or duration of VRU use under state law, the primary residence requirement effectively limits the number of units an individual owner can operate.



LIMITING THE NUMBER OF NIGHTS

Many cities limit the number of nights a unit can be rented annually. This does not refer to the number of nights each guest can stay, but how many nights the unit can be rented in total.²¹

Some cities are instituting a 90-day cap on unhosted rentals in the hope that a cap will create an economic incentive to rent to long-term tenants.²² Operators that violate limits on annual VRU usage can be easily identified and fined appropriately by reviewing rental histories.

Spotlight: Los Angeles

In Los Angeles, hosts can rent out their primary residence as an unhosted VRU for only 90 days annually. Additionally, the city imposes a 120-day limit on all VRUs (both hosted and non-hosted units). It is extremely difficult to differentiate a hosted stay from an unhosted stay, and it is therefore challenging to enforce the 90-day unhosted limit. The 120-day cap on all VRUs makes a violation clear if the team can establish that a unit, no matter its kind, has been rented for over 120 days.



BANNING VRUs FROM ZONES OR TYPES OF HOUSING

Some cities ban VRUs in:

- Residential areas;
- Units that have been the subject of an eviction;
- Income-restricted units; and/or
- Units subject to housing or rental assistance.

Such provisions work to counteract the otherwise negative impact VRUs have on the housing market. Banning VRUs in residential areas allows enforcement teams to enforce simply based on zoning, eliminating the need for more cumbersome investigations. Banning VRUs in units from which tenants have recently been evicted prevents landlords from expelling tenants to convert their unit to a VRU. Banning VRUs in rent-controlled units, income-restricted units, or units otherwise subject to housing or rental assistance keeps much-needed affordable housing in the market.

Spotlight: Santa Monica

Santa Monica's outright ban in residential areas was essential, since enforcing based on specific regulations is extremely resource-intensive. Now the enforcement team can immediately issue violations for VRUs operating in residential neighborhoods, regardless of their level of compliance with other aspects of the ordinance.



NON-CONFORMING UNITS & CLEAR GRANDFATHERING EXPECTATIONS

Non-conforming units (NCUs) are units that are descriptively illegal under a new law but are permitted because they were allowed prior to the law’s passage. Some cities have a “grandfathering” clause in their vacation rental ordinances, outlining which units are permitted and for how long. The best grandfathering clauses include a sunset provision, requirements or limitations.²³ Administrative hearings over grandfathering can consume a significant amount of time, but having clear, codified expectations eliminates this issue.



Spotlight: Miami

Miami is an excellent example of how cities can tailor ordinances to grandfather in a limited number of units.

Florida law restricts local governments from enacting new regulations that prohibit vacation rentals or regulate their duration or frequency. However, while the law prevents cities from banning vacation rentals outright, it does not foreclose on the possibility of other forms of regulation.

Miami tailored its VRU ordinance accordingly. Miami's 2017 ordinance requires all VRU operators to obtain a permit, and a permit is only issued if the operator can prove that the unit they want to convert into a VRU is their primary residence. Because each individual can have only one primary residence, multi-unit operators are unable to obtain permits for all of their VRUs, even if their operations were legal prior to the enactment of the ordinance.

Miami has thus made it clear that it can limit the number of VRUs in operation regardless of Florida's restrictions on its regulatory power. The city recognized that grandfathering need not be a blanket acceptance of all VRUs previously in existence.

Case Studies: Platform Liability is Key

THE BEST LESSONS FOR EFFECTIVE ENFORCEMENT COME FROM DESTINATION CITIES, WHICH ARE FORCED TO TACKLE VRU CHALLENGES HEAD ON DUE TO THE HIGH VOLUME OF TOURISTS THEY ACCOMMODATE. SOME OF THE MOST SUCCESSFUL CITIES, INCLUDING SAN FRANCISCO, SANTA MONICA AND BARCELONA, HAVE FOCUSED ON EMPLOYING PLATFORM LIABILITY PROVISIONS.



SAN FRANCISCO

In 2018, San Francisco imposed platform liability after a legal battle with Airbnb. San Francisco and Airbnb entered into a settlement agreement, allowing the city to retrieve data from platforms and fine them for advertising unpermitted units. Platforms now require hosts' registration numbers and permit expiration dates in their online application forms.²⁴

According to the city, platform liability has led to far more effective enforcement. In the eight months after introducing platform liability, San Francisco went from having around 10,000 VRU listings to around 3,500, a 70 percent decrease. The number of guests per unit also decreased, and the city was able to return rent-controlled and subsidized units to the long-term housing market. Furthermore, legal hosts are being rewarded; they receive more bookings and can increase their supplemental income.²⁵

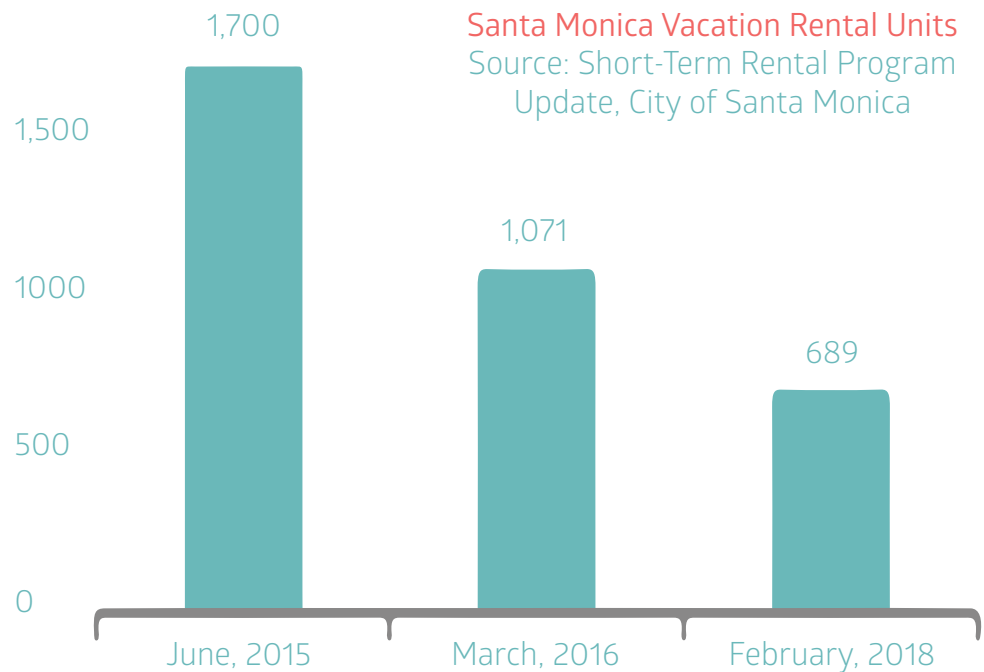
Besides platform liability, other aspects of San Francisco's enforcement strategy include:

- Platform transparency: Platforms must provide information about each unit for at least three years after its last booking on their site;
- A ban on renting units from which tenants have been recently evicted;
- A private right of action for permanent residents living near a violating unit;
- A primary residency requirement: Today, individuals in San Francisco may only register a listing if the unit is their primary residence, in effect limiting both hosted and unhosted VRUs to one unit per individual;
- Clear and serious penalties: Hosts and platforms alike can face fines up to \$1,000 a day for violating the city's home-sharing ordinance;²⁶ and
- A focus on multi-unit hosts, full-time hosts and repeat offenders.²⁷

Despite San Francisco's successes, its enforcement team still deals with fraudulent activity. Hosts will say they are on site when, in fact, they live elsewhere. The city's current challenges, however, are lower-priority enforcement issues. The team is only able to address them because their caseload decreased significantly due to platform liability.²⁸

SANTA MONICA

In 2015, Santa Monica passed a VRU ordinance completely outlawing unhosted VRUs and imposing platform liability. The law was the first of its kind and has had a tangible impact on VRUs in the city.²⁹ From 2016 to 2018, the number of VRUs decreased approximately 36 percent. More importantly, the number of illegal VRUs decreased approximately 46 percent.³⁰



In 2016, vacation rental platforms Airbnb and HomeAway sued Santa Monica over its law. In 2018, a U.S. District Court denied the platforms' request for a preliminary injunction, and subsequently dismissed the suit altogether. The Ninth Circuit Court of Appeals was considering the case at the time of this report's publication.³¹

The law's platform liability provision empowered the city to take enforcement action against two major platforms, and they collected over \$42,000 in fines in the first few months after the law went into effect.³² One platform was issued citations for 418 separate violations.³³

Despite its enforcement successes, the city still deals with challenges. In February of 2018, it estimated that 21 percent of operators claiming to operate hosted rentals actually operate unhosted rentals. In other words, hosts are lying about whether they are staying on their property with guests. However, that estimate is down from 30 percent in March of 2016, suggesting that Santa Monica's approach is working.³⁴

BARCELONA

Barcelona's enforcement team has conducted an impressive number of investigations and collected substantial fines. Since the city began holding platforms liable in 2015, the number of sanctions Barcelona imposes annually has increased over 400 percent.³⁵ In 2016, the city levied \$620,000 in fines on both Airbnb and Homeaway for listings that did not have permits.

The enforcement efforts appear to be working. In 2016, there were 6,000 illegal listings; that number has gone down to 2,000 today. Barcelona has also seen a spike in the number of registration numbers on platforms, indicating that people are following the law.³⁶

Complaints to the Tourist Accommodation Authority also declined after the STR law was passed. From 2016 to 2017, calls decreased by 38 percent. The enforcement team believes the recent decline is due to the decrease in illegal activity.³⁷

	Investigations Initiated	Cases Closed	Sanctions Imposed
2014	446	265	265
2015	2,110	398	736
2016	4,341	1,289	1,993
2017	4,963	2,388	3,015

Source: Barcelona Tourist Accommodation Authority

Recommendations

AFTER REVIEWING THE SUCCESSES AND FAILURES OF OTHER CITIES THAT HAVE ATTEMPTED TO IMPLEMENT VRU LEGISLATION, APPLESEED RECOMMENDS THAT HAWAII'S COUNTIES ADOPT THE FOLLOWING ENFORCEMENT STRATEGIES:

1. Hawaii's counties should enact data transparency provisions requiring platforms to provide a monthly report of listings in Hawaii. They should also implement liability provisions that fine platforms for failing to provide this information and advertising unpermitted units. Cities can further shift responsibility onto platforms by instituting pass-through registration systems, which make it more challenging for platforms to advertise noncompliant listings.
2. Hawaii's counties should include tools for neighborhood empowerment in their ordinances and utilize advances in technology to enhance neighbors' understanding of VRUs in their communities. Authorities in each county should create for their websites a user-friendly online complaint system and a map of all registered units (both hosted and unhosted) that is searchable by address and registration number. Each county should also initiate an education campaign by giving presentations in communities on neighbors' rights and sending letters regularly to neighbors notifying them of new VRUs in the area.
3. Hawaii's counties should limit VRU ownership to one unit and require that one unit to be the host's primary residence. This will prevent VRU hosts from renting their units year-round. Furthermore, Hawaii's counties should specify that VRU hosts must be unit owners, not their agents or relatives.
4. Hawaii's counties should prohibit VRU use in affordable housing units or units that have been the subject of an eviction.



5. Hawaii's counties should ensure that a high concentration of units does not plague particular communities by establishing a VRU quota in each neighborhood.
6. Hawaii's counties should be able to impose a fine of \$20,000 or more on a first notice of violation. Authorities should use their discretion to scale fines depending on how many units a host rents or how many violations have been committed.
7. Hawaii's counties should focus enforcement efforts on repeat offenders and commercial hosts.

Conclusion

It is time for Hawai'i's counties to tackle our VRU challenges responsibly and thoughtfully. While compromise is important, VRU expansion should not occur before we impose enforcement measures that have been proven successful. We can spend time, money and effort to impose new VRU ordinances across Hawai'i, but without a solid enforcement plan, all our hard work will come to naught as noncompliant operators overtake our islands.

County ordinances must be comprehensive; each of the strategies mentioned here would provide some benefits, but together they can powerfully and effectively regulate VRUs. Hawai'i's counties should adopt all provisions deemed successful in this report, including:

- Platform liability;
- Platform transparency;
- Meaningful fines and penalties;
- Limits on the number of units and the number of nights permitted;
- A focus on major offenders and commercial hosts;
- Neighborhood empowerment tools;
- Bans on VRUs in inappropriate types of housing; and
- Clear restrictions on non-conforming units.

If nothing else, our counties must institute the building blocks of a successful VRU enforcement strategy: platform liability, platform transparency and meaningful fines. Cities across the world are not scared to begin enforcing, and understand that they owe it to their residents to do so. Hawai'i's counties should follow suit.

Endnotes

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