



TESTIMONY

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BOARD BILLS 33 AND 34, SHORT-TERM RENTAL REGULATION

By Avery Frank & David Stokes

Testimony before the City of St. Louis Transportation and Commerce Committee

TO THE HONORABLE MEMBERS OF THE COMMISSION

Our names are Avery Frank, research assistant at the Show-Me Institute; and David Stokes, the Institute's Director of Municipal Policy. The Show-Me Institute is a nonprofit, nonpartisan, Missouri-based think tank that advances sensible, well-researched, free-market solutions to state and local policy issues. The ideas presented here are our own and are intended to raise potential policy ideas for short-term-rental regulation in the City of St. Louis.

Board Bill 33 would create a licensing, response, and punishment system for the establishment and operation of short-term rentals (STRs), which include companies like Airbnb and VRBO.¹ This bill represents an attempt at a regulatory compromise between those who enjoy the benefits of STRs and those who are subjected to the negative effects of this industry. Drawing on research and analysis of

STR regulatory policies elsewhere, we have a few suggestions for making this bill more effective.

THE COMPLEXITY OF STR REGULATION

The rapid rise of STR companies like Airbnb has led to varying government responses. Treatment of STRs ranges from total bans in Anaheim² to complete freedom in many cities around the United States, with cities including Los Angeles and Denver introducing limited restrictions that place them between the two extremes.³ With so many interested parties (facilitating companies like Airbnb, hosts, guests, neighbors, those in the hotel industry, and government officials) it isn't surprising that a solution that satisfies everyone has been elusive.

THE PROS AND CONS OF STRS

St. Louis faces the same tradeoffs that accompany the short-term-rental industry in other cities.

ADVANCING LIBERTY WITH RESPONSIBILITY
BY PROMOTING MARKET SOLUTIONS
FOR MISSOURI PUBLIC POLICY

The policy literature lists benefits such as increased tax revenue for cities,⁴ increased revenue for businesses,⁵ more competition,⁶ cheaper prices for visitors,⁷ and additional income for renters.

On the other hand, there are also numerous negative consequences associated with STRs. “Living like a local” can create problems when one partakes in tourist activities (parties, loud music, etc.) in a residential neighborhood. The literature documents heightened annoyance with those who have Airbnb’s next door,⁸ breakdown of neighborhood social dynamics as neighbors are replaced by a steady stream of tourists, and in some cases, increased violent crime.⁹

POTENTIAL POLICY SOLUTIONS

As mentioned before, numerous other cities have taken actions that we could potentially mimic. However, we are not San Francisco or Denver. There is consensus in the literature¹⁰ that regulations need to be different for each city, as the circumstances of each city are different. The regulations in the Lake of the Ozarks should be different than here in the City of St. Louis.

To reduce crime, the punishment system proposed in Bill 33 appears satisfactory. Those who routinely rent to unruly guests should be held accountable. A system of STR registration with the city involving escalating fines for units routinely being rented out for parties that necessitate police involvement—up to and including the loss of occupancy permits—is the most straightforward system of addressing the criminality that has resulted from STR abuse in parts of St. Louis. Many horror stories attributed to Airbnb’s are not unique to STRs, but rather encompassed in the larger trend of increased crime. Therefore, banning STRs completely, as some other cities have done, would be a disproportionate response.

Protecting the hotel industry from competition from STRs should not be goal of policymakers. Competition spurs innovation and will be good for both the lodging industry and consumers in the long run. Airbnbs have brought tourists (and revenue) to communities where hotels are less prevalent.¹¹ To retain or win back customers, hotels have responded by partnering with local businesses, implementing rewards programs, altering room styles to

be more unique, and streamlining the booking process.¹² Competition has, predictably, led to improvement in the lodging industry.

Bill 33 would require a graduated business license (GBL) for “non-occupied short-term rentals” (properties that the owners do not live in) but would require only a permit for individuals who rent out their primary residence. Permits generally are easier to obtain than licenses, and we agree that those renting out their primary residence should be spared unnecessary red tape. However, the \$150/year permit fee would be the same as the fee for a GBL for a business with fewer than three employees. We do not think someone should have to pay a permitting fee for the privilege of occasionally renting out their primary residence—not to mention the fact that imposing such a fee might reduce compliance and thereby decrease lodging tax revenue. The literature has noted that STR violations are difficult to identify and prove, as neighbors can’t easily differentiate between friends/family and tourists.¹³ However, there could be room for compromise, such as establishing a threshold to exempt infrequent renters from permit requirements.

One change to the bill that we recommend is to conduct STR license registration online rather than in person. The Internet can be considered the native environment for STR companies, as customers search for, reserve, and pay for their rentals almost exclusively online. Compliance rates for STR registration are generally low,¹⁴ but Denver, which conducts license registration online, has among the highest compliance rates at 50.5%.¹⁵ San Francisco and Portland, which use in-person license registration, have compliance rates of around 20%.¹⁶ Making compliance as convenient as possible is common sense.

In sum, we recommend retaining the punishment mechanism in Board Bill 33, retaining the licensure rule applying only to “non-occupied short-term rentals,” and implementing an online registration system for STRs to boost compliance.

Thank you for your time, and I hope you take our suggestions into consideration.

NOTES

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