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# Short-Term Rentals and Impact on the Apartment Market

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The utilization of short-term rentals is increasing, coinciding with improved economic and apartment market conditions across the country, and prompting concerns about potential implications for local housing markets. Rosen Consulting Group (RCG) examined the short-term rental marketplace and analyzed the New York City region as a representative case study. We found that the New York apartment market, like many cities across the country, is in the midst of a strong growth cycle driven by economic and demographic factors. The rental housing market in global gateway cities such as New York benefits from a consistent level of tenant demand created by the diverse local economies as well as a relatively larger share of the population that rents rather than owns because of the high cost of housing. Other constraints, such as land use policy, can curtail residential development, which also contributes to a higher cost of housing in urban areas. Furthermore, the relatively small number of short-term rentals as a share of the local housing market minimizes any potential impact. We believe that the short-term rental industry is having little effect on urban apartment markets.

## Short-Term Rentals Marketplace

Short-term rentals provide an alternative to hotels, hostels or staying with friends or relatives for temporary visitors. Each of these types of stays offer different amenities and varying pricing. Hostels are inexpensive and provide the basic necessities to travelers. Hotels and bed-and-breakfasts rent on a nightly basis and provide some basic provisions, including a private room. Corporate housing is a viable option for business travelers that may need a furnished place to stay for several weeks or months.

A short-term rental can last a single night, a week, or even several months, although the majority of short-term rentals last less than 30 days.

- Short-term rentals typically involve a person utilizing their primary residence as a place to stay for a single guest or group.
- Hotels, bed-and-breakfasts and corporate housing differ from short-term rentals in that these properties rent rooms or units as an established commercial business and generate a higher volume of stays. Hotels and other lodging establishments generally offer nightly or weekly stays while corporate housing is typically utilized for stays of a few weeks or greater than 30 days and often requires the occupant to sign a lease.
- The short-term rental operators can be property owners or renters, looking to supplement income by renting excess space in their primary residence. An operator may rent out a couch, extra room, or the entire unit while out of town. The operator often

remains in the unit during the stay, sometimes offering meals, refreshments, or guidance for local activities and attractions. This social interaction can be an important factor in the decision to host or reserve a short-term rental.

- Travelers often choose the short-term rental because they are provided a different experience than a hotel would offer. Hotels tend to be located in commercial or tourist-oriented neighborhoods that could be viewed as misrepresenting the “feel” of a city. Short-term rentals provide the opportunity to stay in residential neighborhoods or more off-beat areas that provide travelers with the chance to live like a local for a few days. This immersion experience of living under the roof of an operator provides the opportunity to gain local insight into a neighborhood.

A formal and informal short-term rental marketplace has existed for some time. Temporary housing provided by individuals was very common prior to the transformation of the hotel and motel industry during the post-war era and development of the interstate highway system. Advertising and methods for providers and renters to connect have also existed for many years and are now evolving as technology utilization increases.

- A friend or relative invited to stay in a person’s extra room or sleep on a couch is an example of an informal short-term rental. This type of stay may also arise from casual conversation or a recommendation from a friend or acquaintance.
- Bulletin board postings in common areas such as cafeterias, student centers, and coffee shops are typical informal methods for operators to attract renters to short-term rentals, and vice versa.
- Advertising in newspapers or other publications was the traditional method to find temporary housing. Online platforms such as Craigslist have generally replaced printed classified ads.
- Several online marketplaces were developed in recent years, offering slightly different services such as facilitating the entire transaction. Some of these platforms include Airbnb, Roomorama, CouchSurfing International, Wimdu International, and 9flats.
- These online marketplaces have driven significant growth in short-term rental opportunities and helped parties to connect more efficiently. While these firms are contributing to the increased popularity of short-term rentals and peer-to-peer marketplaces, they did not create the short-term rental marketplace.

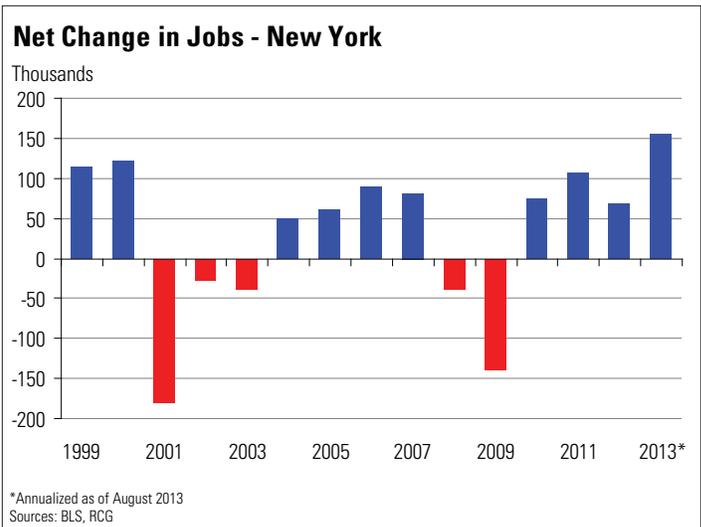
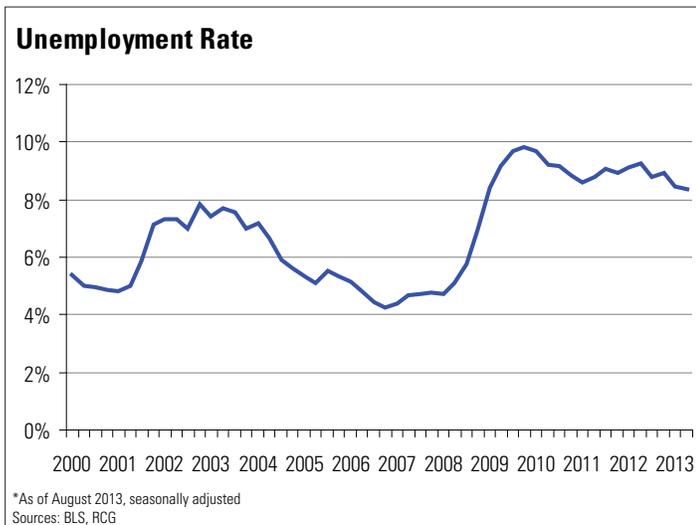
## Case Study: New York City

### Apartment Market Drivers

The New York apartment market is driven by the largest population base and regional economy in the country. As an international hub for finance, media and culture, the region creates jobs and attracts new residents from around the globe. The economic recovery, combined with the large demographic wave of younger adults, drove much of the recent improvement in the housing market. By August, the unemployment rate in the New York region reached 8.3%, approximately one percentage point lower than a year ago. From 2010 to mid-2013, more than 350,000 new jobs were created in the New York metro area, providing income for many new renters in the region and driving unbundling of some shared living arrangements.

- Although the current economic recovery is far from robust, job creation is occurring throughout a broad range of industries.
- The professional and business services sector accelerated rapidly during the past three and a half years: nearly 97,000 jobs were created in the sector, including many technology positions.
- Stronger spending by residents and growing tourism activity fueled the creation of nearly 150,000 jobs in the trade and leisure and hospitality sectors.
- The educational and health services sector added jobs for much of the last decade and hiring accelerated in recent months. Since 2010, nearly 95,000 employees were hired in the sector.

The moderate pace of job creation is attracting new residents to New York and allowing some individuals to move out of shared arrangements and start their own households. In 2012 alone, the number of households in New York City increased by approximately 62,500, according to the Census Bureau.



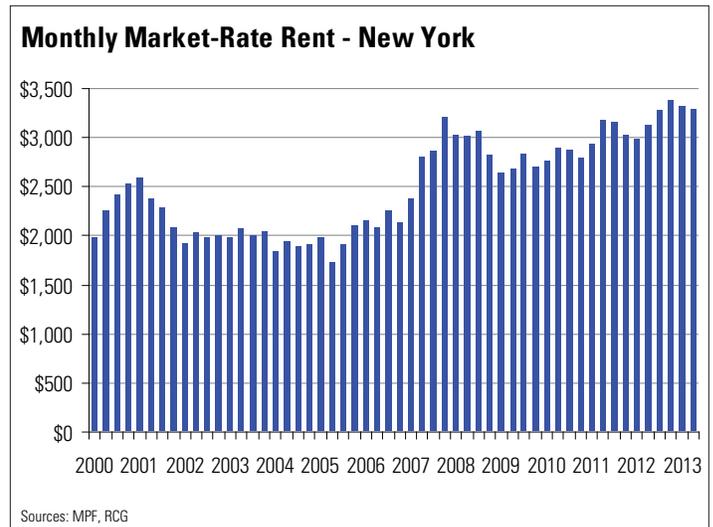
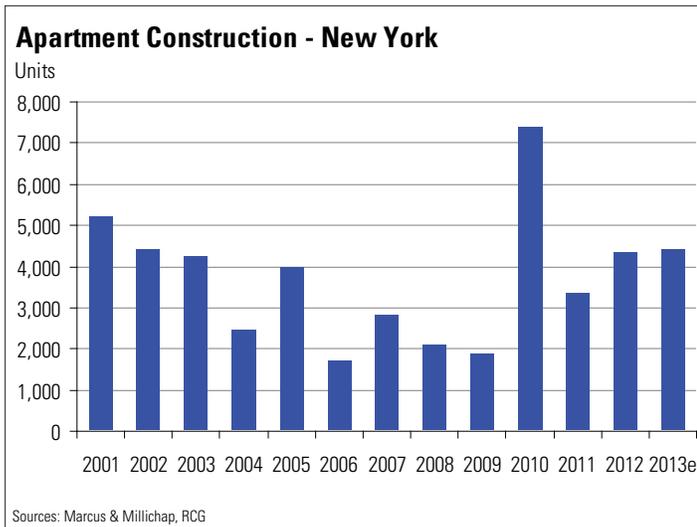
Job prospects, amenities and lifestyle attract a large number of echo boomers to New York. These younger adults are entering the workforce and establishing households for the first time. This trend is heightened in New York because of the larger concentration of younger residents. In New York City, the population aged 18 to 34 years-old accounted for nearly 28% of residents, or approximately 2.3 million, according to the American Community Survey. This segment of the population is considered the prime renter-age range and contributes to the strong demand for rental housing.

Housing costs in the region are high and, when combined with the limited mortgage availability, caused more households to rent than just a few years ago. The share of the population that rents in New York has trended higher since 2004. In the New York metro area, approximately half of all households are renters, a much higher share than the 35% national rentership rate.

- The rise in personal debt loads, which includes student loans, causes many households to remain renters for longer periods. With the cost of homeownership already high in the New York region, the additional debt carried by some households makes ownership unattainable in the near term.

Rental apartments are highly sought after in New York, particularly in the well-located submarkets. A global demand base and low levels of supply for affordable and market-rate housing cause perennially-tight market conditions.

The New York housing market is chronically undersupplied as a result of high development costs, scarcity of land and other barriers to development. In recent years, the surging apartment demand led to an increase in apartment development activity. Despite this increase, construction is insufficient to allow for absorption of pent-up demand for housing. From 2006 to 2009, just 8,500 market-rate apartment units were built in New York, just 0.4% of the existing apartment stock. In the last three years, apartment development accelerated to a total of 15,000 units, a level still insufficient to meet demand.



The combination of little new supply and surging demand for rental housing during the past several years is the primary driver behind the current apartment market conditions. The vacancy rate for market-rate apartments fell to 2.2% in mid-2013. The vacancy rate was less than half of the level as recently as 2009. The city-wide rental vacancy rate, including market-rate and rent-stabilized units, remained low at just 3.1% in 2011, the latest data available, according to the New York City Department of Housing Preservation and Development and the Census Bureau.

With few apartments vacant, monthly rents surged in recent quarters. New York City already had the highest apartment rents in the country and monthly rents increased even further. Through mid-2013, the average monthly rent for market-rate apartments was nearly \$3,300, according to MPF Research. While heightened competition for apartments caused rents to surge, the pace of growth abated somewhat in recent months as rents approached affordability constraints in many neighborhoods.

The apartment market is primarily driven by demographic trends and economic conditions. In the past few years in New York City,

the moderate pace of job creation combined with a large wave of younger adults drove the apartment market to the tightest conditions in recent years. With new supply of housing units unable to keep pace with accelerating demand, traditional supply/demand fundamentals are the driving force behind the extremely tight rental housing market in New York City.

#### ***Can Short-Term Rentals Affect the Housing Market?***

The impact of short-term rentals on supply/demand forces in urban housing markets are minimal, but admittedly difficult to quantify. RCG believes that the New York housing market is driven by local economic fundamentals, including job creation and demographic trends. The moderate pace of hiring in the region combined with a large demographic wave of young adults within the prime renter-age cohort provided a strong level of housing demand. With short-term rentals in particular, while the number of listings increased substantially in recent months, the number of housing units relative to the overall size of the residential stock is too small to impact housing trends.

In New York City and many other parts of the country, the economic recovery is accelerating, driving improvement in local housing markets. The strengthening housing market in New York City is coinciding with, not caused by, growth in the short-term rental marketplace. In fact, economic growth in New York is driving increased utilization of short-term rentals as travel to the city increases.

The current short-term rental marketplace utilizes technology to provide a more efficient platform to connect individuals that traditionally used other methods to advertise rooms for travelers. The application of technology and rise in social media are driving increased utilization of short-term rentals; however, the overall number of reservations remains a small fragment of the housing market in New York City. Utilizing data provided by Airbnb for New York City, RCG analyzed the footprint relative to the size of the housing market as measured by government statistics.



- On short-term rental listing sites such as Airbnb, the number of listings varies over time because of seasonal factors and owners' financial needs or travel plans. During any given period, thousands of short-term rentals are available in New York; however, not all of these listings are available throughout the year or successfully reserved. Successful reservations are significantly impacted by seasonal business and leisure travel patterns. In 2012, Airbnb activity in New York City peaked in August, a typical peak travel month, with approximately 4,300 booked properties. During the busiest month in 2012, Airbnb reservations occurred in just 0.1% of the nearly 3.4 million New York City homes.
- Reservation activity in New York City increased substantially in 2013 on Airbnb. Utilizing data through August 2013, during the peak month, just 0.2% of New York City residences had a short-term rental reservation through Airbnb.
- The average monthly income generated by short-term rentals is insufficient to cover costs for the majority of housing units in New York City covered under rent regulations as well. According to the last comprehensive study undertaken by the New York City Department of Housing Preservation and Development and the Census Bureau, the average monthly rent paid in 2011 was \$1,387, including market-rate, rent-stabilized, rent-controlled and public housing units.
- Furthermore, the additional cost of operating a dedicated short-term rental can be significant because of the high rate of turnover, unit maintenance and transferring keys to guests. The operating costs of short-term rentals increase as the number of nights reserved increase, further eroding the potential for profit from dedicated short-term rentals.
- For most landlords, the higher rental income provided by traditional apartment leasing combined with lower costs throughout the length of a lease is preferable to short-term rentals, which can entail substantial costs for each reservation. With expected income low relative to the costs of operating dedicated short-term rentals, short-term rentals on a small scale as a primary business is not an effective business concept.

Beyond the relatively small number of residential units offered as short-term rentals, the majority of these homes are not made available throughout the year. Not only do the occupancy needs of owners discourage year-round reservations, but operating costs, vacancy risk and frequent turnover of dedicated short-term rentals also preclude most people from viewing short-term rentals as a primary business.

- The demand for short-term rentals varies substantially as a result of seasonal factors. This high volatility in occupancy patterns can lead to extended periods when the short-term rental is not reserved. Furthermore, the nightly fees charged can vary substantially with shifting traveler demand. As such, a responsible landlord or real estate investor will view the more stable occupancy and revenue provided by traditional apartment leasing as a more favorable investment opportunity.
- While a traditional apartment is occupied for a typical initial lease term of one year, short-term rental occupancy varies substantially throughout a given 12-month period. In the past year, the average number of nights reserved per Airbnb listing in New York City was 49 nights, or just 13% of the calendar year.
- Supplemental income sources can be important for many households in expensive cities such as New York. The Housing Vacancy Survey found that one-third of renter households in New York City paid more than 50% of their household income to rent. According to an Airbnb survey of its users, 62% noted that income generated via Airbnb helped them to stay in their homes.
- The average gross income per listing received in the previous 12 months was \$6,160, or an average of \$513 per month. The average income is not typically received each month but is staggered throughout the year due to seasonal reservation and travel patterns.
- The average Airbnb income of \$513 per month is less than 16% of the average market-rate apartment rent of \$3,287 per month in mid-2013. While the average income generated is a substantial amount of income, it is insufficient to cover rent costs for a market-rate rental unit even when assuming there are no additional operating or maintenance expenses.

The recent tightening of the New York City apartment market was the result of job creation and demographic trends. The short-term rental marketplace is expanding, a result of improving economic conditions in New York City and the application of technology to facilitate transactions. While the usage of short-term rentals increased in recent months, RCG believes that there was no impact on the broader housing market. Isolated cases of individuals turning short-term rentals into a primary business exist; however, we believe that the majority of short-term rentals provide a smaller amount of supplemental income.

The rapid acceleration of the apartment market in New York City, while the result of local job creation and household formation trends, is not unique. Across the country in cities such as San Francisco and Seattle, as well as in major population centers throughout the globe, the growing population of prime renter-age households that are attracted to dynamic urban centers is driving heightened demand for housing. At the same time, not only was construction in many regions minimal during the past few years, but also regulatory constraints caused supply to lag demand for the long term. In these cities, just as in New York, demand for housing is driven by economic

and demographic trends. Also similar to New York, the short-term rental activity in these cities occurs in a very small share of housing units – an amount too small to impact the broader housing market. Most global gateway cities, including New York, San Francisco, Paris, London and others, share similar traits: very constrained housing supply, accelerating demand and urban residents who are embracing the sharing economy. These major urban areas tend to be dynamic, diverse and growing economies, which attract new residents and travelers on a consistent basis. It is these trends, including the desirability of living in a major metropolis, that increase the cost of housing in global gateway cities. While short-term rental activity is on the rise throughout the world, facilitated by technology and firms such as Airbnb, it is not having a meaningful impact on rental housing markets.