Chapter 42A.

Vacation Rental Act.

Article 1.

Vacation Rentals.

§ 42A-1. Title.

This Chapter shall be known as the North Carolina Vacation Rental Act. (1999-420, s. 1.)

§ 42A-2. Purpose and scope of act.

The General Assembly finds that the growth of the tourism industry in North Carolina has led to a greatly expanded market of privately owned residences that are rented to tourists for vacation, leisure, and recreational purposes. Rental transactions conducted by the owners of these residences or licensed real estate brokers acting on their behalf present unique situations not normally found in the rental of primary residences for long terms, and therefore make it necessary for the General Assembly to enact laws regulating the competing interests of landlords, real estate brokers, and tenants. (1999-420, s. 1.)

§ 42A-3. Application; exemptions.

(a) This Chapter applies to any person, partnership, corporation, limited liability company, association, or other business entity that acts as a landlord or real estate broker engaged in the rental or management of residential property for vacation rental as defined in this Chapter. G.S. 160D-1117 applies to properties covered under this Chapter.

(b) This Chapter does not apply to any of the following:

(1) Lodging provided by hotels, motels, tourist camps, and other places subject to regulation under Chapter 72 of the General Statutes.

(2) Rentals to persons temporarily renting a dwelling unit when traveling away from their primary residence for business or employment purposes.

(3) Rentals to persons having no other place of primary residence.

(4) Rentals for which no more than nominal consideration is given. (1999-420, s. 1; 2019-73, s. 1; 2022-62, s. 4.)

§ 42A-4. Definitions.

The following definitions apply in this Chapter:

(1) Advanced payments. - All payments made by a tenant in a vacation rental agreement to a landlord or the landlord's real estate broker prior to occupancy for the purpose of renting a vacation rental property for a future period of time as specified in the vacation rental agreement.

(1a) Landlord. - An owner of residential property offered for lease as a vacation rental with or without the assistance of a real estate broker.

(1b) through (1f) Reserved.

(1g) Real estate broker. - A real estate broker as defined in G.S. 93A-2(a).

(2) Residential property. - An apartment, condominium, single-family home, townhouse, cottage, or other property that is devoted to residential use or occupancy by one or more persons for a definite or indefinite period.

(3) Vacation rental. - The rental of residential property for vacation, leisure, or recreation purposes for fewer than 90 days by a person who has a place of permanent residence to which he or she intends to return.

(4) Vacation rental agreement. - A written agreement between a landlord or the landlord's real estate broker and a tenant in which the tenant agrees to rent residential property belonging to the landlord for a vacation rental. (1999-420, s. 1; 2016-98, s. 1.1; 2017-102, s. 13.1.)

§§ 42A-5 through 42A-9. Reserved for future codification purposes.

Article 2.

Vacation Rental Agreements.

§ 42A-10. Written agreement required.

(a) A landlord or real estate broker and tenant shall execute a vacation rental agreement for all vacation rentals subject to the provisions of this Chapter. No vacation rental agreement shall be valid and enforceable unless the tenant has accepted the agreement as evidenced by one of the following:

(1) The tenant's signature on the agreement.

(2) The tenant's payment of any monies to the landlord or real estate broker after the tenant's receipt of the agreement.

(3) The tenant's taking possession of the property after the tenant's receipt of the agreement.

(b) Any real estate broker who executes a vacation rental agreement that does not conform to the provisions of this Chapter or fails to execute a vacation rental agreement shall be guilty of an unfair trade practice in violation of G.S. 75-1.1, and shall be prohibited from commencing an expedited eviction proceeding as provided in Article 4 of this Chapter. (1999-420, s. 1.)

§ 42A-11. Vacation rental agreements.

(a) A vacation rental agreement executed under this Chapter shall contain the following notice on its face which shall be set forth in a clear and conspicuous manner that distinguishes it from other provisions of the agreement: "THIS IS A VACATION RENTAL AGREEMENT UNDER THE NORTH CAROLINA VACATION RENTAL ACT. THE RIGHTS AND OBLIGATIONS OF THE PARTIES TO THIS AGREEMENT ARE DEFINED BY LAW AND INCLUDE UNIQUE PROVISIONS PERMITTING THE DISBURSEMENT OF RENT PRIOR TO TENANCY AND EXPEDITED EVICTION OF TENANTS. YOUR SIGNATURE ON THIS AGREEMENT, OR PAYMENT OF MONEY OR TAKING POSSESSION OF THE PROPERTY AFTER RECEIPT OF THE AGREEMENT, IS EVIDENCE OF YOUR ACCEPTANCE OF THE AGREEMENT AND YOUR INTENT TO USE THIS PROPERTY FOR A VACATION RENTAL."

(b) The vacation rental agreement shall contain provisions separate from the requirements of subsection (a) of this section which shall describe the following as permitted or required by this Chapter:

(1) The manner in which funds shall be received, deposited, and disbursed in advance of the tenant's occupancy of the property.

(2) Any processing fees permitted under G.S. 42A-17(c).

(2a) Any cleaning fee permitted under G.S. 42A-17(d).

(3) The rights and obligations of the landlord and tenant under G.S. 42A-17(b).

(4) The applicability of expedited eviction procedures.

(5) The rights and obligations of the landlord or real estate broker and the tenant upon the transfer of the property.

(6) The rights and obligations of the landlord or real estate broker and the tenant under G.S. 42A-36.

(7) Any other obligations of the landlord and tenant. (1999-420, s. 1; 2012-17, s. 5.)

§§ 42A-12 through 42A-14. Reserved for future codification purposes.

Article 3.

Handling and Accounting of Funds.

§ 42A-15. Trust account uses.

A landlord or real estate broker may require a tenant to pay all or part of any required rent, security deposit, or other fees permitted by law in advance of the commencement of a tenancy under this Chapter if these payments are expressly authorized in the vacation rental agreement. If the tenant is required to make any advance payments, other than a security deposit, whether the payment is denominated as rent or otherwise, the landlord or real estate broker shall deposit these payments in a trust account in a federally insured depository institution or a trust institution authorized to do business in this State no later than three banking days after the receipt of these payments. These payments deposited in a trust account shall not earn interest unless the landlord and tenant agree in the vacation rental agreement that the payments may be deposited in an interest-bearing account. The landlord and tenant shall also provide in the agreement to whom the accrued interest shall be disbursed. (1999-420, s. 1; 2014-115, s. 3; 2015-93, s. 3; 2017-25, s. 2(b).)

§ 42A-16. Advance payments uses.

(a) A landlord or real estate broker shall not disburse prior to the occupancy of the property by the tenant an amount greater than fifty percent (50%) of the total rent except as permitted pursuant to this subsection. A landlord or real estate broker may disburse prior to the occupancy of the property by the tenant any fees owed to third parties to pay for goods, services, or benefits procured by the landlord or real estate broker for the benefit of the tenant, including administrative fees permitted by G.S. 42A-17(c), if the disbursement is expressly authorized in the vacation rental agreement. The funds remaining after any disbursement permitted under this subsection shall remain in the trust account and may not be disbursed until the occurrence of one of the following:

(1) The commencement of the tenancy, at which time the remaining funds may be disbursed in accordance with the terms of the agreement.

(2) The tenant commits a material breach, at which time the landlord may retain an amount sufficient to defray the actual damages suffered by the landlord as a result of the breach.

(3) The landlord or real estate broker refunds the money to the tenant.

(4) The funds in the trust account are transferred in accordance with G.S. 42A-19(b) upon the termination of the landlord's interest in the property.

(b) Funds collected for sales or occupancy taxes and tenant security deposits shall not be disbursed from the trust account prior to termination of the tenancy or material breach of the agreement by the tenant, except as a refund to the tenant.

(c) The tenant's execution of a vacation rental agreement in which he or she agrees to the advance disbursement of payments shall not constitute a waiver or loss of any of the tenant's rights to reimbursement of such payments if the tenant is lawfully entitled to reimbursement. (1999-420, s. 1.)

§ 42A-17. Accounting; reimbursement.

(a) A vacation rental agreement shall identify the name and address of the federally insured depository institution or trust institution in which the tenant's security deposit and other advance payments are held in a trust account, and the landlord and real estate broker shall provide the tenant with an accounting of such deposit and payments if the tenant makes a reasonable request for an accounting prior to the tenant's occupancy of the property.

(b) Except as provided in G.S. 42A-36, if, at the time the tenant is to begin occupancy of the property, the landlord or real estate broker cannot provide the property in a fit and habitable condition or substitute a reasonably comparable property in such condition, the landlord and real estate broker shall refund to the tenant all payments made by the tenant.

(c) A vacation rental agreement may include administrative fees, the amounts of which shall be provided in the agreement, reasonably calculated to cover the costs of processing the tenant's reservation, transfer, or cancellation of a vacation rental.

(d) A vacation rental agreement may include a cleaning fee, the amount of which shall be provided in the agreement, reasonably calculated to cover the costs of cleaning the residential property upon the termination of the tenancy. (1999-420, s. 1; 2005-292, s. 1; 2012-17, s. 6; 2017-25, s. 1(c).)

§ 42A-18. Applicability of the Residential Tenant Security Deposit Act.

(a) Except as may otherwise be provided in this Chapter, all funds collected from a tenant and not identified in the vacation rental agreement as occupancy or sales taxes, fees, or rent payments shall be considered a tenant security deposit and shall be subject to the provisions of the Residential Tenant Security Deposit Act, as codified in Article 6 of Chapter 42 of the General Statutes. Funds collected as a tenant security deposit in connection with a vacation rental shall be deposited into a trust account as required by G.S. 42-50. The landlord or real estate broker shall not have the option of obtaining a bond in lieu of maintaining security deposit funds in a trust account. In addition to the permitted uses of tenant security deposit monies as provided in G.S. 42-51, a landlord or real estate broker may, after the termination of a tenancy under this Chapter, deduct from any tenant security deposit the amount of any long distance or per call telephone charges and cable television charges that are the obligation of the tenant under the vacation rental agreement and are left unpaid by the tenant at the conclusion of the tenancy. The landlord or real estate broker shall apply, account for, or refund tenant security deposit monies as provided in G.S. 42-51 within 45 days following the conclusion of the tenancy.

(b) A vacation rental agreement shall not contain language compelling or permitting the automatic forfeiture of all or part of a tenant security deposit in case of breach of contract by the tenant, and no such forfeiture shall be allowed. The vacation rental agreement shall provide that a tenant security deposit may be applied to actual damages caused by the tenant as permitted under Article 6 of Chapter 42 of the General Statutes. (1999-420, s. 1.)

§ 42A-19. Transfer of property subject to a vacation rental agreement.

(a) The grantee of residential property voluntarily transferred by a landlord who has entered into a vacation rental agreement for the use of the property shall take title to the property subject to the vacation rental agreement if the vacation rental is to end not later than 180 days after the grantee's interest in the property is recorded in the office of the register of deeds. If the vacation rental is to end more than 180 days after the recording of the grantee's interest, the tenant shall have no right to enforce the terms of the agreement unless the grantee has agreed in writing to honor those terms, but the tenant shall be entitled to a refund of payments made by him or her, as provided in subsection (b) of this section.

Prior to entering into any contract of sale, the landlord shall disclose to the grantee the time periods that the property is subject to a vacation rental agreement. Not later than 10 days after transfer of the property, the landlord shall disclose to the grantee each tenant's name and address and shall provide the grantee with a copy of each vacation rental agreement. In lieu of providing the grantee a copy of each vacation rental agreement, where the landlord or the landlord's agent utilizes a standard form vacation rental agreement, the landlord may provide the grantee with a copy of the part of each vacation rental agreement that contains information unique to the tenancy, the amount to be paid by the tenant, and the parties' signatures, along with one copy of the rest of the standard form vacation rental agreement. However, the landlord shall not be required to provide the grantee with copies of the vacation rental agreements if in anticipation of acquiring the property the grantee has engaged the landlord's rental agent to continue to manage the property after the transfer and the landlord authorizes the rental agent to provide the information to the grantee and the grantee approves. Not later than 20 days after transfer of the property, the grantee or the grantee's agent shall:

(1) Notify each tenant in writing of the property transfer, the grantee's name and address, and the date the grantee's interest was recorded.
(2) Advise each tenant whether he or she has the right to occupy the property subject to the terms of the vacation rental agreement and the provisions of this section.
(3) Advise each tenant of whether he or she has the right to receive a refund of any payments made by him or her.

Notwithstanding any other provision of this section, if the grantee engages as the grantee's broker and rental agent for the property the broker who procured the tenant's vacation rental agreement for the landlord, the grantee shall have no obligation under subdivisions (1), (2), and (3) of this subsection with regard to those tenants whose vacation rental agreements must be honored under this section or with regard to those tenants whose vacation rental agreements the grantee has agreed in writing to honor.

(b) Except as otherwise provided in this subsection, upon termination of the landlord's interest in the residential property subject to a vacation rental agreement, whether by sale, assignment, death, appointment of receiver or otherwise, the landlord or the landlord's agent, or the real estate broker, shall, within 30 days, transfer all advance rent paid by the tenant, and the portion of any fees remaining after any lawful deductions made under G.S. 42A-16, to the landlord's successor in interest and thereafter notify the tenant by mail of such transfer and of the transferee's name and address. If a real estate broker is holding advanced rents paid by the tenant pursuant to a vacation rental agreement at the time of the termination of the landlord's interest, the real estate broker may deduct from the advanced rents transferred to the landlord's successor in interest any management fee earned by the real estate broker prior to the transfer. The written agency agreement between the landlord and the real estate broker shall govern when the fee has been earned. If the real estate broker deducts an earned management fee from the advanced rents, the landlord shall be responsible to the landlord's successor in interest for the amount deducted. For vacation rentals that end more than 180 days after the recording of the interest of the landlord's successor in interest, unless the landlord's successor in interest has agreed in writing to honor the vacation rental agreement, the landlord or the landlord's agent, or the real estate broker, shall, within 30 days, transfer all advance rent paid by the tenant, and the portion of any fees remaining after any lawful deductions made under G.S. 42A-16, to the tenant. Compliance with this subsection shall relieve the landlord or real estate broker of further liability with respect to any payment of rent or fees. Funds held as a security deposit shall be disbursed in accordance with G.S. 42A-18.

(c) Repealed by Session Laws 2000-140, s. 41, effective July 21, 2000.

(d) The failure of a landlord to comply with the provisions of this section shall constitute an unfair trade practice in violation of G.S. 75-1.1. A landlord who complies with the requirements of this section shall have no further obligations to the tenant. (1999-420, s. 1; 2000-140, s. 41; 2005-292, s. 2; 2016-98, s. 1.2.)

§§ 42A-20 through 42A-22. Reserved for future codification purposes.

Article 4.

Expedited Eviction Proceedings.

§ 42A-23. Grounds for eviction.

(a) Any tenant who leases residential property subject to a vacation rental agreement under this Chapter for 30 days or less may be evicted and removed from the property in an expedited eviction proceeding brought by the landlord, or real estate broker as agent for the landlord, as provided in this Article if the tenant does one of the following:

(1) Holds over possession after his or her tenancy has expired.

(2) Has committed a material breach of the terms of the vacation rental agreement that, according to the terms of the agreement, results in the termination of his or her tenancy.

(3) Fails to pay rent as required by the agreement.

(4) Has obtained possession of the property by fraud or misrepresentation.

(b) Only the right to possession shall be relevant in an expedited eviction proceeding. All other issues related to the rental of the residential property shall be presented in a separate civil action. (1999-420, s. 1.)

§ 42A-24. Expedited eviction.

(a) Before commencing an expedited eviction proceeding, the landlord or real estate broker shall give the tenant at least four hours' notice, either orally or in writing, to quit the premises. If reasonable efforts to personally give oral or written notice have failed, written notice may be given by posting the notice on the front door of the property.

(b) An expedited eviction proceeding shall commence with the filing of a complaint and issuance of summons in the county where the property is located. If the office of the clerk of superior court is closed, the complaint shall be filed with, and the summons issued by, a magistrate. The service of the summons and complaint for expedited eviction shall be made by a sworn law enforcement officer on the tenant personally or by posting a copy of the summons and complaint on the front door of the property. The officer, upon service, shall promptly file a return therefor. A hearing on the expedited eviction shall be held before a magistrate in the county where the property is located not sooner than 12 hours after service upon the tenant and no later than 48 hours after such service. To the extent that the provisions of this Article are in conflict with the Rules of Civil Procedure, Chapter 1A of the General Statutes, with respect to the commencement of an action or service of process, this Article controls.

(c) The complaint for expedited eviction shall allege and the landlord or real estate broker shall prove the following at the hearing:

(1) The vacation rental is for a term of 30 days or less.

(2) The tenant entered into and accepted a vacation rental agreement that conforms to the provisions of this Chapter.

(3) The tenant committed one or more of the acts listed in G.S. 42A-23(a) as grounds for eviction.

(4) The landlord or real estate broker has given notice to the tenant to vacate as a result of the breach as provided in subsection (a) of this section.

The rules of evidence shall not apply in an expedited eviction proceeding, and the court shall allow any reasonably reliable and material statements, documents, or other exhibits to be admitted as evidence. The provisions of G.S. 7A-218, 7A-219, and 7A-220, except any provisions regarding amount in controversy, shall apply to an expedited eviction proceeding held before the magistrate. These provisions shall not be construed to broaden the scope of an expedited eviction proceeding to issues other than the right to possession.

(d) If the court finds for the landlord or real estate broker, the court shall immediately enter a written order granting the landlord or real estate broker possession and stating the time when the tenant shall vacate the property. In no case shall this time be less than 2 hours or more than 8 hours after service of the order on the tenant. The court's order shall be served on the tenant at the hearing. If the tenant does not appear at the hearing or leaves before the order is served, the order shall be served by delivering the order to the tenant or by posting the order on the front door of the property by any sworn law enforcement officer. The officer, upon service, shall file a return therefor.

If the court finds for the landlord or real estate broker, the court shall determine the amount of the appeal bond that the tenant shall be required to post should the tenant seek to appeal the court order. The amount of the bond shall be an estimate of the rent that will become due while the tenant is prosecuting the appeal and reasonable damages that the landlord may suffer, including damage to property and damages arising from the inability of the landlord or real estate broker to honor other vacation rental agreements due to the tenant's possession of the property. (1999-420, s. 1.)

§ 42A-25. Appeal.

A tenant or landlord may appeal a court order issued pursuant to G.S. 42A-24(d) to district court for a trial de novo. A tenant may petition the district court to stay the eviction order and shall post a cash or secured bond with the court in the amount determined by the court pursuant to G.S. 42A-24(d). (1999-420, s. 1.)

§ 42A-26. Violation of court order.

If a tenant fails to remove personal property from a residential property subject to a vacation rental after the court has entered an order of eviction, the landlord or real estate broker shall have the same rights as provided in G.S. 42-36.2(b) as if the sheriff had not removed the tenant's property. The failure of a tenant or the guest of a tenant to vacate a residential property in accordance with a court order issued pursuant to G.S. 42A-24(d) shall constitute a criminal trespass under G.S. 14-159.13. (1999-420, s. 1.)

§ 42A-27. Penalties for abuse.

A landlord or real estate broker shall undertake to evict a tenant pursuant to an expedited eviction proceeding only when he or she has a good faith belief that grounds for eviction exists under the provisions of this Chapter. Otherwise, the landlord or real estate broker shall be guilty of an unfair trade practice under G.S. 75-1.1 and a Class 1 misdemeanor. (1999-420, s. 1.)

§§ 42A-28 through 42A-30. Reserved for future codification purposes.

Article 5.

Landlord and Tenant Duties.

§ 42A-31. Landlord to provide fit premises.

A landlord of a residential property used for a vacation rental shall:

(1) Comply with all current applicable building and housing codes to the extent required by the operation of the codes. However, no new requirement is imposed if a structure is exempt from a current building or housing code.

(1a) Comply with all applicable elevator safety requirements in G.S. 143-143.7.

(2) Make all repairs and do whatever is reasonably necessary to put and keep the property in a fit and habitable condition.

(3) Keep all common areas of the property in safe condition.

(4) Maintain in good and safe working order and reasonably and promptly repair all electrical, plumbing, sanitary, heating, ventilating, and other facilities and major appliances supplied by him or her upon written notification from the tenant that repairs are needed.

(5) Provide operable smoke detectors. The landlord shall replace or repair the smoke detectors if the landlord is notified by the tenant in writing that replacement or repair is needed. The landlord shall annually place new batteries in a battery-operated smoke detector, and the tenant shall replace the batteries as needed during the tenancy. Failure of the tenant to replace the batteries as needed shall not be considered negligence on the part of the tenant or landlord.

(6) Provide a minimum of one operable carbon monoxide alarm per rental unit per level, either battery-operated or electrical, that is listed by a nationally recognized testing laboratory that is OSHA-approved to test and certify to American National Standards Institute/Underwriters Laboratories Standards ANSI/UL2034 or ANSI/UL2075, and install the carbon monoxide alarms in accordance with either the standards of the National Fire Protection Association or the minimum protection designated in the manufacturer's instructions, which the landlord shall retain or provide as proof of compliance. A landlord that installs one carbon monoxide alarm per rental unit per level shall be deemed to be in compliance with standards under this subdivision covering the location and number of alarms. The landlord shall replace or repair the carbon monoxide alarms within three days of receipt of notification if the landlord is notified of needed replacement or repairs in writing by the tenant. At least every six months, the landlord shall ensure that a carbon monoxide alarm is operable and in good repair. Unless the landlord and the tenant have a written agreement to the contrary, the landlord shall place new batteries in a battery-operated carbon monoxide alarm annually and the tenant shall replace the batteries as needed during the tenancy. Failure of the tenant to replace the batteries as needed shall not be considered as negligence on the part of the tenant or the landlord. A carbon monoxide alarm may be combined with smoke alarms if the combined alarm does both of the following: (i) complies with ANSI/UL2034 or ANSI/UL2075 for carbon monoxide alarms and ANSI/UL217 for smoke alarms and (ii) emits an alarm in a manner that clearly differentiates between detecting the presence of carbon monoxide and the presence of smoke. This subdivision applies only to dwelling units having a fossil-fuel burning heater, appliance, or fireplace and in any dwelling unit having an attached garage. Any operable carbon monoxide detector installed before January 1, 2015, shall be deemed to be in compliance with this subdivision.

These duties shall not be waived; however, the landlord and tenant may make additional covenants not inconsistent herewith in the vacation rental agreement. (1999-420, s. 1; 2016-98, s. 1.3; 2022-56, s. 3.)

§ 42A-32. Tenant to maintain dwelling unit.

The tenant of a residential property used for a vacation rental shall:

(1) Keep that part of the property which he or she occupies and uses as clean and safe as the conditions of the property permit and cause no unsafe or unsanitary conditions in the common areas and remainder of the property that he or she uses.

(2) Dispose of all ashes, rubbish, garbage, and other waste in a clean and safe manner.

(3) Keep all plumbing fixtures in the property or used by the tenant as clean as their condition permits.

(4) Not deliberately or negligently destroy, deface, damage, or remove any part of the property or render inoperable the smoke detector provided by the landlord or knowingly permit any person to do so.

(5) Comply with all obligations imposed upon the tenant by current applicable building and housing codes.

(6) Be responsible for all damage, defacement, or removal of any property inside the property that is in his or her exclusive control unless the damage, defacement, or removal was due to ordinary wear and tear, acts of the landlord or his or her agent, defective products supplied or repairs authorized by the landlord, acts of third parties not invitees of the tenant, or natural forces.

(7) Notify the landlord of the need for replacement of or repairs to a smoke detector. The landlord shall annually place new batteries in a battery-operated smoke detector, and the tenant shall replace the batteries as needed during the tenancy. Failure of the tenant to replace the batteries as needed shall not be considered negligence on the part of the tenant or the landlord.

These duties shall not be waived; however, the landlord and tenant may make additional covenants not inconsistent herewith in the vacation rental agreement. (1999-420, s. 1.)

§ 42A-33. Responsibilities and liability of real estate broker.

(a) A real estate broker managing a vacation rental property on behalf of a landlord shall do all of the following:

(1) Manage the property in accordance with the terms of the written agency agreement signed by the landlord and real estate broker.

(2) Offer vacation rental property to the public for leasing in compliance with all applicable federal and State laws, regulations, and ethical duties, including, but not limited to, those prohibiting discrimination on the basis of race, color, religion, sex, national origin, handicapping condition, or familial status.

(3) Notify the landlord regarding any necessary repairs to keep the property in a fit and habitable or safe condition and follow the landlord's direction in arranging for any such necessary repairs, including repairs to all electrical, plumbing, sanitary, heating, ventilating, and other facilities and major appliances supplied by the landlord upon written notification from the tenant that repairs are needed.

(4) Verify that the landlord has installed operable smoke detectors and carbon monoxide alarms.

(5) Verify that the landlord has annually placed new batteries in a battery-operated smoke detector or carbon monoxide alarm. Failure of the tenant to replace the batteries as needed shall not be considered negligence on the part of the real estate broker.

(b) A real estate broker or firm managing a vacation rental property on behalf of a landlord client shall not become personally liable as a party in any civil action between the landlord and tenant solely because the real estate broker or firm fails to identify the landlord of the property in the vacation rental agreement. (2016-98, s. 1.3.)

§ 42A-34: Reserved for future codification purposes.

§ 42A-35: Reserved for future codification purposes.

Article 6.

General Provisions.

§ 42A-36. Mandatory evacuations.

If State or local authorities, acting pursuant to Article 1A of Chapter 166A of the General Statutes, order a mandatory evacuation of an area that includes the residential property subject to a vacation rental, the tenant under the vacation rental agreement, whether in possession of the property or not, shall comply with the evacuation order. Upon compliance, the tenant shall be entitled to a refund from the landlord of the rent, taxes, and any other payments made by the tenant pursuant to the vacation rental agreement as a condition of the tenant's right to occupy the property prorated for each night that the tenant is unable to occupy the property because of the mandatory evacuation order. The tenant shall not be entitled to a refund if: (i) prior to the tenant taking possession of the property, the tenant refused insurance offered by the landlord or real estate broker that would have compensated the tenant for losses or damages resulting from loss of use of the property due to a mandatory evacuation order; or (ii) the tenant purchased insurance offered by the landlord or real estate broker. The insurance offered shall be provided by an insurance company duly authorized by the North Carolina Department of Insurance, and the cost of the insurance shall not exceed eight percent (8%) of the total amount charged for the vacation rental to the tenant less the amount paid by the tenant for a security deposit. (1999-420, s. 1; 2005-292, s. 3; 2009-245, s. 2; 2012-12, s. 2(h).)

§ 42A-37. Early termination of vacation rental agreement by military personnel.

(a) Any member of the Armed Forces of the United States who executes a vacation rental agreement and subsequently receives (i) an order for deployment with a military unit for a period overlapping with the rental period or (ii) permanent change of station orders requiring the member to relocate on a date prior to the beginning of the lease term may terminate the member's vacation rental agreement by providing the landlord or landlord's agent with a written notice of termination within 10 calendar days of receipt of the order. The notice must be accompanied by either a copy of the official military orders or a written verification signed by the member's commanding officer. Termination of a lease pursuant to this subsection is effective immediately upon receipt of the notice by the landlord or landlord's agent. All monies paid by the terminating member, with the exception of nonrefundable fees paid to third parties as described in G.S. 42-16, in connection with the vacation rental agreement shall be refunded to the member within 30 days of termination of the agreement.

(b) A member's termination of a vacation rental agreement pursuant to subsection (a) of this section shall also terminate any obligation a spouse or dependent of the member may have under the vacation rental agreement.

(c) The right to terminate a vacation rental agreement as described in subsection (a) of this section shall extend to the spouse of any member of the Armed Forces of the United States. A spouse exercising the right to terminate a rental agreement shall provide the same notice as described in subsection (a) of this section.

(d) The provisions of this section may not be waived or modified by the agreement of the parties. (2016-98, s. 1.4; 2017-212, s. 8.6.)

§ 42A-38: Reserved for future codification purposes.

§ 42A-39: Reserved for future codification purposes.

§ 42A-40: Reserved for future codification purposes.

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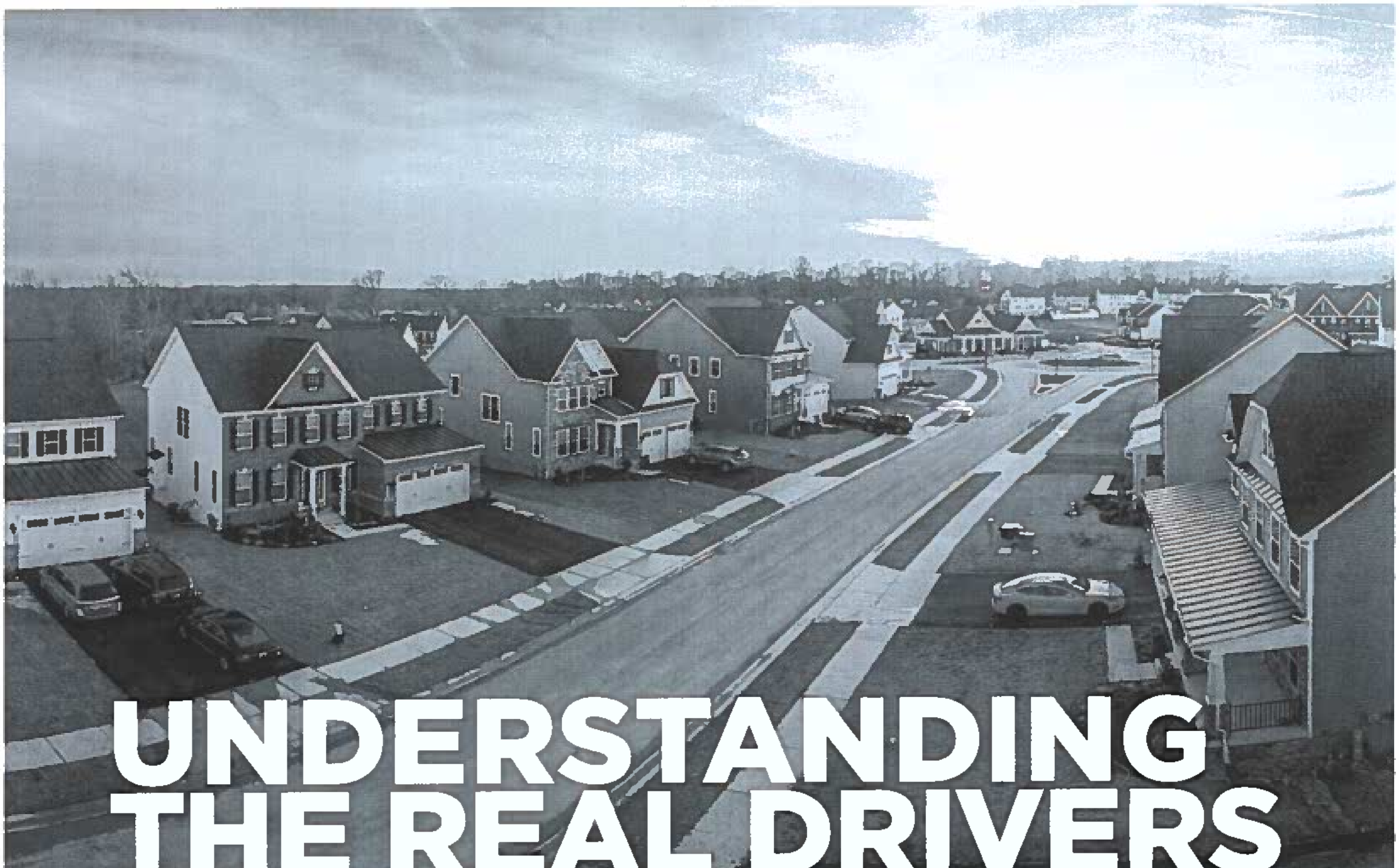

UNDERSTANDING THE REAL DRIVERS OF HOUSING AFFORDABILITY

AN ASSESSMENT OF THE ROLE OF SHORT-TERM VACATION RENTALS

A REPORT FOR VACATION RENTAL MANAGEMENT ASSOCIATION

JUNE 2023


Alex Segre/Shutterstock.com

Understanding the real

TABLE

EXECUTIVE SUMMARY

BACKGROUND

Short-term vacation rentals (STVRs) have served as a practical accommodation choice for travelers, but their impact on housing prices and rents has sparked debate in the United States in recent times. According to AirDNA data, the average number of properties listed for short-term vacation stays during 2015 was just over 200,000, a figure that had increased more than three-fold to 842,000 by 2019. Growth slowed down as the pandemic and associated travel restrictions curtailed tourism, but rapidly recovered in late 2021, following large scale domestic vaccination, driving renewed demand for vacation rentals across most US markets—especially those in holiday destination locations.

STVRs enable a number of economic benefits: they provide homeowners with additional income and provide tourists more options for accommodation, including offering a range of accommodation types at various price points. STVRs also help increase demand for goods and services associated with travel and leisure—supporting jobs and contributing to GDP in tourism destinations and in the wider economy.

On the other hand, concerns over the alleged effects that **STVRs can have on housing prices and rents** have precipitated local and national dialogues. One concern is that homeowners may convert long-term rental properties into short-term vacation rentals, thereby reducing the supply of available rental units for long-term residents and driving up rental prices. Additionally, some argue that the increase in demand for STVRs may drive up housing prices, making it harder for local residents to afford to buy a home.

OBJECTIVES OF THIS STUDY

In this context, **Oxford Economics was commissioned by the Vacation Rental Management Association (VRMA) to carry out a study of housing affordability and short-term vacation rentals.** Specifically, our analysis sought to identify the key drivers of housing prices and rents and understand the role played by STVRs on affordability. This study contributes to the literature on US housing market dynamics, as well as adding to the still limited literature studying the effect of STVRs on housing markets. In 2019, Oxford Economics conducted a study on the drivers of housing and rental affordability between 2014 and 2018 and the role that STVRs play when explaining changes in price.[1] In that study, the role of STVRs was negligible when looking at overall changes in price. The advent of the COVID-19 pandemic and recent shifts in the US economic environment warranted a re-evaluation of the housing and rental affordability model and the role of STVRs.

OUR APPROACH

Our study used an econometric model to analyze the factors influencing US house prices and rental rates at the county level. We examined a large number of economic variables to gain a comprehensive understanding of these trends. The sample period for this study begins in 2014, the first year for which data on STVRs are available, and concludes in 2021 to align with the latest available year for county-level economic and demographic data from the American Community Survey (ACS)[2]

The study period enco
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THE IMPACT OF STVRS ON HOUSING PRICES AND RENTS

Between 2014 and 2021, US median housing prices increased by 32.7% and median rental prices increased by 9.9% in inflation-adjusted terms. Our modeling indicates that STVR density contributed only 0.4% to housing price growth and 0.5% to rental price growth during this period, as shown in Fig. 1 and Fig. 2 respectively.

$800

lower housing prices

in 2021 without any increase in STVR density since 2014.

Only a hundredth (i.e., 0.4% out of the 32.7%) of the increase in real housing prices attributed to STVRs according to our modeling.

In other words, **growth in STVR density contributed one-twentieth of the 9.9% growth in rental prices and one-hundredth of the 32.7% increase in housing prices between 2014 and 2021.**

In contrast, conventional economic factors such as income levels and unemployment contributed to 23.8% of the housing price growth and 7.4% of the rental price growth during the period, with pandemic-related changes and region-specific regulations explaining the remaining growth.

We find that the increase in housing stock had a minimal effect on housing prices and rents, in line with recent studies that identify supply-side challenges as a key factor constraining the market.[3,4] According to Freddie Mac's analysis, there is a striking shortage of available new and existing homes for sale; the study estimates a deficit of 3.8 million housing units in Q4 2020.[5]

Fig. 1: Drivers of growth in US housing prices between 2014 and 2021 (inflation-adjusted growth)

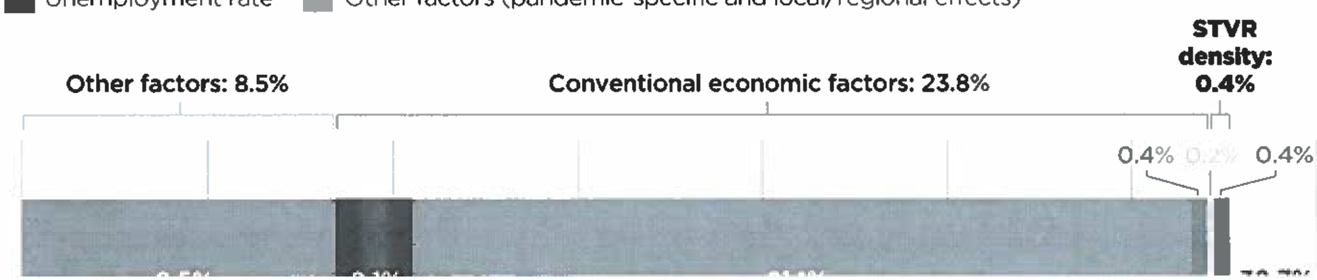
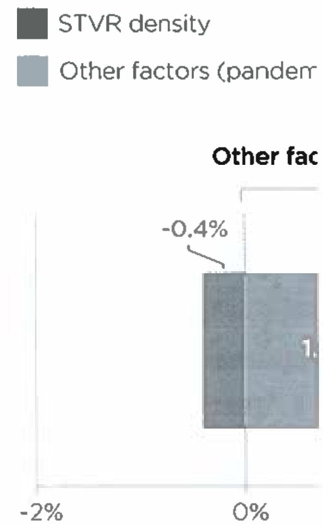


Fig. 2: Drivers of grow



Source: Oxford Economics

Put differently, our mo **any increase in STVR average home price of 2021 would have been terms, and the averag $1,000 would have be terms.** Considering tha pay the full price of a h apply for long-term m average annual mortga have been $40 cheape at their 2014 levels.

Growth in conventiona 2014 is estimated to ha $47,000 to housing pri rents in real terms in 2

IMPACT OF COVID-19 AND ITS AFTERMATH

In the period spanning 2020-2021, market conditions pertaining to the housing market underwent distinct and potentially isolated changes. These included a rise in household savings stemming from relief payments and decreased spending due to lockdowns, a shift toward domestic tourism, and a decrease in interest rates.

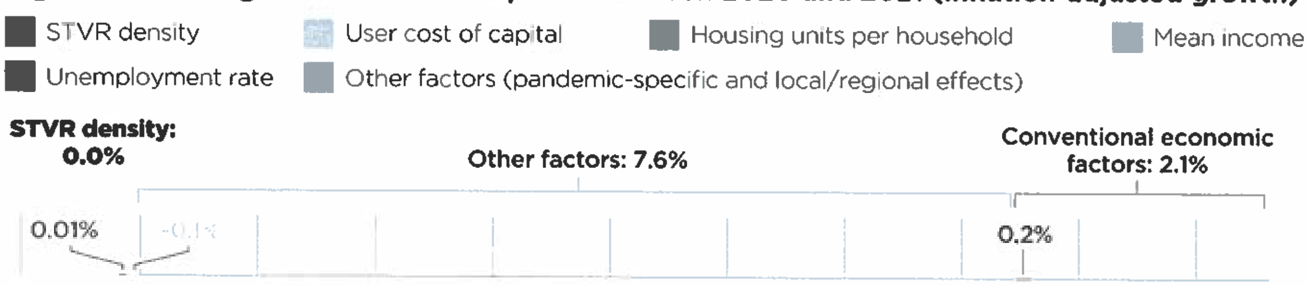
These shifts had a wide-ranging impact on the housing market across the US. The effects were further amplified by local or regional market dynamics, with specific areas experiencing intensified effects. For example, Ramani and Bloom (2022)[6] show there has been a "donut effect" whereby households and businesses have moved out of city centers over this period towards the suburbs resulting in a significant divergence in price growth between these two areas. In the 12 largest metro areas in the US, the study found that the central business districts and the top 10% of zip codes by population density saw more than a 10% drop in rents when rents in other areas increased between March 2020 and November 2020. Although there is less of an aggregate decrease in home sale prices as compared with rents, there is a similar demand reallocation effect where CBDs and dense areas experience relative price growth slowdowns compared with less dense areas.

The emergence of the "donut effect" was attributed to four key factors: the economic impact of the virus; restricted access to urban amenities during lockdowns; apprehension towards densely populated areas due to virus transmission concerns; and the ability to work remotely. The latter, which is likely to have a lasting impact beyond the pandemic, enables individuals to reside in more spacious homes outside city centers while maintaining their productivity at work.[7]

Consequently, a thorough evaluation of the impact of STVRs focussed on this period was deemed necessary.

During this period (2020-2021), the contribution of STVRs to the growth in housing and rental prices was largely negligible, according to our modeling. Further, we estimate that trends in conventional economic factors such as average income levels, cost of capital, and unemployment rates contributed around 2.1% of the 9.6%

Fig. 3: Drivers of growth in US home prices between 2020 and 2021 (inflation-adjusted growth)



SHORT-TERM VACATION RENTALS AND THE HOUSING MARKET

Understanding the real drivers of price and affordability

STVRs generate economic opportunity for communities, businesses, and homeowners. However, the value realized does come with costs. Using an econometric model, Oxford Economics sought to better understand the role of STVRs in housing costs.

STVRs had a minimal impact on US housing prices and rents

Growth in STVR density contributed only **0.4% of the 32.7%** growth in housing prices and **0.5% of the 9.9%** rise in rents during the 2014-2021 period.

Drivers of growth in US housing prices (2014-2021, inflation-adjusted)

Other contributing factors 32.3% | STVRs 0.4% | **32.7%**

Drivers of growth in US rents (2014-2021, inflation-adjusted)

Other contributing factors 9.4% | STVRs 0.5% | **9.9%**

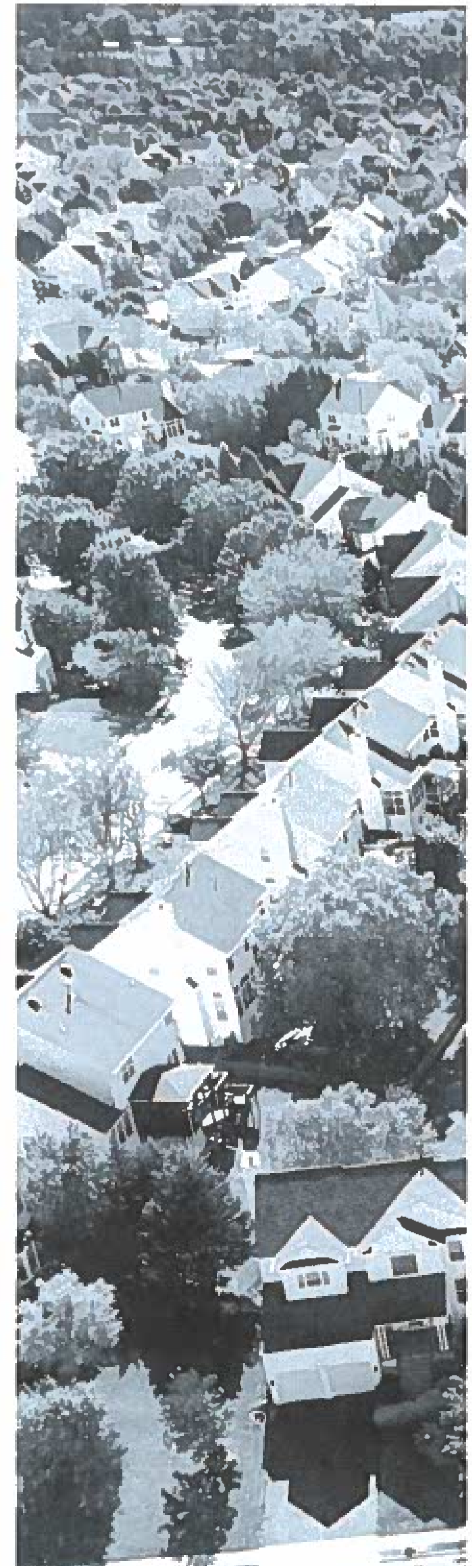
Real-world impact

Housing prices would have been only **$800 lower** and monthly rents would have been only **$5 lower** in real terms if STVR density had not increased between 2015 and 2021.

A model extension suggests that the effect of STVRs on both housing prices and rents is similar in vacation destinations to that of other regions.

Impact of the pandemic

The pandemic and the associated changes in work patterns have had a significant impact on housing market dynamics



1. INTRODUCTION

The short-term vacation rental (STVR) market in the US experienced a period of growth in the years leading up to the pandemic. According to AirDNA data, the average number of properties listed for short-term stays during 2015 was just over 200,000, a figure that had increased more than three-fold to 842,000 by 2019. Growth slowed down as the pandemic and associated travel restrictions curtailed tourism in 2020 and early 2021, but rapidly recovered in late 2021 as restrictions were eased.

Tourists have welcomed the increase in accommodation options available for their travels. Subsequently, increases in tourism demand supported by a wider variety of holiday listings have contributed new opportunities to generate value to the local economies in tourist destinations. Further, tax revenues raised on short-term rental income can be used to fund local services and help develop local infrastructure.

However, the perception of STVRs on the local economy is not unanimously positive. In particular, there has been growing concern among several

AIM OF OUR RESEARCH

Against this background, Oxford Economics was commissioned by the Vacation Rental Management Association (VRMA) to carry out a study of housing affordability and STVRs. This study contributes to the literature on US housing market dynamics, as well as adding to the still limited literature studying the effect of STVRs on housing markets. The study builds on a previous Oxford Economics report published in November 2019.[8]

Specifically, our analysis sought to:

- assess the key drivers of housing prices and rents;
- understand the role played by STVRs on affordability;
- determine whether relationships vary across housing market types; and
- understand the extent to which the relationships have evolved since the pandemic.

STRUCTURE OF THIS REPORT

This rest of this report is structured as follows:

- Chapter 2 describes key trends in housing prices, rents, housing affordability measures, and STVRs;
- Chapter 3 presents a review of the existing literature on housing and STVRs;
- Chapter 4 sets out our approach to modeling housing prices and rents, based on a panel dataset covering the period 2014–2021, with the objective of identifying which variables are statistically significant drivers of prices and rents;
- Chapter 5 discusses the results from the modeling, and the estimated contribution that each driver made to the housing market variable.
- Chapter 6 concludes with a brief discussion on the implications of the results for policymakers and highlights the limitations of our analysis.

The appendix to this report describes the econometric methodology, modeling results, and the data sources.

2. SHORT-TERM VACATION RENTALS AND THE US HOUSING MARKET

US housing prices and rental prices have increased at a rapid rate since the onset of the pandemic. US housing prices, as measured by the Zillow All Homes Value, stated in inflation-adjusted terms, increased from $279,000 in Q1 2020 to $345,000 in Q4 2022, an increase of 24% over a three year period. In contrast, in the three years before the pandemic, between Q1 2017 and Q4 2019, housing prices increased by only 9.3%—as shown in Fig. 5.

Recent analyses of the drivers of home prices have pointed to supply-side issues constraining the market.

Rental prices, however, have increased at a steady pace since 2014, increasing at an average rate of 1.5% per year between 2014 and 2021, as shown in Fig. 6.

Since 2019, the increase in housing prices have been the largest contributor to the decrease in home ownership affordability. While wages were higher, they did not increase enough to compensate for the increase in the costs of home ownership. The Federal Reserve Bank of Atlanta's home ownership affordability index shows how an increase in rates and prices have reduced affordability despite a relatively small offsetting impact from an increase in income levels.[9]

Recent analyses of the drivers of housing prices have pointed to supply-side issues constraining the market.[10,11] According to analysis by Freddie Mac, tight housing supply has restricted an otherwise healthy housing market. The inventory of new and existing homes for sale is at a historically low level. In particular, given population growth and household formation, the analysis estimates a shortfall of 3.8 million housing units in Q4 2020. The lack of new housing supply is attributed to high labor costs, land use regulations, zoning restrictions preventing supply from picking up in areas with the most demand, and, more recently, increasing raw material costs.[12]

Fig. 5: Zillow All Homes (SFR, Condo/Co-op) value, 2014-2022 (inflation-adjusted, 2022 prices)

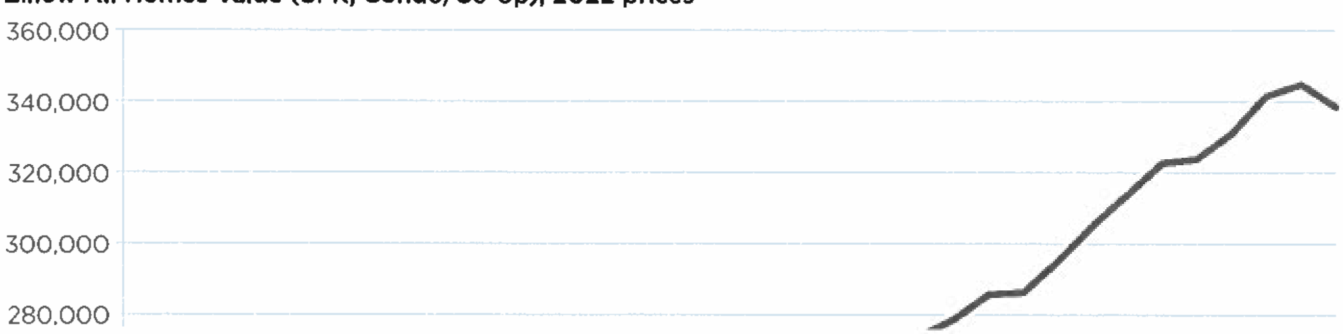
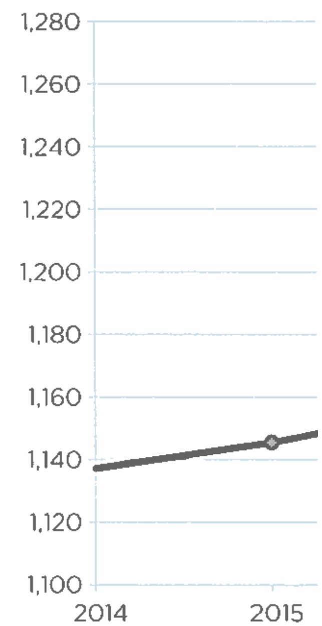
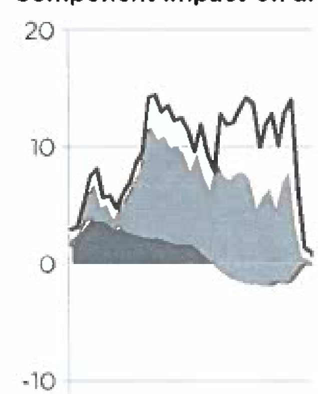


Fig. 6: Median rents in



Source: ACS, Oxford Economics

Fig. 7: Drivers of hous



THE ROLE OF SHORT-

Several commentators
focused on the role of
Term Vacation Rentals
claiming they reduce th
supply of affordable ho
by removing propertie
the home owner-occup
rental markets, which w
thereby make it less af
for prospective home b
or displace long-term t
and raising the cost of
through driving up hor
and rent.[13]

The STVR market in th
has grown rapidly since
The growth in the volu
of properties available

Fig. 8: Active STVR lis

Component impact on a

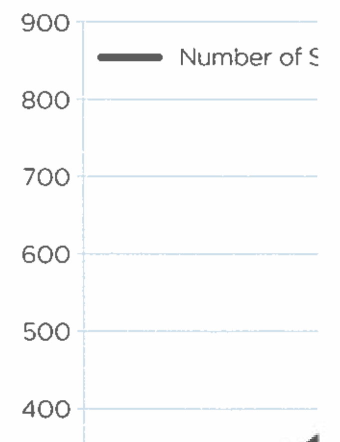
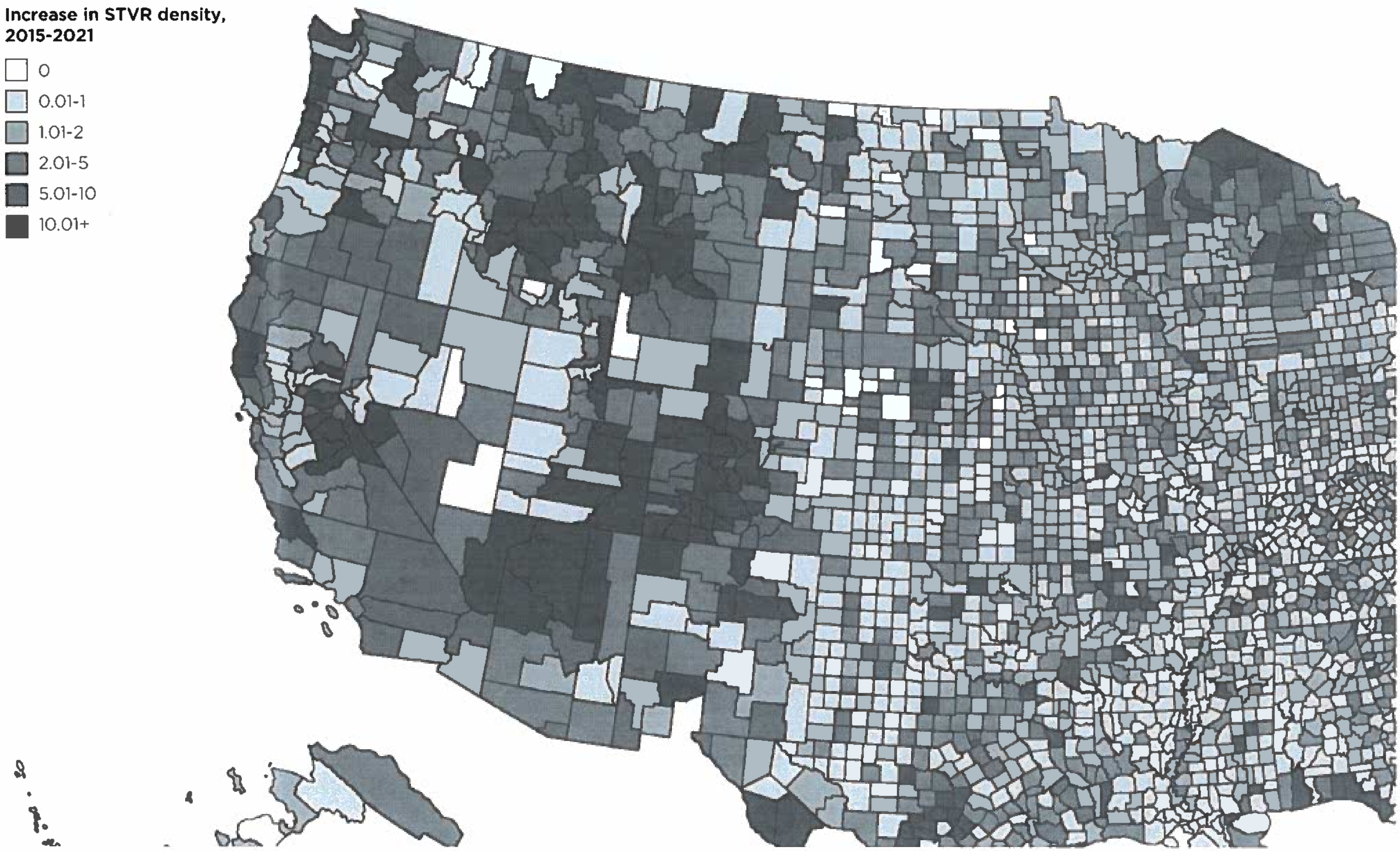


Fig. 9: Absolute change in STVR density for US counties, 2015-2021



3. ANALYSIS OF EXISTING STUDIES

This chapter presents a review of some of the existing academic literature addressing these questions.

EXISTING LITERATURE ON HOUSING MARKET DYNAMICS

The dynamics of the housing market have been subject to extensive academic research. As the literature on this topic is well-established, this section does not refer to specific studies but instead adopts a meta-analysis approach by examining the primary factors that drive housing market dynamics. Theoretical models and the empirical literature on the housing market suggest that, over the long run, housing prices depend positively on disposable income and demographic needs, and negatively on the housing stock and user cost.[15]

This last factor—user cost—requires further explanation, as it comprises many elements. These components include not just the mortgage interest payments that an owner has to make, but also annual property taxes, depreciation costs, and any expected capital gain. Taken all together, and adjusted for expected inflation, these costs are referred to as the real user cost of capital. Multiplying this by the housing price gives us the annual user cost of owning and can be understood as the rent equivalent for homeowners—i.e., the costs of owning, maintaining, and operating a home.

In particular, we exploit the fact that rents are found to have an impact on housing prices and, following the example of other studies, in our housing price equation we replace real rent with its main determinants—real income, housing stock, and household numbers.

In addition, our review of the UK price boom (Oxford Economics, 2016[16]) found rising employment was among the main drivers of the boom; we therefore also include labor market conditions as an additional driver.

EXISTING LITERATURE ON SHORT-TERM VACATION RENTALS

We are aware of only a few academic papers that directly study the effect of short-term rentals on housing costs. There are two main reasons for the dearth of literature. First, the STVR phenomenon is relatively recent and therefore

and listings positively, as locals and tourists prefer living and staying in neighbourhoods with high-quality amenities. This "popularity" variable, however, is unobservable, and its omission in the model implies that the impact of STVR

rents. The authors, however, fail to control for a number of explanatory variables included in our models. Using a dataset of Airbnb listings from the entire United States and an instrumental variables estimation strategy, they find

at US-wide relationship
they consider welfare a
distributional effects ra
than the impact on the
market in isolation. Sec
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impact of STVRs.

Among these studies, I
Merante (2017)[18] use A
listings data from Bost
2015 and 2016 to study
effect of Airbnb on ren
Similarly, Sheppard and
(2018)[19] present an eva
of the impacts of Airbr
residential property va
New York City.

Another strand of litera
provides descriptive an
STVRs in specific mark
example, Lee (2016) fo
the Los Angeles housin
and makes recommenc
on how municipal polic
can best regulate Airbr
articles simply apply c
from other authors' an

Fig. 10: Summary of existing STVR literature

Author	City of interest	Main findings	Main limitation
Barron et al. (2017)	US-wide	A 10% increase in Airbnb listings leads to a 0.39% increase in rents and a 0.65% increase in home values.	The authors construct an instrument based on Google Trends searches for Airbnb. Unfortunately, these are not accurately available at the zip code level, so to obtain an instrument that varies at the zip code level they interact these searches with a measure based on the number of hospitality establishments in the zip code area. The validity of this instruments can therefore be disputed.
Horn and Merante (2017)	Boston	0.4% increase in asking rents associated with a one-standard-deviation increase in Airbnb listings	The authors rely on weekly rent data from September 2015 through January 2016 and Airbnb data from September 2014 to January 2016. Thus their time dimension is fairly limited. We believe this hinders their ability to establish meaningful relationships between the various variables.
Sheppard and Udell (2018)	New York	6.46% increase in NYC property values associated with a doubling in the number of total Airbnb accommodations	The authors do not convincingly account for the fact that neighborhoods tend to become more attractive to residents and tourists at the same time.
Garcia-Lopez, et al. (2020)	Barcelona	1.9% increase in rents, a 4.6% increase in transaction prices, and a 3.7% increase in posted prices linked with Airbnb activity with neighbourhoods with high Airbnb activity estimated to have experienced even larger impacts.	The authors use micro-level datasets that track granular changes in rents, listed and transaction prices at the Basic Statistical Area (BSA) level. This unit of analysis is built and used by Barcelona City Hall for statistical purposes, and is not available for the US.
Koster, et al. (2020)	Los Angeles	Banning Airbnb decreases prices by 5%	The study uses a spatial Regression Discontinuity (RD) design, which compares changes in prices across municipality borders following Airbnb bans. However, properties located across a border might be part of the same housing market, and therefore, spatial RD estimates do not capture changes in rents and prices that are caused by supply reductions.
Almagro and Domínguez-	Amsterdam	Lodging taxes generate better redistribution outcomes for	The authors construct a structural model using postcode level data, which is not available for the

4. MODELING APPROACH AND DATA

We build upon the studies referenced in the previous chapter, as well as previous Oxford Economics analysis undertaken in 2019, to produce a US-wide estimate of the impact of STVRs on the housing market. To the best of our knowledge, Oxford Economics' work presents one of the first econometric estimates that use comprehensive data from across the US and covers the pandemic years (2020-2021), as well as covering more STVR platforms than only Airbnb.

This means that we are able to include both owner-occupied home sharing and whole-property STVRs.

To assess how the growth of the STVR market has affected the US housing prices and rents, we have employed a three-step approach as illustrated in Fig. 11.

More detailed information on our methodological approach can be found in the Appendix to this report. In summary,

- First, we undertook a set of background research tasks that informed our approach and laid the foundation for subsequent work. This included a detailed review of available literature and the collection and cleaning of various datasets that were required for our econometric modeling work.
- Next, we used this dataset to estimate an econometric model which aimed to explain variation in house and rental prices—both between different locations and over time—based on a set of economic drivers. As part of this we used data on STVR density, as described, to test the hypothesis that by restricting available supply, the growth of the STVR market has pushed up housing and rental prices.
- Finally, we applied the results from the econometric model which describe the marginal impact of each driver to the observed changes in each variable. In so doing, we quantify the share of house/rental price growth between 2014 and 2021 that can be attributed to increases in STVR density and other economic factors.

Fig. 11: Three-step research approach

DATA

We constructed a comprehensive datase
counties over the peric
2021. The sample perio
study begins in 2014, tl
year for which data on
are available and concl
in 2021 to align with th
available year for coun
economic and demogr
data from the America
Community Survey (AC

5. RESULTS AND DISCUSSION

As noted in Chapter 2, the STVR market in the US has grown rapidly in recent years, and the growth in STVRs has outpaced the rise in available dwellings, as indicated by an increase in STVR density. However, in 2020 and 2021, housing prices and rents increased significantly at a time when housing supply growth was relatively slow but factors affecting demand, i.e., income levels, unemployment rates, and borrowing costs remained favourable.

$300 lower housing prices

in 2019 without any increase in STVR density since 2014.

Only a hundredth (i.e., 0.2% out of the 23.1%) of the increase in real housing prices attributed to STVRs according to our modeling.

The 2020-2021 period also saw a significant shift in housing preferences as workers moved away from crowded commercial centers to more rural regions in search for more space and room.

We discuss the two distinct periods in separate sections: the trends for housing prices and rents between 2014-2019 are presented first, followed by those for the 2020-2021 period, before bringing the results for both periods together to conclude.

STVR IMPACT ON HOUSING PRICES AND RENTS LEADING UP TO THE PANDEMIC (2014-2019)

In the five years leading up to the pandemic the growth of STVR density had a negligible impact on US housing prices. The econometric analysis shows that at the national level, a 10% increase in STVR density increases housing prices by 0.18%. **Between 2014 and 2019, average housing prices increased by 23.1% in real (inflation-adjusted) terms and our modeling implies that only 0.16% of this increase was attributable to the rapid growth of the STVR market during this period.**

The national impact of STVRs on rental affordability was similarly modest. Repeating our modeling approach but switching our focus to rental prices painted a similar picture as that of housing prices. Our modeling found that a 10% increase in STVR density raised rental prices by 0.6%.

Overall, we find that the growth of STVR density between 2014 and 2019 resulted in US rental prices being 0.9% higher than they would otherwise have been. Our model not only isolates the role of STVR density but can also be used to identify and size the contribution of other drivers (positive and negative).

Fig. 12: Drivers of growth in US housing prices between 2014 and 2019 (inflation-adjusted growth)

STVR density | User cost of capital | Housing units per household | Mean income
Unemployment rate | Other factors (pandemic-specific and local/regional effects)

The full breakdown is il
in Fig. 12 and Fig. 13. Th
demonstrates that muc
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of observed US housing
and rental inflation bet
2014 and 2019 were the
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Fig. 13: Drivers of grov

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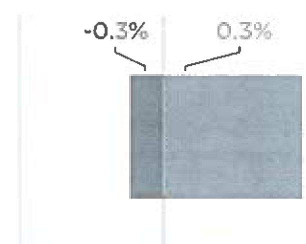


IMPACT OF THE PANDEMIC ON HOUSING PRICES AND RENTS (2020-2021)

The pandemic and the associated changes in work patterns have had a significant impact on housing market dynamics in recent years. As workers have spread out of urban centres in search of more spacious accommodation, housing prices and rents in more affordable counties have surged.[26] For example, Ramani and Bloom (2022)[27] show there has been a "donut effect" whereby households and businesses have moved out of city centers over this period towards the suburbs resulting in a significant divergence in price growth between these two areas.

In the 12 largest metro areas in the US, the study found that the central business districts (CBDs) and the top 10% of zip codes by population density saw more than a 10% drop in rents when rents in other areas increased between March 2020 and November 2020. Although there is less of an aggregate decrease in home sale prices as compared with rents, there is a similar demand reallocation effect where CBDs and dense areas experience relative price growth slowdowns compared with less dense areas.

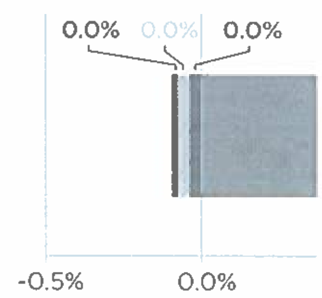
The emergence of the "donut effect" was attributed to four key factors: the economic impact of the virus; restricted access to urban amenities during lockdowns; apprehension towards densely populated areas due to virus transmission concerns; and the ability to work remotely. The latter, which is likely to have a lasting impact beyond the pandemic, enables individuals to reside in more spacious homes outside city centers while maintaining their job productivity.[28]

Consequently, a thorough evaluation of the impact of short-term vacation rentals focussed on this period was deemed necessary. This period coincided with a period where the growth in STVR density reversed to some extent; STVR density fell to 5.5 listings per 1,000 dwellings in 2020 from 6.1 listings per 1,000 dwellings in 2019.

Between 2019 and 2021, housing prices increased by 9.6% in real terms whereas rental prices increased by 3.3%. **Our modeling indicates that the contribution of STVRs to housing price and rental price growth over this period was largely negligible.**

Fig. 14: Drivers of growth in US home prices between 2020 and 2021 (inflation-adjusted growth)

Fig. 15: Drivers of grow



Source: Oxford Economics

Further, our modeling indicates that only a sı fraction of the increas housing prices—less th 2.1% of the 9.6% growt prices—is explained by traditional economic a housing market specif such as average incom unemployment rates, h supply and inventory, cost of borrowing.

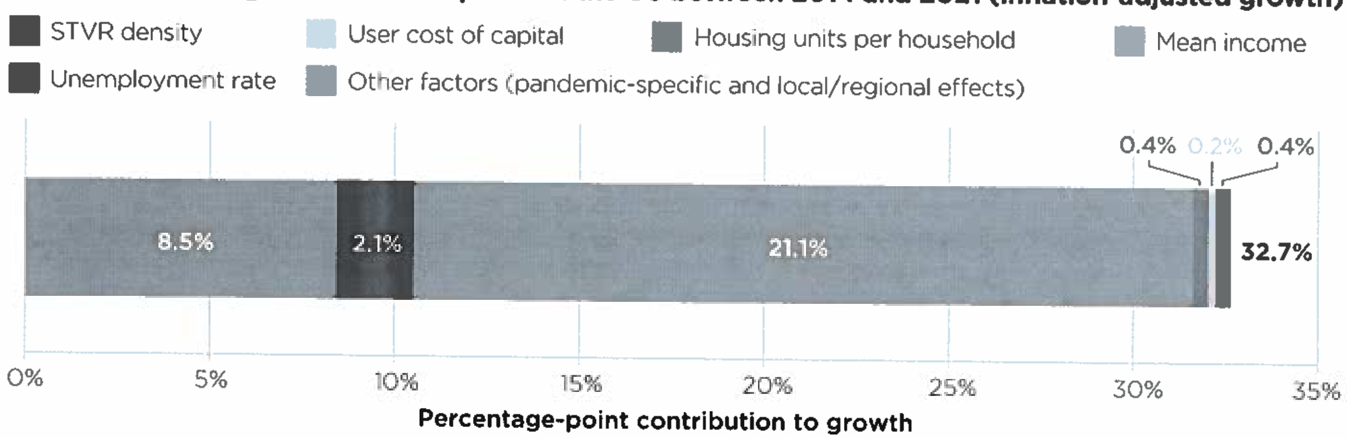
A majority of the grow in housing prices betw 2019 and 2021 are due other factors not inclu in the model, such reg and local factors such changes in zoning law

BRINGING IT TOGETHER: STVRS AND THE HOUSING MARKET BETWEEN 2014 AND 2021

The modeling horizon for this study comprises two periods with distinct dynamics in the housing market, i.e., the five years leading up to the pandemic (2014-2019) and the two years since the pandemic (2020-2021). These periods saw different trends in housing market and economic variables linked to the pandemic and associated behavioral changes. It is too early to say whether the extent to which these changes are likely to persist in the future. In this section, we present the results based on a model covering the entire 2014-2021 period and the associated economic trends.

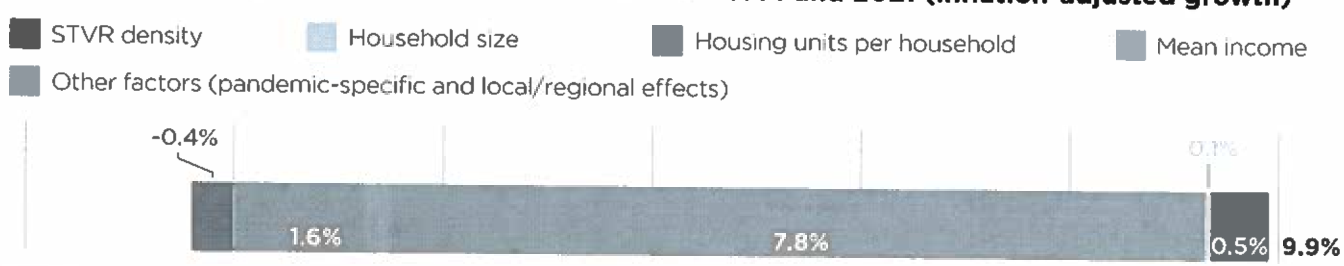
During this period, housing prices increased by 32.7% whereas rental prices increased by 9.9% in real terms. Of this growth, our modeling indicates that the increase in STVR density contributed 0.4% to housing price growth and 0.5% to rental price growth.

Fig. 16: Drivers of growth in home prices in the US between 2014 and 2021 (inflation-adjusted growth)



Source: Oxford Economics

Fig. 17. Drivers of growth in rents in the US between 2014 and 2021 (inflation-adjusted growth)



Over the period of 201
the growth in housing
32.7% was largely influ
a 23.8% contribution fr
increase in income leve
the decrease in unemp
The remaining growth
attributed to a comple
interplay of factors, inc
pandemic-related beha
changes and region-sp
regulations.

Similarly, the rise in rent
costs by 9.9% during th
period was largely due
7.8% increase attributab
income levels, with the
largely being influenced
pandemic-related facto
region-specific regulatio

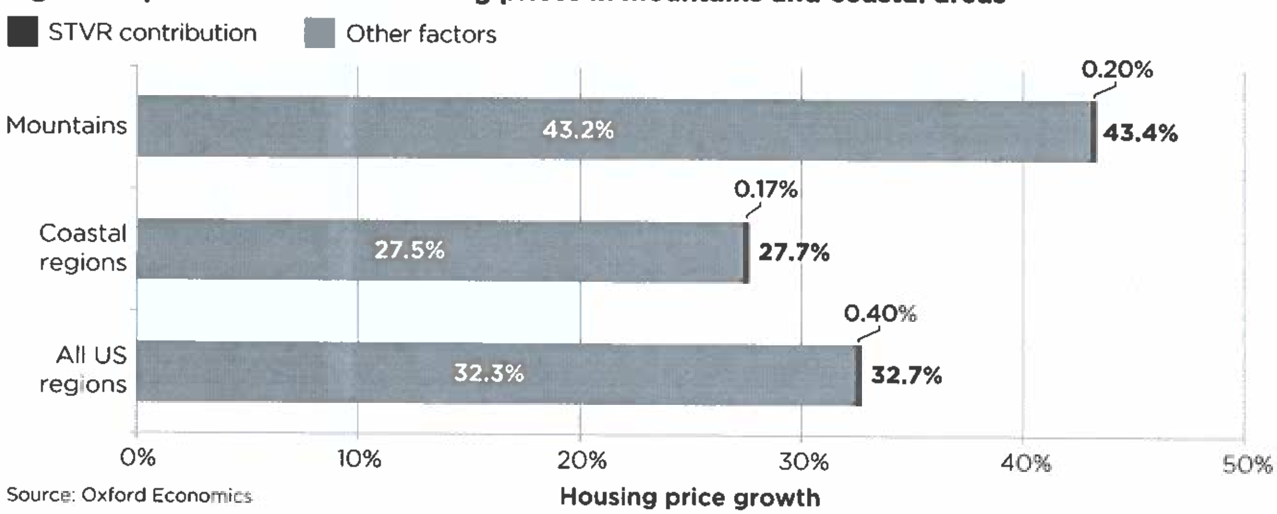
THE IMPACT OF STVRS IN VACATION DESTINATIONS

Is the impact of STVRs on prices and rents different in traditional vacation markets such as counties in the mountains or in coastal areas? In both the housing prices and the rental model, we find that, in the long run, the effect of STVRs on the dependent variable is similar in these highly seasonal areas. STVRs contributed around 0.2% out of the total housing price growth of 43.4% in mountain counties and 27.7% in coastal areas, as shown in Fig. 18.

As far as the rental market is concerned, in vacation markets, homes are less likely to be rented on a long-term basis. That means that STVRs have an even smaller effect on rents in these markets. As shown in Fig. 19, STVRs have contributed 0.5% or less to rental price growth in mountains and coastal areas.

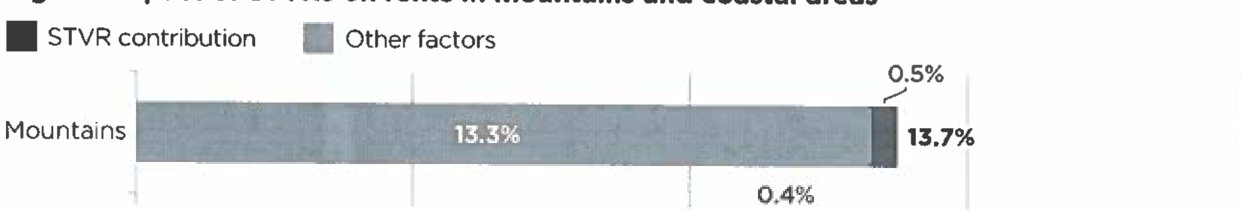
In the homeowners' market, by their very definition, vacation-destination housing markets have higher vacancy rates that reflect more volatile seasonal housing demand. The impact of STVRs on house prices is found to be similar in these areas, as home owners have been renting out their properties long before the advent of internet platforms offering STVRs (through agencies and brokers) and therefore the value from such rental revenue has long been priced in the value of homes in these localities.

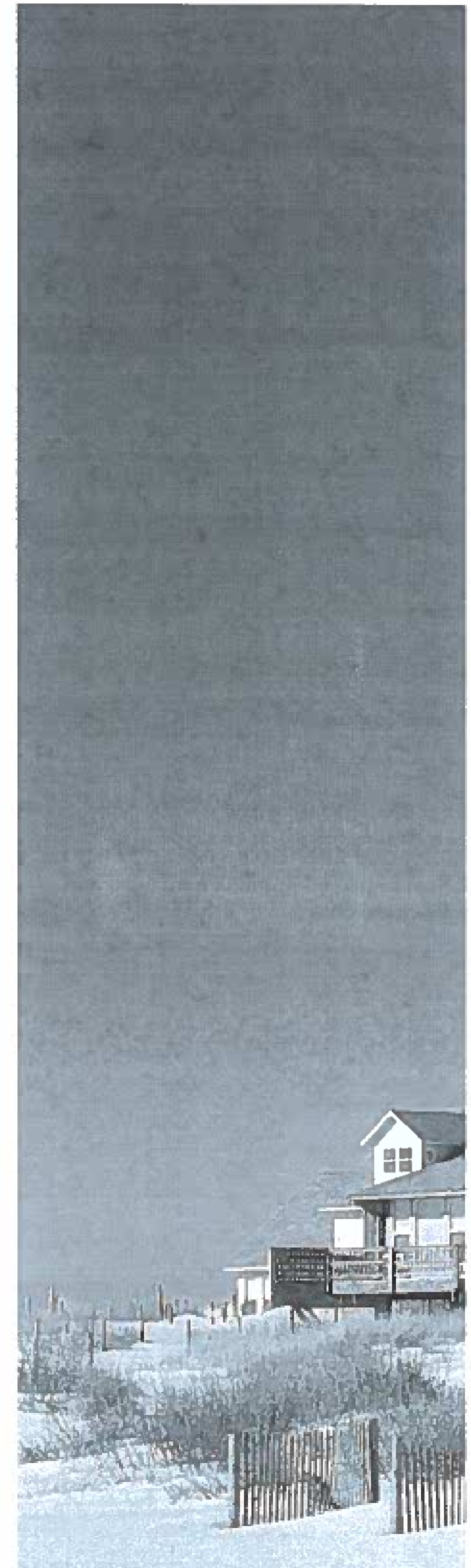
Fig. 18: Impact of STVRs on housing prices in mountains and coastal areas



Source: Oxford Economics

Fig. 19: Impact of STVRs on rents in mountains and coastal areas



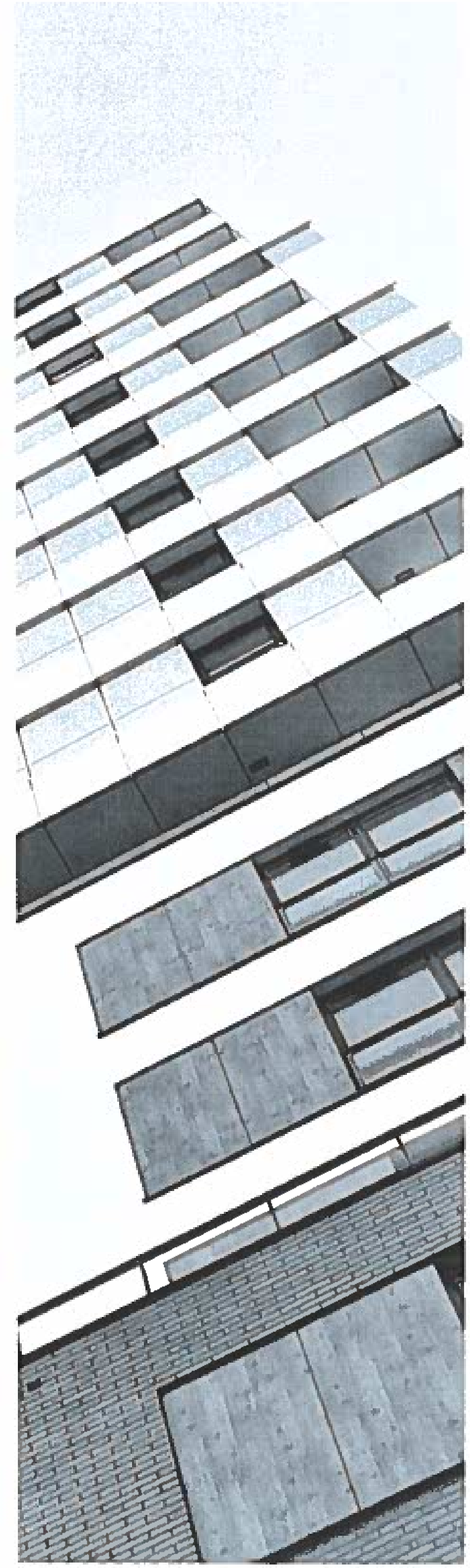


6. CONCLUSION

In evaluating the impact of short-term vacation rentals (STVRs) on the growth of housing prices, rents, and affordability between 2014 and 2021, we find that:

- STVRs had a minimal impact on US housing prices and rents. Growth in STVR density contributed to 0.4% of the 32.7% growth in house prices and 0.5% of the 9.9% rise in rents during the 2014-2021 period.
- In other words, housing prices would have been only $800 lower and monthly rents would have been only $5 lower in real terms if STVR density had not increased between 2015 and 2021.
- Changes in economic factors—such as unemployment and income levels—since 2014 are estimated to have contributed around $47,000 to housing prices and $72 to monthly rents in real terms in 2021, i.e., almost three-fourths (3/4) of the growth in housing prices and rental prices in real terms between 2014 and 2021.
- Analysis focussed on the pandemic and post-pandemic era reveals a notable transformation in market dynamics. Changes in housing preferences—such as an increase in demand for homes with dedicated offices spaces for remote work and outdoor areas for recreation—had a substantial impact on prices and rents since March 2020.
- A model extension suggests that the effect of STVRs on both housing prices and rents is similar in vacation destinations to that of other regions.

The findings have important implications for policymakers who have been focusing on STVRs as both the primary cause of high home prices and its solution. Over-regulating STVRs could harm local economies, reducing visitor spending, and limiting tourism income. Additionally, areas with high rates of second-home ownership that heavily rely on tourism may not experience an immediate increase in long-term rental availability. Finding a balance between STVR regulation and economic vibrancy while addressing housing concerns is crucial.



APPENDIX: METHODOLOGY AND DATA

ECONOMETRIC METHODOLOGY

Housing prices (or rents) in the current period might be affected by past trends in housing prices (or rents), as well as housing supply and general economic conditions. In such cases, dynamic panel methods, such as the Arellano Bond estimator (also known as Difference GMM) and Blundell Bond estimator (System GMM), would allow us to account for the presence of such "dynamic effects." Difference GMM estimation starts by transforming all regressors, usually by differencing, and uses the generalized method of moments (GMM). This work employs Difference GMM.

Dynamic panel models have become increasingly popular in many areas of economic research, and their use has provided new insights. Using dynamic panel models allows us to find overall (long-run) coefficients for the explanatory variables as well as the contemporaneous (or short-run) ones.

The advantages of dynamic models include:

- controlling for the impact of
- use of past values of explanatory variables as instrumental variables to mitigate the bias due to two-way causality between economic conditions and the housing market, omitted variable bias and measurement error.

The need for a dynamic model: Wooldridge test for serial correlation

The Wooldridge test allows us to test whether the errors are serially correlated; if these are found to be autocorrelated, we may infer that there is a need for a dynamic model.[40] The disadvantage of a dynamic panel model, however, is that it can add considerable complexity to the modeling process. A simpler static model might therefore be a preferable approach if the Wooldridge test does not suggest a dynamic panel is necessary.

Use of instruments

Instruments are used to control for potential endogeneity in a regression. We have found median incomes (rent model),

MODEL RESULTS

As explained, our model specification is known as Difference GMM; such approach, by virtue of being a dynamic model, has both a short- and long-run impact. To obtain the long-run impact, we used the Delta method and discounted the short-run impact by one minus the coefficient on the lagged dependent variable.

CONTRIBUTION ANALYSIS

The modeling results shown in Fig. 20 and Fig. 21 tell us about the sensitivity of rents and prices to changes in their macroeconomic determinants. But these results can also be used to find out which of the determinants were responsible for past changes in the dependent variables. For instance, Fig. 20 shows that the number of housing units per household has a significant negative effect on rents. But while rents may be sensitive to changes in the supply of housing stock, if there was no (or little) change in the housing stock over the study period, then this variable will not have influenced housing prices

Fig. 20: Model results:

Variables
Lagged log real median
STVR density
Log mean income
Log housing units per hc
Log household size (rent
Constant
Observations
Number of counties

Standard errors in parentheses. **
from the 2014-2019 period to illus

Source: Oxford Economics

Fig. 21: Model results:

Variables
Lagged log real median
STVR density
Log mean income
User cost of capital
Log housing unites per h

MODELS WITH INTERACTIONS

Is the impact of STVRs on prices and rents different in traditional vacation markets? The model coefficients described so far measure the average impact of STVRs on the dependent variables (prices and rents). Our baseline model looks as follows (in the example of prices):

$$\textit{Housing prices}_{it} = \alpha\, STVR_{it} + \beta\, X_{it} + \gamma\, \textit{Housing prices}_{it-1}$$

However, in order to isolate vacation markets, we added an interaction term to our models, defining them based on whether the counties were coastal or mountainous regions.[30] The model is now specified as follows:

$$\textit{Housing prices}_{it} = \alpha\, STVR_{it} + \alpha_2 + (\text{Vacation} * STVR_{it}) + \beta\, X_{it} + \gamma\, \textit{Housing prices}_{it-1}$$

Without the interaction term, α would be interpreted as the total effect of STVRs on prices. But the interaction means that the effect of STVRs on prices is different for vacation markets and less touristic areas. The effect of STVRs on prices in non-touristic counties is equal to α_1. However, in vacation markets the effect is equal to $\alpha_1 + \alpha_2$.

In both the housing prices and the rental model, the interaction term for vacation markets is not statistically significant, suggesting that the effect of STVRs on the dependent variable is the same as other regions in these potentially tourism-heavy areas.

DATA

The table below shows the data used in our model and the corresponding sources.

Variable	Source
Active listings	AirDNA
ZHVI all homes price index	Zillow
Rents by property size	US Census Bureau and the Department of Housing and Urban Development
Mean and median income	Oxford Economics databank
Number of housing units	Census Bureau
Number of households	Oxford Economics databank
Unemployment rate	Bureau of Labor Statistics
Tourism GDP	Oxford Economics databank
Building permits	US Census Bureau

ABOUT OXFO

Oxford Economics was fc
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to UK companies and fina
abroad. Since then, we ha
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Headquartered in Oxford
centers in New York, Lonc
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Belfast, Boston, Cape Tow
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Philadelphia, Stockholm, !

ABOUT THE V

Founded in 1985, the Vac
Association (VRMA) adva
short-term vacation renta
and hospitality industries
United States, membersh
property managers, owne
throughout the world—in
and maintenance profess
with the Vacation Rental
(VRHP). VRMA provides i
and networking opportur
accreditation, promotes t
rental experience, and dri

June 2023

All data shown in tables a

OXFORD ECONOMICS

Global headquarters
Oxford Economics Ltd
Abbey House
121 St Aldates
Oxford, OX1 1HB
UK
Tel: +44 (0)1865 268900

London
4 Millbank
London, SW1P 3JA
UK
Tel: +44 (0)203 910 8000

Frankfurt
Marienstr. 15
60329 Frankfurt am Main
Germany
Tel: +49 69 96 758 658

New York
5 Hanover Square, 8th Floor
New York, NY 10004
USA
Tel: +1 (646) 786 1879

Singapore
6 Battery Road
#38-05
Singapore 049909
Tel: +65 6850 0110

Europe, Middle East and Africa

Oxford
London
Belfast
Dublin
Frankfurt
Paris
Milan
Stockholm
Cape Town
Dubai

Americas

New York
Philadelphia
Boston
Chicago
Los Angeles
Toronto
Mexico City

Asia Pacific

Singapore
Hong Kong
Tokyo
Sydney

Email:
mailbox@oxfordeconomics.com

Website:
www.oxfordeconomics.com

Further contact details:
www.oxfordeconomics.com/about-us/worldwide-offices

SHORT-TERM VACATION RENTALS QUICK REFERENCE

Below is a summary of the requirements for Short-term Vacation Rentals (STVR) pursuant to the San Buenaventura Municipal Code (SBMC) Chapters 6.455, 4.115, and 4.155, and is provided for the purpose of quick reference.

Sec. 6.455.020 Definitions - A Short-term vacation rental is a residential "dwelling unit" that is rented to a tenant for a period of not more than 30 consecutive days.

Sec. 6.455.045 Advertising - An offer to rent or advertisement for a short-term vacation rental must include the City Permit Number for the property in the form of "Ventura Permit No. _____."

Sec. 6.455.125. Performance Standards - Each owner and tenant/occupant of a short-term vacation rental, shall comply with the performance standards established by this section.

1. Ensure the rental complies with all applicable codes regarding fire, building and safety, and all other relevant laws and ordinances.
2. Rental must be a minimum of seven nights beginning the second Friday in June and continuing to the last Friday in August of each year. At all other times the owner may rent a minimum stay of two nights no more than once in any consecutive seven-day period.
3. The occupancy maximum of overnight occupants is a flat two persons, plus two persons per bedroom.
4. The rental agreement, notifications and disclosures shall also be posted in a conspicuous location inside the unit

Sec. 6.455.150 Violations - The following acts/omissions arising out of the operation of an STVR are unlawful and constitute a misdemeanor punishable pursuant to Chapter 1.050 Civil Penalties.

1. Offering, advertising, or renting on a short-term basis without a permit.
2. Failure to respond to a nuisance complaint within 45 minutes of the time received.
3. Failure of the owner to keep a response plan on file with the city's permit administrator that contains contact information for the current person(s) responsible for responding to a nuisance complaint within a time required by this code.
4. Failure of the owner to keep a valid surety bond in effect, unless waived.
5. Offering to rent or advertising an STVR without referencing the STVR permit number.
6. Failure to comply with any performance standard listed in Sec. 6.455.125.

Sec. 6.455.160 Permit Suspension, Modification or Revocation - A permit may be suspended, modified or revoked for violations of this chapter or other law on the premises of the short-term vacation rental.

Sec. 4.115.070 Misdemeanor - Every person is guilty of a misdemeanor who:
Does not register as required, does not furnish any return required or other data required by the tax collector, renders a false or fraudulent return, collects the tax and fails to pay the same to the city, or violates in any way other provisions of this article.

Sec. 4.115.030 Transient Occupancy Tax Imposed - Guests staying in an STVR for a period of 30 days or less are defined as 'transient' guests and are subject to the Transient Occupancy Tax (TOT). STVR owners are required to collect, report, and remit TOT from transient guests on a quarterly basis by the last day of the month following the end of the calendar quarter when the tax is incurred.

Sec. 4.155.210 Business License Tax Certificate Required - A Short-term Vacation Rental is advertised and operated as a business and is subject to the City's Business License Requirements.

Sec. 4.155.530 Suspension and Revocation Grounds - The business tax certificate may be suspended or revoked only when it shall appear that such business is being conducted or the premises used in violation of any law of the state, County of Ventura, or the City.

VRMA ADVOCATE

Social Media: VRMA National Affordability Housing Study

One of the most impactful ways to raise awareness about an issue or cause can be through social media. VRMA's National Housing Affordability contains statistics and information that can be used to help tell the story about the real drivers of price and affordability within the housing market.

Below are a few examples you can use to help share the results of this study and raise awareness.

- VRMA's new study confirms short-term vacation rentals (STVRs) are not the real driver of growing home prices and rents nationally, while other factors such as low unemployment and higher wages play the largest role. @VRMA
- Short-term vacation rentals can continue to coexist with communities and help them thrive. VRMA's new study shows STVRs minimal impact on home prices and rents while other factors play the largest role. #HousingAffordability
- According to a new study by @VRMA, housing prices would have been only $800 lower if short-term vacation rental (STVR) density had not increased between 2015 and 2021. #HousingAffordability
- A new study by @VRMA indicates rent prices would have only been $5 lower if short-term vacation rental (STVR) density had not increased between 2015 and 2021. #HousingAfforability
- What are the main drivers of growth in US housing prices and rents? Pandemic-related changes, regulatory factors, low unemployment, and high wages. Growth in short-term vacation rental (STVR) density contributed only 0.4% of the 32.7% growth in housing prices.
- What drives growth in US rent prices? Pandemic-related changes, regulatory factors, low unemployment, and high wages. Growth in short-term vacation rental (STVR) density contributed only 0.5% of the 9.9% growth in housing prices.

To access accompanying social media graphics and more resources, visit the VRMA Advocate toolkit.

TIP: Be sure to tag relevant social media accounts who can help amplify your efforts such as state and local policymakers, partner organizations, and companies.

Talking Points: VRMA National Affordability Housing Study

VRMA encourages you to get active in your community and share the results of VRMA's National Housing Study. Whether you're meeting with local officials or connecting with your peers about how to advocate on your behalf, here are a few talking points that help convey the results of this study.

- VRMA's study is a national benchmark which analyzed the impact of short-term vacation rental density across the country.
- While the study looks at the overall trend across the country, further analysis suggests that the effect of STVRs on both housing prices and rents is similar in vacation destinations to that of other regions.
- In vacation markets, homes are less likely to be rented on a long-term basis. The study shows that STVRs have an even smaller effect on rents in these markets.
- The study's data proves that factors such as low unemployment and higher wages play a larger role while short-term vacation rentals have a minimal impact on rising home and rent prices.
- Additional factors contributing to the rise in housing prices and rents include a change in housing preferences caused by the pandemic, changes in household sizes, local government regulations, user cost of capital, and housing units per household.
- Housing prices would have been only $800 lower if short-term vacation rental (STVR) density had not increased between 2015 and 2021.
- Rent prices would have only been $5 lower if short-term vacation rental (STVR) density had not increased between 2015 and 2021.
- Growth in short-term vacation rental (STVR) density contributed only 0.4% of the 32.7% growth in housing prices. Pandemic-related changes and regulatory factors also play a large role.
- Growth in short-term vacation rental (STVR) density contributed only 0.5% of the 9.9% growth in housing prices. Pandemic-related changes and regulatory factors also play a large role.