

## Home-sharing and Short-Term Rentals

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*This policy paper examines the short-term rentals industry and recommends the right policy for its regulation in Israel.*

The **first chapter** briefly presents the “sharing economy” background, focusing on short term rentals, and the **second chapter** discusses the arguments against short-term rentals that involve the negative impact on housing prices, the residential environment and competition in the lodging industry.

The **third chapter** examines the effect of the covid pandemic-related tourism crisis on the short-term rentals industry in comparison to its effect on the traditional hotel industry.

The **fourth chapter** reviews the existing legal regulation of short-term rentals in Israel and examines the impact of the restrictions it imposes, while the **fifth** reviews regulatory models around the world and illuminates the difficulty in enforcing legal restrictions on this particular industry.

The **sixth chapter** lays out the recommended model and presents a possible blueprint for new legal regulation of the short-term rental industry in Israel.

### Summary:

Short-term rentals, i.e. the renting out of a room or an apartment for short periods of time, is not a new invention, but has changed drastically in recent years in both scope and nature. The change has occurred primarily in the emergence of digital apps and programs that offer intermediation and information sharing in the realm of lodging. It constitutes one of the most developed and successful instances of the “sharing economy” which has been steadily growing in efficiency and market share in a variety of consumer and trade industries in recent years.

Nonetheless, in Israel there is no alignment between this developing industry and the legal situation. The 1965 Planning and Building Law and the 1968 Licensing of Businesses Law apply sweeping provisions for residential apartments on the one hand and vacation businesses on the other, without making accommodations for the use of residential apartments as short-term rentals. The application of the tax rules is also unclear, and they are moreover selectively enforced. The obscure legal situation makes it difficult to follow the rules, encourages black markets and prevents long term economic planning.

Short-term rentals and home sharing have many advantages. These are most notably: flexibility of usage, the possibility of additional low-cost income for property owners, the increase of supply and competition in the lodging industry and the more efficient use of resources without government assistance or subsidy. Alongside the advantages, however, there may be negative repercussions for the environment, such as a rise in rental rates, detrimental changes to residential areas and the overburdening of local infrastructure.

The question of imposing restrictions on the industry arose recently in Israel, as it had in other parts of the world. The covid pandemic crisis and its unprecedented effect on world tourism offers an opportunity to examine some aspects of short-term rentals from a different perspective.

**Recommendations:**

The following guiding principles underly this paper's proposal:

- (1) New ideas and technologies should be absorbed and deployed in Israel, particularly if they can potentially lower prices, promote welfare and increase earning capacity. Regulation should be adapted to the new possibilities created by technological change.
- (2) Government regulation is only necessary when the free market fails to realize the desired social goals, and only if the regulatory intervention can solve the issue in a manner that outweighs its costs.
- (3) The desire to protect traditional industries is not a justified social goal that overcomes the general population's advancement and welfare. Nonetheless, compensation mechanisms for those harmed by regulatory change should be considered wherever possible.
- (4) The market should be left free to develop without tailoring regulation to current technologies. No solution for rental platforms should be fixed; rather, there should be technological and economic flexibility to encourage entrepreneurship and accommodate future changes and novelties.

There is no justification to severely regulate the various forms of short-term rentals. To the contrary, unjustified barriers should be removed and the state should facilitate a reasonable and profitable tax model.

The challenges and solutions are divided into different regulatory domains- construction and planning, business licensing and taxation.

Generally, regulation of this industry should be "thin", comprehensible, and easily applied: uniform taxation at a fixed rate for any income derived from short term businesses; permits for mixed use of land for both residential and vacation purposes; and an exemption from business licensing for those rentals that pose no public risk. Regulation should be enforced with digital platforms together with mechanisms that allow the public to report to authorities, when necessary, on localized instances of hazards and nuisances.

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