

IS THERE A SHORT-TERM RENTAL MARKET BUBBLE?

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A POTENTIAL BUST

The exponential growth of Airbnb over the past decade has sparked debates about its impact on the traditional housing market. As of the second half of 2022, the short-term rental industry experienced a downturn, leading to a potential Airbnb bust, with operators facing significant declines in revenue, up to 50% in some cities. Skeptics have expressed concerns that such a bust could result in excess housing supply, reduced long-term rental availability, and declining property values. This article attempts to examine the possible effects of a potential Airbnb bust on the housing market, considering the transfer of homes into the short-term rental market, the impact on renters and aspiring homeowners, and the housing market's resilience despite the popularity of short-term rentals.

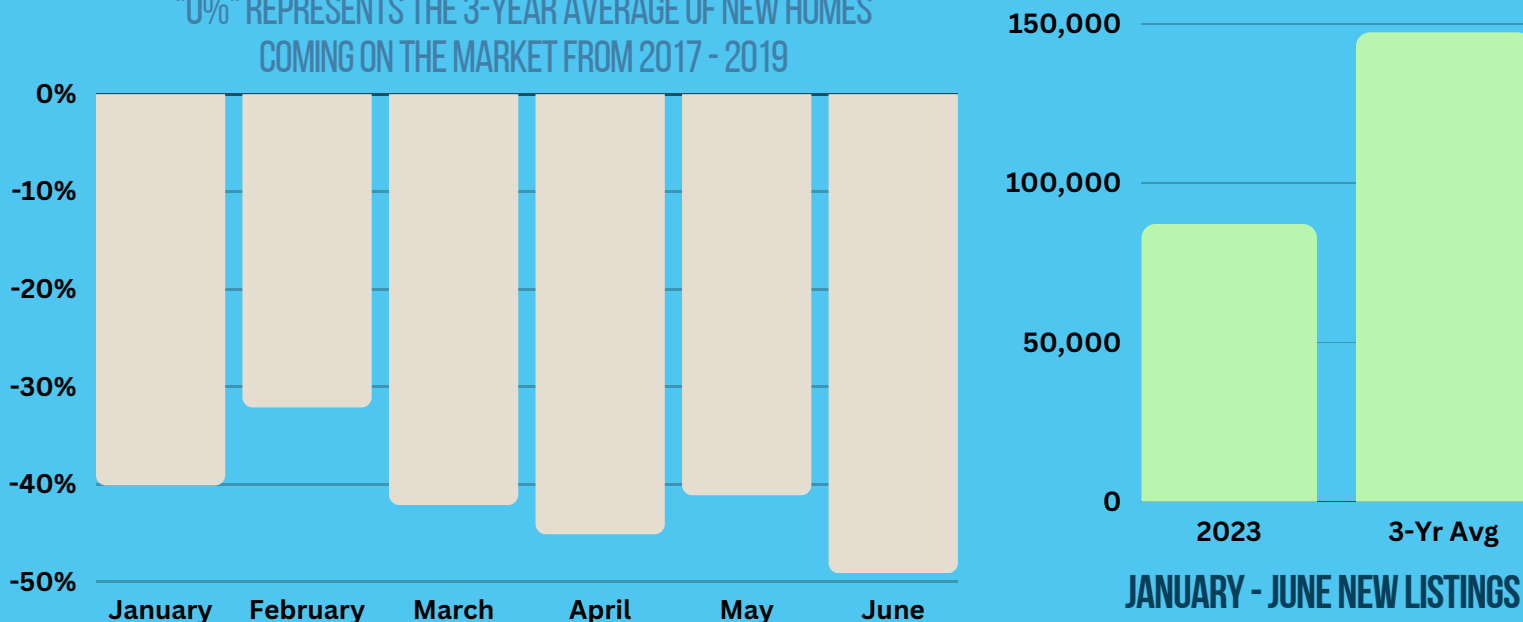
The rise of Airbnb and similar short-term rental platforms has led to the transfer of millions of homes from the long-term rental market into the short-term rental market.

This shift has had adverse effects on both renters and potential homebuyers. Renters face increased competition with Airbnb hosts for the same houses and apartments, leading to higher rental costs and reduced availability of long-term rentals. Moreover, aspiring homeowners find it challenging to enter the market as they compete with investors who have turned these properties into short-term rentals.

Despite the concerns surrounding a potential Airbnb bust, the housing market has displayed resilience. The current situation differs significantly from the subprime mortgage crisis that triggered the global financial crisis in 2008. Mortgages taken out to finance Airbnb properties and similar ventures are not subprime. They are often owners of multiple properties and sufficient collateral. Unless over-extended, these owners are likely to have a safety net to weather downturns in the short-term rental market.

SOUTHERN CALIFORNIA NEW LISTINGS IN 2023 COMPARED TO 3-YR AVERAGE

"0%" REPRESENTS THE 3-YEAR AVERAGE OF NEW HOMES
COMING ON THE MARKET FROM 2017 - 2019



HOMES COMING ON THE MARKET IN 2023

Contrary to expectations, data shows that the impact of Airbnb on the housing supply has been relatively limited. While some properties have been converted to short-term rentals, the adaptive nature of the housing market has mitigated the risk of oversupply in most markets. The end of easy money, fueled by rising interest rates, has contributed to the slowdown in the short-term rental industry. As interest rates increase, the allure of short-term rentals as an investment opportunity diminishes, leading to a potential return of properties to the long-term rental market.

Given today's anemic levels, the thought of a wave of new homes flooding the current housing market would be a welcome sight. If many short-term rental owners are being forced to sell amid today's housing climate, then the evidence has yet to show up in the data.

Across Southern California this year, the number of new sellers entering the market through June has barely eclipsed 87,000. In comparison, a typical pre-COVID year (2017 - 2019) would generate nearly 150,000 homes on the market by the end of June.

The market is experiencing almost half the amount of options it is used to. With each passing month this year, the housing market experienced a 30% to 50% drop in homes on the market when compared to the average. This trend developed with rising rates last year and was further exacerbated in 2023. The market would be able to absorb the increase in inventory easily. If enough short-term rentals hit the market, some areas could experience a slight decrease in housing values, but prices would not plummet. Owners have plenty of equity to enable a sale.

While the possibility of an Airbnb bust has raised concerns about its effects on the housing market, the situation has not yet led to the catastrophic outcomes some feared. The adaptive nature of the housing market, along with the differences between the current situation and the 2008 financial crisis, has allowed the housing market to remain relatively resilient. However, continued vigilance and proactive measures by policymakers and stakeholders are crucial to ensure the stability and sustainability of the housing market in the face of evolving trends in the short-term rental industry.