

THE HIDDEN COST OF HIDDEN HOTELS

THE IMPACT OF VACATION RENTALS IN HAWAII



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May 2016

Executive Summary

- A state study found the number of visitors to Hawaii using vacation rentals to have grown by more than one third in a recent one-year period. The Hawaii Tourism Authority (HTA) estimates that there are about 27,177 vacation rentals in the state that are advertised online, up from 22,238 identified in 2014. About 6,789 units on Oahu alone.
- Part of the growth in vacation rentals is due to rental platforms like Airbnb and VRBO, which allow owners and operators to list their rental offerings on a searchable online database. Airbnb in particular is a fast-growing startup – started in 2008, it now claims to have over two million rental listings worldwide.¹
- In Honolulu, the average rent for a two-bedroom unit between 2012 and 2014 was \$1,939 per month,² but a two-bedroom unit on Airbnb could generate revenue of over \$10,500 per month at the average rate of \$431.88 per night and an occupancy rate of 80% – over five times as much revenue.
- Hawaii is deep in an affordable housing crisis, yet there are over 5,000 units statewide being advertised for short-term rental of the entire unit. There are no effective safeguards to ensure that these units are used as residences for even a part of the year.
- Although there are laws in each county restricting vacation rental operations, an ineffective regulatory structure and relative lack of enforcement have allowed illegal vacation rentals to propagate throughout the state for years. Analysis of the units the HTA identified on Oahu uncovers that at a minimum, 50% are operating illegally.
- Throughout Hawaii, 79.6% of Airbnb listings are categorized as “entire place,” meaning an entire housing unit is being rented out to visitors. Many of these units are being rented out by people with multiple listings.
- Short-term rentals directly compete with the traditional hotel industry in fundamentally unfair ways: while hotels create and sustain quality jobs for local people (housekeepers, front desk workers, security guards, bellmen, etc.), the few jobs created by short-term rentals are geographically scattered and leave employees with little power to protect their rights or achieve decent wages or benefits. Workers in this market are forced to compete with one another.
- The right regulatory framework for vacation rentals can ultimately protect hotel industry jobs, help keep the affordable housing crisis from getting worse, and benefit the community while still allowing rental owner/operators a path forward. Part of the framework already exists in each county’s laws, but in order for the rules to be effective, each county government’s enforcement powers need to be expanded, and private citizens need to be granted a right to take legal action independently.

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Introduction

Across Hawai'i, houses and condominiums have been used as lodging for tourists for well over 30 years. While vacation rentals appeal to many visitors seeking a less resort-based experience, their proliferation has had a significant impact both directly on the communities they are in and indirectly on housing and employment across the state.

In response, each county has to some degree enacted legislation to balance the growth of the alternative lodging industry against the needs of our communities. However, these regulations have generally fallen short of being effective because they lacked strong enforcement mechanisms and dedicated enforcement personnel. This lack of enforcement, paired with the growth of the internet, allowed vacation rentals to proliferate illegally. Now, with the popularization of smartphones and the resulting growth in the use of smartphone apps, vacation rentals are expanding and changing the industry in ways that can no longer be ignored.

This report explores individually advertised short-term rentals in Hawai'i: what the industry looks like, how it is growing, and what that means for our State. It examines how their growth negatively affects affordable housing, sustainable jobs, tax revenues and the overall safety of both residents and visitors. Finally, this report proposes the framework for a regulatory structure to effectively allow the vacation rental industry to flourish in a way that fits with the best interests of our communities.

Part I – Background on Vacation Rentals

What are vacation rentals?

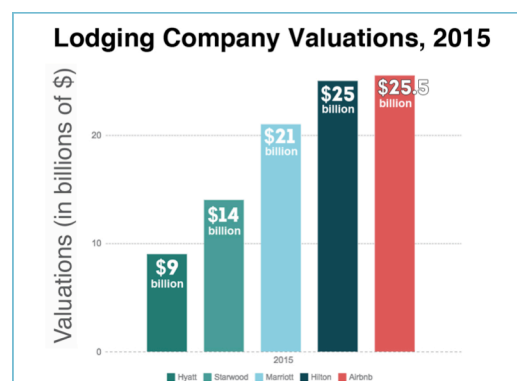
Vacation rentals are nothing new to Hawai'i – people have been renting out houses on Windward Oahu and condos in Waikiki for almost as long as the state has been a popular tourist destination. Some are second homes or investment properties; others are bed & breakfast operations where the owner or proprietor lives on property and rents out rooms; some are condominium or condotel units individually rented out (this report uses the term “vacation rentals” to describe all of these various types of individually advertised lodging units).

Property owners may find renting units short-term to tourists to be a lucrative alternative to renting long-term – even at 80% occupancy, entire units listed on the short-term rental platform Airbnb charging an average rate for Oahu could generate revenue of \$5,900 per month, more than three times the average rent of \$1,732.³ Larger units could generate proportionally more profit: In Honolulu, the average rent for a two-bedroom unit between 2012 and 2014 was \$1,939 per month,⁴ but the average listing of a two-bedroom unit on Airbnb is \$431.88 per night. At 80% occupancy, that would generate revenue of over \$10,500 per month – over five times as much revenue.

With the development of the internet, “home-sharing” websites run by companies such as VRBO (Vacation Rental by Owner) and Craigslist arose, providing platforms for individuals to advertise short-term rentals to much larger audiences than ever before. The industry has been revolutionized again with the development of the smartphone market. According to market research firm GfK, global smartphone sales topped 1.3 billion in 2015,⁵ up more than 31% from the number sold in 2013, just two years prior.⁶ As smartphones have become more prevalent, the smartphone app market has grown exponentially. In January 2016, over 8.8 million iPhone apps were downloaded per day, only counting the top 200 free apps, according to Fiksu.⁷

One fast-growing app is published by Airbnb, a company which allows virtually anyone – bed and breakfast operators, homeowners, renters, etc. – to advertise and rent out accommodations ranging from an entire house to a spare couch in a rented apartment. Through both its app and its website, Airbnb.com, the company acts as a peer-to-peer platform where people looking for alternative accommodations can find and do business with “hosts,” Airbnb’s term for people providing rentals.

Airbnb has grown internationally in recent years to become a leading name in short-term lodging, although the longer-lived VRBO.com and its parent site Homeaway have more listings in Hawai'i.⁸ Airbnb’s popularity combined with its high levels of fundraising from prominent investors has caused its valuation to jump to \$25.5 billion⁹ since its inception in 2008. By 2015, its valuation had surpassed that of major hotel companies Marriott, Starwood and Hyatt¹⁰ (prior to Marriott’s acquisition of Starwood). It claims to have over 2,000,000 listings¹¹ worldwide, which is about as many as Marriott, Starwood, Hilton and Hyatt **combined**.¹²



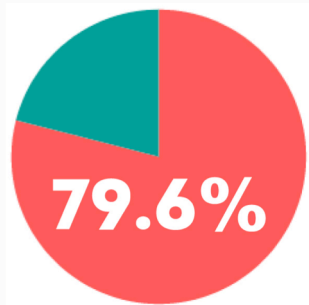
How many vacation rentals are there?

In 2014, a Hawai'i Tourism Authority (HTA)-commissioned survey found 22,238 so called "individually advertised units" (IAUs) across the state.¹³ HTA updated the study one year later and found that the number had grown to 27,177, a 22% increase.¹⁴ Another report by HTA found that the use of short-term rentals in general by tourists to these islands increased by more than 1/3 from February 2014 to February 2015. "The number of visitors using a vacation rental was up 46.8 percent. B&B users climbed 33.4 percent,"¹⁵ according to the *Honolulu Star-Advertiser*.

Who benefits from vacation rentals?

Supporters of vacation rentals across the state have argued that this commercial activity brings money into residential communities, and benefits long-time residents who are simply trying to support themselves in trying financial times. Airbnb in particular claims to be based on the ethos of 'sharing,' stating that "The majority of Airbnb hosts are regular people who occasionally share the home in which they live."¹⁶ The reality, however, is somewhat different.

Airbnb Hawaii Listings by Room Type



■ Entire Place (79.6%) ■ Room or Share (20.4%)

Throughout Hawaii, 79.6% of Airbnb listings are categorized as "entire place," meaning an entire housing unit is being rented out to visitors.¹⁷ While it is undoubtedly true that there are individuals using platforms like Airbnb to share their homes to make a few extra dollars and make ends meet, some individuals who post properties on the site are actually employees of large vacation rental management companies or owners with multiple properties.

For example, a profile advertising 27 Hawaii listings features a picture of a woman named Claudia, who claims to work for a property management company.¹⁸ Most of her properties are in Waikiki, and their nightly prices range from \$108 to \$3,800. According to her LinkedIn profile,¹⁹ Claudia works for a company called Ohana Beach Rentals LLC, which lists 150 rentals across the state.²⁰

This example is by no means unique. An admittedly incomplete search of hosts turned up 25 in just a few minutes who advertised multiple listings in Hawaii.²¹

Even more than hosts with multiple listings, Airbnb as a company benefits from the spread of vacation rentals in Hawaii. Airbnb charges a 3% service fee to hosts²² and a 6-12% service fee to guests²³ every time a booking is completed on its site.

"In a way, Airbnb almost perfectly embodies the paradox of the sharing economy. From one perspective, it seems — and purports — to be about connecting people with one another and the things they want, all while maximizing efficiency. But from another angle, it can seem like nothing more than a way for certain individuals to maximize profit by working around the law."
— Caroline O'Donovan, BuzzFeed

“During the past two years, investors have bought approximately 200,000 single-family homes, mostly foreclosures, in urban areas nationwide, with plans to convert them into rental properties.”
– “Game of Homes,” *In These Times*, March 31, 2014.

In the future, well-capitalized investors will have every incentive to buy up housing units from individuals like these and generate revenue for themselves. In fact, big investors already are buying up homes and renting them out. For instance, the Blackstone Group, a private equity firm with over \$330 billion in assets under management²⁴ has become the single largest private owner of homes in the US, after spending over \$8 billion buying 47,000 homes²⁵ since April 2012.²⁶

How do vacation rentals impact our communities?

Vacation rentals impact our communities in a number of ways:

- **Affordable housing:** Hawaii is deep in an affordable housing crisis, yet there are over 5,000 units statewide being advertised for short-term rental of the entire unit.²⁷ There are no effective safeguards to ensure that these units are used as residences for even a part of the year. Additionally, short-term rentals drive up the demand for the development of new high-end housing, which supplants affordable housing development.
- **Jobs:** In addition to this, short-term rentals directly compete with the traditional hotel industry in fundamentally unfair ways: while hotels create and sustain quality jobs for local people (housekeepers, front desk workers, security guards, bellmen, etc.), the few jobs created by short-term rentals are geographically scattered and leave employees with little power to protect their rights or achieve decent wages or benefits. Workers in this market are forced to compete with one another, which will tend to suppress wages.
- **Safety:** Because they are not inspected for the same building, fire, and health codes, or accessibility requirements as hotels, short-term rentals are able to spend less on property maintenance. This virtual lack of safety regulation/enforcement of short-term rental legislation (especially in regard to illegal units not registered in their county) can pose dangers to visitors as well as hosts.
- **Quality of life:** As the proportion of units used for vacation rentals in a community increases, they bring with them a host of social and logistical difficulties for neighbors.
- **Lost revenue:** Vacation rental guests spend less money overall during their stays than those staying in hotels.²⁸ Unless it can be definitively shown that these visitors would not have come to Hawai'i if they could not stay in vacation rentals, the shift to vacation rentals results in less revenue entering Hawai'i's economy either by reducing hotel occupancy and/or demand.

Current regulatory framework

Legislation regarding short-term rentals is generally incorporated into zoning and land use laws, which are mostly handled at the county level in Hawaii. Each county has adopted a different set of regulations and different terminology. Below are some of the key aspects of each county's rules.

City and County of Honolulu

The City and County of Honolulu designates two different types of short-term rentals in its Land Use Ordinance (LUO), which regulates all land use in the county: Bed and Breakfasts (B&Bs), where the owner/proprietor resides on the property, and Temporary Vacation Units (TVUs), where the owners/proprietors live remotely. In 1989, City Council passed a bill prohibiting the new development of both kinds of short-term rentals while legalizing the ones that were already in use. As a result of the legislation, B&Bs are currently only allowed where they have a "nonconforming use certificate," or a permit certifying that they were in use before 1989; such units are considered "grandfathered." TVUs which were in use before 1986 were similarly grandfathered. As of May 13, 2015, there were 828 units (789 TVUs and 39 B&Bs) with nonconforming use certificates in the county, only 177 of which were outside of Waikiki. TVUs are also permitted in resort-zoned areas, as well as certain apartment-zoned areas²⁹ near Waikiki, Ko Olina and Makaha Golf Club.³⁰

In spite of this attempt to quell their proliferation, illegal rentals continue to pose problems in Honolulu and across the state. Ohana Beach Rentals, for example, features seven luxury Kailua/Kaneohe rentals, none of which have nonconforming use certificates and none of which are in or near resort areas.³¹

Maui County

Maui County, after attempting to ramp up enforcement against illegal units, passed legislation in 2008 and 2012 that defined the current application process for "new" rentals. The two ordinances set numerical limitations on B&Bs and short-term rental homes (STRHs): only 400 of each are currently allowed across the county.³² The regulations limit the size and use of units, who can own them and how they can be used.³³ The permitting process for new B&Bs and STRHs provides opportunities for community input. Applicants are required to notify all neighbors within a certain radius of their intent to operate a B&B or STRH. If enough neighbors protest the application, the Planning Commission may hold a public hearing about it.³⁴ A similar complaint process can be used to revoke permits.³⁵ Despite this attempt at regulation, however, there are more individually advertised units on Maui than any other island in the State.³⁶

Kauai County

Kauai County has enacted limitations on use and development based on geographic areas (generally speaking, Resort and Commercial districts and Visitor Destination Areas) for short-term rentals, which they term Transient Accommodation Units, or TAUs and Single-Family and Multi-Family Transient Vacation Rentals, or TVRs. As with units on Oahu outside of permitted areas, Kauai allowed some grandfathered units to continue operating.³⁷ The county provides for growth in the number of permits issued, but limits growth to roughly 1% per year.³⁸

Hawaii County

Hawai'i County regulations only allow for B&Bs. The law regulating B&Bs requires operators to live on property, and imposes limits the number of bedrooms offered for rent, meals offered and parking offered. The County does allow for B&B operation in a range of residential, commercial and resort zones.³⁹

In certain cases, the process for obtaining a permit for a B&B requires notification of neighbors, in a similar manner to Maui County. The Hawaii County Planning Commission is also required to hold public hearings in special cases as well.⁴⁰

State Laws

State law does not address vacation rentals except:

- they are subject to the Transient Accommodations Tax and General Excise Tax,
- in the regulation of condotels (allowing condotel owners to individually manage their own units),
- it requires ads for vacation rentals to include property registration numbers, and
- a requirement that owners designate a “local contact” who resides on the same island as their property and provide contact information for that person prior to booking.⁴¹

Measuring the Prevalence of Illegal Vacation Rentals

The HTA estimates that there are about 27,177 “individually advertised units” in the state that are advertised online, including 9,492 classified as Vacation Rental House and 16,159 classified as Vacation Rental Condo.⁴² In fact, the HTA’s report found about 6,789 units on Oahu alone. Since there are 828 units with non-conforming use certificates on the island, the other 5,961 units would have to be in or near resort areas to be legal.⁴³ After making the most generous assumptions about what units might possibly be legal, there remains a minimum of 3,431 units from the survey which were operating illegally.⁴⁴ The number could, of course, be much greater, and it can grow quickly. From 2014 to 2015, the number of Individually Advertised Units statewide grew by 22%, or 4,938 units. In 21 zip code areas in Hawaii, the number of IAUs grew by more than 100%.⁴⁵ New York City, for instance, witnessed a 5000% growth in residential units being used as transient hotels over a 6-year period.⁴⁶

Analysis of the HTA study reveals there were 7 areas on Oahu where 100% of the vacation rentals were illegal and 11 additional areas in which 94-99.9% of the vacation rental units were illegal.⁴⁷

The two areas with highest density of vacation rentals on O’ahu are Hale’iwa and La’ie.

- In Hale’iwa, the HTA study found about 655 vacation rentals – about 21.6 short-term rentals for every 100 residential homes. Since there are only 29 units registered with nonconforming use certificates in this area, the other 626 units must have been operating illegally. There are 20.7 illegal vacation rentals for every 100 housing units.
- There were about 228 vacation rentals in La’ie at the time of the study, but only 6 units have nonconforming use certificates with the county. The remaining 222 units are illegal. There are 18.7 illegal vacation rentals for every 100 housing units.

Area	Illegal IAUs per 100 housing units
Hale'iwa	20.7
La'ie	18.7
Kahuku	18.0
Hau'ula	15.4
Ka'a'awa	7.0
Waialua	5.6
Waimanalo	5.6
Kailua	4.3

Why are there so many illegal units? A problem of enforcement

Even with these regulations, enforcement efforts in most areas have not been consistent or effective enough to stop the spread of illegal units. On Oahu, the Department of Planning and Permitting (DPP) is responsible for responding to complaints of illegal vacation units. DPP's power is greatly restricted:

- Investigations are conducted by staff members who are responsible for enforcing all the ordinances and codes of the city within the time limits of a regular workday.
- In the course of the investigation, inspectors must visit the property, find someone on the property who will admit to being a short-term renter, and issue a violation notice to the landlord (who is given a month to fix the violation).⁴⁸ Only after this process may fines be levied against the owner/landlord.⁴⁹

According to research conducted by Civil Beat in 2010, 749 investigations were launched that year in response to complaints about illegal short-term rentals units, but only 24 violations were found. Only 18 of the violating property owners were reprimanded, and only 2 of the violators were fined a cumulative \$4,433.⁵⁰

The DPP reported that in 2014 and 2015, it conducted 2,719 site visits, resulting in 57 violation notices and 31 violation corrections.⁵¹ In other words, only 2.1% of site visits resulted in a violation notice, and less than 55% of those that got a violation notice corrected the violation.

In January 2016, the DPP announced it was hiring five new inspectors to crack down on illegal vacation rentals. In its first month, the team cited 21 violators.⁵² The hiring initially has increased enforcement, but much more can be done on a policy level to stem the proliferation.

“Not only does Airbnb facilitate illegal conversions of entire buildings from tenant apartments to de facto hotels, it has also become part of the landlord lobby that resists enforcement of local laws prohibiting such abuses.”
- *The American Prospect*

Notably, on February 24, Airbnb asked the City to stop enforcing the law against illegal rentals.⁵³

Meanwhile, the State of Virginia passed a bill⁵⁴ on March 6, 2016 preempting the power of local governments to ban or restrict vacation rentals.⁵⁵ As of the time this report was written, the Arizona legislature was in the midst of contemplating a similar prohibition.⁵⁶

Part II - The Impacts of Vacation Rentals

Vacation rentals have broad impacts on a variety of segments of our communities and our lives. Those looking for affordable housing and decent jobs, those trying to keep their neighborhoods safe, those renting their houses or vacation homes and guests at such accommodations are all greatly affected by the existence, quality and enforcement (or lack thereof) of regulations on vacation rentals, often in ways they may not be aware of.

Effects on Working People

The Hawaii hotel industry is one of the largest sources of good, long-term jobs in the state. These jobs sustain local families and support our communities. Illegal vacation rentals offer lodging services without supporting sustainable jobs for local people. In fact, they compete with hotels for business, and by operating illegally, they can undercut hotel room rates by operating illegally, skipping out on taxes, capital expenditures and labor costs.

While the average wages and benefits paid to workers servicing illegal units is not clear, these workers face a nearly insurmountable systemic barrier to organizing together to win better working conditions and wages. To the extent there are any employees at all, it is unlikely that any individually advertised unit would have more than one or two employees servicing it. Even large-scale operators listing hundreds of units in various locations could get by with minimal staff. Without a central base of operations, housekeepers servicing different units might never even meet one another, much less have enough contact to begin discussing their wages and benefits. Lone employees who attempt to assert their rights or try to improve their working conditions can easily be replaced, with little recourse except a potentially very long, expensive legal battle that few would have the time, money and energy to take on. The isolation of the lone worker and the ease to the employer of replacing them leaves them nearly powerless. They are ultimately competing against one another for work. In an area like Hawaii where so many people must work second or third jobs to make enough money to get by, the competition for this work is likely to drive down wages.

Effects on Affordable Housing

Vacation rentals have a negative impact on affordable housing in two ways: 1) they represent units taken out of the overall housing stock statewide, limiting the supply and driving up prices; and 2) the ability to operate any unit as an illegal vacation rental inflates demand for new construction at the high end of the market, giving developers an incentive to build luxury units to the exclusion of lower-priced units.

Regulatory battle in NYC

In New York City, local laws prohibit residential units from being rented out for less than 30 days. When Airbnb began to gain popularity in the city, neighbors began to complain about increased noise and traffic in their buildings, and to suspect that rent-controlled units were being negatively affected by this new economic activity. NYC's attorney general Eric Schneiderman confirmed these fears in a report detailing the ways in which Airbnb and its hosts were hurting the local economy and flouting local laws. According to his research, 72% of Airbnb listings on NYC from January 2010 to June 2014 were illegal. Additionally, Airbnb hosts with multiple property holdings, termed "commercial users" in the report, accounted for a disproportionate amount of the revenue coming from listings across the city:

"Ninety-four percent of Airbnb hosts offered at most two unique units during the Review Period. But the remaining six percent of hosts dominated the platform during that period, offering up to hundreds of unique units, accepting 36 percent of private short-term bookings, and receiving \$168 million, 37 percent of all host revenue."⁵⁷

Schneiderman found other troubling trends as well, including that the listings were primarily concentrated in gentrified or rapidly-gentrifying neighborhoods, and that almost half of the listings constituted housing units that were effectively removed from the long-term housing market (and the number of such units increased over time):

"In 2013, more than 4,600 units were booked as short-term rentals through Airbnb for three months of the year or more. Of these, nearly 2,000 units were booked as short-term rentals for a cumulative total of half the year *or more*—rendering them largely unavailable for use by long-term residents. Notably, the share of revenue to Airbnb and its hosts from units booked as private short term rentals for more than half the year increased steadily, accounting for 38 percent of each figure by 2013."⁵⁸

Regulations there remain stringent, but listings in the area continue to proliferate on Airbnb illegally.

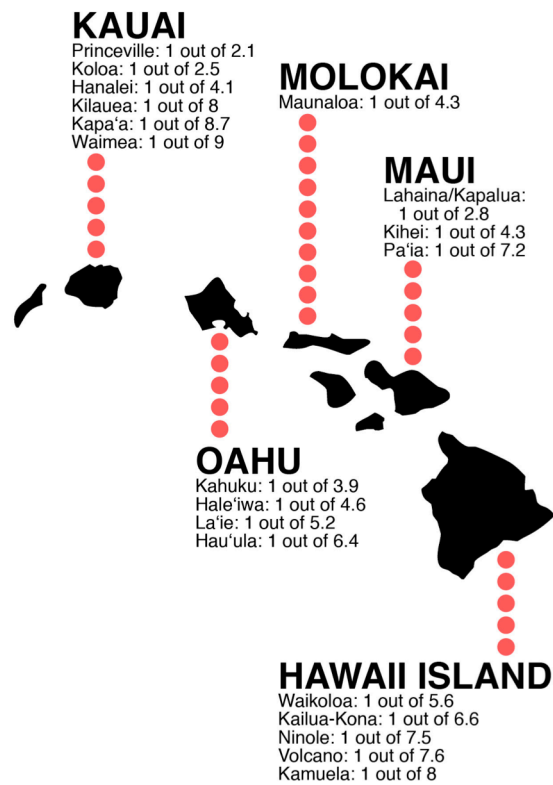
Existing housing stock

Short-term rentals exacerbate the current lack of affordable housing for Hawai'i residents. The preceding analysis of the HTA survey identified a minimum of 3,431 units advertised illegally on Oahu. While this number currently appears relatively small in proportion to the 306,622 total housing units on Oahu (just over 1 illegal unit for every 100 housing units), some areas see a much more significant impact from vacation rentals than others.⁵⁹

In Princeville, Kōloa, Lahaina and Kahuku, there is more than one IAU for every four housing units.

Residents in areas with high vacation rental densities have testified time and time again that vacation rentals in their communities are making the affordable housing crisis worse.⁶⁰

Number of IAUs per housing unit:



Other cities⁶¹ have seen similar trends in housing being converted to short-term rentals for listing on Airbnb. San Francisco recently won \$276,000 settling a lawsuit which alleged that residents were evicted as their landlords converted their units to vacation rentals. According to San Francisco City Attorney Dennis Herrera, "Illegal conversions that push long-term tenants out of their homes diminish the availability of residential rental units for San Franciscans, and they're a significant contributor to our housing affordability crisis."⁶²

Short-term rentals may be causing housing prices and rental rates to increase in many major cities. Ty Simrosky, planning director for Key West, Florida, explained why this might be occurring in an article from American Planning Association:

"When property owners decide to increase their "rent stream" with short-term rental agreements rather than renting by the season or the year, they essentially "squeeze" the supply of housing, pushing up the demand, and, subsequently, the cost."⁶³

This negatively affects the availability and cost of housing units for everyone.

New Developments

The same dynamic which constricts the supply of affordable housing also hinders the development of new affordable units. Developments such as ONE Ala Moana atop the Ala Moana Shopping Center, Park Lane on Ala Moana Boulevard and Anaha tower on Auahi Street are marketed to the luxury segment.

The price of most of the units being developed in Kakaako puts them out of the range of affordability for most Hawaii families. Developers are marketing the units to those with over \$1 million to spend on condo units – generally, the luxury and second-home markets and speculators. To the extent units in Kakaako do not act as primary residences, the cost of mortgages and maintenance fees will exert pressure on owners to use the properties to generate income through short-term rentals. Even owners of the affordable units being developed will be under pressure to sell to investors, who are likely to pay a greater premium for properties that can be used to generate income. According to *Pacific Business News*, "Sal Miwa, co-CEO and president of Honolulu-based Myland Hawaii Realty, told PBN that many Japanese buyers bought their condos in Kakaako expecting to rent their properties out short term, even month-to-month when they are not staying at their condos."⁶⁴

Sample of Condominiums in Planning or Development in Kakaako

Project	Developer	# units	average price
Waiea	Howard Hughes Corp.	171	\$3.7 million (as of 5/12/15)
Anaha	Howard Hughes Corp.	311	\$1.3 million (as of 5/12/15)
Ae'o	Howard Hughes Corp.	466	\$1 million (as of 7/25/15)
Park Lane	BlackSand Capital	215	Range from \$1.19 million to \$28 million
ONE Ala Moana	Howard Hughes, BlackSand Capital, Kobayashi Group, MacNaughton Group	206	\$1.6 million
Waihonua at Kewalo	Alexander & Baldwin, Armstrong Homes Ltd., BlackSand Capital	341	Range from \$375,000 to \$1.9 million
Gateway Towers	Howard Hughes Corp.	236	Range from \$1.5 million to \$8 million
The Collection	Alexander & Baldwin Properties, Inc.	465	\$651,000
Symphony Honolulu	OliverMcMillan	388	Range from \$390,000 to \$3.35 million
400 Keawe St.	Castle & Cooke, Kamehameha Schools	95	Range from \$400,000 to \$750,000
801 South	Downtown Capital, LLC	635	Range from \$253,000 to \$501,300

Effects On Residential Communities

Some neighborhood groups and boards in Hawai'i have expressed a concern for conserving the character of their communities. According to the Kailua Neighborhood Board:

"The visitor lodging businesses in residential zoning reduce the housing supply for local residents, contribute to escalating rents and housing prices, and negatively impact the social, safety, environmental and cultural residential character of our neighborhoods."⁶⁵

Specific problems cited by residents living near short-term rentals include increased traffic, noise, crime and a revolving door of strangers in what once were primarily residential areas.⁶⁶

Proponents of increased legalization for short-term rentals claim that the existence of such units directly causes tourist money to flow into the communities they are in. One supporter claimed "There were no jobs in Kailua before all of the visitors discovered our vacation rentals."⁶⁷

However, one could make the same argument to justify putting factories or strip clubs in residential communities. The argument on its face does not make sense – if visitors spend money at businesses where residents work, regardless of whether those businesses are in

business or residential districts, some of the money flows into the community. It is not clear that the guests staying in vacation rentals would not otherwise come to Hawaii and spend money in our communities if they had to stay in hotels or if there were limits placed on vacation rental proliferation. Beyond this, an HTA study showed that visitors who stay in short-term rental units end up spending less on their day-to-day needs than those who stay in hotels:

“Unfortunately for Hawaii's coffers, rental and B&B visitors also spend less overall. Last year, visitors who stayed in rental houses told HTA that their total daily spending — including lodging, food and other costs — was \$149.90, or 36 percent less than their average hotel counterpart who spent \$235.50. Likewise, B&B visitors reported they spent \$173.60, or 26 percent less than hotel guests. If these guests had spent as much as the average hotel guest in 2014, it would have added millions more to Hawaii's economy.”⁶⁸

Among the concerns that have been brought up within discussions on this issue is a loss of community feeling as long-term rentals begin to dwindle. As the organization “Keep it Kailua” testified before City Council:

“Vacation rentals displace ‘permanent’ neighbors from our neighborhoods and neighbors are the glue that welds a community. Without neighbors in our neighborhoods and communities, our social capital suffers. Short-term tenants have little interest in public agencies or in the welfare of the citizenry. They do not participate in neighborhood watch programs, coach paddling, or join the hospital guild. They do not lead a scout troop, volunteer at the library, or keep an eye on an elderly neighbor. Literally they are here today and gone tomorrow.”⁶⁹

Additionally, to the extent the owners of these units are not paying taxes for the rental of their rooms, they are not contributing their fair share to pay for the infrastructure needs they are creating through the operation of their businesses.⁷⁰

Dangers To Hosts

Hosts who list their properties on Airbnb or VRBO may inadvertently be in violation of their apartment rental agreements, condominium bylaws and declarations, insurance policies, mortgages or zoning laws. Some violations have caused hosts to face fines, eviction,⁷¹ and even blacklisting from future apartment rentals.⁷² Given some of the effects short-term rentals have on communities (as described above), landlords and condominium associations have every incentive to enforce their rules.⁷³ There have been horror stories about homes rented out on Airbnb that were trashed by parties,⁷⁴ meth addicts,⁷⁵ robbers⁷⁶ and orgy participants.⁷⁷ Apartments are reported to have been used as brothels.⁷⁸ In more than one case, guests even refused to leave a unit after renting it out through the site, and the unit owners actually had to file for eviction to get them to leave.⁷⁹

The problems could reach beyond the illegal rental units themselves: proprietors of illegal vacation units could create liability for entire condominium projects.⁸⁰ For instance, one Airbnb host lists a unit at the Hawaiki Tower on 88 Piikoi Street.⁸¹ According to the Developer's Public Report for Hawaiki Tower, the building contains 417 residential units, 8 commercial units, 2 retail units and no hotel units.⁸² The report notes that owners of residential units are only allowed to use them for residential purposes, not commercial purposes. Additionally, the Honolulu Land Use Ordinance defines a “hotel” as follows:

“Hotel” means a building or group of buildings containing lodging and/or dwelling units offering transient accommodations, and a lobby, clerk's desk or counter with 24 hour clerk service, and facilities for registration and keeping of records relating to hotel guests. A hotel may also include accessory uses and services intended primarily for the convenience and benefit of the hotel's guests, such as restaurants, shops, meeting rooms, and/or recreational and entertainment facilities.⁸³

Based on a strict interpretation of this language, if the project met two other minimal conditions (namely if the building were to have a 24 hour front desk and if the host had facilities for registration and record-keeping), a single Airbnb listing in this building could mean the **entire building** could be considered a hotel. This would be an illegal nonconforming use, and it could impact insurance costs for the entire building.

Dangers To Visitors

The lack of regulatory oversight for illegal vacation rentals in Hawai'i means that there is little to no guarantee of visitor safety. Listings online can be advertised by anyone. Although Airbnb could conduct background checks on hosts, it does not.⁸⁴ Guests can attempt to protect themselves by only booking with hosts that have submitted to the company's "Verified ID" process, but in some cases the process may not even require hosts to submit a government-issued ID.⁸⁵ Guests can also check other users' reviews, but there is no guarantee of these reviews' veracity. The lack of oversight in this regard exposes guests to scams and dangerous situations.

Other guests are not so lucky. A Massachusetts teenager staying in Madrid in July 2015 claims he was sexually assaulted by his host. Shortly after meeting his host and going back to the host's apartment, he says he was locked in and threatened. He texted his mother, who in turn contacted Airbnb to get them to call the authorities. According to the *New York Times*, "When she called Airbnb, its employees would not give her the address and would not call the police. Instead, they gave her a number for the Madrid police and told her to ask the police to call the company for the address. But the number led to a recording in Spanish that kept disconnecting her, she said, and when she repeatedly called back her Airbnb contact, the calls went straight to voice mail."⁸⁶ Her son says he was subsequently sexually assaulted. Following the assault, Airbnb changed its policies so that its employees will contact law enforcement in emergency situations.⁸⁷

There have been other reports of Airbnb guests being sexually assaulted⁸⁸ by hosts.

While dangerous incidents can and do take place in hotels, most hotels have security staff as well as front-desk workers and other full-time staff members who can monitor and respond to dangerous or suspicious situations. Airbnb units do not necessarily have any employees or anyone else on site. In addition to staff, hotels generally also invest in security measures such as closed-circuit TV cameras and electronic key card entry systems that track who enters a room and when. In a 2014 survey of hotels, 92% of respondents said they use electronic keycards, and 88% reported use surveillance technology.⁸⁹

Problems with vacation rentals for guests are not limited to personal safety. Some users of Airbnb⁹⁰ and VRBO⁹¹ have reported getting scammed online – being tricked into sending money to con artists who impersonated hosts by intercepting emails between guests and hosts.

Even for legitimate listings, Airbnb does not guarantee unit quality, or have “brand standards” like branded hotels. The only name hosts need to worry about is their own, which they can customize or change. Units’ addresses are not shown until after booking, so in doing research before making a decision, a potential guest can only estimate where exactly it is that they might be staying. This makes it harder for users to verify the legitimacy, or even the existence, of some rental properties, which they could otherwise do using Google Maps or other tools.

Hotels have rigorous licensing requirements which cover many aspects of their operations and help protect consumer health and safety. For instance, a hotel cannot serve liquor without a liquor license. In order to get and maintain a liquor license, the hotel must ensure safeguards against underage drinking, it must have licensed, trained employees, it must show the ability to deal with dangerous situations, and it must be open to random inspections.

Hotels in Hawaii are also subject to fire department inspections, food and sanitation inspections, boiler inspections, and licensing requirements for spas, massage establishments, swimming pools and elevators. Further, it is often the case that hotels have tested for environmental hazards like asbestos, lead paint, carbon monoxide and mold. Many hotels have made efforts to comply with the Americans with Disabilities Act, providing accessible rooms, parking stalls, pools, etc. While potential guests could question the owners of vacation rentals about compliance with these regulations, there are no guarantees that hosts have complied with these various regulations, or even that they are sufficiently familiar with them to know whether or not they are in compliance.

Beyond all of this, it is also unclear whether any given vacation rental owner has plans for what to do in case of a natural disaster such as a tsunami or a hurricane. At least 85 tsunamis have hit Hawaii in the past 203 years.⁹² In contrast, 87% of hotels reported having disaster response/business continuity plans in a 2014 survey.⁹³

Fire Safety

Among other things, illegal vacation rentals may not have been inspected for fire safety. Fire inspections can determine whether or not:

- a building has fire extinguishers in working order in sufficient quantity and type located in accessible places;
- each room has a smoke alarm, and if all smoke alarms are in working order;
- there is a central fire alarm system or not to alert occupants to fires in other parts of the building;
- the building’s fire alarm devices automatically alert the fire department in an emergency;
- there are posted floor diagrams in guest rooms showing exit routes and exits;
- there are lighted exit signs directing guests toward emergency exits;
- furnishings and decorations in each room are fire-resistant;
- any fire hazards exist.
- exit pathways are free from obstructions;
- exits are clearly marked and they are not blocked or locked.

Even units in residential condominiums that have been inspected by the fire department may be unsafe for short-term vacationers unfamiliar with their surroundings.

Effects On Hospitality Industry

Legitimate hotels and legal short-term rental businesses must comply with tax, zoning, safety, and accessibility laws, as noted above. Staying in compliance with all of these laws costs money. Hotels must also spend money in order to remain compliant with fire, safety, and health codes by installing exit signs, automated sprinkler systems, fire alarm systems, backup power sources, and more.

Hotel businesses must pay payroll taxes, as well as general excise tax and transient accommodation tax, each of which illegal rentals might not be paying or might be underpaying if they even have tax licenses. The property tax rate for hotels in Honolulu is over twice as high as the rate for highly valued non-owner-occupied residences, and more than 3.5 times the rate for other residential properties.⁹⁴ These costs add to the price guests must pay to stay in legal units, making it difficult for legitimate businesses to compete with those that can cut costs by operating illegally.

Effects On Government

Property tax is not the only type of tax the counties and the state get shorted by illegal vacation rentals. They may also be avoiding General Excise Tax (GET) and Transient Accommodations Tax (TAT) payments, as well as registration and licensing fees.

The illegal operation of vacation rentals becomes an even greater concern for the state and county governments when one considers the taxes that such ventures often evade. While some rental unit owners have valid GET and/or TAT tax licenses, their lack of registration with their property's county makes it much more difficult to track how many of illegal vacation rentals are actually paying those taxes. Given the relative lack of enforcement, unit owners do not have much incentive to register, either.

In addition to the state taxes, illegal vacation rentals avoid registration fees currently associated with registering for new/renewed permits in various counties. As mentioned earlier, there are a number of other permits that legitimate tourist lodging providers need to obtain, such as liquor licenses. Permitting fees for all of these licenses bring in revenue to the agencies tasked with monitoring and ensuring visitor and public safety.

Part III – Recommendations

Changes to existing regulations are necessary to mitigate the negative effects of short-term rentals in Hawai'i. The right regulatory framework can ultimately protect hotel industry jobs, help keep the affordable housing crisis from getting worse, and benefit the community while still allowing a path forward for vacation rentals.

In order for existing regulations to be effective, they need to be supplemented with the following elements (described in further detail below):

- 1) Give the **enforcement agency** the power to
 - a) initiate investigations of potentially illegal vacation rentals;
 - b) use online ads for vacation rentals as prima facie evidence of vacation rental activity;
 - c) issue meaningful fines; and
 - d) take legal action against hosts and rental platforms like Airbnb and VRBO;
- 2) Provide a **private right of legal action** for residents and neighbors affected by illegal operations;
- 3) Require **mandatory investigation** by the enforcement agency upon receiving a complaint about an illegal vacation rental.

1. Enforcement Agency Powers

Given the prevalence of illegal vacation rentals in Hawaii, it is clear that current regulations are not working. The biggest weaknesses, however, are not in the regulations themselves, but in the lack of enforcement and the lack of enforceability. Regulators need the power to enforce the laws quickly and proactively, and they need to be able to enforce a clear standard without loopholes.

Power to initiate investigations

The enforcement body must be empowered to initiate an investigation of a property or hosting platform's unlawful activities. This will allow for proactive enforcement practices, instead of relying on a complaint driven system. This investigation could include, but is not limited to, an inspection of the subject property and/or a request for any pertinent information from the owner, business entity, or hosting platform, such as leases, business records, or other documents.

Power to use advertisements as evidence

The enforcement agency must be able to use online advertisements for vacation rentals as evidence of their operation. Using ads to quickly and efficiently sort out legal rentals from illegal ones is essential for making regulations effective at preventing the proliferation of illegal vacation rentals.

Power to issue fines

A strict and escalating system of penalties for lack of compliance is essential. Lack of compliance should subject both owners and hosting platforms to daily fines for advertising or operating illegal vacation rentals.

The enforcement body must also have the power and the resources to bring appropriate legal action against both online hosting platforms and owner/tenant hosts who fail to comply with the law. Appropriate legal action would include both injunctive and monetary relief, including civil penalties and attorneys' fees.

2. Private Right of Action

Legislation should include a provision to create a private right of action to enable anyone impacted (neighbors, tenants, owners, etc.) by illegal short-term rentals to sue the short-term rental operator and online hosting platform, as well as establish fines and the right to collect legal fees.

3. Mandatory Investigation Upon Complaint

The enforcement agency should be transparent and directly answerable to members of the public. If members of the public make a complaint to the enforcement agency about a potentially illegal vacation rental, the agency should have a duty to investigate the complaint and report back to the public on its findings. Members of the public should be able to compel the agency to act if it does not do this.

To Bear In Mind

Affordable housing is the major issue that should be kept in mind when regulating short-term rentals. The rising demand for reasonably priced homes and rental units is a crisis that needs to be addressed immediately, lest working families and their children be forced to move out of the state to survive. Commercial activity and business development should be regulated so as to align with the goal of creating sustainable jobs for Hawai'i's people. Any change in the legal status of short-term rental units should benefit local, working people.

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