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When Homes Become Hotels Short Stays, Lengthy Fights

Vacation Rentals Prompt Complaints and Bans, Spur Debate Over Property Rights When Homeowners Become Hoteliers, Some Neighbors Bristle at Noise, Nuisance

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By CONOR DOUGHERTY



Sandy Huffaker for The Wall Street Journal

Gary Clark says his Dana Point, Calif., neighborhood has become louder and busier because of short-term vacation renters.

Renting a private home while on vacation, rather than paying for a hotel room, has skyrocketed in popularity in recent years, leading to a backlash from neighbors and prompting places from New York state to tiny Columbia Falls, Mont., to ban or restrict the practice.

Now there is a backlash to the backlash—and a deep philosophical divide between property rights and neighbors' rights. On one side are homeowners who embrace the trend, along with the growing number of listing services that cater to the short-term-rental industry. On the other are neighbors who are also homeowners.

The number of Americans renting their homes to strangers has been driven in part by the weak economy, the housing bust and the Internet. In some cases, cash-strapped homeowners are renting their properties to supplement their incomes and to keep from falling into foreclosure. Home-rental listing sites, such as HomeAway

AWAY -0.13% and Airbnb, have aided the trend by providing a service that allows

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homeowners to advertise their properties, essentially turning their homes into pop-up motels.

In Sedona, Ariz., a lawsuit that challenged the city's ban on short-term rental advertisements was recently returned to Superior Court after the state's Supreme Court declined to review the lower court's decision. Courts ruled earlier this year against a Fort Lauderdale, Fla., regulation that prohibited short-term rentals in residential neighborhoods. In most places, a short-term rental is defined as lasting less than 30 days.

Such efforts are about to get more ammunition: A group of short-term rental-listing sites, including HomeAway and FlipKey, are creating an industry group that aims to institutionalize the practice by pushing cities to tax and regulate short-term rentals.



Enlarge Image

Sandy Huffaker for The Wall Street Journal

Emily Chase Smith of Dana Point says she has no record of complaints.

Carl Shepherd, chief strategy and development officer for Austin, Texas-based HomeAway, said the group—which is creating a website and is likely to be a nonprofit funded by the industry and short-term rental owners who join—will push cities to enact "light" regulations that steer clear of license and zoning changes but make it easier for municipalities to identify short-term rentals and collect occupancy taxes from them. It will also have more firepower to aid homeowners that are lobbying or litigating against such bans.

"We want this industry to be a valid choice for travelers, and simply want the legitimacy that comes with appropriate and fair regulation," Mr. Shepherd said.

In the past few years, real-estate investors have become an outsize chunk of homeowners, and many have found it more profitable to rent homes by the week instead of the month. In a 2011 survey by the National Association of

Realtors, some 91% of vacation-home buyers said they planned to rent their property to either long- or short-term renters. Vacation-home rentals have claimed a small but growing share of travelers. PhoCusWright, a travel-research company, said 11% of U.S. travelers rented a vacation home in 2011, up from 9% in 2009.

The real-estate bust is part of the reason Indio, Calif., decided to regulate—rather than ban or curb—its short-term market. The desert city 120 miles east of Los Angeles is home to a number of festivals, including the Coachella Valley Music & Arts Festival, and residents can make tens of thousands of dollars in rental fees in just a few weekends, Mayor Glenn Miller said. In February, the city passed a law requiring people offering short-term rentals to get business licenses, register with the city and pay the same taxes as hotels. Mr. Miller said the city has collected \$250,000 of tax revenue.

"A lot of these people are upside-down on their homes, and this gives them an opportunity to rent it," he said. But the mayor added that if neighbors complain about noise or parking, "we can cite the owner and pull the license."

Still, other places are pushing for bans because the growth of short-term home rentals has prompted complaints from neighbors about noise, parking problems and a revolving cast of characters on quiet streets where residents value stability.

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Dana Point, Calif., an Orange County beach town, is among the many where a move to curb short-term rentals has sparked a debate over the rights of those offering such lodging and the rights of their neighbors. For years, Dana Point has banned short-term home rentals. But the rule has long been ignored, in part because the practice wasn't widespread enough for the city to bother enforcing it, Mayor Lara Anderson said.

But over the past year, council meetings have filled up with people like Gary Clark, a retired firefighter and 66-year-old surfer who said his neighborhood has become louder and busier because of short-termers. Mr. Clark lives three blocks from the beach on a street of single-family houses. He said two nearby homes routinely are rented by vacationers, and they attract a younger crowd who clog the parking and keep neighbors up with loud music and heavy drinking.

"They're unregulated motels: We have no say on who is living next door to us for a week," he Mr. Clark said. "At least with a hotel or motel, you have security. You've got regulations. These things have absolutely no supervision whatsoever."

On the other side of the street—and the debate—is his neighbor, Emily Chase Smith, a lawyer who rents her home for \$1,800 a week when she is away. Ms. Chase Smith, who stays in short-term rentals herself when vacationing, said she mostly rents her home to families and has no record of the police ever visiting for noise problems.

She has a warning for Dana Point: "If they try to enforce the ban, the city is going to buy a lot of legal trouble. There are people for whom this is a big deal [financially]." Moreover, she added, "it's a normal use of property around the world. People aren't going down without a fight."

Ms. Anderson, for her part, favors enforcing the ban. "Had we not had the law on the books and these things were operating legally, that would be one thing where you talk about a compromise," she said. "But we do have a law, and residents have an expectation. I don't think we have a choice." Fellow council members disagree, and their staffers are designing a program—to be presented this month—to regulate and tax short-term rentals.

Write to Conor Dougherty at conor.dougherty@wsj.com

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