

# Housing or renting?

*The Airbnb-vote in Terézváros*

Analysis by the Republikon Institute



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## SUMMARY

- Airbnb has quickly grown from a home-sharing platform into an alternative to the hotel industry, but unlike traditional hotels, hostels occupy properties in the city that can be used for long-term accommodation
- Many European cities have recognised that they can mitigate the housing crisis by regulating Airbnb, most notably Barcelona's initiative this summer to ban Airbnb completely in the city, and now Terézváros is preparing to do the same
- Almost one in ten apartments in Budapest's 6th district is an Airbnb site, accounting for nearly 20 percent of the capital's total short-term rental stock, while the district has the second highest rental rates per square metre
- The vote was won by a margin of around 7 percentage points, with a turnout of more than 20 percent, but this majority may not be enough legitimacy for the public to impose such a drastic ban
- The primary reason for the stringency of potential regulation is the centralised system of local government, which leaves municipalities with no other means than a ban, but such a strong measure could divide district residents
- It is important that, if Airbnb is indeed banned, the district should introduce rules in addition to the ban to motivate homeowners to switch to the long-term rental market, as without this the expected effects of the measure may not be achieved

## THE SHARING ECONOMY AND THE AIRBNB

One of the most discussed economic terms of the 2010s was the sharing economy. The idea of this economic concept is that certain goods are shared by their owners with others, who then use them only as short-term tenants. These systems take many forms, often using information technology and the internet, in particular digital platforms, to facilitate the distribution, sharing and reuse of surplus capacity in goods and services. In an everyday example, this would look like if someone has a drill that he does not use all the time, but someone else needs one for a few holes, that person does not need to buy his own tool, he simply borrows the drill for an hour and then returns it for others to borrow.

These systems are now part of our everyday lives, just think of popular services like MOL Bubi, Green Go, Lime or Airbnb. The latter was originally conceived as a platform to rent out one's own apartment/house or even a guest room for a short period of time when away from home, thus attracting many new players to the short-term accommodation market, competing with hotels and ultimately lowering prices.

However, there is much criticism that the system has moved away from this concept, with landlords not offering their own homes, but much of the supply consisting of properties bought specifically for investment and run as short-stay accommodation all year round, and in many cases the operators are not private individuals but purpose-built businesses. The critics therefore argue that these apartments are essentially hotel rooms, but there are two points where they are seen as problematic compared to hotels. Firstly, they are concerned about the conflicts that may arise from the mixing of tourist accommodation and the living space of local residents. On the other hand, they criticise the fact that Airbnb accommodation directly reduces the number of apartments otherwise available on the rental market, and therefore the over-demand leads to an increase in rents.

It is difficult to find an exact figure for how much of the accommodation is rented out as originally conceived and how much is rented out permanently, so it can only be inferred that each accommodation provider is registered with one or more

accommodation in the Airbnb system. According to a 2019 study, in Hungary, nearly 60 percent of those renting out apartments on Airbnb rent out at least two separate rooms or two separate apartments on the platform. However, this does not mean that 40 per cent of accommodation is only rented out on a temporary basis, but only that the accommodation provider who registered the accommodation has not registered another apartment or room on Airbnb.

Many see Airbnb (and similar platforms for short-term rentals) as a major cause of the current housing crisis in major European cities, and as a result there is increasing pressure on local and national governments across the continent to clamp down on the short-term rental market. Most recently, the city of Barcelona announced a dramatic change from previous legislation when, in the wake of anti-Airbnb and anti-tourism protests, it decided to ban short-term rentals in the city completely by the end of 2028. The decision caused a stir not only locally but also globally, with many arguments both for and against. It has also had an impact in Hungary, where this summer Budapest's District VI announced that between 2 and 15 September it would hold a crucial online vote for local residents to ban Airbnbs from the district.

## THE SITUATION IN TERÉZVÁROS

Terézváros is located in the centre of Budapest, the district is basically along Andrásy Avenue. It is the second smallest but second most densely populated district in the capital. According to the 2022 census, the district has around 35,000 inhabitants, and according to the Central Statistical Office, 32 percent of the 29,000 apartments in the district are not inhabited. According to the AirDNA site (which is specifically designed to retrieve Airbnb data), nearly 20 percent of the roughly 15,000 Airbnb properties in Budapest are located in Terézváros. And according to data from ingatlan.com, the price per square metre of apartments for sale was 22 per cent higher than the Budapest average, as the average monthly rent for rentals in the district was around 10 per cent higher than the capital's average.

The district thus combines higher than average housing costs and a strong Airbnb presence with a locally popular mayor who, although a member of a liberal party,

prefers to describe himself as a left-winger. Although there are 4-4 arguments for banning and not banning Airbnb on the website of the Terézváros municipality, Tamás Soproni has said in public speeches on the subject that he himself will choose between the two options.

## THE CENTRALISED LOCAL GOVERNMENT SYSTEM

In Hungary, since 2010, an extremely centralised structure of local government has emerged, which is itself contradictory, with the tasks, the resources to finance them and the powers to mobilise resources (such as the power to levy taxes) being taken away from local governments year after year. Today, a local government can levy and determine around half a dozen taxes (local business tax capped at 2 per cent, tourism tax, building tax, etc.).

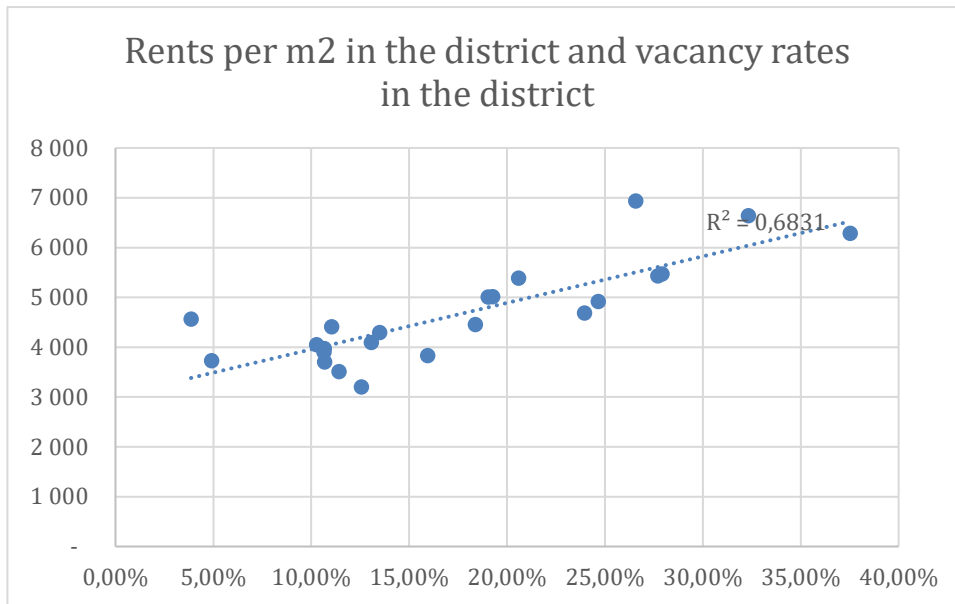
This narrow margin of manoeuvre is also a problem because, like the state, municipalities are basically tax collectors, one of the main fiscal instruments for so-called soft regulation. This means that the body competent in the matter does not use prohibitions or authorisations, but economic incentives to steer market players towards its preferred behaviour. Therefore, if local authorities do not have this competence, there are two possible ways to regulate Airbnb. Either the municipality decides, as Terézváros will do depending on the outcome of the vote, to ban short-term accommodation in the district, which it can do under its own powers, or it waits for a state regulation, which in turn will be national in scope by default. Such central regulation, however, ignores local specificities, i.e. the fact that problems do not manifest themselves in the same way in different municipalities, and therefore may require a different approach to their resolution. In Budapest alone, the distribution of Airbnb accommodation across districts is very uneven, and while in Erzsébetváros (District VII), for example, there are 4,300 Airbnb properties for every 38,000 properties (11.26% of the district's total), in the 15th district (District VII), for example, there are 5,300 Airbnb properties for every 38,000 properties (11.26% of the district's total). In this area of the city, therefore, short-term accommodation is presumably not a problem, as its presence is negligible, which shows that the two districts do not have the same regulatory needs.

Internationally, the most attention on Airbnb is now focused on Barcelona, as the largest Catalan city decided this summer to ban short-term rentals until the end of 2028, in an attempt to mitigate the particularly severe housing crisis there and the anti-Airbnb and anti-tourism protests that have surrounded it. The extent to which the public in Barcelona is concerned about Airbnb is already demonstrated by a 2018 study that specifically addresses the externalities of Airbnb as a rent-increasing tool, so the issue is not new there either.

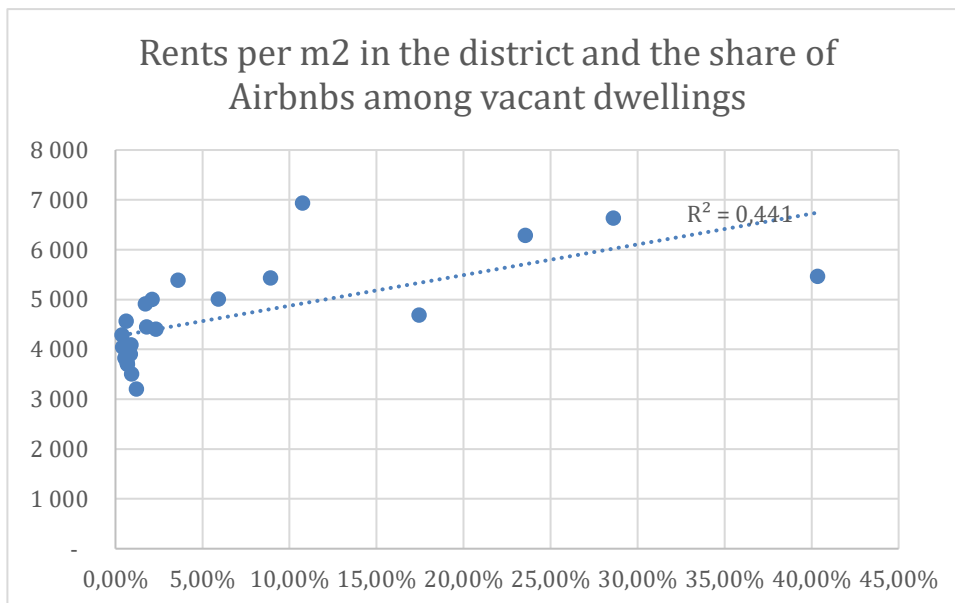
The study looks at how the spread of Airbnb has affected the rise in rents in Barcelona. One of the main pieces of evidence, according to the authors, is that the increase in rents was strongly correlated with the density of Airbnb in different neighbourhoods. By analysing the data, the study reveals that the impact of Airbnb on rent increases was significantly observed between 2013 and 2016, when the proportion of Airbnb accommodation per thousand dwellings increased significantly. The study attempts to distinguish between the effects of Airbnb and other factors that increase rental prices by including variables such as distance to the beach and intensity of tourism in the analysis. The authors' final conclusion is that, although other structural factors are present (e.g. liberalisation of the rental market), Airbnb plays a significant role in the increase in rental prices. But there are more ways to regulate, not just a total ban, which Barcelona has introduced and Terézváros plans to introduce depending on the outcome of the vote. A study last year compared the effectiveness of different regulatory methods (maximising the number of days a year and a total ban in the most touristic areas) on several dimensions. The study found that the two types of regulation have different benefits. A time limit reduces Airbnb supply to a lesser extent but is more effective in tackling so-called professional landlords, while a total ban reduces the number of short-term rentals in certain neighbourhoods more, but these regulations are more adaptable for professional landlords. The authors argue that a combination of both regulations is best for the public interest and to reduce pressure from Airbnb, but also point out that cooperation with actors that provide a platform for renting out accommodation (e.g. Airbnb) is essential. Without this, it is difficult to check that the rules are being complied with. The study concludes that such a regulatory mix could be effective in curbing the problem of Airbnb. However, it is

not yet clear how far the roll-back of Airbnb in different ways will help to curb the housing crisis, reduce property prices and help to return inner-city areas to local residents. The reason is that it is only in the last few years that policy has started to actively limit Airbnb's previously unconstrained operations, and the social and economic impacts are typically longer lasting, not overnight changes in these dimensions<sup>1</sup>.

The contribution of Airbnb to the large increase in house prices in Hungary in recent years has not been the subject of in-depth research. What is certain is that apartment and rental prices in the Budapest area have risen significantly. According to data from Ingatlannet, between July 2014 and July 2024, the purchase price of real estate increased by an average of 234%, while the price of rentals increased by 128% in the capital. This summer, average rents per square metre in the capital ranged from 3204 to 6934, depending on the district. The highest average rent per square metre is in the 1st district, followed by Terézváros, Belváros-Lipótváros, Erzsébetváros and Ferencváros. The reason why the unit rental costs are high in these districts can of course be explained by several factors (inner city location, prestigious neighbourhood, good public transport accessibility). One explanation could be that vacant properties reduce the supply of rental housing, which pushes up the equilibrium price. In the Castle and the four Pest districts, at least 25 percent of the total stock is unoccupied (32 percent in Terézváros, as we wrote earlier, but 37.5 percent in the V district). This does not mean, of course, that all of this is short-term rentals, as retail space and offices are also included in the figure. But what we can see from a regression analysis is that when we compare the square metre prices of the districts and the proportion of unoccupied properties in the districts, we obtain a medium-strong regression (with a coefficient R<sup>2</sup> of 0.68).



This is, of course, a basic economic assumption, since significantly lower demand and supply remaining at normal values leads to an increase in the equilibrium price. So this in itself has nothing to do with Airbnb. It is interesting to note, however, that if rents are correlated with the share of unoccupied properties that are Airbnb, the correlation weakens, but still shows a medium-strength relationship.



However, a regression equation alone does not tell us which of the two variables (rent and Airbnb presence) is the dependent variable (whose value is explained by the value of the other variable) and which is the independent variable (which determines the value of another variable). So we cannot know for sure from this that the high Airbnb supply is the reason for higher long-term rental costs, or that



the reason for the large number of Airbnbs in these districts is that they are more expensive and therefore offer a higher return on investment.

However, the problems of the housing crisis are not only reflected in rising house prices and rents, but also in the associated depopulation. And in these districts, a lot of housing could be absorbed and help to slow down this trend, which is damaging for the capital. It is questionable, however, how many people would switch from the short-term rental market to the long-term rental market even with a complete ban. It is reasonable to assume that the professional landlords who would be displaced would either convert their former apartments and continue to operate them as hostels, or possibly sell them to investors who would keep the properties empty in the long term (waiting for a possible future relaxation of the rules without anyone 'unloading' the property in the meantime), which would not reduce but only freeze prices. If, therefore, residents ultimately opt for a ban, the city government, in order to achieve its socially positive goals, will have to take other measures to motivate homeowners not to take their properties off the market but, on the contrary, to put them on the market.

## THE RESULTS IN TERÉZVÁROS

In the end, 6,083 residents took part in the vote, representing 20.5 percent of all eligible voters (Terézváros residents aged 16 and over). Of these, 3265, or 53.67% of those eligible, voted in favour of banning Airbnb in the district. In the light of the results, Tamás Soproni will submit to the Council of Representatives the amendment to the rules that will ban Airbnb. Overall, 11% of those eligible to vote were in favour of banning Airbnb in the district.

The turnout was high, with 136,000 capital residents voting in a similar format in Budapest in 2023, representing 9 percent of those eligible, and only 25,000 in a second housing referendum in early 2024, representing less than 2 percent of those eligible.

It is also worth recalling the 2018 referendum on the introduction of compulsory closing hours in the city of Elisabeth. Here, the turnout was 15.89%, but unlike the

Terézváros vote, it was a traditional referendum, i.e. only one day to vote, only adults could vote, and only in person, not online. Of the 6888 people who took part, 4572 were in favour of the compulsory closing time, i.e. 66.38% of the voters present. This means that 10.54 percent of all eligible voters were in favour of compulsory closing time.

The referendum in District VII was ultimately invalidated due to low turnout. However, as we can see, nearly the same proportion of eligible voters voted in favour of the closing time as voted in favour of the Airbnb ban in Terézváros, but within a much narrower margin. And if we look at the distribution of the votes of those present, the ban won by a much larger margin in Erzsébetváros than in Terézváros. The narrow majority may therefore mean that Tamás Soproni's motion has less legitimacy than the mayor would like, and the accommodation providers' lobby may even use this as a basis for arguing against the regulation.

Such a split, which even the locally popular mayor could not turn into a significant majority in favour of the ban, is probably caused by the exclusivity of the regulation. The choice between prohibition and non-regulation is the result of the centralised situation explained earlier. However, the public may rightly feel that, while some regulation is necessary, total prohibition is not necessarily the preferred option. The mayor has reflected on this difficult situation in several interviews. In the vote, however, those in favour of a ban formed a relatively narrow majority, and Soproni will bring forward the amendments as promised. However, it is questionable for how long they can be in force, as the government is already talking about a possible state-level regulation that would override local regulations if it is created. However, the content of this is currently unknown.

## CONCLUSION

So the situation in Terézváros is by no means simple. Indeed, the district has a large presence of Airbnbs, and the large number of under-utilised properties for housing (of which short-term accommodation accounts for a significant proportion) contributes to the housing crisis that is plaguing European cities. The vote was ultimately won by a margin of around 7 percentage points in favour of a ban, but

this may have less legitimacy than a traditional referendum. The mayor will, however, take the initiative to change the rules on short-term rentals, but it is important that these are accompanied by some kind of regulation to shift former Airbnb properties into the long-term rental market, as this could actually increase the number of rentals in the district, while also reducing prices (or at least their increase).