

# REPORT

# Proposals for reducing the impact of short-term rentals on community displacement

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JULY 2023



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# Presentation

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Hispanic Federation (HF) has embarked on a process of promoting public policy to deal with the effects of short-term rentals (STRs) on housing availability and affordability. To that end, Hispanic Federation requested that El Enjambre facilitate a process to survey the stance of different sectors and interest groups with respect to this issue, identify points of convergence and divergence, develop recommendations for public policy and examine the possibility of reaching agreements, and developing concrete actions. As part of this process, Hispanic Federation invited several stakeholder organizations to set up a Steering Committee that would co-lead the process and receive and comment on the work developed by El Enjambre.

This project addresses the way in which STRs contribute to the displacement of geographic communities in Puerto Rico. International experiences were examined to identify challenge patterns and actions that have been implemented. The work team used a qualitative methodology to assess how the proliferation of these rentals affects residents in the communities. The team conducted a series of community sessions and interviews and compiled data that helped identify recommendations for public policy and other matters, based on the knowledge and needs of the people and sectors impacted by this issue. The data gathered by the work team reveals that STRs are disrupting the life and residential nature of certain communities by increasing long-term rental costs and real estate market prices, thus affecting quality of life, and leading to displacement and gentrification in geographic communities. Participants made a series of recommendations aimed at treating short-term rental operations as a commercial, non-residential activity, identifying the areas where they can operate, examining use intensity and the rules that govern their operation, facilitating effective oversight, establishing tax burdens, and ensuring community permanence.

The challenges faced by this project included limited access to government officials and representatives of associations from the short-term rental sector, as well as a lack of data on this matter in the context of Puerto Rico. To address these challenges, the work team gathered and analyzed materials and publications by these groups and attended public activities they organized around STRs.

The findings and recommendations included in this report gather the ideas, suggestions, and reflections expressed by participants during the interviews and work sessions conducted as part of the research. The report is based on individual and collective knowledge that was shared as part of the process. In most cases, people participated in the activities individually rather than in representation of an organization or collective. Therefore, **the positions and recommendations expressed herein do not necessarily represent the opinion of participating persons and organizations, members of the Steering Committee, or Hispanic Federation.**

## KEY WORDS

*Community, displacement, gentrification, short-term rentals, housing, public policy, Puerto Rico*

# Executive Summary

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Hispanic Federation (HF) has embarked on a process to examine the effects of short-term rentals (STRs) on communities and on the availability and affordability of housing, with the aim of promoting public policy to address the negative impact. To that end, HF requested that El Enjambre conduct a participatory study to survey the stance of different sectors and interest groups with respect to this issue. The findings and recommendations included in this report gather the ideas, suggestions, and reflections expressed by participants during the interviews and work sessions. The list below summarizes the principal findings of this research.

## Benefits of short-term rental

- **Generation of jobs in the community:** STRs create direct and indirect jobs related to property cleaning and management.
- **Economic Activity:** STRs foster local investment and attract customers to certain businesses and tour companies linked to the tourist industry.
- **Movement of people in the area:** Some participants noted that transportation alternatives (e.g., taxis, Uber) grow in towns where STRs proliferate.

## Negative effects of short-term rentals

- **Displacement and housing:** STRs contribute to higher housing costs and the buy-up of properties. This poses challenges in finding affordable housing to rent or buy. Additionally, it results in renters having to leave their homes and even face eviction when owners wish to convert their properties into STRs.
- **Conflicts of use and insecurity of quality of life:** Tourist activity generates excessive noise, parties, and inconsiderate use of common spaces, among other behaviors that are incompatible with residential use. Additionally, many owners are corporations or individuals who live elsewhere and do not suffer the impact on their quality of life or feel direct pressure from their neighbors to establish controls for these operations.
- **Rise in the cost of goods and services provided in the community:** Businesses and government services change their offers to address the needs of tourists instead of residents. Residents thus need to travel to obtain goods and services.
- **Public safety:** After the peak tourist season, the communities housing STRs become ghost neighborhoods and public security diminishes. Short-term rental units are used for illegal activities.
- **Displacement of local businesses:** Businesses that cannot adapt to the tourist market are forced to close or relocate.
- **Unfair competition in tourist lodgings:** STRs are not subject to the same requirements, tax burdens, inspections, and operational regulations as other lodgings.
- **Tourist safety and experience:** The displacement of communities to make way for STRs changes the character of the place, thus altering the offer of local experiences and the attractions of the destination. Units are rented in places with limited security and many lack security measures for their guests.
- **Market saturation:** The number of rooms offered by short-term rentals has saturated the supply of available spaces, creating an imbalanced market.
- **Destruction of areas of high ecological value:** This includes the destruction of mangrove swamps and the construction of piers without proper permits, as well as limited access to public goods such as beaches.
- **Generation of solid waste:** Guests tend to purchase more products than they need for their stay. This generates a larger volume of waste.

## Main Recommendations

Current public policy on STRs focuses on collecting money and regulating some aspects of their operations but does not address their impact on housing and the displacement of communities revealed by previous studies. Participants did not recommend the prohibition of STRs, as they recognize there are some benefits derived from this commercial activity. However, they did emphasize the urgent need to regulate STRs to achieve a fair balance between the benefits and the negative impact they can have on the community. Participants particularly identified the principles that should guide public policy with respect to STRs, including those related to citizen participation, recognizing housing and community permanence as a right, and adapting regulations to the various contexts and types of owners. Based on these principles, they suggested measures that should be taken to reduce or mitigate the negative impact of short-term rentals. The following list includes some of the recommendations proposed by participants in the process:

- Increasing the room tax imposed on STRs from 7% to 9-11%.
- Using new income from the room tax to finance oversight and the increase of demand for public services, as well as programs and projects to protect housing affordability in areas of high real estate pressure.
- Giving the municipalities a leading role in oversight.
- Creating a public registry, with an interactive map, to provide data on property location, owners, operators, as well as other information related to STRs, to facilitate the oversight of this activity.
- Requiring that short-term rental platforms provide data to the government.
- Classifying them as businesses and applying the licenses, patents, permits, and other applicable commercial activity requirements.
- Designating structures with six or more STR units as small inns.
- Demarcating the areas where they may operate, to protect lands with high ecological and agricultural value, historic districts, and residential areas. Adjusting the amount and density of short-term rental units according to the carrying capacity of their location.
- Differentiating owners of multiple short-term rentals from individuals who rent out a unit or a room for subsistence income.
- Amending the Condominium Act to allow titleholders to prohibit short-term rentals of the properties.
- Establish rent control policies.
- Providing incentives and financial assistance to local buyers so that they can acquire housing.
- Offering incentives for the purchase of properties in areas of high real estate pressure to use as subsidized housing and taking measures to maintain their long-term affordability.
- Restoring abandoned properties in urban centers to develop long-term rentals.
- Developing community land banks to recover public nuisances and facilitating the establishment of housing cooperatives, land trusts, and other affordable housing strategies.
- In cases where corporations own condominium properties, assigning a one-vote restriction per titleholder based on its resident agent or president, not on the legal person.
- Including community participation in substantial binding processes related to the granting of short-term rental permits and territorial ordering, among others.

## Conclusion

The data collected by the work team confirms that Puerto Rico is experiencing the main negative effect that other international short-term rentals have experienced—the creation of conditions for displacement and gentrification. There is an urgent need to adopt effective public policy to minimize the negative impact of this commercial activity, particularly in relation to housing affordability and ensuring community permanence.

# Introduction

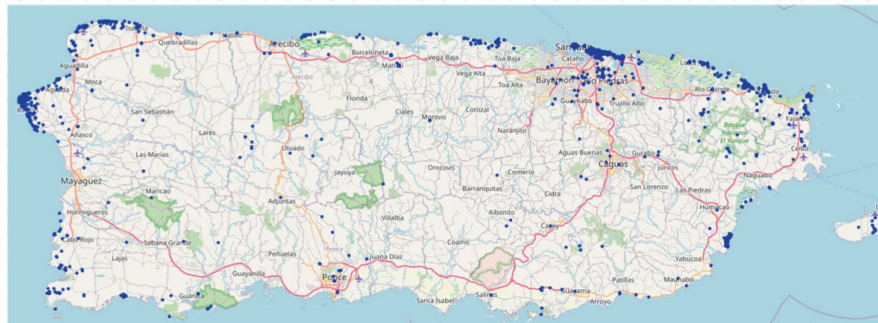
The Commonwealth of Puerto Rico Room Occupancy Rate Tax Act (Act 272-2003), defines short-term rentals (STRs) as “every facility, building or part of a building leased for a period of less than ninety (90) days, devoted to the lodging of people for pay.”

In 2014, there were 1,000 units operating as STRs in Puerto Rico. This number grew to 17,000 by 2022. A key factor was that in 2017, after Hurricane María, this market experienced a monthly income increase of 80%. In 2022, STRs generated approximately \$362,710,059 in profit (Discover Puerto Rico, 2022). Currently, 100-400 new short-term rental units are being registered monthly (Abexus Analytics, 2022). Most of the properties available for short-term rental in Puerto Rico are apartments (59.6%), followed by homes (33%). These satisfy 40% of the demand for lodging (Mercader, 2022). As shown in **Figure 1**, although concentrated in coastal areas, STRs have expanded their presence across the Puerto Rican archipelago, including the central mountain region.

Although short-term rentals are positioned as an important industry for Puerto Rico, its implications at the community level require a critical look. The media has covered situations related to STRs, mainly in relation to their presence in areas of high ecological value, historic districts, and residential areas.

**FIGURE 1**  
**Figure 1: Location of short-term rental properties**

**2015**



**2022**



*Tomado de Abexus Analytics, 2022.*



Various community organizations have denounced the negative impact that this growing tourist activity has on their neighborhoods and on the quality of life of their residents, particularly in terms of security, access to and cost increases in goods and services and housing, displacement, and gentrification. However, current public policy in Puerto Rico with respect to short-term rentals fails to take into consideration these externalities.

This document seeks to bring to the fore the impact of short-term rentals on geographic communities as voiced by residents and other sectors, and present the proposals offered by research participants to address the most pressing consequences of said economic activity. After contextualizing the situation in Puerto Rico and highlighting the most outstanding aspects of the public policy governing short-term rentals on the archipelago, the document explains the methodology used in the study and its principal findings.

## Context

The 1970's brought a series of changes in the economy at the international level, characterized by de-regulation and the introduction of market dynamics in various sectors of society (Harvey, 2005). These transformations are still developing and include a shared economy (or collaborative economy) and technology as pillars of commercial activity. Chris Fairweather (2017) defines shared economy as a model that allows for the extraction of surplus value without requiring the purchase or ownership of any of the primary means of production. Features of this economic model include the fact that its labor is not centralized nor is it part of a corporation but is based on a de-centralized network of individuals. In this network, individuals become private service providers of transportation, loans, and short-term rentals, among others (Sundararajan, 2016). One of the consequences of a shared economy is that it blurs the line between full-time employment and casual employment, as well as the distinction between self-employment and fixed-term employment.

Technology and digital platforms play a fundamental role in the development of this economic model. The rise of a shared economy has solidified platforms that perform different types of economic activity, including the sale or resale of products and services. Platforms that comprise the shared economy typically generate transactions or interactions in which two or more groups benefit economically from a growing number of users (Codagnone et. al., 2019). Lyft, Uber, Uber Eats, Zip Car, Instacart, and Uva are some of the platforms operating within the shared economy.

Internationally, the increase in unemployment rates and the closing of companies after the 2008 financial crisis stressed the need for supplementary income (Garay et. al., 2022). This spurred the growth of short-term rental platforms in many cities. Although there are many short-term rental platforms, Airbnb emerged as the fastest growing after its launch in 2008, operating in over 34,000 cities in 191 countries with approximately 3 million registered properties. Airbnb defines itself as a “community” focused on creating interconnection and a sense of belonging by fostering investments from private hosts (Airbnb, 2021). This platform promotes short-term rentals where private hosts can rent out part of their properties or entire units, including mobile units.

Benefits of STRs include an increase in tourist activity and the arrival of new businesses and investments in the community (Minhong & Yilan, 2021). However, international experience questions such benefits, considering the negative effects short-term rentals produce. At the community level, the arrival of STRs poses challenges in terms of security, quality of life, access to mortgage products, and unfair competition with other types of lodgings (Nodiff, 2021). Specifically, STRs tend to increase costs of property purchases and rentals, which in turn results in displacement and gentrification (Garay et. al., 2021; Minhong & Yilan, 2021; Nodiff, 2021). According to Cocola et. al. (2021), people working as short-term rental hosts are usually white, middle class, with significant cultural capital. This widens the gap of socio-economic inequality, since only a middle-class minority benefits from short-term rentals.

These negative effects have generated debates, protests, and movements, as well as government action to regulate this rental modality. Local governments have assumed a leadership role with respect to developing such regulations. Many cities in the United States have designated areas where STRs may operate and have implemented other measures. These measures include classifying them as businesses, limiting the number of units that one person can rent short-term, requiring commercial licenses, certifying that the unit to be rented is part of the renter's primary residence, regulating guest activities, and establishing compliance guidelines with respect to the physical condition of the rental unit, (Nodiff, 2021).<sup>1</sup>

Attempts at regulating STRs face limitations, including the lack of control and access to rental data, the shortage of resources at the municipal level to enforce such regulations, as well as the misalignment, magnitude, and scale of the problems that arise from the activity and the scope of the measures taken by local governments. Furthermore, attempts at regulation are usually focused on some of the actors linked to this economic activity and not on the ecosystem, which includes, in addition to the rental unit owners, their managers, the people and businesses who provide construction, cleaning, and maintenance services, financial entities, and real estate brokers, among others (Cocola et al., 2021).

Puerto Rico is certainly not exempt from the effects that STRs have had in other parts of the world. A recent study by the Center for a New Economy and the Graduate School of Planning of the University of Puerto Rico concluded that a 10% rise in the number of STRs in a community increases housing rental costs by 7%, the property value per square foot by 23%, and the volume of sales in the neighborhood by 0.1% (Santiago Bartolomei et al., 2022). This situation highlights the need to regulate short-term rental operations given their implications for communities, particularly with respect to housing, community permanence, and quality of life. Although an analysis of the literature included in this study about the regulations adopted by cities in the United States, Europe, and Asia revealed that, due to the novelty of this activity, there is a research gap with respect to the effectiveness of many of the measures adopted, its authors argue that the effects of STRs on housing merit urgent action (Santiago Bartolomei et al., 2022).

## **Commonwealth of Puerto Rico public policy in relation to short-term rentals**

The shared economy model and short-term rentals have gained ground as areas of significant growth in Puerto Rico. Current public policy in Puerto Rico prioritizes the development of a shared economy, focusing on attracting digital platforms to promote this activity and creating regulations that facilitate growth among these providers. The Act to Establish Public Policy for the Development of a Shared Economy in Puerto Rico, Act 51 of June 20, 2019, creates an inter-agency Advisory Committee to foster the development of a shared economy and advise the Department of Economic Development and Commerce (DDEC). For the DDEC, STRs are a fundamental area of the shared economy with respect to the growth of tourism and economic development in Puerto Rico (Mercader, 2022).

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<sup>1</sup> Examples of cities that have implemented some type of regulation or tax on short-term rentals are Austin, Madison, Chicago, San Francisco, Boston, Denver, Kansas City, Arlington (Virginia), New Orleans, Seattle, San Luis Obispo, Portland, Indianapolis, Philadelphia, Santa Mónica, and New York. Other jurisdictions such as Washington DC and Michigan have also taken related action.

Although there are some rules that govern operational aspects of STRs, with very limited results, current regulations focus mainly on the collection of the occupancy tariff known as room tax<sup>2</sup>. Let's examine this.

#### a. Current public policy

- The fiscal plans of the Financial Oversight and Management Board see the tourist industry as one of the pillars of economic development in Puerto Rico. In that sense, the Board's most recent fiscal plan continues to drive economic de-regulation, a shared economy, and the development of the tourist industry through foreign capital. Although the fiscal plan for 2022 does not discuss the growth of STRs, it does emphasize the need to mobilize applicable agencies to capture the money collected from room tax (Financial Oversight and Management Board for Puerto Rico, 2022).
- The Commonwealth of Puerto Rico Room Occupancy Rate Tax Act, as amended (Act 272-2003), authorizes the Puerto Rico Tourism Company to collect the room tax imposed on STRs. Under said law, the Tourism Company has the authority to oversee, regulate, sanction, and take appropriate courses of action with respect to the room tax.
- Lodgings Regulation 8856 enacted by the Puerto Rico Tourism Company in 2016 under Act 272-2003 specifies that STRs must be registered with the Tourism Company and are subject to routine inspections, and that their owners must register as hotel operators and collect room tax. The regulation establishes use restrictions (e.g., control of excessive noise), parking space requirements, and compliance with community rules, and prohibits disrupting the residential nature of the community. Additionally, it lists the requirements the units must comply with (e.g., bathroom, fire extinguisher) and requires that someone be available on call to provide guest services.
- According to the Puerto Rico Condominium Act (Act 129-2020), STRs in horizontal property regimes can be prohibited only when established in the master deed and/or bylaws.<sup>3</sup> The Council of Owners has the authority to regulate short-term rentals.

#### b. Public Policy Proposals

Legislative measures have been proposed since 2017 that seek to establish how short-term rentals should operate, the licenses they must have, and the agencies that must regulate them. House Bill 1081 was introduced in May 2017 to create the Act to Promote and Regulate Short-term Rentals, with the aim of addressing short-term rentals in condominiums and residential developments through the creation of a registry of properties under this business modality. The bill sought to authorize residents' boards or associations to make decisions pertaining to house rules in condominiums or residential developments that would allow short-term rentals and defined the basic guidelines for operating these properties.

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2 The room tax is paid by guests based on a percentage of the occupation rate per night. The percentage paid varies according to the type of lodging. Lodgings are required to collect the tax and forward it to the Tourism Company.

3 However, even when the title deed limits the use of apartments to a residential use, it has been argued before the Supreme Court of Puerto Rico (without resolution), that short-term rentals represent a residential, not residential use. See the case Council of Owners of Condesa del Mar Condominium v. Chamah Martínez, KLAN201601773, 2017 PR App. WL 5655000, page \*4 (TA PR August 10, 2017).

Currently, the Legislative Assembly has the following bills under its consideration:

- [House Bill 1557](#), which proposes the enactment of the [Act to Regulate Short-term Rentals in Puerto Rico](#).<sup>4</sup> This bill grants the Tourism Company the exclusive authority to regulate these lodgings solely in matters related to facilitating oversight and enforcing the law. The bill repeals the provisions on short-term rentals contained in Regulation 8856. It creates a system in which the Tourism Company can develop collaborative agreements with municipalities and platforms and classify them as qualified. Qualified municipalities would be authorized to conduct oversight tasks, and the authority they currently have under the Municipal Code to address these matters would be diminished. The Tourism Company could forward part of the room tax collected to said qualified municipalities. On their part, qualified platforms would collect the room tax for the Tourism Company in exchange for a series of exemptions in insurance, deposit, and other payments. The measure creates a registry of short-term rentals and regulates some aspects of their operation (e.g., safety and security measures, noise control). Additionally, in the case of structures located in residential areas, the host must obtain a permit for commercial use when the lodging occupies more than 30% of the housing unit.
- [House Bill 1446](#), which proposes the enactment of the [Act to Regulate Short-term Rentals in Puerto Rico](#).<sup>5</sup> This measure seeks to establish the annual collection of a \$150.00 license from short-term rentals and exclusively delegates the tasks of regulation and oversight of properties under this type of rental modality to municipal governments. Furthermore, it lists a series of rules related to the operation of short-term rentals to address aspects of community coexistence, such as notifying neighbors of the presence of short-term rental properties, minimizing unnecessary noise, establishing a maximum occupation for units, and determining the responsibilities of the rental agent.
- [Joint Regulation for the Evaluation and Issuance of Permits for Land Use and Development of 2022](#) (Joint Regulation 2022).<sup>6</sup> The draft of the Joint Regulation 2022 proposed by the Planning Board defines short-term supplementary accommodations as any house, room, apartment, or other type of structure that is not a hotel and is important for tourism development. The Regulation states that short-term rentals shall operate exclusively for tourism purposes and establishes that, to be considered for residential use<sup>7</sup>, they must have one to five room units, which must comply with the requirements of the Fair Housing (FH Act) or the Americans with Disabilities Act (ADA). Joint Regulation 2022 allows STRs to operate in residential, residential-tourism, commercial, rural, and some conservation districts (e.g., scenic routes, historic sites). The permit granting process for STRs in such districts would be ministerial; therefore, the authorized official or professional who evaluates the permit does not have special discretion or judgement to reach a determination, since such determination only involves the use of fixed standards established by such districts. Consequently, once districts are placed on the land use maps, there is no space for additional case-by-case citizen participation.

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4 The bill was introduced by New Progressive Party Representative José H. Rivera Madera. The measure was referred to the Tourism and Cooperative Commission in September 2022. After the public hearings process, the measure was approved by the House of Representatives on June 25, 2023.

5 The bill was introduced by New Progressive Party Representative Joel Franqui Atilés. The measure was referred to the Tourism and Cooperative Commission in September 2022.

6 In 2023, the Planning Board adopted an emergency joint regulation after previous joint regulations were declared null. As with its predecessor, this regulation fails to adequately address short-term rentals.

7 Proposed Regulation 2022 defines residential use as the use related to permanent or temporary lodging of persons.

### c. Municipalities

The Municipal Code of Puerto Rico (Act 107-2020) authorizes municipalities to establish policies, strategies, and plans for their territorial ordering, including the application of licenses, rates, and tariffs in accordance with the Internal Revenue Code, and declares it is public policy to provide municipalities with the necessary powers and authority to assume their “fundamental role in favor of social and economic development in their jurisdictions.” To date, the Autonomous Municipality of Dorado and the Autonomous Municipality of San Juan have regulated short-term rentals.

- Administrative Bulletin No. 7 of the Autonomous Municipality of Dorado requires renters to obtain and annually renew a license to operate and lists the requirements for requesting it. The cost of said license starts at \$1,000 and varies according to the number of units registered by each owner and the classification of those properties. The ordinance establishes a difference among shared residential units, non-shared residential units, and mobile units. The responsibility of issuing licenses and receiving and addressing complaints lies with the Office of Territorial Planning and Ordering of the municipality.
- Administrative Bulletin No. 39, Series 2022-23, of the Autonomous Municipality of San Juan adopted the Regulation to Establish the Short-term Rental Registry in the Municipality of San Juan. This ordinance establishes a system of licenses that involves the submission of a unique permit, limits the activities that can be carried out at the short-term rental units, imposes fines of up to \$2,500, and prohibits the disruption of the residential nature of the community. The regulation assigns the responsibilities of issuing licenses and conducting oversight to several municipal agencies. The ordinance fails to address the concentration of STRs in areas such as the Old San Juan historic center, Puerta de Tierra, and the Calle Loiza community.

The Municipality of Isabela also has under consideration a proposal to regulate STRs, including the requirement of annual licenses payable according to the type of property. Fines for noncompliance are provided in all three cases.

- Ordinance Bill No. 21-2022 of the Municipality of Isabela. The proposed ordinance adopts regulations that prohibit the disruption of the residential nature of the area where the property is rented, limits the activities that may be carried out on the property, and requires written authorization from the residents' association, among other obligations. This ordinance also requires obtaining a license based on the differentiation of shared residential units, non-shared units, and mobile units, and assigns the tasks of maintaining a registry of short-term rentals and overseeing this activity to the Office of Internal Revenue.

Based on the above, we have concluded that current public policy and the proposals under consideration by the Legislature focus on collecting money, registering short-term units, and regulating some aspects of their operations. They do not, however, address the impact of this activity on housing, particularly with respect to community displacement and gentrification. Nor do they recognize the special characteristics of each context. The literature on international experiences with this matter reveals a correlation between the presence of STRs and community displacement and gentrification. This gap calls for urgent discussions to establish a balance between the presence of STRs and respect for the culture, identity, access to housing, and permanence of the communities where they are located. It is therefore imperative to define actions based on community experiences to prevent the displacement and gentrification processes that may result from short-term rentals.

## II. Research questions and methods

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This project poses the need to address one of the main gaps in the public policy that seeks to regulate short-term rentals. It is important to examine how short-term rentals contribute to displacement and gentrification processes, considering the increase in housing costs recorded in Puerto Rico, especially after 2020 (Puerto Rico Institute of Statistics, 2022). Furthermore, the correlation between the concentration of short-term rentals and cost increases in rent and value per square foot established by Center for a New Economy data highlights the urgency of examining how this economic activity impacts on communities in Puerto Rico, particularly those that are most vulnerable to displacement (Santiago-Bartolomei et. al., 2022).

Complaints by various community groups with respect to the impact of STRs on their quality of life and the threat of displacement resulting from these rentals require that multiple sectors join efforts to address the situation. Developing possible courses of action entails identifying some research questions that can respond to the current gaps in public policy. The work team has therefore developed the following questions:

- a. In what ways do short-term rentals contribute to the displacement of geographic communities in Puerto Rico?
- b. Based on the experience of key actors in matters of short-term rentals, what public policies and citizen actions can reduce or prevent the displacement caused by this type of rental and promote community permanence?

Answering these questions allows us to address the objectives of this study, specifically: to identify the problems and benefits produced by STRs in geographic communities; explore the factors that lead residents in communities where STRs proliferate to move to other areas or municipalities; and develop recommendations for public policy and citizen action to ensure community permanence given the expansion of this rental modality.

Addressing these questions involves using a qualitative case study design that allows us to examine the social dynamics around the issue. As a case study, it conducts an in-depth exploration of a phenomenon or process within certain time periods or activities that characterize the subject of the study (Creswell and Creswell, 2018). According to John Creswell and J. Davis Creswell (2018), qualitative approaches offer the methodological flexibility needed to examine how people understand and give meaning to social problems. Therefore, recognizing the socio-economic, cultural, and political situation of the communities impacted by short-term rentals is essential for understanding how they construct and interpret their reality. This work has an interpretive component that facilitates the rigorous observation of a series of cases that then become the base for developing a wider critical analysis of the issue. The best way to obtain this type of data is through direct conversations, observations, and interactions with the people affected by the issue. To this end, data collection included semi-structured interviews and community sessions. The interviews included open questions that seek to collect information about the various ways in which short-term rentals affect the people identified as key actors by the work team.

The key actors identified by the work team belong to three interest groups: geographic communities impacted by short-term rentals, including condominiums; owners and representatives of different types of tourist lodgings; and government representatives.<sup>8</sup> In general terms, the guideline for inclusion was to involve persons who are adult residents of communities impacted by short-term rentals or whose businesses are being affected by the de-regulation of such rentals. It is important to mention that the work team attempted to contact representatives of short-term rental associations in Puerto Rico, as well as the Department of Housing and the Tourism Company, but received no response. However, members of the work team were able to participate in an event organized by the short-term rental sector and government officials.<sup>9</sup> That activity provided access to presentations, data, and projections by this sector with respect to present and future short-term rentals.

For the community sessions, the work team identified municipalities where short-term rentals represent a higher proportion of the total housing units and contacted previously identified persons who could provide relevant information about their experiences. The team consulted a study by the Center for a New Economy that identified areas and municipalities with a higher concentration of housing units used for short-term rental (Lamba Nieves and Santiago-Bartolomei, 2022). The areas of highest concentration were the west, notably Rincón and Cabo Rojo, as well as northeast Puerto Rico and the island municipalities of Vieques and Culebra. Most of the people who participated are members of community organizations, although not necessarily focused on the displacement issue. These sessions included people from impacted communities in the municipalities of Vieques, Culebra, Manatí, San Juan, Rincón, Aguadilla, Isabela, and Cabo Rojo.<sup>10</sup> A session was also conducted with a group of experts in territorial and urban planning, law, and real estate.

Additionally, the individual interviews centered on owners of other types of lodgings, such as *paradores* (inns) and bed & breakfast properties, in addition to representatives of the Hotel and Tourism Association, the Condominium Owners Association, and the League of Cities. The work team used the snowball technique for the recruiting process. During the interviews and group sessions, the team explored participants' views on the beneficial and negative aspects of short-term rentals, their suggestions for regulating this activity, their opinion on the feasibility of adapting measures adopted in other places to the local context and implementing them, among other matters.

A fundamental aspect of data collection is acknowledging participants as active agents of social change. This was accomplished by recognizing the validity and relevance of community knowledge and including participants in the development of proposals or possible actions to address the situation. For the group sessions, participants selected 3-4 representatives that would later meet through video conference with members of the Steering Committee to learn about the preliminary results of the research, as well as to refine and identify the recommendations considered to have greater potential of implementation.

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8 The group of geographic communities included residents of residential developments, condominiums, working-class neighborhoods, and urban centers, both owners and renters, as well as community leaders and other persons involved in fishing and cultural activities. Some of the participants are involved in short-term rentals.

9 The Rebook: A Short-term Rental Conference took place on Friday, November 11, 2022, with multiple talks and presentations related to this economic activity.

10 People from other municipalities that had not been able to attend for different reasons were invited to the sessions.

## III. Findings

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The information gathered during the community sessions and interviews provide initial data sustaining that the presence of short-term rentals affects community life and creates the conditions for displacement and gentrification. Similarly, the interviews show the complex situation these rentals represent for other types of lodgings. The work team was able to obtain a series of recommendations for citizen and community action, as well as proposals for public policy and comments and recommendations in relation to current legislative attempts to regulate STRs.

### Benefits

The possible benefits of short-term rentals for the communities were discussed during the community sessions and individual interviews. Most comments about benefits focused on the aspects of creating jobs in the community, economic activity, and the movement of people in the area. Specifically, participants mentioned that STRs create direct and indirect jobs related to cleaning and property management. Participants also expressed that STRs foster local investment and attract customers to certain businesses and tour companies linked to the tourist industry. Along the same lines, there were comments to the effect that transportation alternatives such as taxi and Uber services increase in towns where short-term rentals proliferate.<sup>11</sup> However, these benefits were questioned during the interviews and sessions, with participants expressing concerns about the employment conditions of the jobs created by short-term rentals, the type of investments that come to the community, and the real impact of these rentals on local businesses.

### Pressing problems

The data reveal a series of pressing problems created by short-term rentals, which, as indicated by participants, require some type of government or citizen action. **Table 1** summarizes some of these problems.

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<sup>11</sup> It is important to mention that the cost of these services and the lack of public transportation were identified as problems.



**TABLE 1**  
**Negative effects of short-term rentals identified by participants.**

**IMPACT ON TOURISM**

**Unfair competition**

Contrary to other lodgings, short-term rental operations:

- **are not subject to requirements** such as permits, licenses, tax burdens, and inspections, nor are their operations regulated in the same manner. For example, although there may be more than six units available for short-term rental in the same building, they are not required to have someone present on-site.
- **they pay residential—not commercial—rates** for water and sewer services, electricity, and other services. In some cases, due to lack of adequate oversight, owners fail to report the use of short-term rentals to CRIM (Municipal Revenue Collection Center) and continue benefiting from rates and exemptions applicable to residential use or primary residences, thus evading applicable tax payments on the property.

This impacts on small inns in particular.

**Tourist experience**

A growing segment of tourists are seeking local experiences. The displacement of communities to make way for short-term rentals changes the character of the place, thus affecting the offer of local experiences and the attractions of the destination..

**Tourist safety and security**

- Units located in places that have limited security are offered.
- Since the Tourism Company does not inspect these rental units regularly, many lack safety measures for guests.
- Some STRs offer excursions and other types of guest services that do not comply with regulations and permits, for example, those applicable to tourist guides. This puts tourist safety and security at risk.

**Public safety**

Short-term rentals are used for illegal activities, including drug trafficking, human trafficking, and prostitution. The lack of on-site staff and security measures required from other lodgings facilitates such uses.

**Market saturation**

The number of rooms for short-term rental has saturated the supply of available spaces, creating an imbalanced market.

**IMPACT ON GEOGRAPHIC COMMUNITIES AND CONDOMINIUMS**

**Displacement and housing**

Although they are not the only factor causing gentrification and displacement, short-term rentals contribute to these processes in the community in various ways:

**Rise in housing costs, for both purchase and rental.** Short-term rentals contribute to the rise in housing costs and the buy-up of properties. This poses challenges in finding affordable housing to buy or rent. Additionally, it results in renters having to leave their homes and even face eviction when owners wish to convert their properties into STRs. Renters face frequent rises in rental rates and sometimes end up subsidizing building improvements to attract tourism. By increasing the demand for affordable housing in other places, it increases the cost of these properties as well as the rental rates, creating a ripple effect. This has an impact on vulnerable populations, particularly children and women victims of domestic violence.

*table continues >*

**Increase in real estate speculation and buy up of properties**, including those in disuse. Participants linked the incentives granted under former Act 22-2012, which is currently part of the Puerto Rico Code of Incentives (Act 60-2019), to STRs and community displacement. Similarly, they pointed to the purchase and sale of housing units in cash.

### Conflicts of use and quality of life

Guests are on vacation and occupy the space for a limited number of days, so many do not care if their behavior affects the community, and some are disrespectful when they receive complaints. Tourist activity generates excessive noise, parties, and inconsiderate use of common spaces, among other behaviors that are incompatible with residential use.

In condominiums, when owners of short-term rental units dominate the board of directors, they prioritize investments aimed at meeting the needs of tourists, not those of residents.

### Changes in the nature of the neighborhood

**Disruption of the sense of community.** The presence of STRs has redefined aspects of community life, including the use of common facilities, interactions among residents, and the use of community resources. The flow of people created by STRs makes it difficult to identify who are residents and who are guests; additionally, many owners or managers live in another city or country. The quality of life of residents is at stake when their area becomes attractive for tourists.

**Peak seasons.** After the peak season, the communities housing STRs become ghost neighborhoods, and public safety diminishes.

**Rise in the cost of goods and services** provided to the community, for example, by supermarkets and pharmacies,

**Access to goods and services.** Businesses change their offers to address the needs of tourists instead of residents. The same thing occurs with government services. Residents must travel far to access goods and services, in a scenario characterized by the absence or scarcity of collective transportation and, in some cases, the lack of other options (for example, no Uber coverage, taxis with expensive rates), thus increasing the cost of living.

### Absentee owners

According to participants, owners are usually Puerto Ricans who live elsewhere in Puerto Rico or the diaspora, corporations, and foreign investors. Absentee owners do not suffer an impact on their quality of life, nor do they feel direct pressure from their neighbors to establish controls for these operations.

### Displacement of local businesses

Businesses that cannot adapt to the tourist market have to close or relocate. In some areas, tourists bring a lot of what they consume, so they don't patronize local businesses.

### Environmental impact

**Destruction of areas of high ecological value.** The oversight of short-term rentals located in areas of high ecological value is urgent, as is the supervision of the environmental practices they incur when remodeling or expanding their properties. This includes destruction of mangrove swamps and construction of piers without proper permits.

#### Limited access to public goods such as beaches

**Waste generation.** Guests tend to cook at the property and purchase more products than they actually need for their stay.

## IV. Recommendations

Based on the pressing problems expressed by participants, the work team sought out their recommendations for addressing the challenges posed by short-term rentals. These recommendations included citizen and community action as well as proposals aimed at developing public policy. **Table 2** summarizes the key viable measures suggested by participants in this project to reduce the impact of short-term rentals on community displacement. These measures require various levels of government action, including municipalities, legislative bodies, and public agencies.

**TABLE 2**  
**Summary of main recommendations**

### Fiscal policy and oversight

- ✓ Increasing the room tax for short-term rentals to 9 or 11%.
- ✓ Using new income from the room tax to finance oversight and the increase of demand for public services, as well as programs and projects to protect housing affordability in areas of high real estate pressure.
- ✓ Giving the municipalities a leading role in oversight.
- ✓ Creating a public registry, with an interactive map, to provide data on property location, owners, operators, as well as other information related to short-term rentals, in order to facilitate the oversight of this activity.
- ✓ Requiring that short-term rental platforms provide data to the government.

### Short-term rental operations

- ✓ Classifying them as businesses and requiring the licenses, patents, permits, and other obligations applicable to commercial activity. Designating structures with six or more short-term rental units as small inns.
- ✓ Demarcating the areas where they may operate to protect lands with high ecological and agricultural value, historic districts, and residential areas. Adjusting the number and density of short-term rental units according to the carrying capacity of their location.
- ✓ Differentiating owners of multiple short-term rentals from individuals who rent out a unit or a room for subsistence income.
- ✓ Amending the Condominium Act to allow titleholders to prohibit short-term rentals in their properties.

### Housing

- ✓ Establishing rent control policies.
- ✓ Providing incentives and financial assistance to local buyers so that they can purchase housing.
- ✓ Promoting the purchase of properties in areas of high real estate pressure to use as subsidized housing and taking measures to maintain their long-term affordability.
- ✓ Restoring abandoned properties in urban centers to develop long-term rentals.
- ✓ Developing community land banks to recover public nuisances and facilitating the establishment of housing cooperatives, land trusts, and other affordable housing strategies.
- ✓ In cases where corporations own condominium properties, assigning a one-vote restriction per titleholder based on its resident agent or president, not on the legal person.

### Citizen participation

- ✓ Including community participation in substantial binding processes, including those related to the granting of permits for short-term rental and territorial ordering.

In terms of recommendations for citizen and community action, participants emphasized strengthening of community organizational processes and resident associations to develop educational campaigns, pressure public officials, and fight displacement. They also discussed the need to create a culture of responsibility in relation to the sale of properties, develop partnerships among sectors and communities displaced by STRs, and examine which communities are most vulnerable and impacted by this situation.

In terms of public policy, recommendations included the implementation of available regulatory tools, with a special focus on the commercial activity of short-term rentals. In this sense, operators of *paradores* and bed & breakfasts suggested applying tools such as the Puerto Rico Tourism Company's Lodging Regulations and Act 272-2003 to short-term rentals. Participants also expressed that public policy should be governed by the following:

## Guiding principles

- ✓ Recognizing housing and community permanence as a right. This includes:
  - respecting the nature of communities and prioritizing residents
  - protecting the right to privacy
  - ensuring the habitability of the community and recognizing the human right to development
- ✓ Ensuring citizen participation in decision making on matters that impact their quality of life, including the rules governing land use and access to information.
- ✓ Protecting urban settings, areas of agricultural and cultural value, and the environment.
- ✓ Including viable oversight and compliance mechanisms.
- ✓ Adapting the regulations to a diversity of settings and types of property renters.

Based on these principles, public policy recommendations were identified that, on one hand, seek to regulate the operation of short-term rentals as an economic activity, and on the other, address their impact on housing and displacement. There are several aspects to the recommendations related to the operation of short-term rentals as an economic activity. Participants emphasized the importance of treating these rentals as businesses and requiring licenses, patents, permits, and other obligations applicable to commercial activities. In order to level the playing field for other types of tourist lodgings, they also suggested requiring that structures with six or more short-term rental units be treated as small inns. Participants emphasized the need for municipal governments to have a more active role as a regulatory oversight entity. In terms of regulatory authority, their recommendation was to adopt generally applied rules that can be contextualized for local realities in areas such as land use. They also recommended increasing the room tax for this type of rental from the current 7% to 9-11% as a mechanism to finance oversight and other activities aimed at addressing their impact on public services and communities. Currently, the general room tax is 9%, 7% for bed & breakfasts, and 11% for lodgings that operate casinos.<sup>12</sup>

The recommendations linked to healthy community coexistence that could help prevent people from leaving their communities or being displaced include: requiring that short-term rental units be registered by their owners, that they be identified with signs, have maximum limits on occupation and on nights that guests may rent, noise control mechanisms, systems for submitting complaints for bad practices, prohibition of parties or other activities, and an environmentally-friendly policy with responsible management of solid waste and recycling. Public policy recommendations that more directly address the issue of community displacement include mechanisms to ensure the distribution of wealth, community permanence, access to housing, protection of the environment and historic heritage, and the development of data on this subject. **Tables 3 and 4** summarize public policy recommendations.

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<sup>12</sup> Commonwealth of Puerto Rico Room Occupancy Rate Tax Act, as amended, Act 272 of September 9, 2003, establishes the following in relation to room tax and its collection according to the type of lodging: "The Tourism Office shall impose, charge, and collect a general Tax of nine percent (9%) on the Room Occupancy Rate. In the case of lodgings authorized by the Commissioner of Financial Institutions to operate gambling halls, the Tax shall be equal to eleven percent (11%). In the case of lodgings authorized by the Tourism Office to operate as Paradores, or that are part of the Posadas de Puerto Rico program, or that have been certified as Bed and Breakfast (B&B), the Tax shall be equal to seven percent (7%). Motels shall pay a nine percent (9%) tax when such rates exceed five (5) dollars daily. In the case of all-inclusive hotels, as defined in subsection (22) of Section 2, the Tax shall be equal to five percent (5%) of the global and grouped fee charged to guests. In the case supplementary short-term rentals, the Tax shall be equal to seven percent (7%). In the case of recreational facilities operated by agencies or instrumentalities of the Government of Puerto Rico, the Tax shall be equal to five percent (5%)."

**TABLE 3**

**Recommendations from interviewees from the tourist sector**

RECOMMENDATIONS	OBSERVATIONS <sup>13</sup>
<b>Fiscal policy</b>	
<p>Increase current room tax to 9-11% to finance oversight and housing.</p>	<p>Define the use of this new income to prevent it from becoming a mechanism for financing regular government operations, leading the government to excessively promote STRs.</p>
<b>Increase</b>	
<p>Use part of the room tax collections to develop affordable housing; promote the acquisition of properties for subsidized housing in areas of high real estate pressure; rehabilitate abandoned commercial properties in town centers or commercial zones and promote STRs there as a mechanism to promote urban restoration; create a direct assistance fund for buyers to foster local investment; and establish rent-control policies.</p>	
<b>Land use</b>	
<p>Limit the areas intended for short-term rentals to protect historic and residential zones; and promote the location of these rentals in commercial, non-residential zones.</p>	<ul style="list-style-type: none"> <li>● This recommendation would require amending the Condominium Law as well as the Planning Board’s proposed Joint Regulation 2022.</li> <li>● The recommendation is to examine how proposed zoning improvements could open the door for the growth of short-term rentals in self-managed communities.</li> <li>● When adopting location restrictions, it is important to consider the potential impact on places where such restrictions do not apply. In New Orleans, for example, a measure was adopted to protect the historic center from short-term rentals, which resulted in their proliferation in adjacent communities. The result has been the displacement of afro-descendant communities.</li> <li>● Strict divisions between zones for commercial and residential use do not apply in all cases, and the various land use modalities should be recognized while prioritizing the protection of residential users and their right to privacy..</li> </ul>

<sup>13</sup> These observations come from experts on the subject, this project’s Steering Committee, and participants in the session conducted with residents’ representatives who attended the two previous regional sessions.

**TABLE 4**  
**Recommendations from participants from geographic communities**

RECOMMENDATIONS	OBSERVATIONS <sup>14</sup>
<b>Real estate</b>	
<p>Oversee the resale of land grants such as plots or with restrictive conditions; promote the purchase of properties for subsidized housing in areas of high real estate pressure.</p>	
<b>Incentives and tax policy</b>	
<p>Review the tax incentive provisions of Act 60-2019 to examine their impact on displacement by short-term rentals; develop a system of tax incentives for owners of short-term rental units to invest in anti-displacement and community empowerment initiatives.</p>	<p>There is a need to determine what anti-displacement initiatives are. Also urgent is the need to analyze the extent to which this could secure, legitimize, and strengthen the presence and proliferation of short-term rentals in communities. It's important to consider how these incentives can promote illegal activity such as kickbacks at the community level.</p>
<b>Data and research</b>	
<p>Earmarking part of the money generated by short-term rentals to develop data about these rentals, including information about where they are located, who their owners are, and how they impact on community housing.</p>	
<b>Housing</b>	
<p>Using the taxes collected from short-term rentals to develop affordable housing; promoting the creation of community land banks that include structures declared public nuisances by the municipalities; in cases where corporations own condominium properties, assigning a one-vote restriction per titleholder based on its resident agent or president.</p>	<p>There is a need to explore the impact that fostering affordable, mixed income housing projects can have, considering that managing companies can convert them into luxury housing spaces after complying with required terms.</p>
<b>Oversight</b>	
<p>Create a Permanence Advocate's Office to address displacement issues.</p>	<ul style="list-style-type: none"> <li>● Whether or not this type of initiative exists in other places merits study. Additionally, an analysis of the work and effectiveness of advocacy offices in Puerto Rico should be conducted and used as the basis for this recommendation.</li> <li>● An important consideration is to distinguish how short-term rentals in condominiums operate versus those located in neighborhoods and communities in order to adapt oversight tools to these particular spaces.</li> </ul>

<sup>14</sup> These observations come from experts on the subject, this project's Steering Committee, and participants in the session conducted with resident representatives who attended the two previous regional sessions.

*table continues >*

## RECOMMENDATIONS

## OBSERVATIONS<sup>14</sup>

### Land use

Define the zones where these properties can operate to protect residential, agricultural, and high-value ecological areas.

### Participatory planning

Require community participation in urban planning processes, particularly those related to short-term rentals, including the demarcation of areas where these rentals are allowed and the granting of appropriate permits. Additionally, ensure the participation of the communities most vulnerable to displacement in decision-making related to short-term rentals.

The goal should be to enable participatory planning processes to address fundamental matters such as the development of Territorial Ordering Plans. It is important to define the institutional spheres where efforts need to focus to ensure effective participation.

### Community engagement

Develop a system of recognition for short-term rentals that have a history of support and respect for community permanence.

The potential effect on the community should be examined, considering the unequal relationships that can develop between owners of short-term rental units and community residents, as this could lend itself to situations where owners provide benefits to certain people in the community in exchange for their support.

As part of the conversation on public policy recommendations, House Bill 1557, which is currently under consideration by the Legislative Assembly, was discussed with participants. The work team provided a project summary during the community sessions and interviews to obtain initial impressions. The positions on this measure are varied, given that beyond matters of content, there are concerns about the capacity of the government apparatus. Some participants view the legislative measure as a starting point to help develop the discussion, although lacking the substantial elements that a regulation on short-term rentals should include. Others expressed that the legislative initiative is more of the same and consider it a waste of time. However, a common ground is their acknowledgment of the need to regulate these rentals, as they agree that they are here to stay.

This stance is in contrast with that of local representatives of the short-term rental sector who, during the Rebook: A Short-term Rental Conference posed the need to join efforts to oppose legislative measures seeking to regulate these rentals and protect their rights as owners. There were two prevalent positions expressed at the event: The first was that, if needed, the decision-making with respect to problems stemming from STRs should be delegated to the condominiums or residents' associations. The other stance was that there is really no problem to regulate, so there is no need to impose controls on this sector. During the same event, representatives from the Tourism Company and DDEC expressed the view that the proliferation of STRs is a positive development, considering the rise of the tourism sector in the past few years. For his part, the director of Airbnb's Public Policy for Central America and the Caribbean recently expressed that any regulation on the company should be a single statewide regulation (*El Nuevo Día*, 2022).



## **Barriers to the adoption of public policy**

Although participants agree on the need to regulate short-term rentals, they also identified a series of barriers to the development of public policy in that direction. The aspects mentioned include the weakening of community organization, the psycho-social effects of colonialism, the lack of data and indicators, corruption, the political and economic power of the short-term rental sector, and unequal access to the media. Participants mentioned that people with key government posts in the executive branch, including some municipalities, the legislative branch, as well as others with key access to the media and their relatives and associates are owners or have interests in corporations that own or manage short-term rentals. They also highlighted the power that natural and legal entities in the industry have through lobbyists, campaign donors, and the financing of advertising and public relations campaigns.

## V. Conclusion

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The development of short-term rentals in Puerto Rico is not exempt from the problems and limitations faced by other cities internationally. The data collected by the work team confirms that Puerto Rico is experiencing the main negative effect that other international STRs have experienced—the creation of conditions for displacement and gentrification.

For effective public policy ensuring community permanence to be adopted, there must be public pressure; this requires access to information, awareness of the effects of this activity on housing and communities, and support for spaces of political action and discussion that promote an informed dialogue based on the experiences of the people, communities, and sectors impacted by this issue. Such actions must consider who benefits from this economic activity and how, and must recognize that unregulated short-term rentals constitute one of several factors that cause displacement and gentrification, not only because of their impact on housing affordability and access, but also because the activity affects quality of life and the nature of the community.

Additionally, although the municipalities have a key role in the regulation and oversight of short-term rentals, their financial situation, and their ability to assume the task should be weighed in light of the proposals by the Fiscal Control Board to eliminate the Equalization Fund and merge municipalities. The money collected from an increase in room tax can be used to support regulatory and oversight tasks and to address the impact of short-term rentals on the demand for public services and housing. Defining the use of this new income is important to prevent the state itself from excessively promoting short-term rentals to support its general operations.

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