

The Rise of Short-Term Apartment Rentals: Concerns and Opportunities for Multifamily Owners

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Previously on this blog, my colleagues [posed](#) the question to commercial landlords, “Do you know who’s working in your building?” In this post, I look at a different aspect of the sharing economy—residential short-term rentals (STRs, for short)—and ask, “Do you know who’s living in your apartment?”

In 2008, the founders of Airbnb, pioneers of the STR industry, were selling repackaged cereal (Obama O’s and Cap’n McCain) to keep the company afloat. Since then, Airbnb has experienced dramatic growth and is currently valued at [\\$31 billion](#). But the rise of STR websites like Airbnb, VRBO, and Homeaway, has brought increased scrutiny from state and local regulators. Critics argue that STRs turn apartment buildings into transient communities with unfamiliar people coming and going every day. Cities and housing advocates argue that STRs reduce supply and [drive up](#) the cost of housing as landlords and investors turn to STR websites rather than seeking traditional, long-term tenants.

New York State recently [passed](#) a law imposing fines of up to \$7,500 on people who rent their apartments in multiunit buildings for 30 days or less when they are not present. Airbnb’s hometown of San Francisco has an [ordinance](#) allowing individuals to only list their primary residence on an STR website and only for a maximum of 90 days when the host is absent. In addition, the terms of a 2017 lawsuit settlement between Airbnb and San Francisco mandate that hosts must now register their units with the city, which has caused a dramatic [decrease](#) in the number of listings available. In Boston, the Mayor has proposed an [ordinance](#) similar to what’s in place in San Francisco: investor-owned units could only be rented for a maximum of 90 days, and all units would need to be registered with the city. The increase in regulations by cities in the U.S. and abroad seems to have already [slowed](#) Airbnb’s growth.

The rise of STRs has also created concerns for small and large multifamily landlords. While most leases prohibit subletting without the landlord’s permission, a landlord cannot constantly monitor STR websites for tenants who break their leases. Even if caught, landlords must consider pursuing potentially lengthy and costly eviction proceedings. Standard leases typically provide indemnifications and disclaimers of liability in favor of landlords, but those provisions might not apply to a short-term guest injured on the property. Also, it is unclear if landlords could ultimately face fines like those imposed in New York because their tenants improperly advertise units for rent.

Recognizing that greater cooperation with owners of multifamily buildings is important for future growth, Airbnb [introduced](#) a program to work with these owners in exchange for a share of revenue generated by listing a unit on Airbnb. Under the [Friendly Buildings Program](#), landlords apply to participate and work with Airbnb to develop terms on how many units in a building can be listed, for how long, and how revenue will be shared. Eligible tenants can sign up through the Airbnb website, and Airbnb will then share information with landlords on which tenants are listing their apartments and who their guests are. Participating tenants also have to agree to abide by safety and conduct rules developed by the landlord in order to list their unit. This service provides greater transparency to landlords and cuts down on the need to constantly police short term rental activity. In exchange for participating in the program, landlords could [earn](#) between 5 and 15 percent of revenue generated by STRs.

In a 2016 National Multifamily Housing Council survey, approximately [33 percent](#) of landlords were open to a partnership with Airbnb. Others remain [skeptical](#) that the financial incentives will be enough to overcome concerns about potential liability and the evolving patchwork of regulations. More recently, however, some major landlords and developers have decided to test the waters by partnering with Airbnb. In San Francisco, Veritas Investments, the largest apartment landlord in the city, has begun a pilot [program](#) letting tenants list units with Airbnb in exchange for 10 percent of the rental profit, [money](#) the company says it will invest back into its properties. Outside of Orlando, Newgard Development Group has [partnered](#) with Airbnb to build a 324-unit tower that will be designed with home sharing in mind. Tenants will be able to list units for up to 180 days per year, use an app for keyless entry, and have access to cleaning and linen services that rival a hotel experience.

The marketplace may ultimately drive more landlords and developers into a relationship with STR companies as a growing number of millennial renters seem to [favor](#) buildings that permit flexible living arrangements and the opportunity for tenants to earn extra income by listing units when they're out of town for work or vacation.

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