

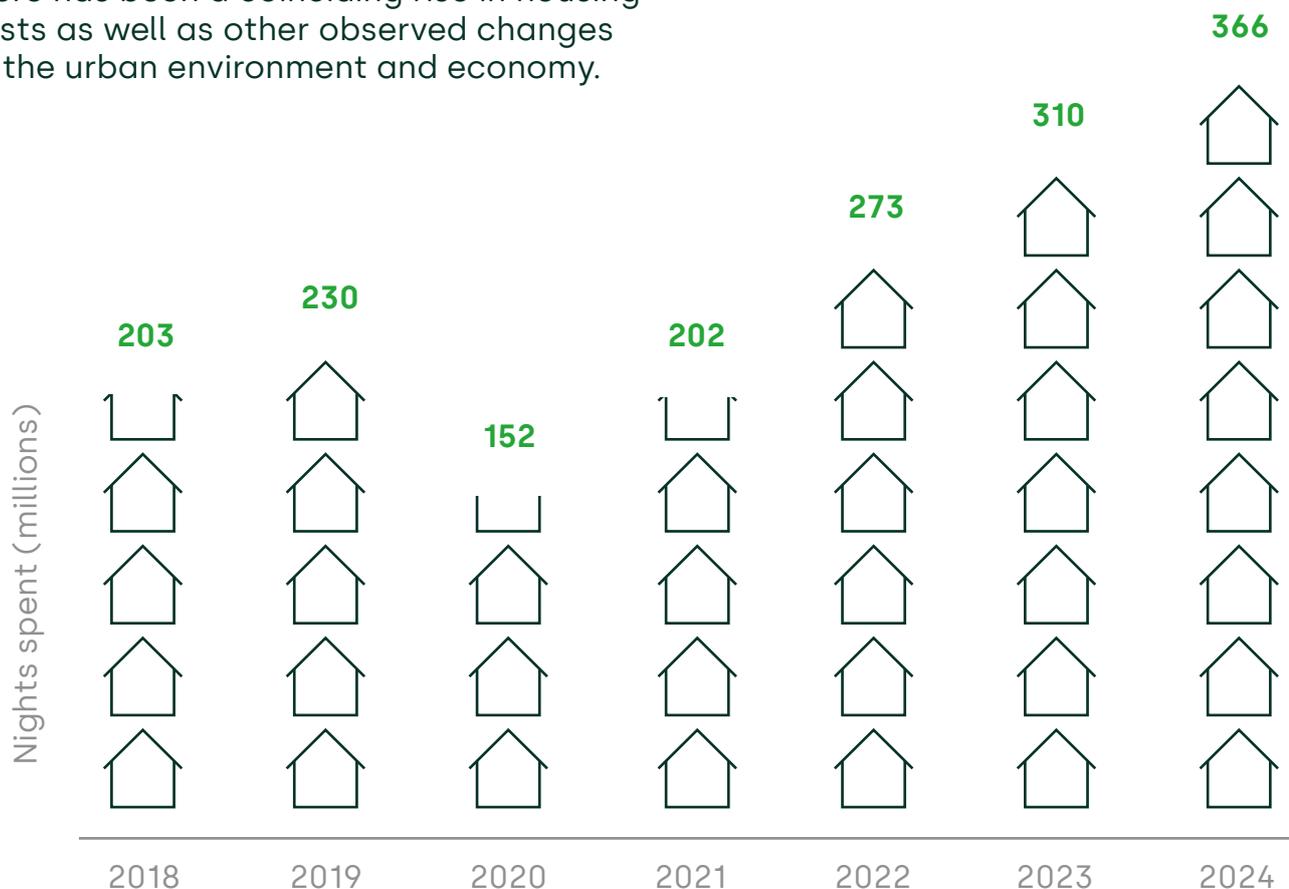
Short-term rentals and public policy intervention in the EU

A practical framework to assess
necessity, causality and proportionality



Short-term rental (STR) accommodation has become more popular over the last five years. This growth occurs within the broader context of Europe's standing as the world's most popular tourist destination.

As demand for STRs has grown, in many cities there has been a coinciding rise in housing costs as well as other observed changes to the urban environment and economy.



Source: Eurostat CETOUR monthly 202501 F1, Q3 guest nights in the EU, 2018 – 2024, accessed 25 March 2025



EU authorities have introduced STR restrictions targeting housing affordability and urban environment concerns, despite limited evidence-based analysis.



Budapest, Hungary

In September 2024, Budapest's sixth district held a referendum to potentially ban STRs. Mayor Tamás Soproni highlighted issues such as housing affordability and availability and residents' quality of life.



Palma de Mallorca, Spain

The city voted to ban almost all STR listings after a 50% increase in tourist lets led to a 40% rise in residential rents and exacerbated housing affordability issues for locals.



Barcelona, Spain

In June 2024, Mayor Jaume Collboni announced plans to prohibit tourist-oriented STRs by the end of 2028, aiming to address housing shortages and preserve community life.



A more accurate understanding of the causal impact of STRs enables policymakers to implement more effective and proportionate interventions when necessary. While STRs are often cited as the driver of rises in rental prices, multiple factors can influence housing affordability, including:



Assessing the effects of STRs is complex and requires a more robust level of evaluation beyond just observing changing trends.

The EU Directive 2006/123/EC on services in the internal market establishes rules to ensure the freedom of establishment and provision of services in the EU internal market.



The key objective of this directive is to protect service providers (including STR hosts) and promote non-discriminatory access to services across member states.

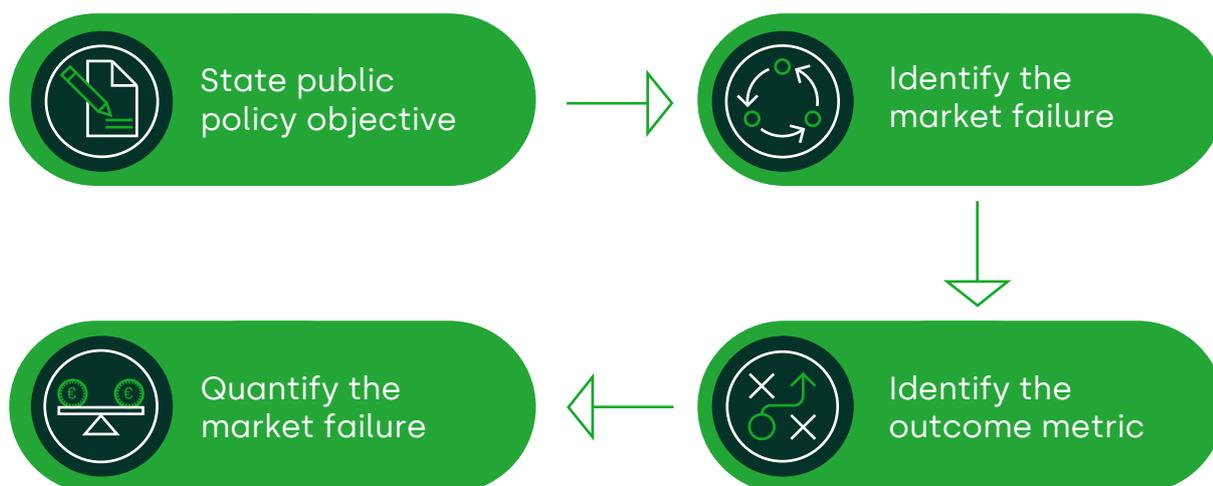


Non-discriminatory

The measure must not discriminate against the service provider.

Necessary

Policymakers must establish causation, not just correlation, to satisfy the necessity test.



This means demonstrating that STR activity actually causes the identified problem and that proposed restrictions will effectively address it.

Without causal analysis, interventions may target the wrong issue or prove ineffective.

Authorities must recognise that correlation is not causation. It is important to prove the actual impact and causal effects.

The gold-standard method for estimating causal effects typically compares outcomes between a treatment group and a control group.

Causal Analysis Toolkit

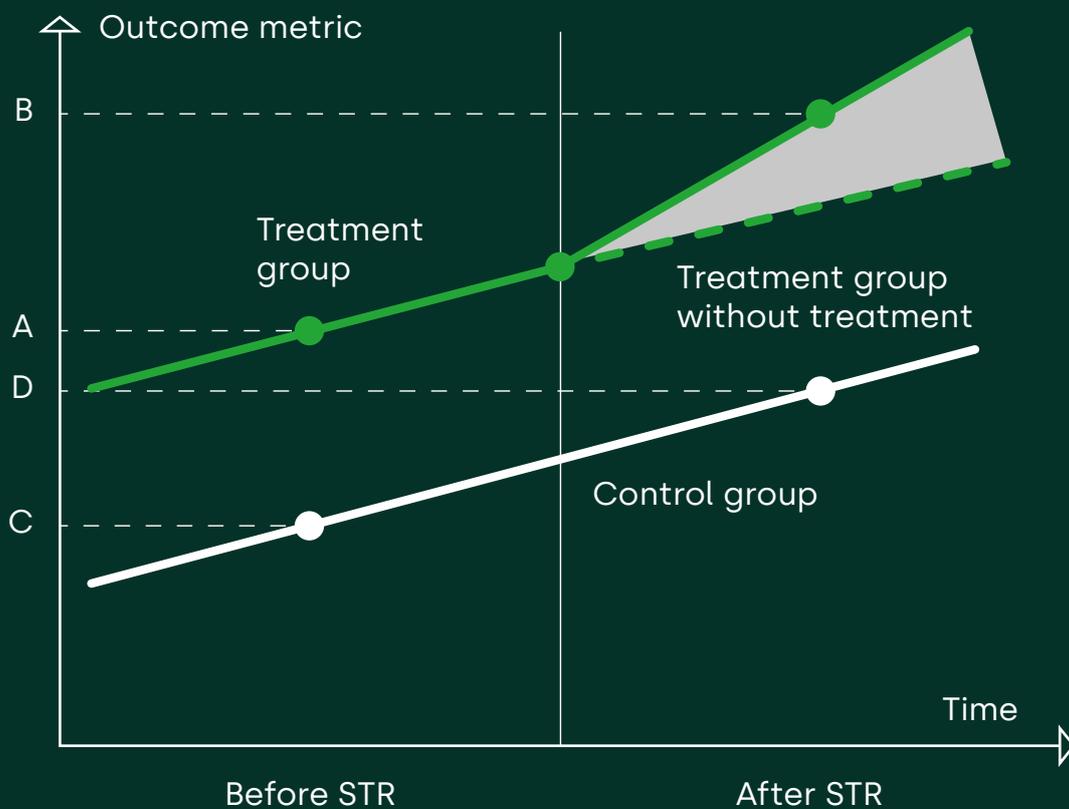
Authorities should choose a robust approach to assess causal effects, including methods such as:

Difference-in-Differences (DiD)

Compare areas with STR growth (the treatment group) with similar areas without STR growth (the control group), before and after the change (the treatment).

Instrumental Variables (IV)

Use external factors (instruments) and a two-stage process to isolate causal effects on the outcome variable, examining only the variation in STR activity driven by the instrument.



Effect of STR =
 $(B - A) - (D - C)$



Proportional

Even if a policy measure is deemed necessary, policymakers should weigh the net welfare effects of potential regulatory interventions. The impact of tourism entails a broad spectrum of (both social and economic) costs and benefits, necessitating a rigorous cost–benefit analysis to evaluate policy implications effectively.

The less restrictive an intervention, the lower the cost to the wider economy/society.



Other interventions may exist

More restrictive interventions can lead to:



Weaker business dynamism and entrepreneurship



Employment impacts concentrated in SMEs and local services



Loss of service export earnings from international visitors



Erosion of local tax bases



Housing market distortion



Key takeaways

Before deciding to intervene, authorities should...



Clearly define objectives and the market failure that needs to be addressed



Choose robust and measurable outcome metrics (affordability, environment, social indicators)



Assess causal effects of STRs on these outcome metrics to ensure that any intervention is evidence-based and proportionate

This will, in turn...



Ensure that any policy intervention is no more restrictive than is required to achieve its objective



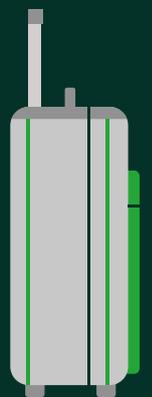
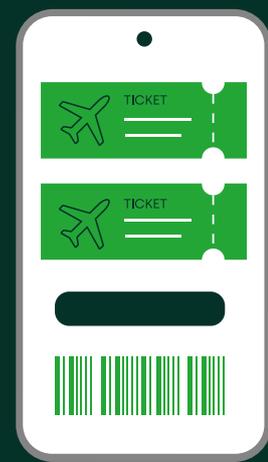
Assess the least restrictive feasible option before considering more interventionist measures



Weigh up the wider costs and benefits of the intervention

View the full report here.

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