



July 15, 2019

Chair Paul Getzelman, Chair
Monterey County Planning Commission
168 W. Alisal St.
Salinas, CA 93901

SUBJECT: Draft ordinances regulating vacation (or short term) rentals for overnight accommodations in residential areas in the unincorporated area of Monterey County

Dear Chair Getzelman and Members of the Planning Commission:

In order to provide affordable housing for local working families, LandWatch urges that the County adopt clear, consistent, and enforceable policies and regulations for:

Short-term rentals (less than 30 days)

- A homestay requirement that the property owner lives and is onsite during the rental period.
- Local governments should require short-term rentals to register as businesses and pay transient occupancy taxes.
- Penalties should be sufficient to discourage violations.

For vacation rentals (30 days or longer) and 2nd homes

- Local governments should assess community impact fees to offset regulatory costs and vacancy impacts, and to support new housing for displaced working families.
[LandWatch is currently researching options.]

For new accessory dwelling units (ADUs or granny units)

- Local governments should restrict new ADUs to long-term rentals (i.e., 1 year minimum). Existing accessory dwelling units should be "grandfathered."

The County's proposed policies are complex, confusing, and administratively burdensome. They will not protect the County's housing stock, nor provide incentives to retain long-term rental housing.

As we are all aware, Monterey County suffers from an acute shortage of affordable housing. In recent years, demand for housing has increased, as local working families have competed with tourists for short-term and vacation rentals and those owning second homes. Consequently, as demand has increased, so have prices, making it extremely challenging for working families to find homes to buy or rent, especially for people who work on the Monterey Peninsula.

The displacement of permanent residents by tourists and owners of second homes comes at a high cost. Working families have to spend more time and money on rent. When they can't afford to live in the communities where they work, they have to commute, often from distant locations.

The project consists of three draft ordinances amending the Monterey County Code (MCC) for the purpose of establishing regulations, standards, and circumstances under which vacation rentals may be allowed. Previously, LandWatch has supported homestay rentals with adequate regulation. Under the draft ordinance, homestay rentals would not require a discretionary permit, but ministerial approval for a Vacation Rental Operation Permit and Vacation Rental Business License. The environmental analysis of the proposed regulation finds that adoption of the vacation rental regulations qualifies for an exemption from environmental review pursuant to a categorical exemption for existing facilities contained in CEQA Guidelines Section 15301, the "common sense exemption". Thus, homestay rentals are exempted from environmental review even though they would result in an intensification of use in residential areas.

While the staff report addresses the impact of the ordinances on affordable housing, the analysis lacks substantial evidence. The analysis follows:

The County recognizes that the availability of affordable housing is limited. Several mechanisms have been put in place to provide and maintain affordable housing units, such as the inclusionary housing ordinance and ordinances allowing habitable accessory structures. The proposed regulations have addressed the potential of displacing affordable housing by prohibiting establishment of vacation rentals in accessory dwelling units, guesthouses, or structures or dwellings where a covenant or agreement restricts its use to an affordable housing unit. (p. 12)

This analysis fails to address the fundamental mechanism underlying the impact of short-term rentals on affordable housing. As stated in a recent Harvard Law Review article, the availability of short-term rentals

... reduces the affordable housing supply by distorting the housing market in two interconnected mechanisms. The first such mechanism is one of simple conversion: any housing unit that was previously occupied by a city resident, but is now listed on Airbnb year round, is a unit that has been removed from the rental market and has essentially been added to [the community's] supply of hotel rooms. This leads to a real, but likely mild, increase in rents, an effect that is concentrated in affluent or gentrifying neighborhoods along the [community's] central core. More disconcertingly, conversion reduces [the community's] already-limited supply of affordable housing. The second mechanism is "hotelization." So long as a property owner or leaseholder can rent out a room on Airbnb for cheaper than the price of a hotel room, while earning a substantial premium over the residential market or rent-controlled rent, there is an overpowering incentive to list each unit in a building on Airbnb rather than rent to [local] residents, thereby creating "cottage hotels." This decreases the supply of housing and spurs displacement, gentrification, and segregation.

Recent research on the impact of short-term rentals on affordable housing is attached.

We urge you to reject the County staff's convoluted policies for short-term rentals and instead adopt the straightforward ones LandWatch recommends.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael D. DeLapa". The signature is stylized and cursive.

Michael D. DeLapa
Executive Director

References

Is Home Sharing Driving up Rents? Evidence from Airbnb in Boston, 2016

http://repec.umb.edu/RePEc/files/2016_03.pdf

Conclusions

This paper makes three contributions to the existing literature. First, it provides one of the first rigorous empirical explorations of an interesting new feature of the housing market, home sharing. Second, it relies on a novel use of two forms of big data to examine the impacts of home sharing on the rental housing market, weekly rental listings and Airbnb listings. Third, it relies on the short time frames that are possible when using new sources of big data to use a fixed effect model to identify casual links between Airbnb use and the rental housing market. We have found that almost half of the units listed on Airbnb in Boston are offered by those with more than one simultaneous listing in the city. In addition, we have a direct correlation between Airbnb density and the price of such housing. If Airbnb growth persists at current growth rates, use will double in Boston in a little more than three years. In a city where the demand for rental housing is outpacing supply and pushing up rents quickly, home sharing is contributing to this dynamic and deserves both further research and policy attention.

As policy makers consider whether and how to respond to the rapid rise of home sharing, these findings provide evidence that home sharing is both a personal and a commercial enterprise and should be regulated and taxed as such. Several jurisdictions have recently adopted or considered legislation that seeks to differentiate between these categories of home sharing customers in order to regulate and/or tax commercial users. For cities particularly concerned about the availability and/or price of residential housing, these results will strengthen the arguments for using such regulation and/or taxation, or alternative methods, to limit home sharing activity in certain neighborhoods. On the other hand, these results emphasize the need for both further theoretical and empirical analysis of the social welfare implications of home sharing, such as whether Airbnb enables middle income families to remain in their homes in rapidly appreciating housing markets.

The Effect of Home-Sharing on House Prices and Rents: Evidence from Airbnb, revised 10 Jun 2019

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3006832
National Bureau of Economic Research, University of California, Los Angeles (UCLA)
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Abstract

We assess the impact of home-sharing on residential house prices and rents. Using a data set of Airbnb listings from the entire United States and an instrumental variables estimation strategy, we show that Airbnb has a positive impact on house prices and rents. This effect is stronger in zip codes with a lower share of owner-occupiers, consistent with non-owner-occupiers being more likely to reallocate their homes from the long- to the short-term rental market. At the median owner-occupancy rate zip code, we find that a 1% increase in Airbnb listings leads to a 0.018% increase in rents and a 0.026% increase in house prices. Finally, we formally test whether the Airbnb effect is due to the reallocation of the housing supply. Consistent with this hypothesis, we find that, while the total supply of housing is not affected by the entry of Airbnb, Airbnb listings increase the supply of short-term rental units and decrease the supply of long-term rental units.

Are Short-term Vacation Rentals Contributing to the Housing Crisis? Host Compliance

<https://hostcompliance.com/short-term-rentals-and-housing-affordability>

To conclude, recent academic research seems to justify that citizens and local politicians have good reasons to be concerned about the impact of short-term rentals on housing affordability. The good news is that these problems can easily be mitigated by adopting best practice regulations for short-term rentals.

How Airbnb Short-Term Rentals Exacerbate Los Angeles's Affordable Housing Crisis: Analysis and Policy Recommendations, Harvard Law Review, Dayne Lee

https://harvardlpr.com/wp-content/uploads/sites/20/2016/02/10.1_10_Lee.pdf

Airbnb likely reduces the affordable housing supply by distorting the housing market in two interconnected mechanisms. The first such mechanism is one of simple conversion: any housing unit that was previously occupied by a city resident, but is now listed on Airbnb year round, is a unit that has been removed from the rental market and has essentially been added to Los Angeles's supply of hotel rooms. This leads to a real, but likely mild, increase in citywide rents, an effect that is concentrated in affluent or gentrifying neighborhoods along the city's central core. More disconcertingly, conversion reduces Los Angeles's already-limited supply of affordable housing. The second mechanism is "hotelization." So long as a property owner or leaseholder can rent out a room on Airbnb for cheaper than the price of a hotel room, while earning a substantial premium over the residential market or rent-controlled rent, there is an overpowering incentive to list each unit in a building on Airbnb rather than rent to Los Angeles residents, thereby creating "cottage hotels." This decreases the supply of housing and spurs displacement, gentrification, and segregation. These two mechanisms distort the rental housing market, which traditionally does not overlap with the hospitality sector. Tourists stay in hotels that are specifically permitted for and developed in commercially zoned neighborhoods. Residential housing is zoned and built through a wholly different process. Airbnb facilitates the inappropriate merging of the residential land tourist markets on an unprecedented scale, and unlike with a shortage of, say, shoes or oranges, neither the market nor the public sector can swiftly replace the housing units that Airbnb removes from the marketplace. Thus, city officials regulating Airbnb—and regulating STRs generally—must address conversion and hotelization head on. As detailed in Section IV and the conclusion of this article, policymakers should pursue targeted bans and regulations that discourage conversion and hotelization. A simple tax on STRs alone will likely be insufficient to fund the replacement of converted units, and may serve to further incentivize hotelization. In exchange for Airbnb's cooperation with enforcement, city officials could allow Airbnb to participate directly in expanding the hospitality market.

THE IMPACT OF SHORT TERM RENTALS ON AFFORDABLE HOUSING IN OAKLAND: A REPORT AND RECOMMENDATIONS, 2015

<https://www.naceda.org/assets/EBHO%20Short%20Term%20Rental%20Impact%20Report.pdf>

This report demonstrates the clear nexus between private short term rentals and the limited and shrinking supply of housing stock in Oakland. We cannot afford to continue to lose both housing stock and tax revenues that could help the City address the current housing crisis.

HOW SHORT-TERM RENTALS IMPACT OUR NEIGHBORHOOD, HOM EDITORIAL TEAM, NATIONAL ASSOCIATION OF REALTORS

[HTTPS://HOMEOWNERSHIPMATTERS.REALTOR/ISSUES/SHORT-TERM-RENTALS-IMPACT-NEIGHBORHOOD](https://homeownershipmatters.realtor/issues/short-term-rentals-impact-neighborhood)

But in some communities, short-term rentals are exacerbating efforts to ensure housing is affordable for the folks who live locally — especially in regions where affordable homes for rent or purchase by actual long-term residents are already in short supply (for the most extreme examples, think New York City and San Francisco, but perhaps you're seeing this in your own community as well). ..

In fact, rental rates for long-term residents appear to be rising faster in neighborhoods where short-term rentals are most prevalent. And this trend is anticipated to grow, as more investors begin specifically seeking to buy homes they can rent out short-term. The cold hard fact is that an investor can make more money renting properties out by the day than by the month or year. This business model has grown so large that it's now an industry influencer; Vacation home sales have jumped by over 50% in the past few years alone, in part due to the short-term rental phenomenon. And, since its founding in 2008, Airbnb, for example, has grown to over 2 million listings in 34,000 cities, and 190 countries!

As a result, short-term rentals have become a political hot potato in communities across the nation. Many fear that individual homeowner rights will be lost in the effort to prevent investors from buying up homes in an already tight inventory market. For example, in New Orleans' French Quarter, where short-term rentals under 60 days are already prohibited, the law is seldom enforced, as property owners in New Orleans (and other cities) have been taking in lodgers long before the internet made it a global business.

The economic costs and benefits of Airbnb
No reason for local policymakers to let Airbnb bypass tax or regulatory obligations *Report* • By *Josh Bivens* • January 30, 2019
<https://www.epi.org/publication/the-economic-costs-and-benefits-of-airbnb-no-reason-for-local-policymakers-to-let-airbnb-bypass-tax-or-regulatory-obligations/>

In our cost-benefit analysis, we find:

- **The economic costs Airbnb imposes likely outweigh the benefits.** While the introduction and expansion of Airbnb into U.S. cities and cities around the world carries large potential economic benefits and costs, the costs to renters and local jurisdictions likely exceed the benefits to travelers and property owners.
- **Airbnb might, as claimed, suppress the growth of travel accommodation costs, but these costs are not a first-order problem for American families.** The largest and best-documented potential benefit of Airbnb expansion is the increased supply of travel accommodations, which could benefit travelers by making travel more affordable. There is evidence that Airbnb increases the supply of short-term travel accommodations and slightly lowers prices. But there is little evidence that the high price of travel accommodations is a pressing economic problem in the United States: The price of travel accommodations in the U.S. has not risen particularly fast in recent years, nor are travel costs a significant share of American family budgets.
- **Rising housing costs are a key problem for American families, and evidence suggests that the presence of Airbnb raises local housing costs.** The largest and best-documented potential cost of Airbnb expansion is the reduced supply of housing as properties shift from serving local residents to serving Airbnb travelers, which hurts local residents by raising housing costs. There is evidence this cost is real:
 - Because housing demand is relatively inelastic (people's demand for somewhere to live doesn't decline when prices increase), even small changes in housing supply (like those caused by converting long-term rental properties to Airbnb

units) can cause significant price increases. High-quality studies indicate that Airbnb introduction and expansion in New York City, for example, may have raised average rents by nearly \$400 annually for city residents.

- The rising cost of housing is a key problem for American families. Housing costs have risen significantly faster than overall prices (and the price of short-term travel accommodations) since 2000, and housing accounts for a significant share (more than 15 percent) of overall household consumption expenditures.
- **The potential benefit of increased tourism supporting city economies is much smaller than commonly advertised.** There is little evidence that cities with an increasing supply of short-term Airbnb rental accommodations are seeing a large increase in travelers. Instead, accommodations supplied via Airbnb seem to be a nearly pure substitution for other forms of accommodation. Two surveys indicate that only 2 to 4 percent of those using Airbnb say that they would not have taken the trip were Airbnb rentals unavailable.
 - Studies claiming that Airbnb is supporting a lot of economic activity often vastly overstate the effect because they fail to account for the fact that much of this spending would have been done anyway by travelers staying in hotels or other alternative accommodations absent the Airbnb option.
- **Property owners do benefit from Airbnb’s capacity to lower the transaction costs of operating short-term rentals, but the beneficiaries are disproportionately white and high-wealth households.** Wealth from property ownership is skewed, with higher-wealth and white households holding a disproportionate share of housing wealth overall—and an even more disproportionate share of housing wealth from nonprimary residences because they are much more likely to own nonprimary residential property (such as multi-unit Airbnb rentals).
- **The shift from traditional hotels to Airbnb lodging leads to less-reliable tax payments to cities.** Several large American cities with a large Airbnb presence rely heavily on lodging taxes. Airbnb has largely blocked the ability of these cities to transparently collect lodging taxes on Airbnb rentals that are equivalent to lodging taxes on hotel rooms. One study found that the voluntary agreements Airbnb has struck with state and local governments “[undermine] tax fairness, transparency, and the rule of law.”
- **City residents likely suffer when Airbnb circumvents zoning laws that ban lodging businesses from residential neighborhoods.** The status quo of zoning regulations in cities reflects a broad presumption that short-term travelers likely impose greater externalities on long-term residents than do other long-term residents. Externalities are economic costs that are borne by people not directly engaged in a transaction. In the case of neighbors on a street with short-term renters, externalities include noise and stress on neighborhood infrastructure like trash pickup. These externalities are why hotels are clustered away from residential areas. Many Airbnb rental units are in violation of local zoning regulations, and there is the strong possibility that these units are indeed imposing large costs on neighbors.
- **Because Airbnb is clearly a business competing with hotel lodging, it should be subject to the same taxation regime as hotels.** In regard to zoning regulations, there is no empirical evidence that the net benefits of Airbnb introduction and expansion are so large that policymakers should reverse long-standing regulatory decisions simply to accommodate the rise of a single company.