LandWatch
monterey county

LandWatch Policy on Short-Term Rentals,
Vacation Rentals and Second Homes

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In order to provide affordable housing for local working families, LandWatch will advocate for 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 current 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.”

Background

Among LandWatch’s five basic principles of sound land use, the first addresses housing:

> Provide affordable housing for local working families, located within mixed-income neighborhoods.

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 (less than 30 day) and vacation (more than 30-day) 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.

As one example, Pacific Grove now has 250 short-term rentals (down from approximately 290 prior to the City’s recent lottery system). Some of these short-term rentals previously served as long-term rental properties.

As another example, the majority of homes within the City of Carmel – some estimate as many as 70% -- are now 2nd homes, which are used sparingly by their owners or rented for a minimum of 30 days at a time. Full-time residents, including both working families and retirees, previously occupied most of these homes. Some of those who worked commuted by walking or biking rather than by driving, and also contributed to their neighborhoods and community in various ways. Carmel has become a “ghost town,” with the majority of homes vacant the majority of the time.

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.

Research on the Impact of Short Term Rentals on Affordable Housing

1. *The Sharing Economy and Housing Affordability: Evidence from Airbnb*. National Bureau of Economic Research, UCLA, Marshall School of Business, USC, April 2018. We assess the impact of home-sharing on residential house prices and rents. Using a dataset of Airbnb listings from the entire United States and an instrumental variables estimation strategy, 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 at the median owner-occupancy rate zip code. The effect is moderated by the share of owner-occupiers, a result consistent with absentee landlords reallocating their homes from the long-term rental market to the short-term rental market. A simple model rationalizes these findings.
2. *Is Home Sharing Driving up Rents? Evidence from Airbnb in Boston*. Merante and Horn, Department of Economics, University of Massachusetts Boston, 2016. We show that a one standard deviation increase in Airbnb listings is associated with an increase in asking rents of 0.4%.
3. *How Airbnb Short-Term Rentals Exacerbate Los Angeles's Affordable Housing Crisis: Analysis and Policy Recommendations*. Dayne Lee, J.D. Candidate, Harvard Law and Policy Review, Harvard Law School, February 2016. Arbnb Increases Rents, incentivizes hotelization, and reduces the affordable housing stock.
4. *Hawai'i Vacation Rentals: Impact on Housing & Hawai'i's Economy: Hawaii", Appleseed, Center for Law and Economic Justice*. March 2018. Over just the last two years, the number of VRUs has increased by 35 percent. There are currently 23,000 VRUs being advertised around the state. Up to 93 percent of them are for entire homes, rather than the rent-out-a-room image purveyed by the VRU industry. One out of every 24 housing units in the state is a VRU, with some communities being completely overwhelmed by the industry's growth. On Kauai one in eight homes is used as a VRU. In Lahaina, the ratio drops to one in three. The reason why investors are choosing VRUs over long-term rentals is obvious: the average VRU brings in about 3.5 times more revenue than a long-term rental unit. The loss of long-term rentals to VRUs means higher housing costs for Hawai'i residents. Although Hawai'i derives some benefits from VRUs through increased tourism spending and tax collection, the benefits are far outweighed by the costs. San Francisco, which like Honolulu has struggled with high housing costs and a proliferation of VRUs, found that every housing unit withdrawn from the market to be used as a VRU produces a net negative economic impact, even if the unit generates host income, visitor spending, and hotel taxes. San Francisco estimates that their local economy loses up to $300,000 per VRU per year. The impact of VRUs in Hawai'i is likely to be similar.

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