COUNTY OF SANTA BARBARA
PLANNING AND DEVELOPMENT

MEMORANDUM

TO:	Santa Barbara County Planning Commission
FROM:	Matt Schneider, Deputy Director Long Range Planning Division
DATE:	November 18, 2015
RE:	Short-term Rentals November 4, 2015 Planning Commission Hearing

---

SUMMARY

At the November 4, 2015 hearing, the County Planning Commission considered the use of Short-term Rentals (STR) in the County of Santa Barbara and received testimony from the public. Understanding the complexity of the issue the County Planning Commission continued the hearing to December 9, 2015 and directed staff to return with a summary of the November 18, 2015 Montecito Planning Commission hearing and to provide further information on the below items:

- What other jurisdictions have done to regulate the concentration of STRs;
- How STRs affect housing affordability; and
- Additional information on the issuance of TOT certificates and the Tax Collector's current enforcement.

This memo summarizes the various concentration methods used for STRs, provides examples of studies on housing affordability, speaks to the enforcement of TOT certificates by the Tax Collector, and summarizes the Montecito Planning Commission's direction. Additional information on the enforceability of regulatory provisions, further details on what regulatory provisions might be included in a permit, and approaches to determining what particular zoning districts the use of STRs are appropriate in will be provided at the County Planning Commission hearing on December 9, 2015.

Concentration Summary

Attachment A delineates what other jurisdictions have done to limit STR concentration. This approach has not been widely applied due to the difficulty of enforcement. Jurisdictions outside of the State of California that have used this approach are included. A summary of the attached is below:

> *City of Arroyo Grande, California:* Establishment of a vacation rental or homestay within 300 feet of an existing vacation rental on the same street shall not be permitted.
>
> *Mendocino County, California:* A ratio of thirteen long-term residential dwelling units to one vacation home rental shall be maintained.
>
> *San Luis Obispo County, California:* Within all residential land use categories, no residential vacation rental shall be located within 200 feet of a parcel on the same side of the street as the vacation rental; 200 feet of the parcel on the opposite side of the street from the vacation rental; and 150 foot radius around the vacation rental.
>
> *Santa Cruz County, California:* No new vacation rental shall be approved if parcels with existing vacation rentals on the same block total 20 percent or more of the total parcels on that block that allow residential use.
>
> *City of Napa, California:* The number of vacation rental permits issued shall not exceed 41 non-hosted accommodations and 60 hosted accommodations.
>
> *City of Austin, Texas:* STRs are limited to three percent of the total dwellings by census track.
>
> *City of Bend, Oregon:* There shall be at least 250 feet of separation between STR properties.

Housing Affordability
Growth in the STR market is occurring in many communities where housing availability is already constricted. It is stated that STRs detrimentally affect housing affordability for both workforce and affordable housing. There are various opinions and research supporting and opposing this statement. The general theory of housing supply holds that if the demand for apartments and houses exceeds the supply, the prices will rise and reduce housing affordability. STRs take housing stock out of the market, and in a tight housing market, drive up the cost of housing, making it challenging for workforce and low income renters to find housing and for first time homebuyers to enter into the market. Staff has gathered material that both support and refute this claim. The materials are included in Attachment B-H and a summary of the report's findings are provided below.

Santa Barbara Housing Authority Commission: This letter was written by the local Santa Barbara Housing Commission to the Mayor and City Council of the City of Santa Barbara in May of 2015. It states:

> "The Housing Authority Commission has concluded that the proliferation of short term vacation rentals exacerbates the existing tight rental housing market in Santa Barbara. That is because we are witnessing the wholesale removal of entire units (apartments, condos, and single family homes) for the purpose of using them as short term vacation rentals. The owners of these dwellings (and/or their

> management companies and in some cases leasehold interests) are doing the math and realizing that nightly and weekly rentals can deliver much more revenue than a month to month rental. While some might argue that such is their right in a free market economy, short term vacation rentals violate current, well-established zoning restrictions, and result in the loss of critical housing inventory-inventory that was built to house the local workforce and residents who are in need of housing."

The Impact of Vacation Rentals on Affordable and Workforce Housing in Sonoma County: This report was commissioned for the Sonoma County Community Development Department and prepared by Economic & Planning Systems, Inc. in July of 2015. It states:

> "That expansion of vacation rentals in Sonoma County, especially the component of the market involving rental of whole housing units in areas not historically associated with vacation rentals, is reducing the supply of housing available to the resident workforce market. This reduction in housing supply, in turn, has and will continue to contribute to upward pressure on residential rents and prices."

Airbnb, Rising Rent, And the Housing Crisis in Los Angeles: This report was prepared by Laane, an advocacy organization based in Los Angeles in July of 2015. The discussion on housing starts on page 16 of Attachment D. A summary of key points is below:

- AirBnB's impact on Los Angeles is far larger than previously understood. The AirBnB units are not, by and large, the "shared" space implied by terms like host or sharing economy. Instead, nearly 90 percent of AirBnB's Los Angeles revenues are generated by lessors with whole units and leasing companies who rent out two or more whole units.
- AirBnB has created a nexus between tourism and housing that hurts renters. The 7,316 units taken off the rental market by AirBnB is equivalent to seven years' of affordable housing construction in Los Angeles. AirBnB density overlaps with high median rents and lower rental vacancy.

Short-Term Rental Housing Restrictions: This white paper was prepared by Robinson & Cole in its capacity as consultant to the National Association of Realtors in 2011. On page 11 of Attachment D the report states:

> "Short-term rentals can affect housing costs in a community. When property owners elect to rent their homes on a short-term basis rather than renting on a longer-term basis (e.g., by the season or by the year), they essentially squeeze the supply of housing, pushing up the demand, and subsequently, the cost of housing in the community. In some cases, allowing short-term rentals may fuel speculation in rising housing markets by allowing investors to cover the carrying costs of a house for a period of time while the property appreciates in value and then sell it for a profit. Tourist communities, in particular, may be affected if the workers in lowpaying service and tourism related jobs can no longer afford to live in the community or within a reasonable commuting distance."

Airbnb and Affordable Housing: This blog was written by Michael Lewyn, assistant professor at Touro Law Center in Long Island, who has written extensively on issues relating to urban and suburban development. This blog states:

> The argument that Airbnb takes units away from traditional housing… "rests on an essentially unprovable claim: that Airbnb units would otherwise be rented out as traditional apartments. More importantly, the argument proves too much. If Airbnb hosts reduce the supply of apartments by not using their houses and spare rooms as traditional apartments, why isn't this equally true of hotels who are not using their rooms as apartments, or homeowners who are not renting out every spare room? And if homeowners and hotels are reducing the rental housing supply, why shouldn't they be forced to rent out their units as traditional apartments?... A better way of understanding Airbnb's impact, if any, on rents is to compare it to the total number of housing units in Los Angeles. There are just over 1.2 million housing units in the city of Los Angeles; thus, Airbnb units are roughly 0.6 percent of the housing market. There are about 700,000 rental units in Los Angeles—so even if every single Airbnb unit would otherwise be part of the rental market, Airbnb units would comprise only 1 percent of the rental market. Thus, it seems to me that even if every single Airbnb unit would be used as traditional apartments in the absence of Airbnb, its impact on regional housing markets would be small."

MIT professor skeptical of Airbnb's impact on New Orleans housing prices: Robert McClendon reporter for the Times-Picayune, a New Orleans news source states that:

> "The assumption that…short-term rentals eat up supply is flawed…Every unit offered up short-term does not represent the loss of a unit that would otherwise be occupied by a local tenant. Homeowners who have no interest in renting long term might decide to relocate and rent short term because of the money to be made. Units that were vacant or blighted may have been redeveloped expressly for use as short-term rentals. Landlords may rent short term when they are between long-term tenants or while waiting to perform repairs, he added. Furthermore, the supply of housing is not static. Real estate investment is self-reinforcing. An influx of investment, even if it's for short-term rentals, will draw in the development of more housing, some of which will inevitably be dedicated to long-term tenants."

Housing & The Airbnb Community in the City of Los Angeles: This report was prepared for AirBnb by UCLA professor Paavo Monkkonen and states that:

> "Asserting that the decades-long challenge of affordable housing is the result of a few thousand middle class families sharing the home in which they live does a disservice to the broader problem. Housing affordability is a challenge, and one that affects all of us, and deserves real policy solutions."

Additional Information on the Tax Collector's process

At the County Planning Commission hearing the Commission requested information on when the Tax Collector started enforcing the collection of TOT. The question was posed to identify if active enforcement had caused the increase in TOT certificates instead of web-based platforms popularity. Enforcement of payment for TOT from STRs was first actively pursued in 2008. The Tax Collector estimates that 90% of TOT certificates per year are issued due directly to an enforcement letter. AirBnB was also started in 2008. Since these events both happened in the same year, it is infeasible to discern a single reason for the increase in TOT certificates.

Department of Conservation
Planning and Development staff requested that the Department of Conservation comment on if the short-term rental of the principle residence on properties under Williamson Act Contract is a compatible and allowable use. On November 18, 2015 the Department of Conservation replied (Attachment I) and stated:

> "The Department recommends that any short term vacation rentals of the principle residence be limited in scope, and be allowable only if the landowner is on site to manage the agricultural operations. Short term rentals, with examples such as Airbnb or VRBO, take on a number of forms, including partial and full house rentals. A limited use arrangement would be analogous to a bed and breakfast, with the renter having a specified footprint within the house. The overall number of days that the rental can occur should be restricted so as to ensure it remains incidental to the agricultural uses on the property."

Montecito Planning Commission
The Montecito Planning Commission met on November 18, 2015 and received staff's briefing and public testimony on the use of STRs. By a unanimous vote, the Commission directed staff to develop specific zoning ordinance amendments to the Montecito LUDC and Article II to prohibit STRs in zone districts that do not currently allow traditional transient lodging uses. The Commission also did not deem Homestays as a separate use from STRs.

Recommendations and Procedures
Staff recommends that the County Planning Commission:

1. Receive a staff briefing and consider public testimony on the use of Short-term Rentals within the unincorporated County.
2. Provide direction to staff to develop specific zoning ordinance amendments to the County LUDC and Article II for the use or prohibition of Short-term Rentals.
3. Direct staff to return to the County Planning Commission with draft zoning ordinance amendments for Planning Commission consideration and recommendation to the County Board of Supervisors.
4. Determine that the briefing and Commission's direction to staff does not constitute a project under the California Environmental Quality Act (CEQA), pursuant to CEQA Guidelines Section 15378(b)(5).

Attachments

A. Examples Concentration Ordinances
B. Santa Barbara Housing Authority Commission
C. The Impact of Vacation Rentals on Affordable and Workforce Housing in Sonoma County
D. Airbnb, Rising Rent, And the Housing Crisis In Los Angeles
E. Short-Term Rental Housing Restrictions
F. Airbnb and Affordable Housing
G. MIT professor skeptical of Airbnb's impact on New Orleans housing prices
H. Housing & The Airbnb Community in the City of Los Angeles

I. Letter from the Department of Conversation

Attachment A
CONCENTRATION ORDINANCE EXAMPLES

City of Arroyo Grande:
(Ord. No. 663, § 2, 6-10-2014)
16.52.230 - Vacation rentals.
12. Establishment of a vacation rental within three hundred (300) feet of an existing vacation rental on the same street shall not be permitted.

(Ord. No. 663, § 3, 6-10-2014)
16.52.240 - Homestays.
10. Establishment of a homestay within three hundred (300) feet of an existing homestay on the same street shall not be permitted.

City of Austin, Texas
Cap on the number of non-owner occupied (type 2) and multifamily/commercial(type 3) STR allowed in each census tract of the city.
25.2.793. Determination of Short-term Rental Density
(A) The director shall determine on an annual basis the total number of single-family, detached residential structures within each census tract and use that number to calculate the maximum number of licenses for Type 2 short0term rentals that may be issued.
(B) The determination required under Subsection (A) of this section shall be based on the most current utility records for each census tract within the zoning jurisdiction and may not be revised until the next annual determination is made.
(C) For short-term rental use regulated under Section 25-2-709 (Type 3), the director shall determine based on active license records following receipt of an application that complies with the requirements of Section 25-2-791(B) whether issuance of the license would result in the short-term rental use of more than 3% of the total number of dwelling units at the property or more than 3% of the total number of dwelling units within any building or detached structure at the property.
(D) For a short-term rental use regulated under Section 25-2-790 (Type 3), one short-term rental (Type 3) license per property may be permitted if no other dwelling unit or structure in the building at the property us currently licensed as a short0term rental (Type 3) use and the use complies with all other license requirements, even if approval of a single Type 3 for the building or property would otherwise exceed the density cap under Subsection C of this section or fail to meet the standard of Section 25-2-791C (4).

City of Bend, OR:
Section 3.6.500.E: Concentration Limits. There shall be at least 250 feet of separation between properties zoned SR2-1/2, RL, RS, RM, RH, and MR outside of the Old Mill District boundary with a permitted Short Term Rental measured radially from the property boundary of the subject property as determined by the City of Bend Community Development Director of designee.

Mendocino County:

Chapter 20.748 (Ordinance No. 3915, adopted 1995)

Sec. 20.748.020 – Standards.

Single unit rentals and vacation home rentals shall meet all of the following requirements:

(A) To preserve town character and maintain the town as a residential community with limited commercial services, the County shall maintain, at all times, for new vacation home rentals or single unit rentals approved subsequent to the effective date of this section, a ratio of thirteen (13) long term residential dwelling units to either one (1) single unit rental or vacation home rental. The County shall not require any reduction in the number of vacation home rentals or single unit rentals in existence on the date of certification by the Coastal Commission of this section.

(B) No application for a new single unit rental or new vacation home rental shall be granted complete and no permit shall be granted until and unless thirteen (13) new residential dwelling units have been completed since approval of the last previous single unit rental or vacation home

Where a "single unit rental" is: An attached or detached structure, operated as a Visitor Serving Unit, in conjunction with a dwelling unit or commercial use, as a short term rental for transient occupancy, for a fee charged, and subject to Chapter 20.520 (Uniform Transient Occupancy Tax) and Chapter 6.04 (Business License Chapter) of the Mendocino County Code.

San Luis Obispo County:

23.08.165- Residential Vacation Rentals:

c. Location.

(1) Cambria. Within all residential land use categories, no residential vacation rental shall be located within (1) 200 linear feet of a parcel on the same side of the street as the vacation rental; (2) 200 linear feet of the parcel on the opposite side of the street from the vacation rental; and (3) 150 foot radius around the vacation rental. These same distances apply to other types of visitor-serving accommodation (ie: Bed and Breakfast or Homestay.) Distances shall be measured from the closest property line of the existing residential vacation rental unit, and/or other visitor-serving accommodation, to the closest property line of the property containing the proposed residential vacation rental unit. This location standard can be modified through Minor Use permit approval when a Development Plan is not otherwise required.

(2) Cayucos.

(i) Within the Residential Single Family and Residential Suburban land use categories no residential vacation rental shall be located within: (1) 100 linear feet of a parcel and on the same side of the street as the vacation rental; (2) 100 linear feet of the parcel on the opposite side of the street from the vacation rental; and (3) 50 foot radius around the vacation rental.

These same distances apply to other types of visitor serving accommodation (i.e. Bed and
Breakfast or Homestay) Distances shall be measured from the closest property line of the property containing the residential vacation rental unit and/or other visitor-serving accommodation, to the closest property line of the proposed residential vacation rental unit.

(ii) Within the Residential Multi-Family land use category, no parcel shall be approved for a residential vacation rental if it is within 50 feet of another parcel with a residential vacation rental and/or other visitor-serving accommodation. Distances shall be measured from the closest property line of the property containing the vacation rental and/or other visitor serving accommodation to the closest property line of the proposed residential vacation rental unit. In the case of condominium units, the property line shall be the wall of the individual unit.

(iii) The location standards established in Subsections c.(2)(I) and (ii) can be modified through Minor Use Permit approval when a Development Plan is not otherwise required.

3. Avila Beach. In all Residential and Recreation land use categories, no parcel shall be approved for a residential vacation rental if it is within 50 feet of another parcel with a residential vacation rental and/or other visitor-serving accommodation. Distances shall be measured from the closest property line of the property containing the vacation rental and/or other visitor-serving accommodation to the closest property line of the proposed residential vacation rental unit. In the case of condominium units, the property line shall be the wall of the individual unit. This location standard may be modified through a Minor Use Permit approval when a Development Plan is not otherwise required.

Santa Cruz County:

(Concentration limits only apply to the Live Oak Designated Area (coastal zone area))

13.10.694 Vacation rentals

(2) New Vacation Rental

(B) In the Live Oak Designated Area and the Seacliff/Aptos Designated Area, no new vacation rental shall be approved if parcels with existing vacation rentals on the same block total 20 percent or more of the total parcels on that block that allow residential use, excluding those parcels in the Mobile Home Park Combining Zone District; except that in the following areas the percentage of parcels that may have vacation rentals is not limited: [designated parcels in certain areas that front the beach] . In addition, no more than 15 percent of all the parcels that allow residential use in the Live Oak Designated Area, excluding those parcels in the Mobile Home Park Combining Zone District, may contain vacation rentals. Notwithstanding these maximums, each block in the Live Oak Designated Area that has parcels that allow residential use, excluding those parcels in the Mobile Home Park Combining Zone District, may have at least one vacation rental.

City of Napa:

D. The Director shall evaluate permit applications, and process the applications for approval, conditional approval, or denial of vacation rental permits, pursuant to this Subsection 17.52.515(D):

1. The number of vacation rental permits issued pursuant to this Section shall not exceed 41 non-hosted accommodations and 60 hosted accommodations.

Attachment B

HOUSING AUTHORITY OF THE CITY OF SANTA BARBARA

808 Laguna Street / Santa Barbara
California / 93101

Tel (805) 965-1071
Fax (805) 564-7041

May 21, 2015

The Honorable Mayor Helene Schneider
and Members of the City Council
City of Santa Barbara
City Hall, De La Guerra Plaza
Santa Barbara, CA 93101

RE: SHORT TERM VACATION RENTALS

Dear Mayor Schneider and Members of the City Council:

On May 6, 2015, the Housing Authority Commission received and discussed information on the negative impacts short term vacation rentals have on Santa Barbara's already constrained and difficult housing market. Short term vacation rentals are defined as dwelling units rented for transient use of 30 consecutive days or less. Essentially, we are seeing transient occupancy (hotel type) rentals being done at the residential unit level; which, in almost all cases, is a violation of local zoning ordinances and building codes.

As you well know, creating and sustaining affordable housing for low and middle income persons and families remains one of our community's biggest challenges. The recent 2015 UCSB Economic Forecast Project shows the South Coast rental housing market having a vacancy rate of less than 1%. The study goes on to state *"A tenant would need to earn over $57,566 per year (or $28.28/hr.) to qualify to rent the average Santa Barbara South Coast apartment"* and *"$72,617 per year (or $36.31/hr.) would be required to qualify for the average two bedroom apartment rent."* Those salaries are much higher than what a large percentage of the Santa Barbara workforce earn, particularly those in the visitor-serving sector.

The Housing Authority Commission has concluded that the proliferation of short term vacation rentals exacerbates the existing tight rental housing market in Santa Barbara. That is because we are witnessing the wholesale removal of entire units (apartments, condos and single family homes) for the purpose of using them as short term vacation rentals. The owners of these dwellings (and/or their management companies and in some cases leasehold interests) are doing the math and realizing that nightly and weekly rentals can deliver much more revenue than a month to month rental. While some might argue that such is their right in a free market economy, short term vacation rentals violate current, well-established zoning restrictions and result in the loss of critical housing inventory—inventory that was built to house the local workforce and residents who are in need of housing.

Short term vacation rentals, when coupled with our community's extremely low vacancy rate, have caused many of the hard working, low-income families, seniors and disabled individuals we serve to be unable to locate a unit to rent under the Housing Authority's Section 8 Housing Choice Voucher (HCV) program. Over the last 12 months, the Authority's success rate for its Voucher holders (the ability of a Voucher holder to locate and lease an apartment before their Voucher expires) has dropped from 90% to 60%. In addition, the cost of the program continues to rise due to the ever increasing rents we are witnessing due to the limited supply.

Planning and economic development professionals have long acknowledged that housing vacancy rates of less than 5% constitute an unhealthy housing market for a given community as it fosters over-crowding, substandard housing and pushes rents beyond the reach of middle-income workers; to say nothing of the low-income workers, seniors and disabled households on fixed incomes that the Housing Authority was created to serve.

A recent report by the California Housing Partnership shows that the annual median rent in California has risen by 21% since 2000, while median income for renter households has fallen by 8%. This harsh reality has many communities and affordable housing providers questioning the wisdom of allowing short term vacation rentals which further reduce housing supply. It is clear from various studies that short term rentals are illegal under most local zoning ordinances (including Santa Barbara's) and that they negatively impact available housing—housing whose creation and purpose is to house local residents.

The City's 2015 Housing Element Update states ***"the City of Santa Barbara considers short-term vacation rentals to be a commercial use and permits them with a change of use permit in any zone that allows hotel use. Although hotels are only allowed in limited zones, vacation rentals in Santa Barbara have become common in most zones, especially residential zones. <u>The use of residential units as short-term vacation rentals and/or only occupied as second homes poses a housing challenge to the City because these uses decrease available long-term housing opportunities for local residents as well as contribute to the increase in housing costs".</u>***

Two documents which examine short term/vacation rentals and regulatory options are enclosed. The first, Exhibit A, is a White Paper commissioned by the National Association of Realtors entitled "Short-Term Rental Housing Restrictions". While this "owner focused" White Paper favors allowing the use of housing as short term rentals in communities, it does a fair job of illuminating the ***negative*** impacts on available housing. Section 3.2.5 of the White Paper states: ***"Short-term rentals can affect housing costs in a community. When property owners elect to rent their homes on a short-term basis rather than renting on a longer-term basis (e.g., by the season or by the year), they essentially squeeze the supply of housing, pushing up the demand, and subsequently, the cost of housing in the community."***

The second document for your review, Exhibit B, is a recent report (March 2015) entitled "AirBnB, Rising Rent, and the Housing Crisis in Los Angeles". Beginning on page 16, the report details several issues with regard to short term rentals and highlights their negative impact on the housing market. The report describes the necessity of regulating firms such as AirBnB; including the requirement that these firms share rental information and data.

The Housing Authority has reviewed the regulatory schemes of a number of California cities that are trying to deal with the increased cost and reduced housing supply brought about by short term vacation rentals. Among those cities are Sonoma, St. Helena, San Francisco, Laguna Beach, and Santa Monica. We also provide for your review a copy of the City of Santa Monica's April 28, 2015 City Council Report and their adopted Ordinance. Santa Monica specifically makes short term vacation rentals unlawful under their zoning ordinances, but allows (1) home sharing, and (2) house swaps. Home sharing occurs where at least one of the primary owners/residents of a property lives on site throughout the short term stay of a visitor.

Home sharing and house-swaps have been around for decades, are relatively few in number and do not result in the removal of whole housing units from the market as short term vacation rentals generally do. Short term vacation rentals, as many studies show, increase the cost of an already expensive product—housing—whereas home sharing tends to spread good will for the community and allows a principal resident who needs some added income to earn some while hosting a guest. House swaps, where no money changes hands, allows local residents to take vacations they might not otherwise be able to afford. More importantly, home sharing and house swaps do not reduce housing supply.

The Commission strongly hopes, and respectfully requests, that the Council give the issue of short term vacation rentals the very serious attention it deserves. Should you desire further input from the Housing Authority Commission or our staff on this subject, please do not hesitate to contact me. Thank you for allowing us to comment on this important issue.

Sincerely,

HOUSING AUTHORITY OF THE
CITY OF SANTA BARBARA

GEOFF GREEN
Chair

cc: Housing Authority Commission
Rob Pearson, Executive Director
Paul Casey, City Administrator
Ariel Calonne, City Attorney
George Buell, Community Development Director

Attachment C

The Impact of Vacation Rentals on Affordable and Workforce Housing in Sonoma County

The Economics of Land Use

Prepared for:

The Sonoma County Community Development Commission

Prepared by:

Economic & Planning Systems, Inc.

July 7, 2015

EPS #141172

Economic & Planning Systems, Inc.
One Kaiser Plaza, Suite 1410
Oakland, CA 94612-3604
510.841.9190 tel
510.740.2080 fax

Oakland
Sacramento
Denver
Los Angeles

www.epsys.com

Table of Contents

List of Tables

List of Figures

INTRODUCTION AND SUMMARY

This Research Paper was commissioned by the Sonoma County Community Development Commission as part of its broader efforts to address homelessness, the inadequate supply of rental housing, and the rapidly increasing rents in Sonoma County. This Paper explores one aspect of housing supply constraints and increasing costs—the rapid expansion and emerging effects of "vacation rentals," some of which compete directly for available housing by shifting housing units from residential use to visitor-serving use. Vacation rental use of housing units has increased rapidly in recent years due to the advent of web-based vacation rental marketing platforms such as AirBnB and VRBO; the growth of the industry is expected to continue in the coming years. This Paper quantifies and locates this shift of housing from residential use to visitor-serving use that has already occurred, and recommends ways of minimizing and mitigating the impacts of vacation rentals that impinge on the County's housing supply.

Homelessness and lack of an adequate supply of affordable housing in Sonoma County have many causes. This Paper concludes that expansion of vacation rentals in Sonoma County, especially the component of the market involving rental of whole housing units in areas not historically associated with vacation rentals, is reducing the supply of housing available to the resident workforce market. This reduction in housing supply, in turn, has and will continue to contribute to upward pressure on residential rents and prices.

The research conducted in support of this paper included review of the substantial literature on the topic of vacation rental impacts, assessment of the current vacation rental market based upon "webscrapes" of the data available from the largest vacation rental platform (AirBnB), obtaining housing data from US Census sources and commercial sources, and finally, use of data and mapping resources developed by Sonoma County Permit & Resource Management Department (PRMD) as part of their broader research on the topic.

Background

History of Sonoma County as a Visitor Destination

Sonoma County has been a recreation and resort-destination since the late 19th century. At that time, the burgeoning growth of San Francisco and other more central Bay Area cities created demand for close-by destination recreation and resorts. Simultaneously, the expanding San Francisco Bay ferry system and railroads made access to the Russian River area and the hot springs resorts in the Sonoma Valley an easy day-trip for San Francisco residents. Over the years, as the advent of the automobile, improved highway access, bridges, and air travel provided easier access to more distant recreation and resort venues, the old resort communities of Sonoma County lost their luster. Beginning in the post-war years' suburban expansion of Sonoma County, its historical resort communities increasingly shifted to serving local residents, both as a source of housing and local recreation.

In recent decades, with the continued population growth of the Bay Area region and the expansion of the wine industry, Sonoma County has once again emerged as a significant visitor destination. Visitors are attracted to the County's lovely coastline and coastal communities; its expanded and improved State and regional park system; its scenic highways; and its lodging and resort properties concentrated along the Sonoma Coast, the Russian River corridor, the Sonoma

Valley, and the north County wine region. At the present time some 7.5 million visitors arrive in Sonoma County each year [1] driving continued expansion of the County's tourist-serving businesses.

Increasing Destination Visitors and the new Web-Based Marketing Platforms

While vacation rentals have historically been a part of lodging supply in the Russian River resort areas, short-term vacation rentals have expanded rapidly in recent years mirroring the national and international trend. With the new web-based platforms, hosts can now make a spare room, an entire apartment, or a house available to potential visitors through websites such as AirBnB, Homeaway, Flipkey and other vacation rental "platforms." These platform companies have varying business models but generally earn fees when bookings occur and/or when listings are posted by hosts. Unlike a hotel, bed and breakfast inn, or a traditional vacation rental unit, making residential owner's space available for short-term rentals is a low-cost and flexible undertaking for a host. The host can earn income by renting their space for as few or as many nights as they wish and that the market will bear. Using web-based vacation rental platforms, visitors to the County can select from a variety of lodging options and have the experience of staying in a home and neighborhood not traditionally oriented to tourist accommodations.

The advent of the new web-based marketing platforms coincides with considerable growth in visitors to the County and a corresponding increase in related economic activity and tax income to local governments. Over the past five years, as the economy has been recovering from the Great Recession, the transient occupancy taxes (TOT) by Sonoma County (unincorporated County lodging) increased to $12 million in 2014, a nearly 60 percent increase in five years. TOT gains recorded by the cities were more modest during this period. Total visitor spending is estimated at $1.6 billion, total related local tax revenues at $143 million and total employment supported at 19,350 jobs.[2]

Visitors to Sonoma County are estimated to be 90 percent of domestic origin with the largest fraction arriving from other Bay Area counties. An increasing number of visitors are international, corresponding to the substantial growth in international tourism globally and specifically to the growth in California's attractiveness to international tourists.[3] These growth trends suggest potential for continued expansion of the County's tourism business, including lodging demand and further expansion of the vacation rentals as a component of the County's lodging supply.

Increasing Investment in Housing for Second Home and Vacation Rental Purposes

The increasing visitor demand and the improved ability to market homes as vacation rentals has made homes in visitor-serving areas a target for investment by companies and individuals seeking investment opportunities. These investors include an increasing number of international investors, dominated by those from Asia and Canada. The National Association of Realtors has recently reported that foreign investment in housing in the United States is expected to top

[1] Annual Tourism Report 2014, Sonoma County Economic Development Board

[2] Ibid

[3] Ibid

$100 billion in 2015 with this investment focused in the coastal metropolitan areas and high-amenity locations such as Sonoma County. Over 50 percent of this investment appears to be for second home or vacation rental purposes (not primary residence).[4] This information conforms to data, discussed later in this Paper, showing an increasing shift of housing units in Sonoma County to second homes and seasonal (vacation rental) uses.

Workforce Housing Supply Constraints

While the tourism sector has rebounded from the Great Recession, overall economic indicators in the County, including increases in household income and new employment, have been less strong. While employment increased by about 10 percent (18,800 jobs) between 2009 and 2015, most new jobs were created in the lower wage categories of the service sector whose average earnings per employee in 2014 were less than $30,000.[5] Meanwhile median household income in the County, at approximately $64,000, has remained essentially flat during this period. Adding to the existing housing supply constraints, the new service sector workers affiliated with the expanding visitor-serving businesses (lodging, food service, recreational services, etc.) will need housing. These housing demand trends, along with supply constraints including capacity and development-cost-related constraints and tightened credit and lending standards, have resulted in a weak rebound of the real estate sector in the County. As a result and mirroring trends throughout California, Sonoma County residents have shifted away from ownership housing toward rentals, resulting in additional demand for the limited rental housing stock. This shift can be explained by limited production of for-sale housing, as well as by tenure preferences related to both the aging population and the lower income profile of new household formations. Sonoma County needs more rental housing than ever to keep up with its changing demographics and workforce expansion.

As a result of the increasing demand for rental housing and only limited production of new housing units in the County, rents have increased by 30 percent or more in the County over the past few years and rental vacancy rates, currently estimated to be below 2 percent, are well below a “normal” market vacancy rate of 5 percent. Even though home prices and rents have increased substantially in recent years following the contraction that occurred during the Great Recession, they have not, as evidenced by the very limited housing production in the County, been sufficient to stimulate substantial new construction (other factors including limited land availability and proportionately high entitlement costs and development impact fees charged individually by the County in unincorporated areas and the nine cities may also contribute to the poor rebound of the home construction industry). These housing supply trends underscore the need to preserve the existing housing stock otherwise available to the County’s working families.

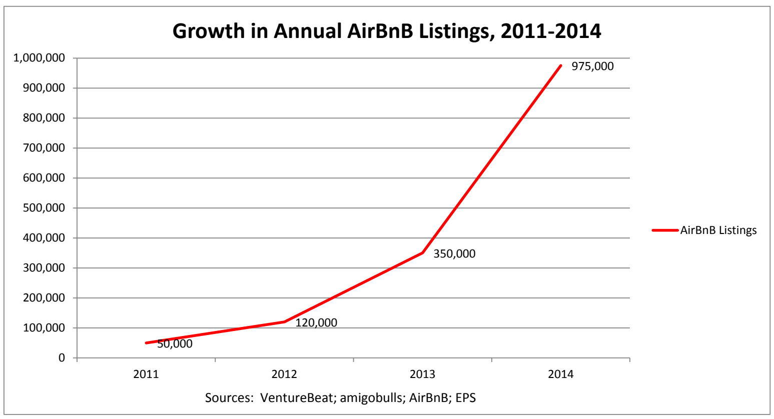
[4] National Association of Realtors, 2015

[5] Ibid

Findings

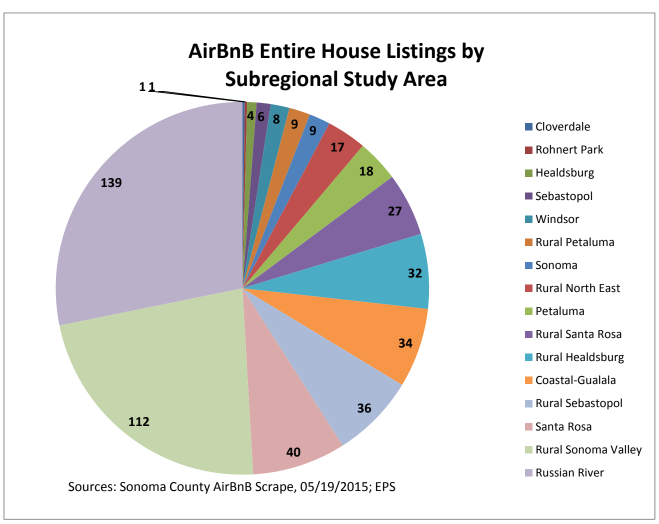
1. *Vacation rentals are a rapidly increasing component of visitor accommodations nationwide and in Sonoma County.*

Since its advent in 2008 AirBnB, now joined by other competing web-based vacation home marketing platforms, has grown very rapidly with no sign of the growth slowing down. This lodging business trend is caused by a variety of factors including an improving economy and related increases in tourism, a substantial price advantage to vacation home rentals by comparison to traditional lodging properties in the same market area, and the convenience offered by the web-based searching and transaction marketing platforms. While precise time-series data is not available, growth of AirBnB in Sonoma County appears to have mirrored the rate of national growth.

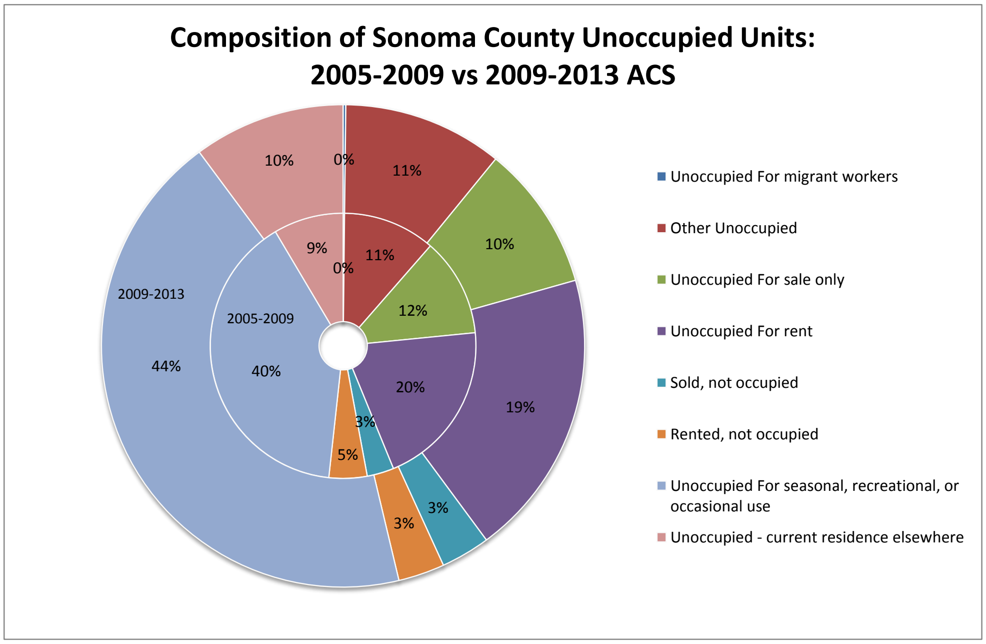


2. *The vacation rental marketing platforms have effectively incorporated single-family homes in residential neighborhoods to the County's lodging rental unit pool, thus competing with local residents for these units.*

While vacation rentals have long been a component of the County's lodging industry, especially evident along the Sonoma Coast in places such as Sea Ranch and Bodega Harbor, the web-based marketing platforms have extended the reach of the industry to the County's other visitor-serving areas, including encroaching into traditionally residential neighborhoods in the Russian River area, in the Sonoma Valley, and in the north County surrounding Healdsburg.



3. ***There is a measurable shift in housing supply, otherwise available to the County's working families, to vacation rentals and other nonresident serving uses.***
   While precise current statistics are not available tracking units in the vacation rental pool, trends in "unoccupied housing units" as reported by the US Census American Community Survey (ACS), indicate that the number of units so identified increased by 1,800 units between 2005 and 2103. Within the components of "unoccupied housing units," the two categories closely aligned with vacation rentals, the unoccupied/owner living elsewhere and seasonal units equaled 54 percent of all unoccupied units in the County in 2013, a total of over 10,400 units. Given the rapid increase in vacation rental listings it is likely that these categories of "unoccupied housing units" continued to increase since 2013. The very limited amount of new housing construction during this period means that these increasing "unoccupied housing units" have been drawn from housing supply otherwise available to the County's working families.



4. ***Additional regulation and mitigation can limit the loss of housing units otherwise available to the County's working families.***
   The shift of workforce housing to vacation rentals that has already occurred along with the expectation for the continued rapid growth of the vacation rental industry in Sonoma County suggests that additional regulations and mitigation measures are in order to protect the County's supply of housing available to local working families. The County should consider both new regulations to reduce future shifts of workforce housing to vacation rentals and also establish mitigation efforts to offset the existing and future impacts of vacation rentals on the County's housing supply.

   - Regulatory changes (changes to the County's Zoning Ordinance regulations) can reduce the conversion of housing stock in neighborhoods where single-family housing otherwise available to local working families is susceptible to vacation rental conversion. A multi-pronged regulatory approach is recommended, as outlined in the final section of this Paper.

- Providing County funding to programs that stimulate production of workforce housing can offset housing losses that have and will occur in the future. Dedicating a portion of existing (or an additional increment of) transient occupancy taxes levied upon vacation rentals in the County could provide such a funding source. For example, such a program could be created to pre-pay certain development costs (i.e., permit and development impact fees) and invest in measures that increase development readiness of designated housing sites.

Vacation rentals and the hospitality industry

Short-term Rental Market

The short-term rental market has three participants: 1) the host who rents their property, 2) the guest who rents the property on a short-term (e.g., vacation) basis, and 3) the web-based rental platform that serves as a clearing house and rental agency for the hosts and guests. The host may be a property owner, lease holder, or a third party management company that owns or offers individual private rooms or whole houses or apartments. The guests rent out these lodging units based on their needs and preferences, and the rental platform company facilitates the exchange between the hosts and guests and also earns a fee from the hosts for the services rendered.

Short-term rentals are a substitute to traditional lodging, offering a new lodging product that includes amenities such as full kitchens, easy access to different neighborhoods, and an opportunity for a more local and familiar experience of the destination. While vacation rentals offer occupant-owners of housing units the opportunity to gain income from renting out spare rooms or secondary units, the industry has also attracted investors who have focused on acquiring and renting out whole residential units, including single-family homes and multifamily units.

The web-based rental platforms generate revenue in a variety of ways. AirBnB, the predominant web-based rental platform in Sonoma County, generates revenue by charging hosts a 3 percent commission on each booking and by charging travelers a commission of between 6 and 12 percent, thus generating a yield of anywhere between 9 and 15 percent in commission for every booking. Other vacation rental platforms such as HomeAway and FlipKey offer a pay-per-booking option and also a subscription model, which charges hosts for advertising rentals. This report focuses on AirBnB due to its predominance in the short-term rental market and the availability of public data on its activities.

Web-based rental platforms are now a global industry which has grown rapidly from the creation of AirBnB in San Francisco in 2008. In the past year AirBnB has raised nearly $800 million from global investment firms including TPG Capital, T. Rowe Price and Dragoneer Investment Group. AirBnB has been valued at $13 billion, placing the company in the upper echelons of the hospitality industry. At this valuation, AirBnB has a higher market value than both Hyatt ($8.4 billion) and Wyndham ($9.3 billion). According to media reports, the company has been responsible for booking 10 million guest nights since 2008, and its own estimates indicate the company may have booked more room nights in 2014 than major chains like Hilton and Intercontinental.

Classification of vacation rental units

Vacation rentals offer a variety of lodging products, expanding upon the historical supply of second homes and other units dedicated to the vacation rental market such as those located as Sea Ranch, Bodega Harbor, or in the Russian River area. It is this expansion of vacation rentals into historically residential neighborhoods that creates neighborhood conflicts and competition with the rental housing market. The AirBnB website offers three types of rentals: 1) entire homes where the guest has access to the entire unit and the host is generally not present, 2) private rooms where the host is often present in the home, and 3) shared rooms, where hosts or others guests may sleep in the same room.

Of these three types of rentals it is the first type (the entire homes are rented without the host being present) that has the most potential to compete for the workforce housing supply. At the present time these entire home vacation rentals comprise 51 percent of AirBnB's listings in Sonoma County.

Benefits and Costs of Vacation Rentals

Numerous studies have been prepared in recent years addressing the benefits and costs of the short-term rental market.[6] On the "benefit" side, some say that the short-term rental market can 1) increase tourism and its related economic and fiscal benefits; 2) provide additional income for hosts, particularly those who could not otherwise rent their home or rooms; and 3) extend the economic benefits of tourism (increased sales, etc.) to neighborhoods traditionally not visited.

On the "cost" side, the literature indicates that short-term rentals can: 1) shift existing scarce local resident housing to the lodging sector, 2) encourage tenant evictions if a landlord concludes that they can earn more money from short-term rentals than from a long-term tenant, 3) violate local zoning and other ordinances, 4) negatively affect the quality of life in residential areas due to nuisances caused by visitors, and 5) cause loss of household population in given neighborhoods thus reducing the number of school children and residents available for volunteer services such as fire protection. It is the first two of these impacts, where short-term rentals exacerbate the housing shortage in Sonoma County by offering a more lucrative alternative to offering a unit on the long-term rental market that is the concern of this Paper.

Location of Sonoma County's Vacation Rentals

The nature of the vacation rental industry in the wake of the web-based rental platforms can make it difficult to measure the actual number and types of properties offered for rent. While the County (and some cities) require registration of vacation rental units pursuant to local ordinances, such as Sonoma County's Ordinance 5908, registration and compliance with these ordinances is by no means universal, as it tends to be with the traditional lodging sector. Given this data gap, this Paper relies upon AirBnB as a source of data and proxy for the total number and distribution of the vacation rental units in the County.

Figure 1 shows the geographic distribution and quantity of vacation rentals derived from webscrapes of AirBnB's website in May 2015. The three classes of vacation rentals offered by AirBnB are shown. While it is likely that there are more vacation rentals than indicated through this single data source, it is likely that the pattern of their distribution will be consistent.

[6] See Bibliography

Figure 1 AirBnB Listings for Sonoma County, Mid-May 2015

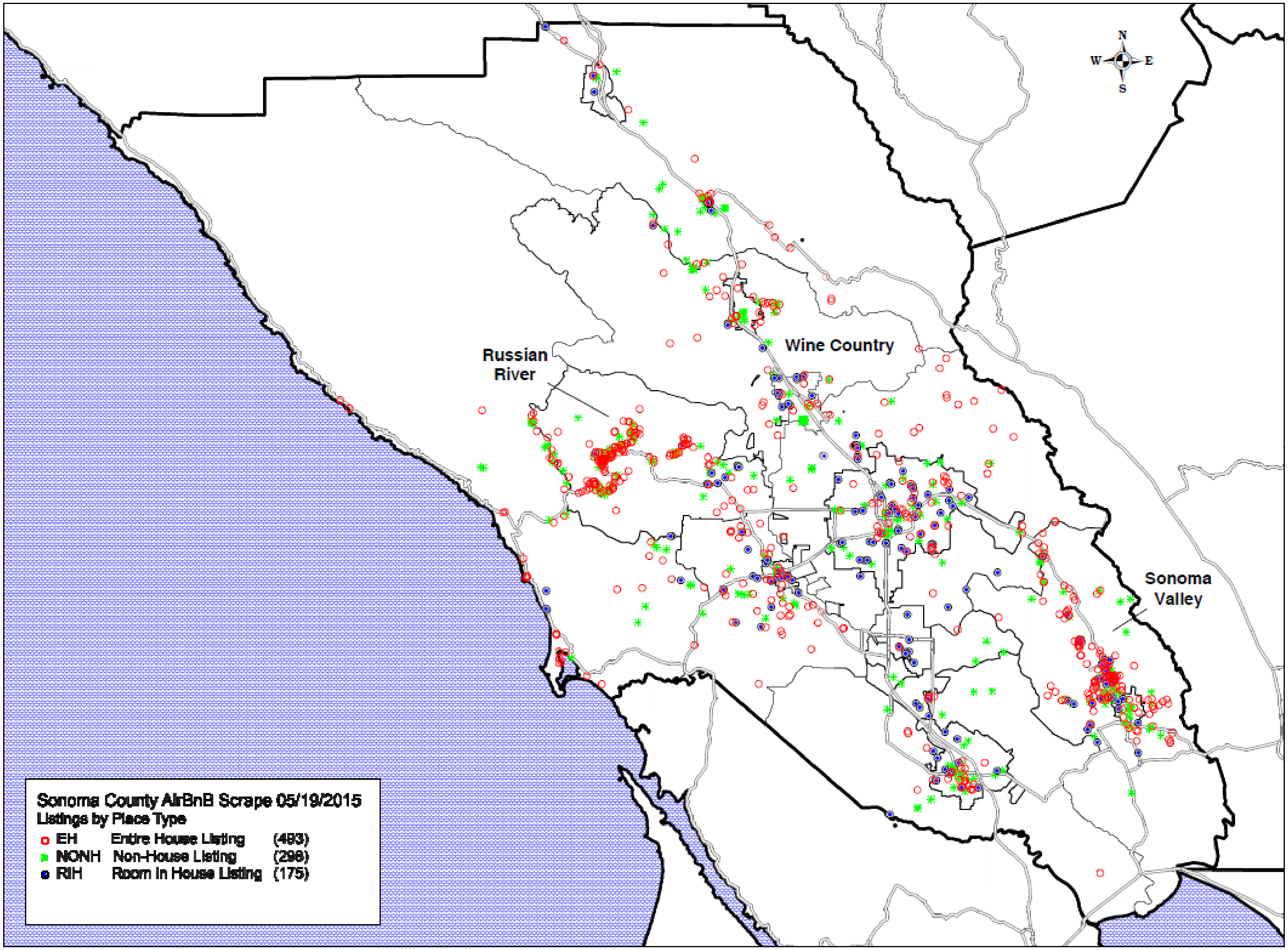


Table 1 shows the numbers of AirBnB-listed vacation rental units by County sub-areas. It is notable that the AirBnB vacation rental listings (excluding the Coastal communities) are concentrated in three locations: the Sonoma Valley, the Russian River, and the north County "wine country" surrounding Healdsburg. This distribution is very relevant to impact upon residential supply because these areas are the location of stable residential neighborhoods that provide housing for the County's working families. While the Russian River resort area has attracted visitors with vacation homes in the past, many river-area homes provide long-term housing that is more affordable than in many other areas of the County. Similarly, the incursion of vacation home rentals into the traditional residential neighborhoods in the Sonoma Valley and areas surrounding Healdsburg has caused a loss of housing stock that was formerly available for working residents; a loss that is likely to increase given the rapid growth trends of web-based vacation rental marketing.

Table 1 AirBnB Listings by Sonoma County Subregional Study Area

Geography	Estimate; Total AirBnB Listings		Estimate; Entire House Listings		Estimate; Room in House Listings		Estimate; Non-House Listings	
	#	%	#	%	#	%	#	%
Russian River	207	21%	139	14%	12	1%	56	6%
Rural Sonoma Valley	179	19%	112	12%	26	3%	41	4%
Santa Rosa	110	11%	40	4%	41	4%	29	3%
Rural Sebastopol	58	6%	36	4%	10	1%	12	1%
Coastal-Gualala	59	6%	34	4%	4	0%	21	2%
Rural Healdsburg	50	5%	32	3%	4	0%	14	1%
Rural Santa Rosa	55	6%	27	3%	13	1%	15	2%
Petaluma	45	5%	18	2%	11	1%	16	2%
Rural North East	54	6%	17	2%	12	1%	25	3%
Sonoma	26	3%	9	1%	5	1%	12	1%
Rural Petaluma	23	2%	9	1%	6	1%	8	1%
Windsor	49	5%	8	1%	12	1%	29	3%
Sebastopol	18	2%	6	1%	7	1%	5	1%
Healdsburg	12	1%	4	0%	0	0%	8	1%
Cloverdale	5	1%	1	0%	2	0%	2	0%
Rohnert Park	9	1%	1	0%	8	1%	0	0%
Cotati	1	0%	0	0%	0	0%	1	0%
Rural Rohnert Park-Cotati	6	1%	0	0%	2	0%	4	0%
Sonoma County Totals	**966**	**100%**	**493**	**51%**	**175**	**18%**	**298**	**31%**

Sources: Sonoma County AirBnB Scrape, 05/19/2015; ABAG Subregional Study Area Map

Current Regulation and Taxation

The County adopted a Vacation Rental Ordinance in 2010 that became effective on the first day of 2011. The Ordinance established regulatory requirements including the need to obtain a zoning permit, limits on per room occupancy, controls on nuisance, and subjecting the vacation rentals to the County's 9 percent Transient Occupancy Tax.

More recently, in October 2014 the Board of Supervisors received a report on the TOT Program that included an audit report prepared by the County Auditor-Controller on transient occupancy tax revenue and a report on the growth and issues associated with vacation rentals. As a result of these reports, the Board adopted a Resolution of Intention to initiate amendments to the County's vacation rental ordinance to further regulate this land use. The Board requested more information on the location of permitted vacation rentals by district, number and type of complaints, and actual violations. The Board stressed that a robust public outreach and community engagement program should be undertaken in evaluating the effectiveness of the current ordinance and the options for Ordinance amendments or other measures. In addition, the Board provided direction to staff to evaluate and address a number of enforcement issues including coordination with web-based platforms to assist in collection of transient occupancy taxes.

Housing Supply Shifts to Vacation Rentals

Historically, the rental housing market and the hospitality industry did not compete for the same supply. The web-based vacation rental platforms now allow residential property owners to compete for tourist lodging demand. Owners can often earn more money by converting traditional residential housing units into vacation rental units, as many appear to have done. The analysis of AirBnB's impact on housing supply in Los Angeles [7] estimates that an owner can expect to earn double or more in annual rental income through short-term rental versus renting to local residents at current market rates. As noted above, it appears that this trend is leading investors to purchase heretofore single-family homes expressly for use as vacation rentals. Such investors are also known to form Limited Liability Corporations (LLCs) to hold these properties and only sell shares rather than transferring property ownership, thus limiting real estate tax increases.

Sonoma County cannot afford to lose its housing units. During the most recent Housing Element cycle (2007-2014), the County produced only 412 housing units affordable to families of moderate or low income, about 50 percent of the need expressed in the Regional Housing Needs Allocation (RHNA). Going forward in the Housing Element 2014-2023 cycle the County needs an additional 936 units, of which 513 must be affordable. Actual demand for housing units, based upon continuing household formation rates, is far greater than the RHNA numbers.

Existing housing supply statistics for Sonoma County sub-areas are offered by the American Community Survey (ACS) data conducted by the U.S. Census Bureau. These surveys are conducted every five years and provide details regarding the quantity and tenure status of housing, typically by county sub-areas throughout the United States.

[7] Rising Rent, and the Housing Crisis in Los Angeles, Samaan, Roy, LAANE, 2015

Unoccupied Housing in Unincorporated County

Data provided by the US Census American Community Survey (ACS) provide a useful measure of housing stock trends. The survey based data is updated annually and is summarized in five-year averages. The ACS classifies a portion of the housing as "vacant" for a variety of reasons. These reasons include, but are not limited to, the more narrow meaning of "vacant" (available for rent or sale on the open market). The other categories include units that have been rented or sold but not yet occupied; homes available for seasonal, recreational, or occasional use; and finally, vacant for other reasons.

Trends in these unoccupied housing categories provide a framework for measuring the effects of vacation rentals on the County's housing stock. During the past decade, as indicated by the ACS data, there has been an increase in the total unoccupied housing in unincorporated Sonoma County, despite there being a historically tight housing market as indicated by very low vacancy rates for rental housing. **Figure 2** shows trends in unoccupied units in the County including those in the unincorporated areas and the cities and as compared to statewide averages. While the percent of unoccupied housing units in Sonoma County's cities remains below the statewide average, perhaps reflecting the tight housing market conditions and the lower percentage of units devoted to seasonal, recreational, or occasional use, the County's unincorporated areas show a rate of unoccupied units higher and increasing faster than the statewide average.

Seasonal, recreational, or occasional use units, which include vacation rental units, comprise the largest share of total unoccupied units in Sonoma County and have steadily increased as a percentage of unoccupied units since 2005. As measured by the survey-based ACS, they are now approximately 44 percent of total unoccupied units in the County, an increase of 1,761 units or about 20 percent during this period, which can be assumed to be a proportional reduction in for sale or rental housing available to the County's working families.

Additionally, unoccupied units owned by persons who have fixed residences elsewhere (and are not presently declared as seasonal units or units available for sale or rent) equal 1,970 units, approximately 10 percent of the total unoccupied units. In combination the unoccupied/owner living elsewhere and seasonal units equal 54 percent of all unoccupied units in the County, some 10,400 units as of 2013. **Figure 3** shows the composition of unoccupied units in the County numerically, while **Figure 4** shows the same data in percentage terms. This increase in housing units devoted to seasonal, recreational, or occasional use along with the increasing unoccupied absentee owner units have largely been shifted from the residential rental occupied or owner-occupied units; i.e., a reduction in the housing supply, as shown in **Figure 2**. Census and California Department of Finance housing reports indicate that over the last 15 years, since a (comparatively) high point in housing occupancy rates circa 2000, unoccupied units have been increasing at more than 5 times the rate of growth in total housing supply for Sonoma County.

An emerging trend is the increase in Sonoma County housing held not only for investment and equity, but as income-generating real estate. The recent AirBnB 'scrape' of listings for Sonoma County produced several examples of multiple units offered by a single host. While some of these were obviously postings by well-established vacation rental agencies, others appear to be held by out-of-town investor groups. AirBnB and similar sites have facilitated the use of Sonoma County housing units for short-term rentals beyond and outside of traditional vacation, lodging and rental real estate owners and operators, contributing to the loss of available units as documented above.

Figure 2 Changes in California and Sonoma County Unoccupied Housing Rates 1990-2015

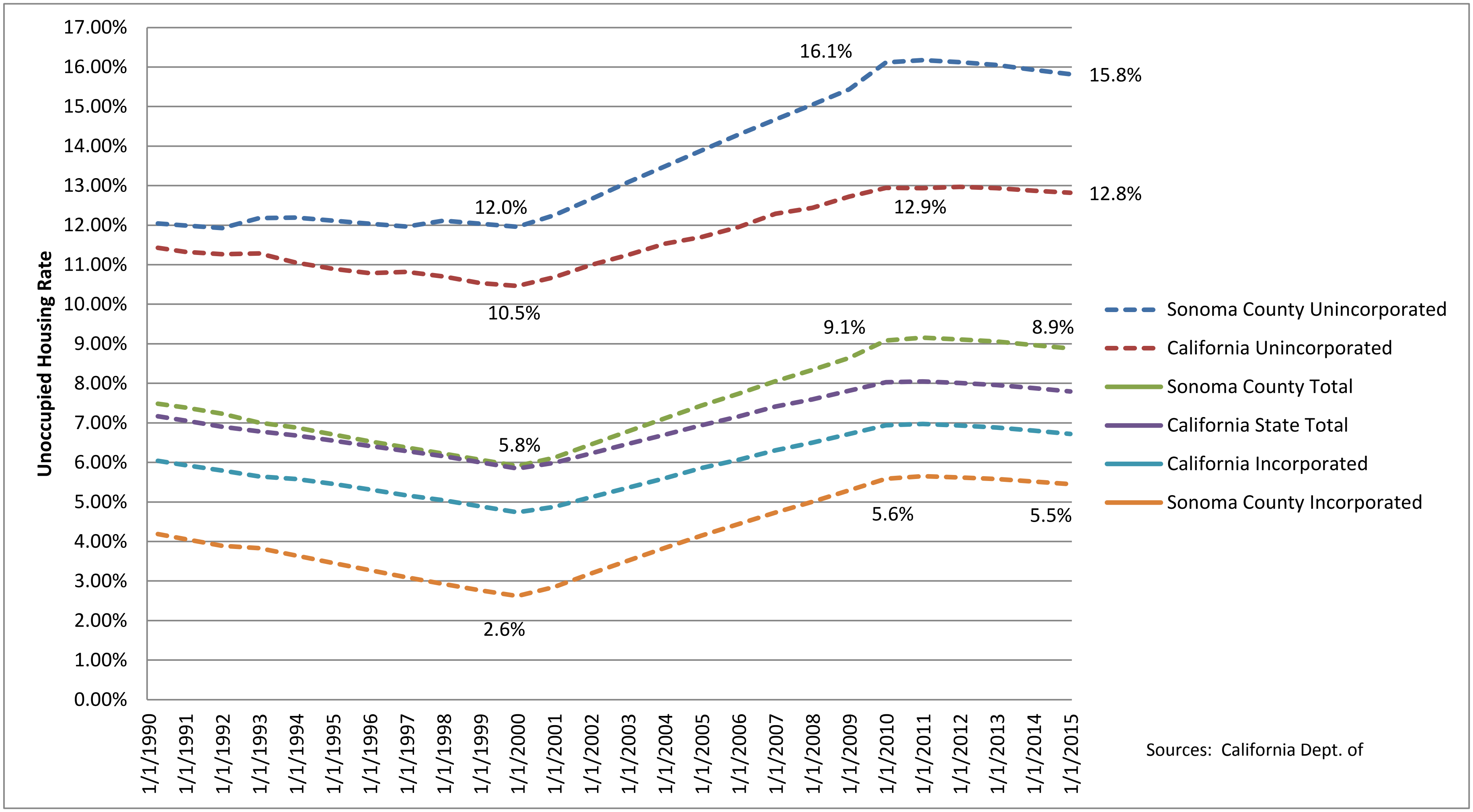


Figure 3 ACS Trends for Sonoma County Unoccupied Units (#)

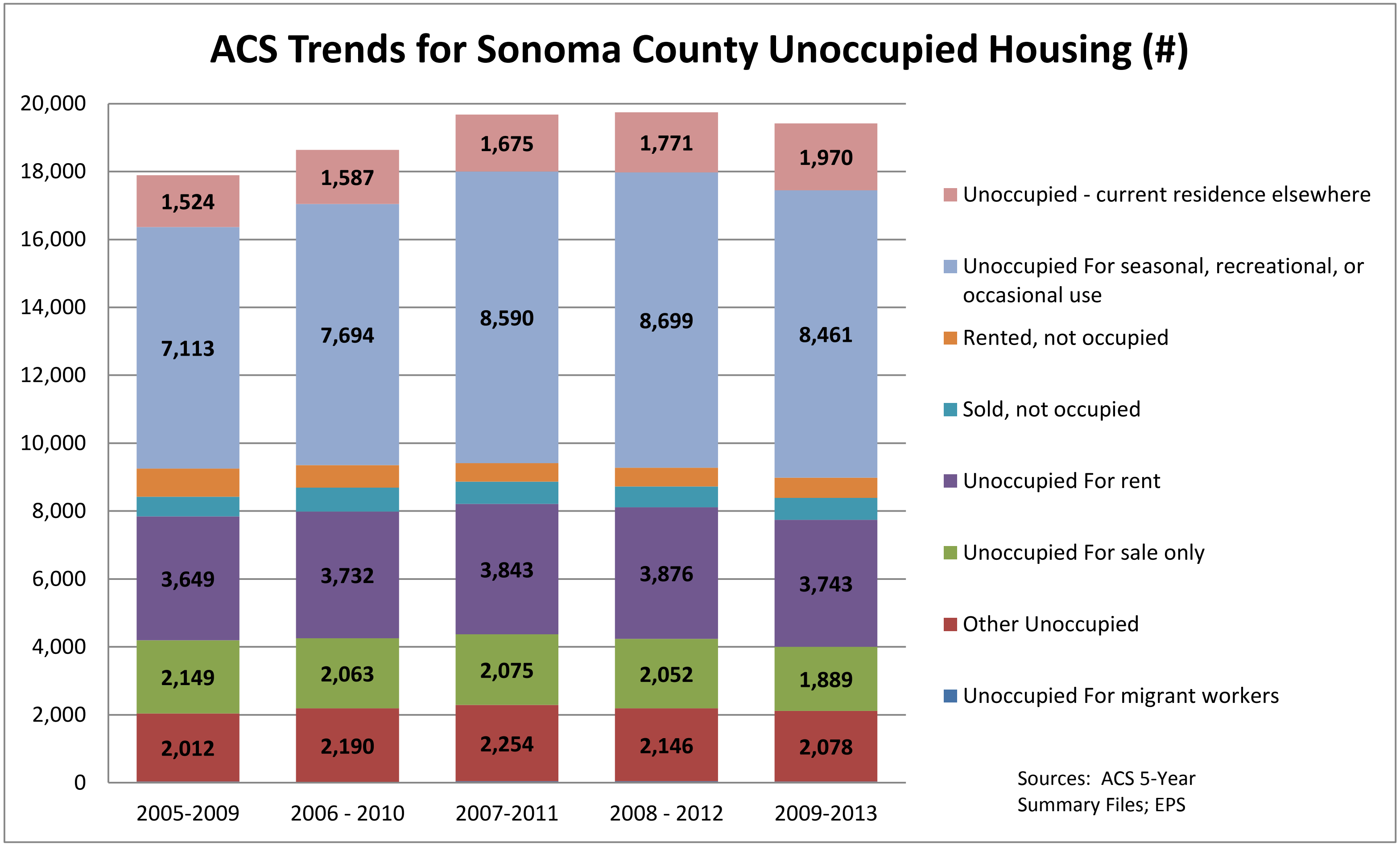


Figure 4 ACS Trends for Sonoma County Unoccupied Units (%)

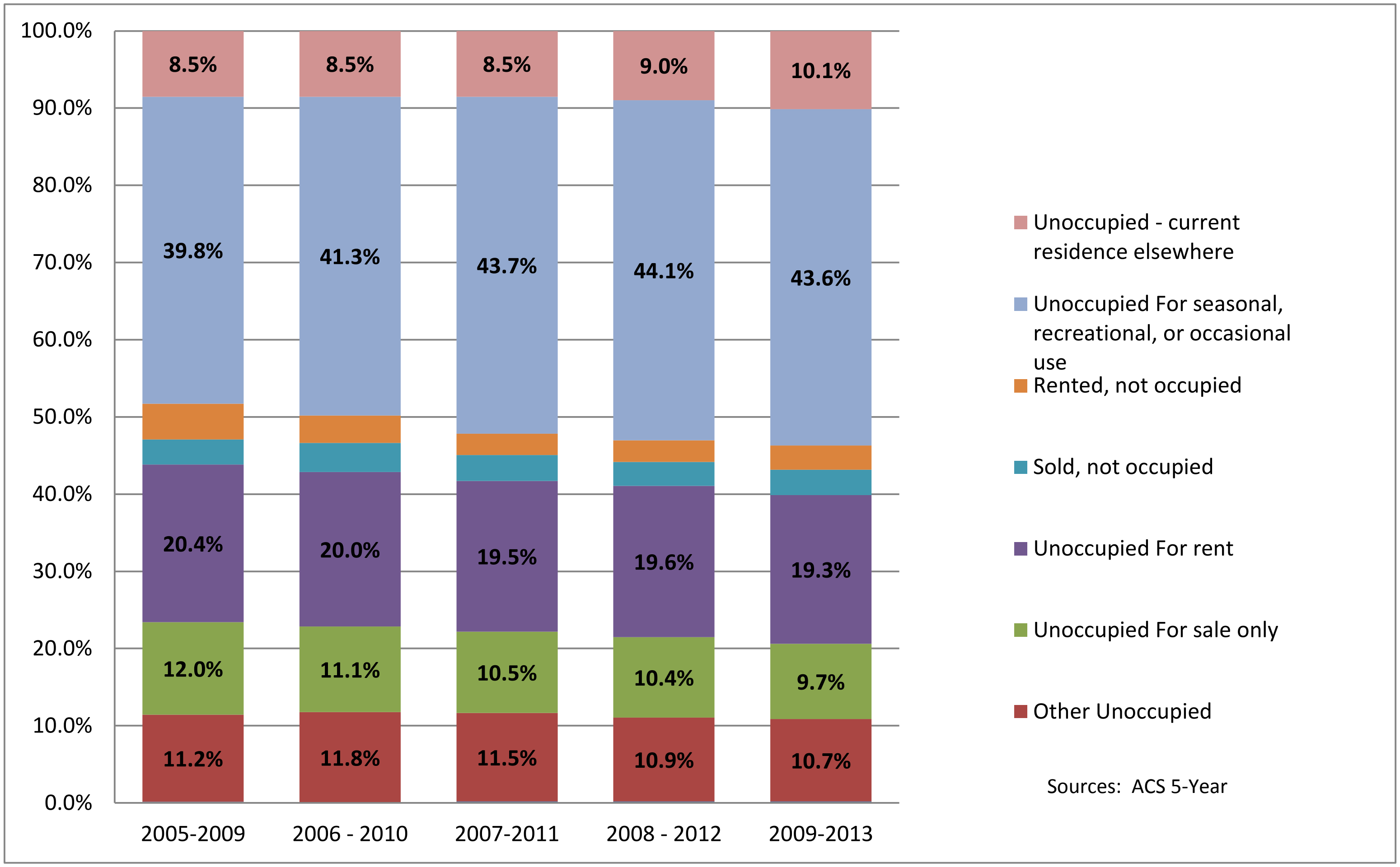
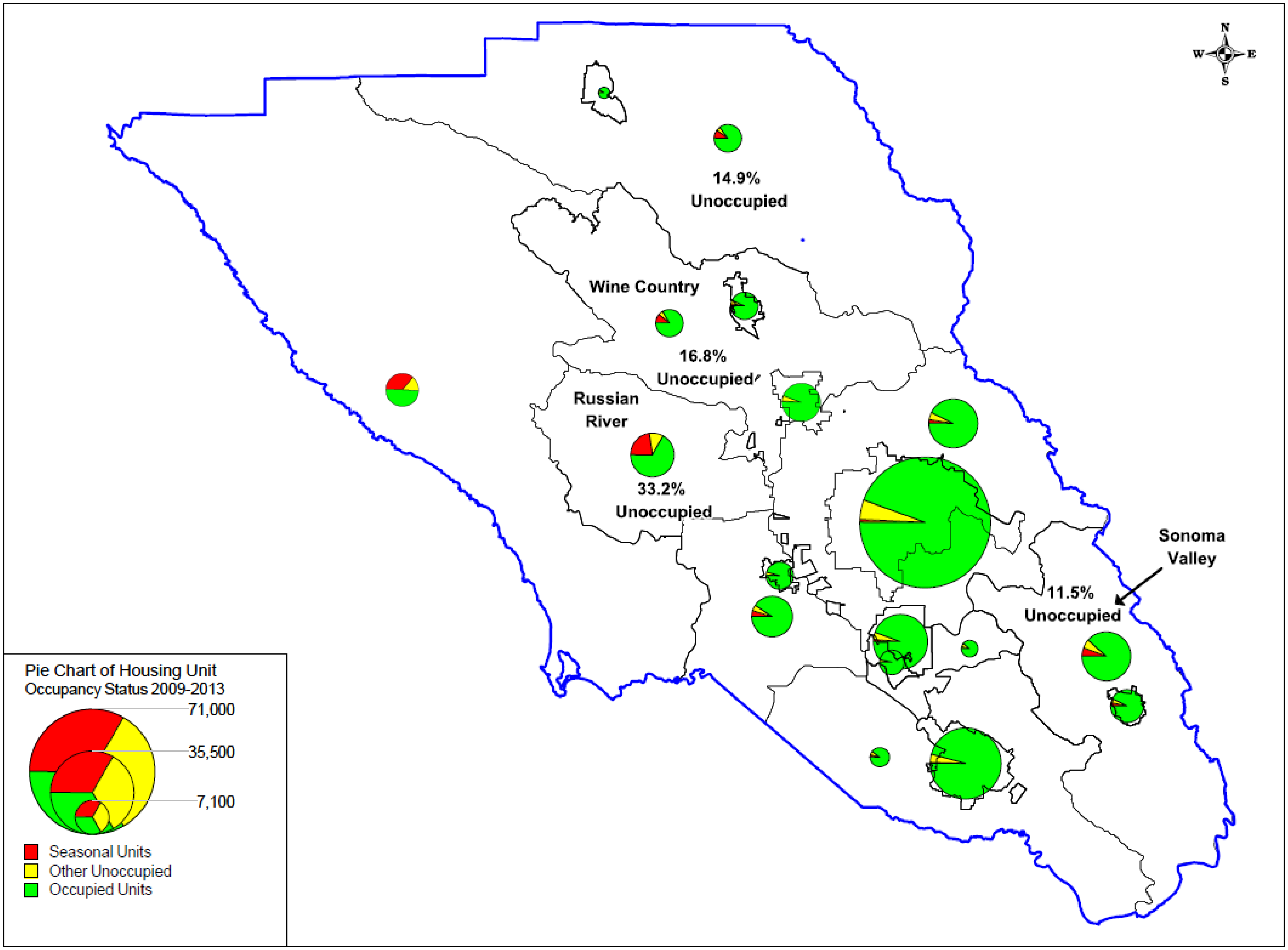


Figure 5 shows the proportional composition of housing supply in Sonoma County, with pie charts proportional in size to the total number of housing units by subarea, and with each pie's segments in proportion to the local percentages of seasonal units, other unoccupied units and occupied housing. A side-by-side examination of **Figure 5** with **Figure 1** shows that AirBnB whole-house listings are concentrated in those areas where the seasonal unit and other unoccupied housing rates are greatest. Where seasonal unit and overall unoccupied ratios are lowest, AirBnB room-in-house or other (not whole-house) listings tend to predominate.

Figure 5 Unoccupied Housing Rates in Sonoma County Subareas



Regulatory and Mitigation Steps

The impacts of the rapidly expanding vacation rental market on housing supply and neighborhood integrity in Sonoma County as documented in this Paper and in the County's related public outreach efforts suggest that mitigation (to reflect the costs of additional housing demand in the tax on the industry and also to limit and offset loss of housing units) and additional regulatory controls (to reduce the nuisance effects of vacation rentals on the resident population) are in order. Given market trends, even with additional taxation and regulatory limitations, the shift of housing previously available to the County's working families to use by visitors is expected to continue.

Focusing on the issue of shift of units from the residential rental market (recognizing that other additional controls may be in order to address other neighborhood impacts) this regulatory effort should seek to limit shifts of "whole-house" rentals, especially those located in the older residential neighborhoods proximate to the County's key visitor destinations. Since even with such controls there will remain a shift (a loss of residential rental units), further mitigation is justified through internalizing the cost of the housing losses into the price of vacation rental units.

Recommendation #1 -- Prohibit vacation rentals in urban residential zones and require a discretionary permit in rural residential zones.

As a part of its public outreach and research efforts pursuant to the direction of the Board of Supervisors, PRMD staff has identified a range of policy options.[8] While there is a range of issues and impacts that have been revealed by the PRMD outreach efforts for which policy options have been identified, this Paper is focused on one of these impacts, the conversion of whole-house units to vacation rentals. Such conversion of the housing stock has occurred and substantially impacted the housing market. The conversion of housing stock will continue to occur given existing market trends thus shifting more of the County's housing stock otherwise available to working families, unless action is taken to further limit the conversion.

In order to preserve housing stock for housing use, strict limitations should be placed on allowing the conversion of additional residential housing stock to visitor-serving use. The most efficient policy option identified is to prohibit further whole-house vacation rentals in the urban residential zones. In rural areas, conversion of residential housing stock could be limited through requiring a discretionary use permit process. This approach would involve the least need for ongoing analytical or enforcement efforts, and may continue to allow whole-house vacation rentals in nonresidential areas where loss of residential housing supply is not expected to be a problem.

In areas where whole-house short-term rentals are not outright prohibited, additional regulatory measures should be put into place to avoid further housing loss. For example, vacation rental uses in residential neighborhoods could be limited to "hosted" rentals where the housing unit remains in long-term residential use, but the resident is allowed to rent out a room to visitors. Another option that has merit is to limit vacation rentals to seasonal use, maintaining long-term

[8] Summary of Policy Options, PRMD, May 18, 2015

residency for most of the year. This would avoid the loss of housing stock while still allowing residents to make a room or rooms available to visitors on a short-term basis.

Recommendation #2: Allocate a portion of the County's transient occupancy taxes to provide incentives and subsidies for affordable and workforce housing.

The growing number of vacation rentals in Sonoma County creates two impacts related to housing supply:

- First, by increasing the supply of lodging units and accommodating additional visitors in the County, vacation rentals increase economic activity and thus employment in the County's tourism business sector. This increase in employment creates demand for housing. Given that the tourist sector employment is dominated by service industries including lodging and food services its average wages, as previously cited are below $30,000 per year, there is, and will continue to be an increased demand for affordably priced units as the industry grows.

- Second, as whole housing units are shifted from providing housing for the County's working families to providing lodging for visitors, there will be less housing supply.

As these two impacts contribute to what is a larger housing supply problem in Sonoma County, they should be mitigated as a part of the broader effort to expand housing available to the homeless and the County's growing workforce. Funding affordable housing programs with a portion of the existing (or increased) TOT or an annual fee levied on vacation rentals as part of the permitting process offers a direct and effective way of raising funding to support the County's affordable housing programs and thus mitigate loses of housing otherwise available to working families. An increase in TOT could be an added tier of 2 percent (over and above the existing 9 percent) which would be applicable only to vacation rentals or other transient uses of the housing stock. Revenue from such a TOT increase could be combined with other funding sources including the County's inclusionary housing in lieu fees, tax credits, and grant funding sources that are presently available for funding affordable and workforce housing programs.

Recommendation #3 -- Provide targeted waiver of County development impact fees.

As an incentive to multifamily housing production, the County's development impact fees for multifamily development projects could be "waived" until rental housing vacancy rates reach 5 percent (a "normal" market condition). The County's development impact fee revenues foregone by such a waiver can be offset (backfilled) by an appropriation of the additional tax or fee revenue levied on vacation rental units. Such a targeted development incentive, especially with improving market conditions, is likely to result in multifamily housing production, including both market rate units and those affordable units provided by the non-profit sector.

Recommendation #4 -- Improve the development readiness of County-identified housing sites.

The County's General Plan Housing Element has identified 136 sites (parcels) located around the County's unincorporated communities that are zoned for residential uses. Given current applied zoning regulations these sites have an estimated capacity for nearly 3,000 housing units.[9]

---

[9] Sonoma County General Plan Housing Element

However, as is made quite clear by the very limited housing production activity that has occurred in recent years, even as the overall economy has recovered, these sites face site-related and institutional development constraints in addition to the aforementioned market and financing constraints.

As a means to further incentivize housing production, a County program should be created and a special fund established expressly to improve the development readiness of the County's available multifamily (or convertible to multifamily) sites and to otherwise incentivize new development. The goal of this program should be to identify and relieve development constraints on a site-by-site basis and in so doing reduce development costs and related investment risks. For example, lack of adequate infrastructure or unavailability of utility services to these sites may very well constrain development. Such costs or institutional constraints may be relatively easy for the County or its dependent special districts to relieve even with existing resources. The private sector views such constraints as additional development costs, time delays, and risks often significant enough to deter investment in new housing.

BIBLIOGRAPHY

Dean Runyan Associates, California Travel Impacts 1992-2014p, April 2015, pp. 19-22, pp. 41, 43, 45, 47, 96, 109.

Dubin, Heather, Manhattan Bed & Breakfasts Face Extinction, http://observer.com/2014/12/manhattan-bed-breakfasts-face-extinction/ , accessed February 23, 2015.

Duffany, Brian, Economic & Planning Systems; Jessica Garrow, AICP, City of Aspen; and Phillip Supino, City of Durango, Housing, Lodging, and the Sharing Economy. April 2015

Jackson Teton County Town & County Planning, Joint Information Meeting Agenda Documentation, prepared July 30, 2014, presented August 4, 2014.

Lancaster, Frank, Town Administrator, and the Community Development Department and the Administrative Services Department, Estes Park, CO 2015: Short-Term Vacation Rentals, Paper, 2015.

Legislative Analyst's Office (LAO), California's High Housing Costs – Causes and Consequences. March 17, 2015.

LAO, Overview of Sharing Economy and Short-Term Rentals. March 18, 2015.

Loudat, Thomas, President, TAL Associates; and Dr. Prahlad Kasturi, Professor, Economic Department Radford University, VA. Economic Impact of Transient Vacation Rentals (TVRs) on Maui County. January 8, 2008.

Maui Island Plan, Maui County General Plan 2030, Economic Development, pp. 4-8 through 4-14.

Miller, Stephen R., Transferable Sharing Rights: A theoretical Model for Regulating AirBnB and the Short-Term Rental Market, October 24, 2014.

Mohtashami, Logan, Financial Truth: Housing Starts & Permit Reality in this Economic –this-economic Cycle. http://loganmohtashami.com/2015/05/19/housing-starts-permit-reality-in-this-economic-cycle/ , accessed June 2, 2015.

Pearson, Robert G., Short Term Rentals and their Impact on the Availability of Affordable Rental Housing in the City of Santa Barbara, Memorandum addressed to Housing Authority Board of Commissioners, April 26, 2015.

Robinson & Cole, LLP, Short-Term Rental Housing Restrictions White Paper, 2011.

Rosen, Kenneth T., Randall Sakamoto, and David Bank, Short-Term Rentals and Impact on the Apartment Market, October 2013.

Samaan, Roy, LAANE. AirBnB, Rising Rent, and the Housing Crisis in Los Angeles. March 2015.

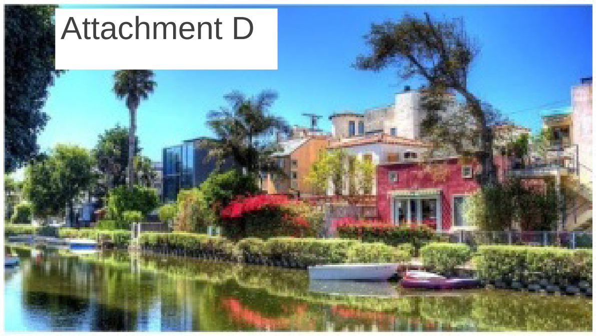
San Francisco Budget and Legislative Analyst's Office, Analysis of the Impact of short-term rentals on housing, Memorandum addressed to Supervisor Campos, May 13, 2015.

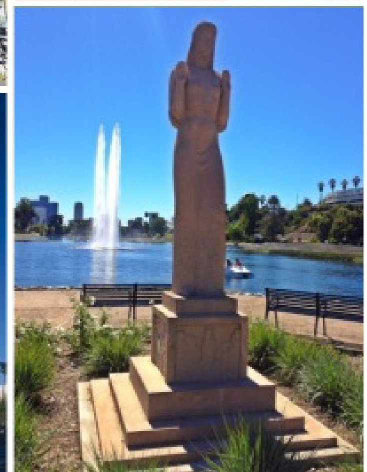
Sonoma County Economic Development Board, Annual Tourism Report, 2014.

Sonoma County Economic Development Board, Sonoma County Indicators: Economy, Environment, Health, Society, Tourism, Workforce. 2014 Unabridged Edition, pp. 30-32.

Sonoma County Economic Development Board, Transient Occupancy Tax Report Third Quarter 2014.

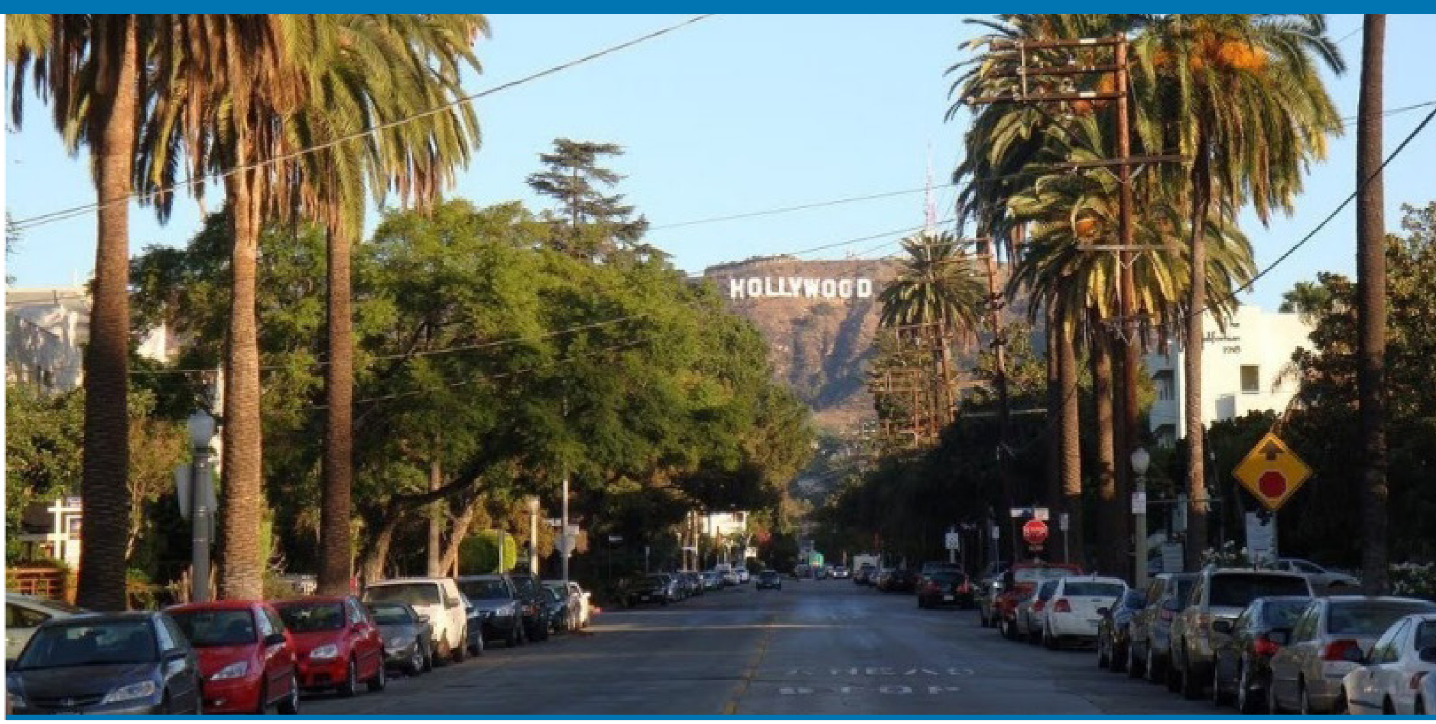
Attachment D





AIRBNB, RISING RENT, AND THE HOUSING CRISIS IN LOS ANGELES

MARCH 2015



laane
A NEW ECONOMY FOR ALL

Roy Samaan

Table of Contents

Executive Summary

Sharing our homes has been commonplace for as long as there have been spare rooms and comfortable couches. Whether through word of mouth, ads in newspapers or flyers on community bulletin boards, renters and homeowners alike have always managed to rent out or share rooms in their living spaces. These transactions were decidedly analog, but they represented a genuine peer-to-peer marketplace. Websites like Craigslist eventually made connecting sellers to buyers far more common. Companies like HomeAway applied the same principle to the vacation home rental market, allowing owners of vacant homes to connect with vacationers. In all these cases, transactions were limited to the buyers and sellers. If there were negative effects arising from the transaction, they were largely limited to the buyers and sellers.

AirBnB changes this basic formula. By incentivizing the large-scale conversion of residential units into tourist accommodations, AirBnB forces neighborhoods and cities to bear the costs of its business model. Residents must adapt to a tighter housing market. Increased tourist traffic alters neighborhood character while introducing new safety risks. Cities lose out on revenue that could have been invested in improving the basic quality of life for its residents. Jobs are lost and wages are lowered in the hospitality industry.

This report seeks to explore the history of AirBnB, understand how its public pronouncements deviate from observed facts, and identify the tangible and intangible effects that the company is having on our housing market, neighborhood cohesion and public revenues.

A key component of this report is its analysis of the AirBnB market in Los Angeles based on a snapshot of AirBnB listings on October 17, 2014. Through the application of freely available code, we have collected a comprehensive set of data that includes information on AirBnB hosts, prices, listing locations and listing types. These data provide a great deal of insight into the contours of the company's operations in and effects on Los Angeles.

First, AirBnB's impact on Los Angeles is far larger than previously understood. We identified 8,400 hosts and 11,401 AirBnB units listed for rent in Los Angeles.

Second these units are not, by and large, the "shared" space implied by terms like host or sharing economy. Instead, nearly 90 percent of AirBnB's Los Angeles revenues are generated by lessors with whole units and leasing companies who rent out two or more whole units.

Third, AirBnB has created a nexus between tourism and housing that hurts renters. The 7,316 units taken off the rental market by AirBnB is equivalent to seven years' of affordable housing construction in Los Angeles.

AirBnB density overlaps with high median rents and lower rental vacancy. The top nine AirBnB neighborhoods have a vacancy rate below the threshold the city uses to deny conversion of apartments to condominiums.

As a whole, Los Angeles has seen rental rates grow three times faster than San Francisco, while growth is twice as fast in AirBnB's nine top neighborhoods as in the rest of the city. The UCLA Anderson School of Business considers L.A.'s high cost of housing a "significant drag on job creation."

In Venice, as many as 12.5 percent of all housing units have become AirBnB units, all without public approval. There are 360 AirBnB units per square mile in Venice and longtime residents who never intended to live next to hotels now find themselves dealing with noise and safety concerns that negatively impact their quality of life.

Over 80 percent of the taxes and economic activity AirBnB claims to generate likely would have come to Los Angeles anyway, resulting in taxes being paid, higher wages being earned and more money being spent by visitors.

In short, AirBnB has become a major player in Los Angeles and is having major impacts, often negative. But Los Angeles is a key market for AirBnB as well. AirBnB is moving toward an Initial Public Offering (IPO), and can only capture the billions of dollars it hopes to if it can address one fundamental fact: AirBnB rentals, in L.A. and elsewhere, are largely illegal.

This report argues that as the city begins the process of crafting a regulatory regime to address the company's proliferation into residential neighborhoods, any potential policy ought to be assessed by four key criteria:

1. Housing must be protected
2. Systematic approval requirements must be in place
3. AirBnB must share the burden of enforcement
4. Only true sharing should be allowed

Who is AirBnB?

AirBnB sells itself as a platform akin to a community bulletin board. However, unlike most community bulletin boards, the company takes a percentage out of every transaction, has centralized control over all listings, and maintains a global scope of operations. In other words, AirBnB is a hotel company. It may be deregulated and decentralized, embedded within countless apartment buildings, bungalow courts and leafy suburban streets, but the company's primary function is to make a profit accommodating guests.

According to the story AirBnB tells about its founding, CEO Brian Chesky was unemployed when he moved to San Francisco in 2007. A large design conference came to town and Chesky saw an opportunity to generate a bit of income by renting out an air mattress in his San Francisco loft to conference attendees who could not find an affordable hotel room. Chesky and his roommates accommodated three guests and provided them with breakfast. Thus, AirBed & Breakfast – now known as AirBnB - was born.[1]

Early growth and Silicon Valley roots

AirBnB's early growth focused mainly on large events like the 2008 Democratic National Convention in Denver and South by Southwest in Austin. With hotels in these markets at full occupancy, AirBnB provided a listing service for individuals with surplus space in their homes or apartments to rent out to like-minded travelers. After successfully completing these proof of concept trials, Chesky and the other AirBnB cofounders were invited to participate in Y-Combinator, a Silicon Valley tech start-up incubator program that connects budding entrepreneurs with major venture capital investors.[2]

The company emerged as a favorite of Y-Combinator founder Paul Graham who worked to connect the AirBnB team to his contacts in the venture capital world. An email exchange published on Graham's personal website, with full knowledge and permission of all parties involved, shows that from a very early stage AirBnB sold itself as both a hotel competitor and as the foundation of a new

AirBnB's three co-founders, Nathan Blecharczyk (left), Brian Chesky (center) and Joe Gebbia (right) were added to *Forbes* list of billionaires in 2015.

kind of peer-to-peer marketplace—"the eBay of spaces" as Graham wrote to a potential funder.

The company touted its revenue stream as "counter-cyclical," arguing that when the economy declined, as it did while AirBnB pursued its initial rounds of financing in 2009, more users would be drawn to the site since they "had to pay the rent."[3] In other words, people would want to rent out

Renting out residentially zoned units as accommodation for travelers runs counter to land use regulations and zoning codes.

their homes because rising housing costs made it harder to afford the rent or mortgage. As we will see, AirBnB returns to this claim time and time again to sell its service to residents, regulators and the public. As we shall also see, the claim is at once misleading and even ironic, since AirBnB itself may contribute to those rising costs.

Regulatory uncertainty threatens IPO

Since April 2014, AirBnB has raised nearly $800 million from global investment firms including TPG Capital, T. Rowe Price and Dragoneer Investment Group. AirBnB has been valued at $13 billion, placing the company in the upper echelons of the hospitality industry.[4] At this valuation, AirBnB has a higher market value than both Hyatt ($8.4 billion) and Wyndham ($9.3 billion).[5] According to media reports, the company has been responsible for booking 10 million guest nights since 2008, and its own estimates indicate the company may have booked more room nights in 2014 than major chains like Hilton and Intercontinental. The company generates revenue by charging hosts a three percent commission on each booking and by charging travelers a commission of between six and 12 percent, thus generating a yield of anywhere between nine and 15 percent in commission for every booking.[6]

Market observers expect AirBnB's successive rounds of fundraising are a prelude to an Initial Public Offering (IPO). However, renting out residentially zoned units as accommodation for travelers runs counter to land use regulations and zoning codes.[7] For example, a March 2014 memo distributed by Los Angeles' Deputy Planning Director Alan Bell states that short term rentals are prohibited in single-family and lower density multi-family residential zones. The memo notes that the status of short term rentals in higher density multi-family and commercial zones is "complex."[8]

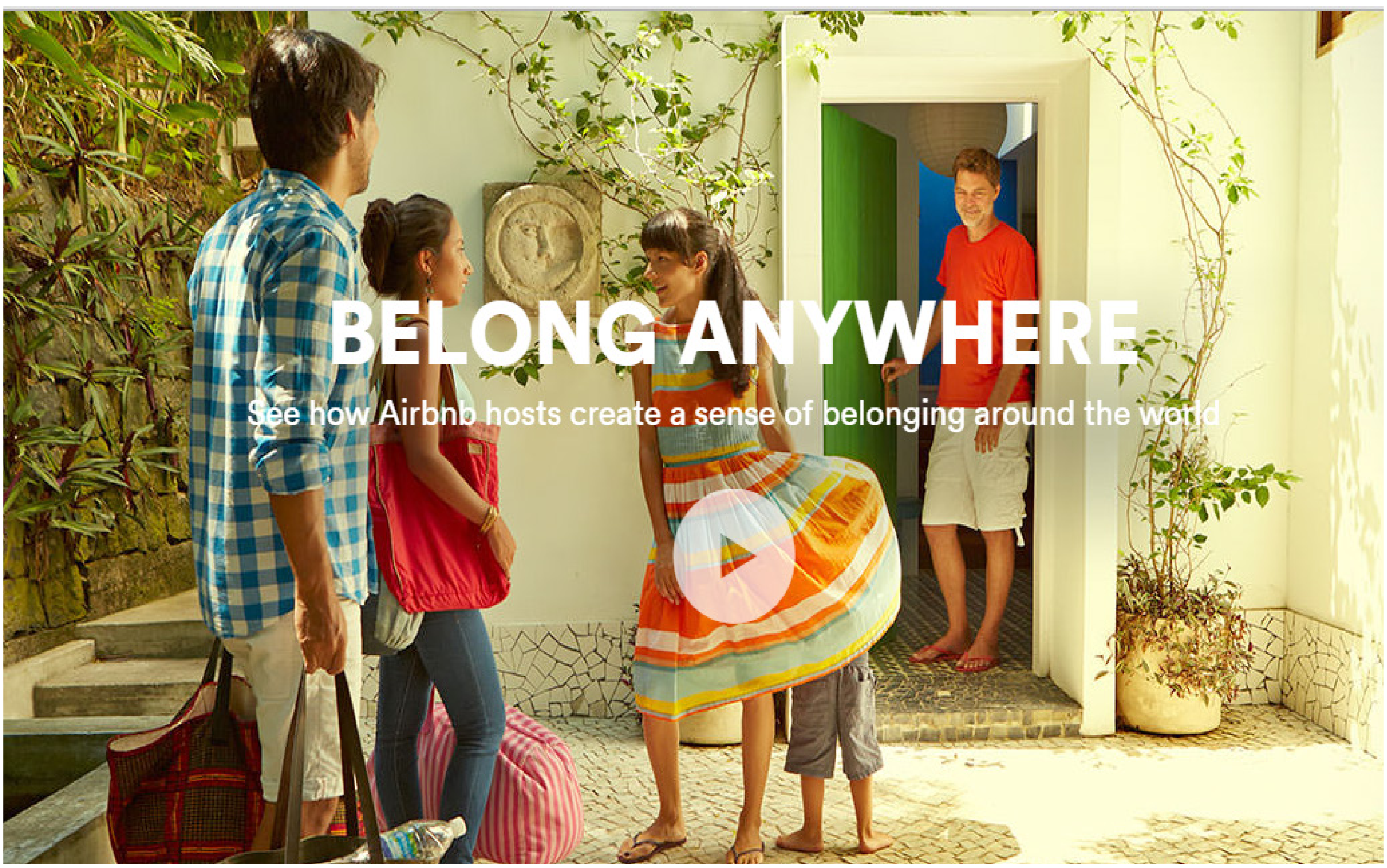
Uncertainty around the legality of AirBnB's core business model is further compounded by the fact that the company has not collected the hotel-related taxes mandated by most jurisdictions. Municipalities have explored a range of regulatory options to address the proliferation of illegal hotels in residential neighborhoods. Consequently every municipality represents a proving ground for AirBnB. Each time a city normalizes the company's activities, AirBnB becomes a more stable, secure investment. Receiving legitimacy from major markets, like Los Angeles, is a critical precondition to moving into the IPO phase of the company's growth cycle.

Each time a city normalizes the company's activities, AirBnB becomes a more stable, secure investment.

AirBnB's Political Playbook

AirBnB has marshaled a sophisticated political operation any time the company has faced even symbolic regulatory action.[9] This generally involves packing a room with dozens of hosts. Armed with compelling stories, these hosts detail the ways in which renting out their spare rooms has enriched their lives and saved them from economic ruin. The hosts seem motivated by a combination of financial self interest and a sincere belief that they compose a beleaguered community. This gives AirBnB a group of personal, heartfelt and therefore effective spokespeople that most corporations can only dream of. This is no accident, but rather the result of a sophisticated operation based on a well-articulated marketing philosophy laid out in the book *The Culting of Brands: How to Turn Customers into True Believers*.[10]

Culting's author is Doug Atkin, who also happens to be AirBnB's Global Head of Community.[11] The book is pitched as a way to "teach marketers how to align themselves with a specific segment of the population, how to attract and keep new members, how to establish a mythology about the company, and how to manage a workforce filled with true believers."[12] The central thesis is that companies like Apple *("Think Different")* and Nike *("Just do it!")* share many characteristics common to cults like the Unification Church or the Hare Krishna in that these companies form a strong emotional connection to their customers and these customers view themselves as a part of a broader community.



This picture, taken from AirBnB's website, highlights the company's core principle of creating a sense of "belonging" through its service.

As Atkin puts it in the conclusion of *Culting*:

We have reached a unique intersection in society that favors marketers. On one side, established institutions are becoming increasingly inadequate sources of meaning and community. On the other, there has been a growth of a very sophisticated kind of consumerism… Alongside alternative religions, brands are now serious contenders for belief and community… [A]s long as traditional institutions fail, and marketers remain sophisticated, then brands can become credible sources of community and meaning.[13]

The *Culting* philosophy is evident in much of AirBnB's marketing, from its founding myth about the air mattress to its use of hosts as spokespeople. To build up this base, AirBnB has hired political field operatives in addition to contracting with traditional PR firms. A simple LinkedIn search shows that AirBnB's preference has been for hiring staffers with experience managing political campaigns. A December 2014 job posting for an AirBnB "community organizer" position, for example, listed "[r]ecruiting, training, and managing advocates of home sharing" as the primary job responsibility and "community organizing in political campaign[s]" as the top desired qualification for the position. As is the case with most jobs on a political campaign, the job listing also notes that the community organizer "will be a temporary position."[14]

The AirBnB Ecosystem

AirBnB's success is based on a revenue-generating model marked by externalized labor and overhead costs and centralized, low-risk control over a proprietary marketplace. Exploring the key elements of this marketplace sheds light on how the AirBnB system functions and where the company's internal workings deviate from its public pronouncements.

Hosts and listing types

AirBnB's business model is composed of three elements: hosts, listings and guests. Understanding the variations among these categories is a necessary step to unraveling how AirBnB generates revenue. AirBnB lists three different types of units as follows:

1. Whole units: An entire home, apartment or other accommodation. Host is not present in the unit during the guest's stay.

2. Private rooms: A space within a host's home or apartment with the expectation of some degree of privacy. Host is present in the unit during the guest's stay. In this listing type, the guest is essentially a short term housemate.

3. Shared room: Guest and host occupy the same living space, with a reduced expectation of privacy. This is the original "airbed" or couch surfing model described by the founder.

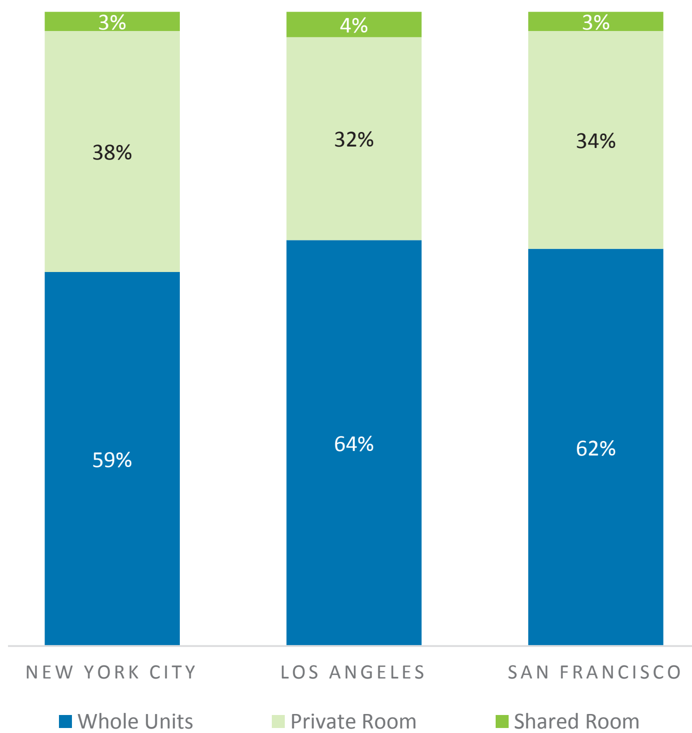
Renting out whole units exacerbates Los Angeles' existing shortfall of rental options while also creating safety hazards and quality of life concerns for Los Angeles neighborhoods.

Whole unit listings dominate key AirBnB markets

AirBnB's marketing and political outreach may center on private and shared room listings, but an examination of AirBnB listings in three key markets shows that the company's marketplace is dominated by whole unit listings.[15]

Figure 1

Percent of Listing Types by City



In all the major markets for which data are available, the number of whole unit listings outweighs the other types of listings by a nearly two-to-one margin, and shared rooms make up an almost negligible portion of the market.[16] A breakdown by listing type appears in Figure 1.

Understanding the market mix of AirBnB's listings is a necessary step to gauging the effect the company has on residential neighborhoods. Renting out whole units exacerbates Los Angeles' existing shortfall of rental options while also creating safety hazards and quality of life concerns for Los Angeles neighborhoods.

The Los Angeles AirBnB Market

In a recent front page *Los Angeles Times* article exploring AirBnB's effects on neighborhoods, AirBnB reportedly claimed there were "roughly 4,500 hosts in L.A"[17] The story did not indicate how many *units* AirBnB claimed to have in Los Angeles.

In fact, this significantly understates the size and scope of AirBnB's operations in the region. According to our data, as of October 17, 2014, there were more than 8,400 hosts in the Los Angeles area, nearly twice what AirBnB claimed. Even that number understates AirBnB's size. We found 11,401 AirBnB lodging units in the Los Angeles hospitality market.[18]

The categories AirBnB uses to describe its different types of lodgings are somewhat misleading. Terms like "host" and "sharing economy" imply a shared space and the presence of the person renting out the space in all three listing types. To better understand how the market actually works, we have developed a different system of categorization to more accurately reflect the size, type and scope of AirBnB's tourist-serving operations.

These categories are:

- Leasing Companies: Lessors listing two or more whole units;
- Single Lessors: Lessors listing a single whole unit; and
- On Site Hosts: Hosts listing private rooms or shared rooms.

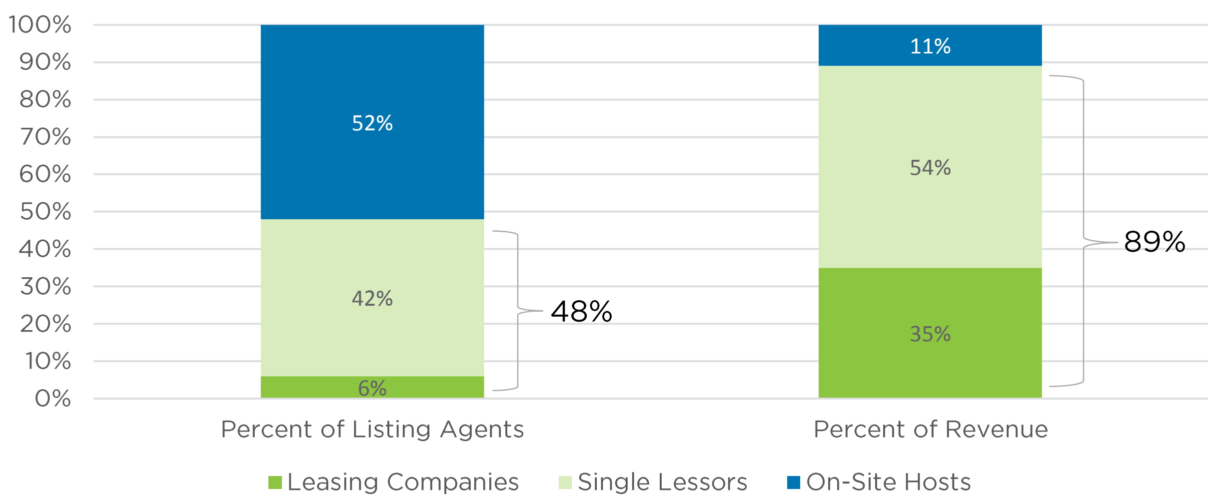
Figure 2, based on the company's data, shows that while those who actually "share"—the on-site hosts—are in the majority, they generate just 11 percent of the company's Los Angeles revenue.[19]

single lessors and leasing companies combine to generate 89 percent of AirBnB's Los Angeles revenue. A full 35 percent of revenue is generated by the six percent of the market that meets our definition of "leasing companies."

On-site hosts listing shared rooms accounted for less than one quarter of one percent of AirBnB's Los Angeles revenue. In terms of revenue generation, the spaces which most closely approximate AirBnB's earliest days are almost completely eclipsed by the listings which most closely resemble traditional hotels.

Figure 2

Revenue Generation by Listing Agent Type



High intensity use indicates hotel conversion

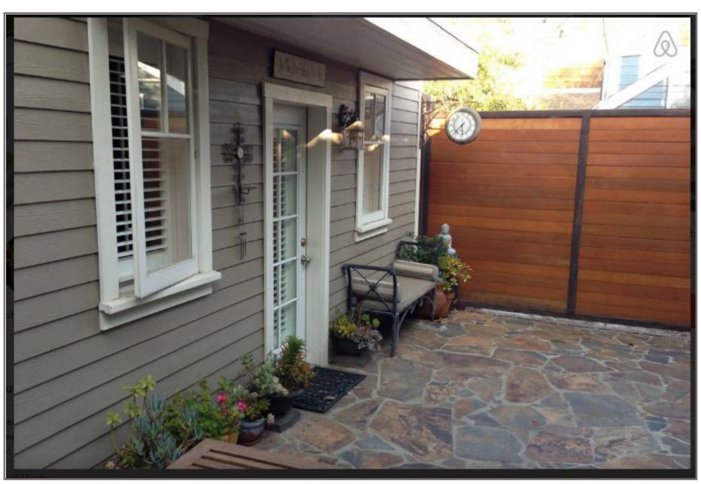
Commercial entities—the combination of leasing companies and individual lessors—are responsible for the most intensively used AirBnB units in the city. Rather than representing "surplus capacity" in the housing market, listings with hundreds of reviews present the clearest evidence of the conversion of residential uses into hotels.

For example, the most reviewed listing in our dataset is a Venice Beach guest home with 326 reviews and a minimum stay of two nights.[20] In Appendix B we describe how we estimate occupancy based on this information.

These adjusted booking data show this Venice guest house was likely to have been booked for 1,231 days, or 3.4 years.[22] The listing's hosts have been AirBnB members since 2009, meaning this unit had an occupancy rate of 69 percent. The average occupancy rate for a limited service hotel is 67.8 percent, according to PKF Hospitality Research's 2014 Trends in the Hotel Industry.[23]

This rent-controlled Venice apartment building has an AirBnB unit with a 93 percent occupancy rate.

The top 10 most highly reviewed AirBnB units had average occupancy rates of 66 percent, in line with industry rates. While not the most reviewed unit in our database one Venice studio, had an occupancy rate of 93 percent indicating this rent controlled unit is a near-constantly occupied hotel.[24]



The most reviewed AirBnB listing in Los Angeles is this Venice Beach guest house.

Hosts with multiple units may be professional management companies

As our category name suggests, "leasing companies" are not individuals. Instead, listing agencies have consolidated AirBnB listings under an assumed AirBnB host. A host going by the name "Ghc" is the most prolific host in our Los Angeles AirBnB database, with 78 whole units in a dense cluster spanning the border between Santa Monica and Venice. Ghc's host page is pictured in Figure 3.[25] Ghc is, in fact, the AirBnB page for Globe Homes and Condos, a company that describes itself as a "full service vacation rental management company."[26]

Globe Homes' owner is Sebastian de Kleer, who co-founded the Los Angeles Short term Rental Alliance (LA-STRA) with Ari Eryorulmaz of AE Hospitality, another leasing company.[27] Given its co-founders, it is not surprising that LA-STRA is unambiguous about supporting the rights of "professionals in the short term vacation rental industry." LA-STRA's mission is to "to organize and unify the vacation and corporate rental community with the purpose of being able to influence new developments in laws and regulations regarding short term furnished rentals."[28] However, in a *New York Times*' piece profiling the proliferation of illegal hotels in New York City, de Kleer was far more succinct saying, "I need to be able to compete with the hotels[.]"[29]

Before listing themselves as Ghc, de Kleer's company maintained its AirBnB presence under the name "Danielle and Lexi." The case of Danielle and Lexi is especially instructive in how complex the AirBnB market in Los Angeles has become.[30] In spite of the fact that Danielle and Lexi received a "verified ID" badge on their profile page, we have no way of knowing if they had any role in the properties other than having their photo taken. All the listings featured on Danielle and Lexi's AirBnB host page were actually managed by Globe Homes and Condos. The Danielle and Lexi host page is pictured in Figure 4.

Ownership obscured

Globe Homes works with property owners to convert their properties into de facto hotels. Tracking down ownership information for these units is difficult as AirBnB only releases exact unit addresses once a booking has been confirmed. However, we were able to determine the exact address of one of the Globe-managed AirBnB properties. A search of public records showed the apartment building, located a few blocks off Abbot Kinney, is owned by Michael Tatum. Tatum also

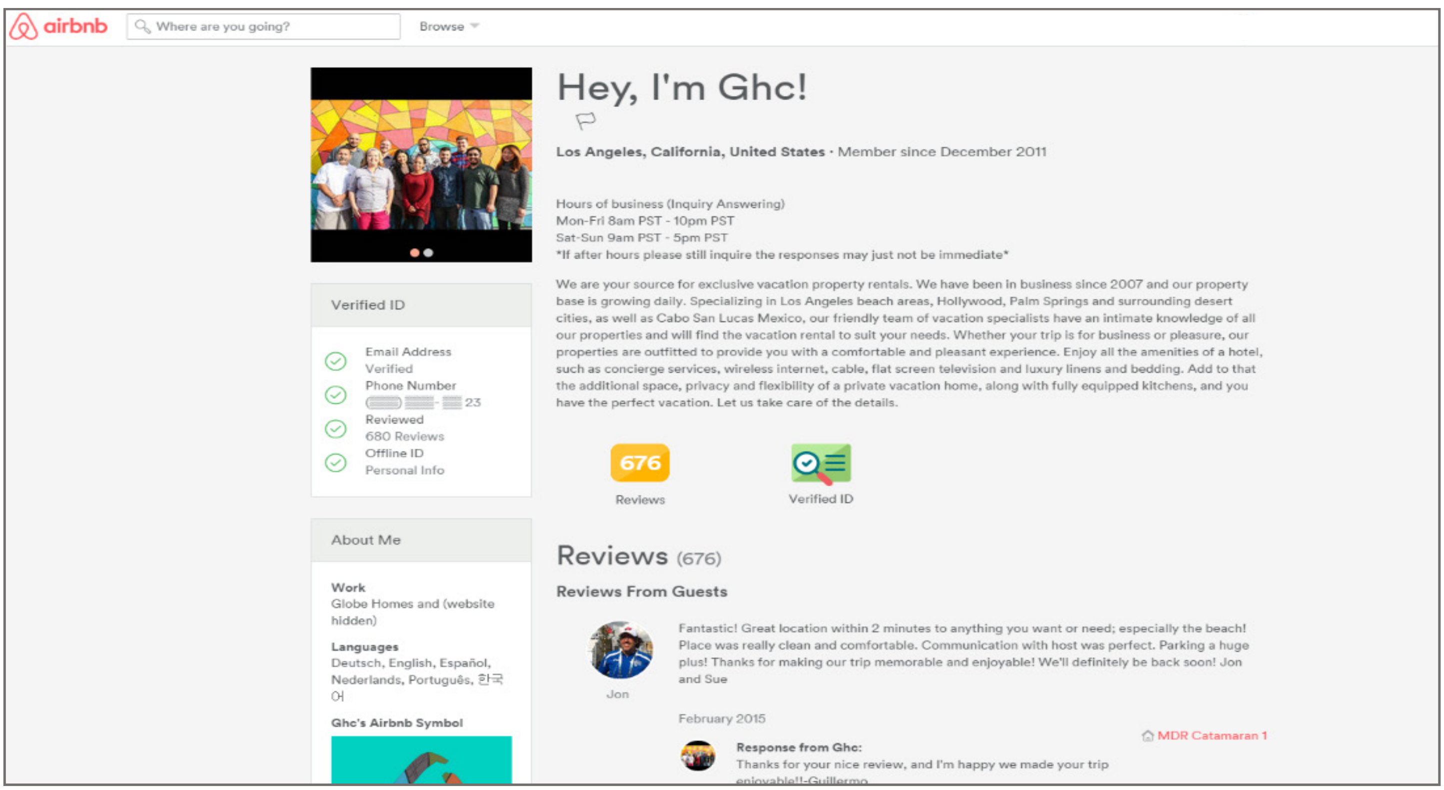


Figure 3: The profile page for Globe Homes and Condos

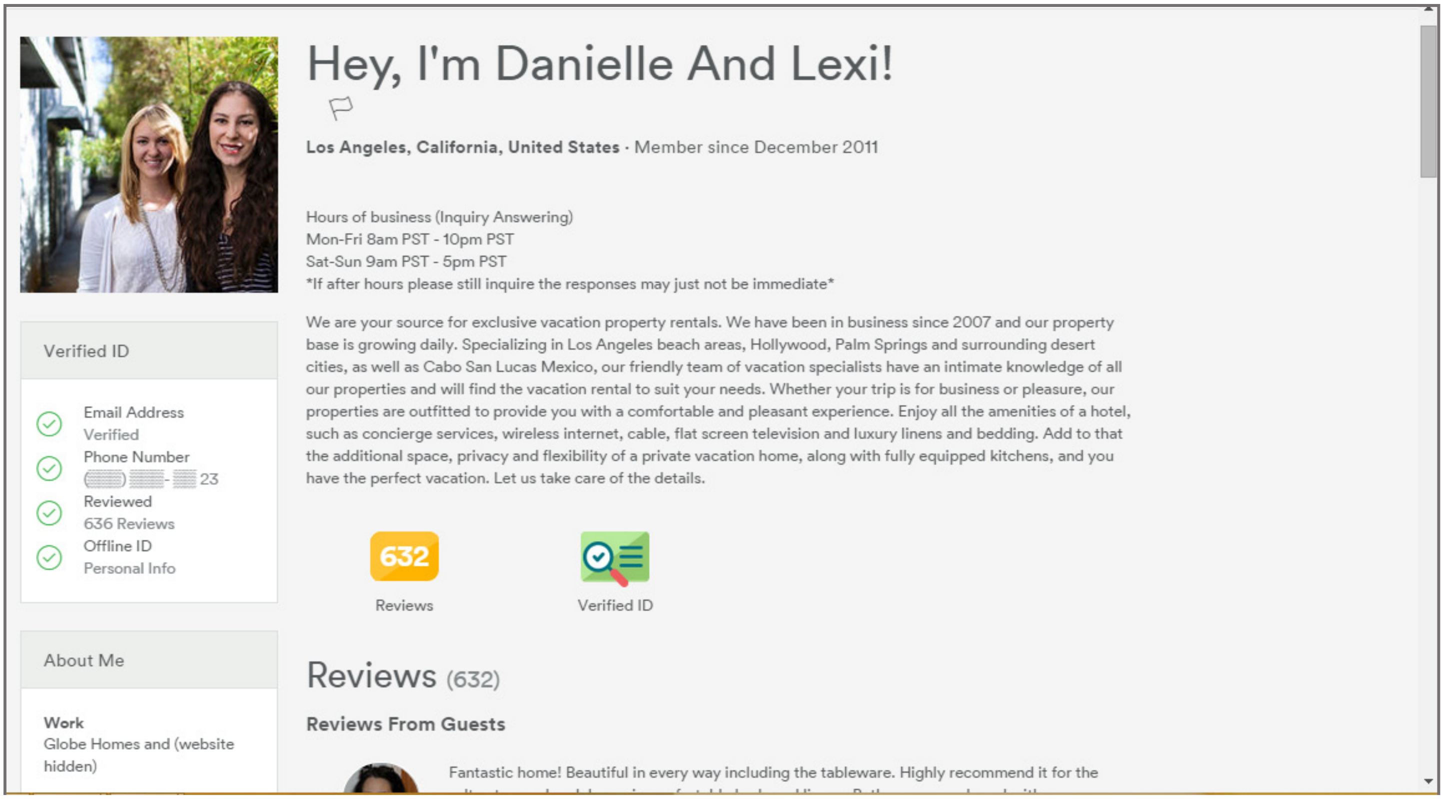


Figure 4: Danielle and Lexi were the previous avatars of Globe Homes and Condos on AirBnB.

owns 19 other properties throughout Los Angeles and Santa Monica. Many of these properties also happen to be apartment buildings, although to the best of our knowledge these buildings have not been converted into tourist accommodations. Tatum purchased the building on Santa Clara Street, a low-density residential zone, in 2009

Tatum has a contract with Globe Homes, and Globe Homes, under the guise of "Danielle and Lexi," listed the units within the apartment building through AirBnB. The building has at least five units, all of which are covered by the City of Los Angeles Rent Stabilization Ordinance (RSO, also called "rent control").[31]

Renting these units out to transient visitors allows Michael Tatum to sidestep the tenant protections, bars on eviction, and limited rent increases built into the RSO, while collecting a predictable income stream from tourists.

Michael Tatum is presumably well aware of the limitations the RSO places on Los Angeles landlords. His father, Thomas Tatum, donated $125,000 in support of Proposition 98, a 2008 initiative which would have allowed rent control units to become permanently market rate after being vacated by a tenant.[32] Thomas Tatum was also a major backer of Proposition 199 in 1996,

In spite of the fact that Danielle and Lexi received a "verified ID" badge on their profile page, we have no way of knowing if they had any role in the properties other than having their photo taken.

along with his business partner, Jeffrey Kaplan. Tatum and Kaplan, who owned several hundred mobile home units in California, would have benefited greatly from the passage of Prop. 199 which was intended to phase out rent control protections in mobile home parks.[33] By renting their units out on AirBnB, the Tatums have finally bypassed the RSO, while also providing an instructive example of the relationship between AirBnB and rising housing costs described later in this report.

Globe Homes recently retired “Danielle and Lexi” as their avatars. Nonetheless, the Danielle and Lexi case underscores the regulatory complexity that cities face when trying to enforce zoning and housing ordinances at AirBnB units. Danielle and Lexi were not ultimately responsible for following city laws. The actual owners of a property need never interact directly with the traveling public, and AirBnB provides no way to directly contact a property’s owner as opposed to its agents or lessees.

This case also undermines one of the cornerstones of AirBnB’s business model, namely that the company’s ratings and identity verification system are a viable means by which travelers can vet their prospective hosts. Danielle and Lexi had a badge prominently featured on their profile page indicating that they had a “verified ID,” but they were at least two degrees of separation away from the property’s actual ownership.

A recent Boston University study suggests that AirBnB’s ratings are nearly worthless. According to this study, nearly 95 percent of AirBnB properties boast an average user-generated rating of either 4.5 or 5 out of 5 stars. These inflated ratings are believed to be caused in part by having hosts and guests review each other. As the *New York Times* coverage of this study noted, AirBnB guests that seem too critical worry they “might get turned down by future hosts who worry [guests] will be too demanding.”[34]

The company does not monitor lodgings in any way, and relies exclusively on these ratings to determine the quality of the accommodation on offer.[35]

The bottom of the AirBnB economy

AirBnB has argued that its service should be legalized on the grounds that it can help ordinary people supplement their incomes or remain in their homes. The company has also taken the position that “outdated” zoning codes are ill-suited to regulate the new, tech-driven “sharing economy.”

In this economy, AirBnB is a clear winner. As of October 17, 2014 there were 11,401 listings in the L.A. region as defined by AirBnB. Based on an analysis of AirBnB listing data and data provided by the company to the New York Attorney General’s office, we estimate the total revenue generated by these units to be $80 million in 2014 alone.[36]

However, our data show the very individuals who are meant to benefit the most from AirBnB’s service— “ordinary citizens”— are more than three times as likely to generate no revenue than hosts with multiple listings. Analyzing listing data from AirBnB’s public facing site shows that 38 percent of hosts with a single listing of *any type* generated no income whatsoever. These hosts have essentially failed to generate any benefit from listing their homes on AirBnB.

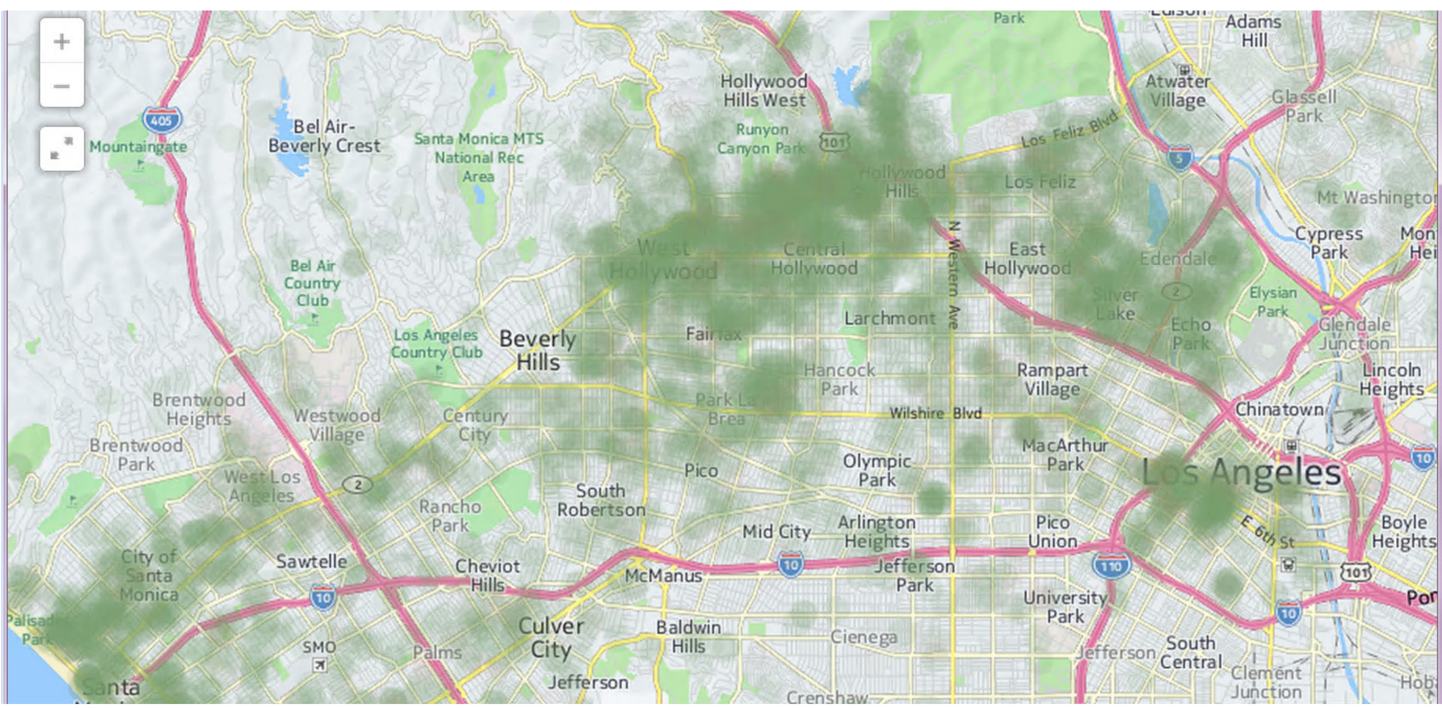
Our data show that the very individuals who are meant to benefit the most from AirBnB’s service – “ordinary citizens” – are more than three times more likely to generate no revenue than hosts with multiple listings.

Hosts with access to more resources are able to extract the most benefit out of the AirBnB market. For hosts with two or more listings, the rate of failure to generate revenue is only 11 percent. Only two percent of hosts with five or more listings have failed to generate revenue.

Rather than disrupting the existing economic order, AirBnB seems to have simply reinforced that hierarchy. Our data show that AirBnB units are most densely clustered in Los Angeles neighborhoods with rents that are, on average, 20 percent higher than citywide median rent.[37] These are affluent neighborhoods with attractive housing stock and easy access to amenities. These are the characteristics that make these places attractive to tourists and residents alike.[38]

Research conducted by the Harvard Business School has also uncovered a racial component to who is most able to profit in the AirBnB marketplace. Benjamin Edelman and Michael Luca conducted a study which found that "non-black hosts received 12 percent more *for a similar apartment with similar ratings and photos* relative to black hosts." The authors' statistical analysis controlled for "all of the attributes that are readily observable to a potential tenant browsing listings on AirBnB."

Edelman and Luca conclude AirBnB's attempts to build trust into the market it created may have the unintended consequence of enabling its users to impose a "significant penalty" on black hosts trying to earn income through AirBnB. Encouraging hosts to post photos of themselves and links to social media profiles provides all the information needed to engage in discriminatory practices. AirBnB's "verified ID" program may make it easier for prospective tenants to discriminate against black hosts.[39] The median percentage of African Americans in AirBnB's key profit-generating neighborhoods is 4.6 percent, below the citywide average of 9.5 percent.[40]



A representation of the regions of Los Angeles in which AirBnB generated revenue. Revenue generation is clustered in coastal neighborhoods and in a corridor stretching from the Miracle Mile, through Hollywood and Silver Lake, to Downtown Los Angeles.

AirBnB's job costs

If AirBnB units were hotel rooms, the 11,401 units on the Los Angeles market would employ more than 7,400 hotel workers, earning an average wage of $14.07 per hour.[41] However, one way AirBnB keeps overhead low is to outsource traditional hospitality labor jobs, most notably housekeeping. Housekeeping is likely carried out by domestic workers employed by any number of home cleaning services.[42] Domestic workers earn a median wage of $10 per hour.[43]

For every hour a domestic worker is hired to clean a tourist-serving accommodation, that worker is underpaid relative to a hotel worker by an average of $4.07. If AirBnB lodging employed as many workers as hotel lodging, and assuming a standard 35 hour work week, paying AirBnB's cleaning workforce at the median domestic worker rate results in $1.1 million less in wages than a similarly-sized hotel every week, or more than $54 million every year.

AirBnB may actually cost jobs in hotels.

In fact, this likely understates the effect in several ways. Although data are not available, it is almost certain that AirBnB units do not provide as many jobs as hotels. Hotels employ workers in many job classifications AirBnB units do not—front desk, valet and parking, telephone operator, shuttle driver, security, and janitorial to name a few. These classifications account for two-thirds of the total hotel workforce. Moreover, unlike in a hotel, most AirBnB units are not cleaned every day, and some may be cleaned by the owner or host rather than by a cleaning company.

It is more likely that AirBnB units provide employment for, at most, 20 percent of the number of workers as a similarly-sized hotel. In other words, even a high estimate finds some 1,500 workers in place of the 7,400 that would be in a hotel with as many rooms as AirBnB. The wages paid to workers at AirBnB lodgings may be 13.2 percent of what they would be at a similarly sized hotel, resulting in a difference of $3.1 million a week in wages.

Further, AirBnB may actually costs jobs in hotels. A 2014 Boston University School of Management study demonstrated that AirBnB's growth has had a statistically significant negative impact on hotel revenue.[44] This effect compounds the downward pressure that AirBnB places on wages, as hotels are less likely to give part-time employees any more hours or hire new staff.

For those workers in the AirBnB system, challenges extend beyond lower wages. Domestic workers face a notoriously exploitative and unregulated employment landscape. A study released by the University of Illinois Chicago and the National Domestic Workers Alliance found 61 percent of California domestic workers receive a wage insufficient to support a family and 54 percent of these workers reported working with toxic cleaning supplies. The report also found that "the lack of enforceable standards increases the likelihood of mistreatment."[45]

Many housekeepers working for a hotel qualify for healthcare under the Affordable Care Act. Domestic workers are likely to be employed by smaller employers or engaged as independent contractors, reducing the likelihood that they will qualify for healthcare. Enforcing discrimination claims, overtime violations, and safety standards is challenging enough when all workers are directly employed by a single employer at a single worksite, but exponentially more so in the diffuse domestic work sector.[46]

AirBnB and the Housing Market

Whether a market is digital or physical, basic economic principles of supply and demand are still operative. Traditionally, the rental housing market and the hospitality industry do not intersect. However, AirBnB has created a platform that allows landlords to pit tourist dollars against renter dollars. Landlords can potentially earn significantly more money by converting traditional rental stock into AirBnB units, as many appear to have done.

Los Angeles cannot afford to lose housing units. The Los Angeles Department of City Planning's Housing Needs Assessment shows that the city needs an additional 5,300 units of affordable housing each year to keep up with demand. However, Los Angeles developers have only averaged about 1,100 units of affordable housing per year since 2006. The 7,316 whole apartments currently listed on AirBnB represents nearly seven years' of affordable housing construction at the current rate of housing development.[47]

AirBnB has created a platform that allows landlords to pit tourist dollars against renter dollars. Landlords can potentially earn significantly more money by converting traditional rental stock into AirBnB units, as many appear to have done.

Los Angeles has the highest percentage of renters of any city in the country. Although the average rental price in Los Angeles has increased over the last three years, median wages have stagnated.[48] These factors have combined to make the Los Angeles rental market the least affordable in the

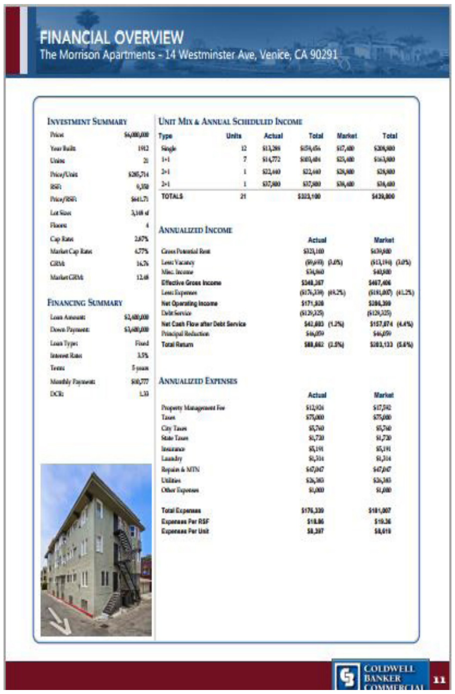
The 7,316 whole apartments currently listed on AirBnB represents nearly seven years' of affordable housing construction at the current rate of housing development.

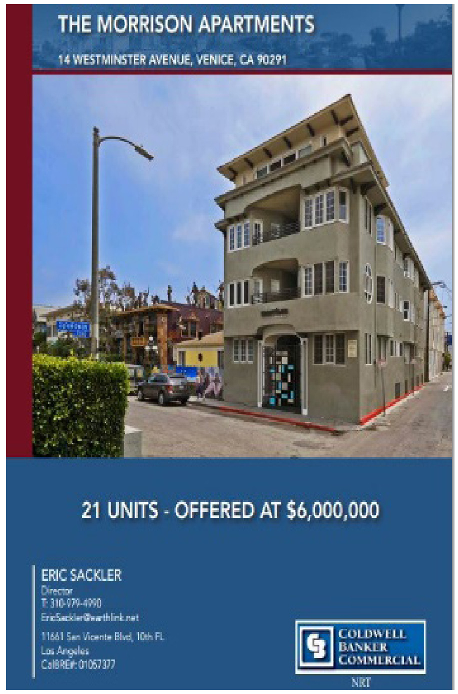
country.[49] According to research conducted by UCLA's Ziman Center for Real Estate, 77 percent of low income Angelenos devote more than half their income to rent.

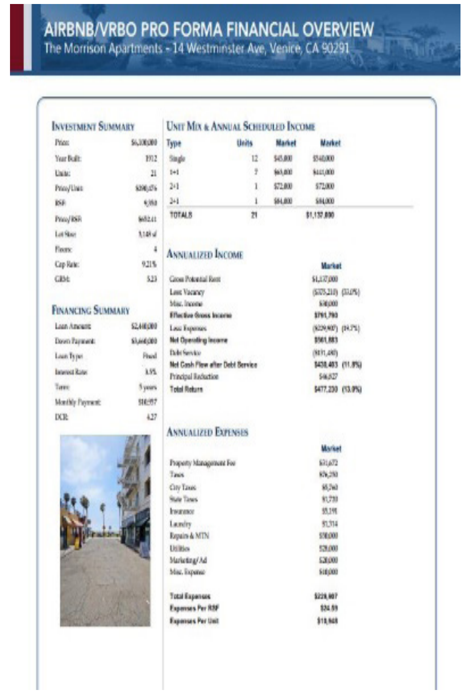
AirBnB creates incentives to take units off the rental market

The Morrison Apartments in Venice Beach show this new incentive structure in action. Located one block from the Venice Boardwalk, the 21 units in the Morrison are covered by the City of Los Angeles Rent Stabilization Ordinance. Coldwell Banker Commercial (CBC) recently listed the Morrison for sale. In an Exclusive Offering Memorandum obtained by a member of the Venice Neighborhood Council, CBC presents the conversion of the Morrison to AirBnB units as the prudent financial choice for prospective owners.

CBC estimates that a landlord could expect about $200,000 in net annual income by renting these rent-controlled units out on the open market. If the new landlord converts the building into AirBnB units, CBC estimates they could expect to bring in more than $477,000 per year, assuming a 67 percent occupancy rate. The projected rate of return under the Morrison's residential configuration is estimated to be 5.6 percent, while the projected rate of return for configuring the Morrison as an AirBnB building is 13 percent.[50] The occupancy rate for nearby hotels is above 75 percent and these properties consistently sell out during the summer high season.[51]







Prepared by Coldwell Banker, this financial overview compares the rate of return for a traditional rental listing and conversion to an illegal hotel.

It is reasonable to assume that landlords and property owners across the city are making similar cost-benefit analyses with respect to their housing stock. One enterprising AirBnB impresario, Jon Wheatley, even posted a step-by-step guide for buying apartments for the purpose of running a remotely-managed AirBnB listing.[52] While Coldwell Banker does encourage prospective buyers to "check with the city" before converting a building into AirBnB stock, the challenges inherent to enforcing the zoning code on more than 11,000 AirBnB units has allowed these sorts of bootleg boutiques to proliferate unchecked throughout Los Angeles neighborhoods.[53]

This new incentive structure has very real consequences for Los Angeles renters. The Waldorf is an historic apartment building in the heart of Venice. As the building's owner has begun converting the Waldorf into a de facto hotel, long-term residents have felt increasingly unwelcome in their homes. As their friends and neighbors have moved out, their building's owner has listed newly vacant apartments as short-term tourist accommodations rather than bringing in new long-term tenants. Residents also believe their landlord is no longer performing basic maintenance on their apartment because they are not as profitable as the tourist-serving units.


OCTOBER 28TH

I BOUGHT AN APARTMENT TO RENT OUT ON AIRBNB

In 2012 I bought an apartment specifically to rent out on airbnb. I've been managing it remotely for the past year. This post includes everything I learned as well as some revenue numbers.

The how-to guide posted by Jon Wheatley detailing how to purchase a rental unit and operate it as an AirBnB unit.

Table 1

AirBnB's Top Grossing Neighborhoods in the City of Los Angeles

Neighborhood	Percentage of total AirBnB Listings	Number of AirBnB Listings	Percentage of Revenue	Residential Vacancy Rate
Venice	12%	1,137	23%	4%
Downtown	3%	270	14%	4%
Miracle Mile	9%	848	9%	3%
Hollywood	11%	980	7%	3.5%
Hollywood Hills	5%	452	6%	3.5%
Echo Park	3%	325	5%	3.5%
Silver Lake	4%	361	5%	3.5%
Mar Vista	2%	191	2%	2.6%
Los Feliz	2%	196	2%	3.5%
Total	51%	4,760	73%	Avg: 3.5%

Beyond the nuisance this has caused, Waldorf residents miss the sense of community they once shared with their neighbors. They report being awakened by regular cleaning crew visits and not recognizing the people they pass in the hallways when they get home from work.

Even though a portion of their building is already being used as hotel, Waldorf residents would likely be swiftly evicted if they rented out their apartments on AirBnB. In one case, a Venice landlord brought suit against one of his tenants who was renting out her rent-controlled Venice apartment at a nightly rate equivalent to about $3,000 per month, while paying a rent of just $1,000 per month.[54] This landlord was presumably aware that his tenant was paying a monthly rent well below the neighborhood's median rent.[55] AirBnB is plainly illegal in low density residential areas, and converting a rental apartment into a business is against the terms of most residential leases. Consequently, this landlord had unambiguous legal grounds for an eviction. He is now able to list this unit at the market rate, nearly tripling the rent he earns every month in the process.

High AirBnB density overlaps with higher rents and lower rental vacancy

AirBnB has units listed throughout Los Angeles, but just nine of the City's 95 neighborhoods are responsible for generating 73 percent of the company's revenue. These neighborhoods are ranked in Table 1 in order of the share of total revenue.

The apartment listing service *Lovely* releases a quarterly report of the Los Angeles rental market charting the growth in median rent. The Q3 2014 report, released December 2014, highlights some dynamics shaping the Los Angeles rental market. The report's key finding is that rents in Los Angeles have increased 10.4 percent between Q1 2013 and Q3 2014 with a median rent of $1,865 across all unit types and sub-markets. This represents a growth rate more than three times that of San Francisco.[56]

The rapid growth in rents has a cumulative effect on the regional economy. The UCLA Anderson School of Business March 2014 Human Capital Report indicated the high cost of housing in Los Angeles has created a statistically significant drag on job creation in the region.[57]

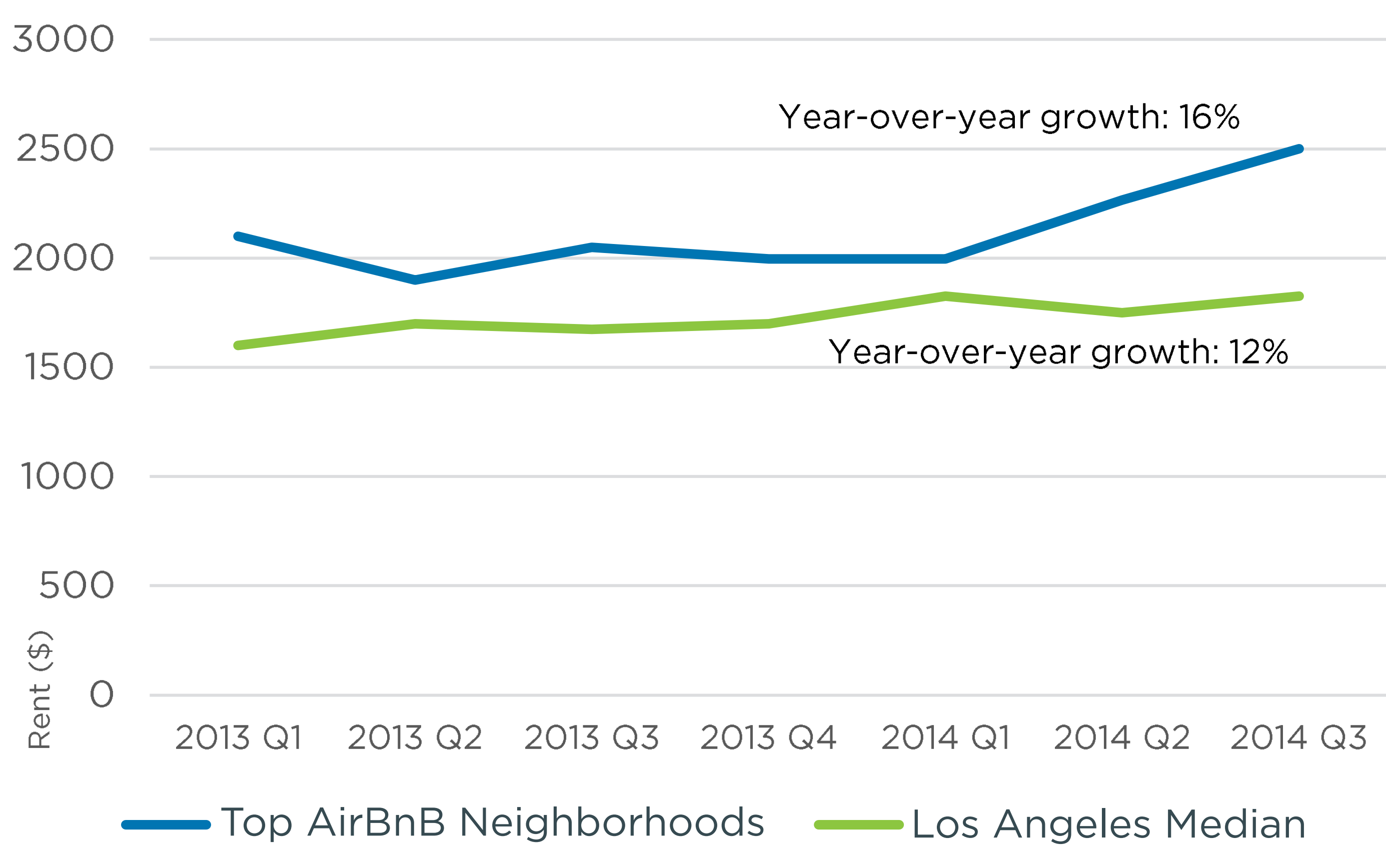
AirBnB market density coincides with neighborhoods that have rents well above the citywide average. These neighborhoods boast an average rent 20 percent higher than the citywide average.[58]

Rental prices in these neighborhoods have increased substantially in recent years. Real estate listing company Zillow creates an index of Los Angeles neighborhood rents going back to 2011. According to Zillow's data, these neighborhoods have all had double digit increases in rent over the last three and a half years; Hollywood's rent has climbed by 20 percent, while rent in Echo Park has increased by 31 percent. Mar Vista, a residential West Los Angeles neighborhood adjacent to both Venice and Santa Monica, has had a 41 percent increase in rent since 2011.[59] As shown in Figure 5, since the beginning of 2013 rents in AirBnB's top neighborhoods have climbed 16 percent, as compared to a 12 percent growth in the citywide median rent over the same time period.

Rental pricing is based on numerous economic factors and market forces, and we do not know the exact relationship between AirBnB density and median rents. It is telling that the average vacancy rate for AirBnB's top nine neighborhoods stands at 3.5 percent. The City of Los Angeles places special significance on neighborhoods with low vacancy rates. In 2006, at the height of a boom in the conversion of rent-controlled units into condominiums, the Los Angeles City Council passed an ordinance allowing City agencies to deny

Figure 5

Comparison in Median Rent Between AirBnB Top Neighborhoods and Citywide Median Rent

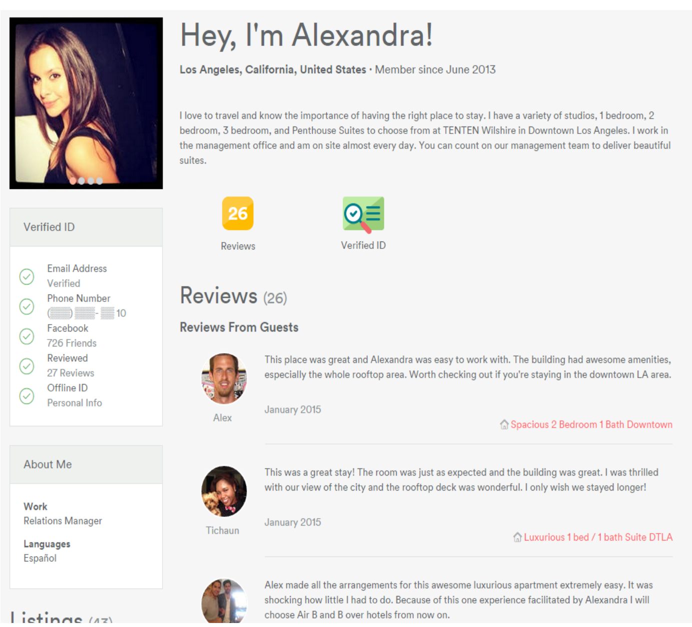


condo conversions in neighborhoods with vacancy rates below five percent.[60] Removing rental units from these markets by the thousands, as AirBnB has facilitated, appears to have contributed to declining vacancy rates, and consequent rising rents.

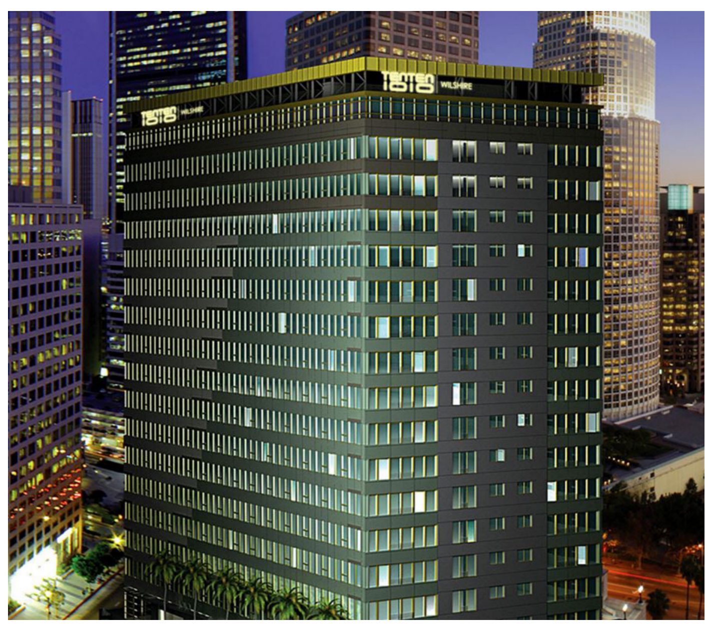
Examining AirBnB listings turns up examples like the case of 1010 Wilshire, a high end apartment building with 227 units in Downtown Los Angeles. AirBnB lists Alexandra as the "host," though as with Danielle and Lexi, we have no way of knowing if she runs the building or is merely an attractive image in a photograph. Either way, 1010 Wilshire's management has listed 20 percent of its units as tourist accommodations on AirBnB rather than housing for locals.

When the rental market does not work in 1010 Wilshire's management's favor, they can participate in the tourist market instead. This distorts the rental market by limiting rental supply. In doing this, 1010 Wilshire's management is following the path of least resistance to the highest rent possible. AirBnB has provided the tools and incentive structure that make this decision not only profitable, but also reasonable.

Removing rental units from these markets by the thousands appears to have contributed to declining vacancy rates, and consequent rising rents.



Host page for Alexandra, 1010 Wilshire's AirBnB leasing agent.



Exterior shot of 1010 Wilshire from the leasing company's home page.

AirBnB in Los Angeles Neighborhoods

When municipalities implement zoning codes they have a basic purpose, namely the promotion of the health, safety, and general welfare of the community. Zoning codes fulfill this purpose by maintaining a separation between major land use categories (residential, agricultural, industrial, commercial) and by allowing only specified types of use in each major category. Most municipal zoning codes generally do not, for example, allow for the construction of heavy commercial uses in the midst of a single-family residential community.[61]

The Los Angeles Municipal Code treats residential zones with a great deal of deference, particularly where new commercial developments are concerned. If a new project is proposed that requires a variance from established zoning for an area, neighbors within a 500 foot radius must be notified, and an Area Planning Commission takes up the issue in a public hearing.[62]

In AirBnB's Venice stronghold there are 1,137 AirBnB units. According to our estimates this is about 12.5 percent of all housing units in the community and an average of 360 AirBnB listings per square mile.[63] In some parts of Venice whole blocks have been given over to illegal hotel operations.[64] Public hearings and approval were not held for any of these conversions. By contrast, a local developer has sought to build the Abbot Kinney Hotel, an 82-room property, for more than three years, working with the Planning Department, community groups and numerous official and unofficial public forums. Approvals have not been granted as of this writing.

One reason for the long process for the Abbot Kinney hotel is concerns about neighborhood character and traffic. As the number of tourists in an area increases relative to the number of permanent residents, it stands to reason that objective and subjective measures of neighborhood cohesion would decrease. A 2012 Urban Institute study pointed to research around residential instability. According to this study, "high residential instability in a neighborhood can result in reduced social cohesion and disrupt institutions which, in turn, can make a neighborhood more susceptible to crime."[65]

In Venice there are an average of 360 AirBnB listings per square mile.

For many long-time Venice residents, this academic verification was unnecessary. They have seen first hand what it is like to have a neighborhood converted into a hotel overnight. For one resident, it has meant watching an 80-year-old neighbor get sent to the hospital over a confrontation with loud tourists on his block. He notes that there are "different people every week... hanging out smoking on the sidewalks." He feels his community has changed for the worse, a sentiment echoed by another Venice resident forced to leave after 27 years when the house he was living in was sold. He says, "I'm not some romanticist that believes everything has to stay the same, but AirBnB has turned our neighborhood into a nightmare...We live on a 'walk street'...where we knew our neighbors...I don't know the people here anymore."

Numerous tourists moving through a neighborhood can also exacerbate parking deficiencies and worsen overall quality of life for residents. Scott Plante, a past member of the Silver Lake Neighborhood Council, has received more than 30 complaints over the past year from neighbors. These complaints include unfamiliar cars blocking driveways, late night parties on formerly quiet streets, and concerns about child safety in an environment with fewer familiar eyes on the street. As Plante noted in a recent *Los Angeles Times* story detailing the difficulties Silver Lake has had with AirBnB units, "It's supposed to be a spare room — not corporate interests taking over our neighborhood and turning everything into a virtual hotel."[66]

Who Can You Trust?

Public health and safety in hotels

Hotels are subject to numerous health, safety, and insurance requirements. The city has seen fit to regulate hotels differently than residential properties because they are different in fundamental ways. AirBnB allows hosts to utilize their spaces like hotels without being subject to any of the same regulatory checks to which actual hotels have adapted over the years.

According to the Los Angeles Municipal Code, hotels must, for example, keep detailed registries of all guests. These registries are often used in criminal investigations and to "regulate sketchy motels that can serve as magnets for crime."[67] AirBnB hosts do not maintain such records. Such registries can also help public health officials in tracking the spread of infectious disease. By design, traditional hotels serve many more guests on a per unit basis than do typical rental apartments. This makes them more likely to act as vectors for infectious diseases and vermin like bed bugs, influenza and measles.

Hoteliers are aware of the risks and have instituted protocols to deal with these issues. Hyatt Hotels, for example, has instituted a chain-wide hypoallergenic rooms program that involves medical grade air filters and biannual intensive decontamination treatments.[68] Even budget brands like Best Western equip their housekeepers with ultraviolet wands and black lights to ensure each guest room is thoroughly cleaned after each guest checks out.

As tech writer Brendan Mulligan discovered, a lack of standardized cleanliness can throw a major wrench into a trip. Mulligan is a self-described "big fan" of AirBnB. Unfortunately, on a recent trip Mulligan was greeted by pillows and sheets which he described as "disgusting" and possibly "soaked in every bodily fluid imaginable." Mulligan goes on to say of the risk involved when booking an AirBnB apartment, "There is no baseline of cleanliness, and no immediate options if it doesn't suit your needs. If, when you check into a hotel room, you see a big stain in the middle of the bed, you can ask to switch rooms, or at the very least to get new sheets. But when you check into an apartment in a foreign city, you don't have that option."[69]

If AirBnB were to mandate higher standards for their hosts, their business model dictates that each individual host would bear the responsibility for sanitation. The company has made some efforts to connect hosts with local cleaning crews through a partnership with Handy, another shared economy company focused on residential cleaning.[70] Nowhere in Handy's promotional material does the company, which outsources cleaning duty to an undefined pool of cleaners, mention the kind of intensive sanitization offered by major hotel chains.[71] As discussed above, our data suggest some AirBnB units are being used with the same intensity and guest turnover as hotels, but without the benefit of cleanliness standards. Without such standards, infectious diseases may be transmitted more easily in AirBnB units. Without registries, public health officials may have a harder time halting their spread.

Some AirBnB units are being used with the same intensity and guest turnover as hotels, but without the benefit of cleanliness standards. Without such standards, infectious diseases may be transmitted more easily in AirBnB units.

ADA compliance and enforcement

As public accommodation spaces, hotels are subject to the Americans with Disabilities Act (ADA) compliance standards. Under ADA guidelines, any public accommodation with five or more rooms set aside for guests qualifies as a "place of lodging" and is subject to the accessibility requirements set forth in the ADA.[72] ADA requirements for lodging places include accessibility retrofits to entry and exit points, grab bars in restrooms, and designated lodgings for individuals with disabilities. As of 2012, lodgings must also enumerate through their reservation systems the types of accessible features in each handicap accessible room.

AirBnB is aware of these requirements, but the company does not verify any of its hosts' claims of wheelchair accessibility. The company's Host Help Center summarizes a few salient points about the ADA and notes that hosts with five or more listings "may" need to comply with the ADA.[73] The company also points out that ADA requirements are not generally applicable to residences. Only AirBnB knows exactly which hosts have five or more units at a single address. The best approximation we can make is to examine the number of people an AirBnB listing can accommodate. There are 647 whole unit AirBnB listings in Los Angeles that accommodate five or more people. While these listings may exist in a regulatory grey area, commercial hosts who operate *de facto* hotels are very clearly operating "places of lodging" as defined by the ADA.

One such host owns a multifamily building in Hollywood. He operates this property as a hotel by using AirBnB to list out individual units that are not rented out by long-term tenants. His Cozmo property contains 32 multi-family units, a fluctuating number of which appear to be rented out via AirBnB.[74] These units are available for both long-term tenants through the traditional leasing process and to travelers through AirBnB. Were this a full time hotel property, it would clearly be subject to ADA requirements.

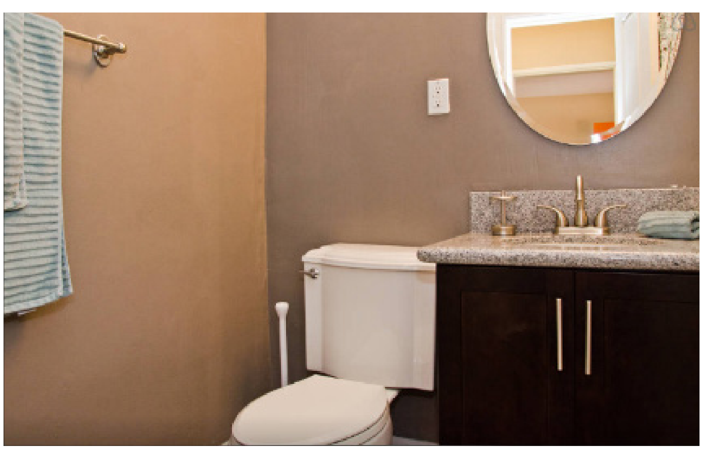


Figure 6: An AirBnB bathroom in a building with more than five units. There are no grab bars in this bathroom.

Figure 7: ADA compliant bathroom in a traditional hotel. Note grab bars and roll-in shower stall.

Cozmo units appear to be simultaneously residential and hotel uses. ADA compliant bathrooms in hotels, such as the one at a Hilton, shown in Figure 6, feature grab bars and showers that can accommodate a wheelchair.[75] Cozmo management posted the image in Figure 7 to illustrate the bathroom in one of their units that has been marked as "wheelchair accessible" though it does not appear any different from most residential bathrooms.[76]

Under the ADA, hospitality reservation systems are required to give potential guests the option to reserve wheelchair accessible accommodations. Again, AirBnB's inability to standardize its offerings may land guests who require wheelchair accessibility in some very inaccessible units. Take for example a listing in Hollywood which bills itself as "wheelchair accessible." Perusing its attached photographs, one of which is shown in Figure 8, quickly turns up a picture of a steep staircase leading to the bedroom. There appear to be no additional accommodations in this listing that would allow a wheelchair bound guest to make his or her way up to the bedroom.

Figure 9: Flyer advertising a party in Ari Teman's New York City apartment. Teman was not aware of this party.

Figure 8: A "wheelchair accessible" AirBnB unit in Hollywood.

Strained relations between AirBnB and its hosts

The assumption of trust between AirBnB hosts and guests is the lynchpin holding the AirBnB marketplace together. Every horror story detailing travelers blindsided by misleading AirBnB listings or plagued by bed bugs undermines this trust.[77] Misbehaving or destructive guests also shake the trust that hosts place in AirBnB. Hosts have faced illegal activity in their homes, theft of their belongings, or destruction of their property.[78]

New York City AirBnB host Ari Teman's experience provides an instructive example of the risk hosts incur when they rent out their homes. Teman agreed to rent out his space because the prospective guest "had a verified account and he seemed legit… he had three positive reviews." Teman alleges the individual to whom he rented his home was in fact a party promoter who never had any intention of using the space as a last minute accommodation for his in-laws as he had initially claimed. A Google search of his guest's phone number turned up the promotional flyer, shown in Figure 9. When Teman returned to his condominium, he discovered a "huge posse of large men and women… looking like they got tossed from a club, hanging out in front" of his condo.[79] When he entered his home, Teman described the scene that greeted him as "a group of nearly nude, overweight people" engaged in what the *New York Post* dubbed an "overweight orgy." After the story broke into the media, AirBnB paid Teman $23,000 to cover the damage resulting from "Pantie Raid."[80]

Ari Teman's story is admittedly salacious, but for every "orgy" there are undoubtedly countless stories of burned rugs, broken lamps, and stolen items. If these stories were to emerge and paint an uncharitable portrait of the company, it could dim AirBnB's ability to attract venture capital or issue its IPO.

Against this backdrop, AirBnB hired Joie de Vivre Hotels founder Chip Conley as its Head of Global Hospitality. Under Conley, Joie de Vivre arose as a key player in the boutique hotel segment by redeveloping underused historic buildings in urban cores into high end boutique hotels. In a sense, the Joie de Vivre brand is a spiritual predecessor to AirBnB. Rather than focus on the utilitarian daily needs of travelers, both Joie de Vivre and AirBnB attempt to entice travelers with the promise of a unique hospitality experience.[81]

Figure 10: An image of a bedbug accompanying Rachelle Bergstein's Yahoo Travel piece (Source: Getty Images).

One of Conley's key goals at AirBnB is to professionalize the company's hosts.[82] These initiatives currently include professional photographers for AirBnB listings and referral to housekeeping services to ensure a uniformly tidy experience for AirBnB guests.[83]

Assumption of risk and liability

AirBnB claims it is not at legal risk in the same way as its hosts and guests. This is because the company treats its hosts as independent contractors.[84] As such its legal position has been that it cannot be held liable for the actions of its independent contractors or their guests.[85] In high profile cases, like the "Pantie Raid" party described above, the company has settled out of court rather than face prolonged media scrutiny.

Risk is not distributed equally throughout AirBnB's reservation process. Taking on the highest level of risk are AirBnB's hosts who must contend with the uncertainty inherent in opening their homes to strangers, while also risking the ire of landlords, neighbors, and city regulators. Hosts may also be held liable for injuries suffered by guests during their stay and any property damage that may result from unruly guests. Guests take on the risk of paying someone they do not know upfront for an accommodation that may or may not live up to the listing description.

Rachelle Bergstein, a travel writer for *Yahoo! News*, experienced the pitfalls of AirBnB travel first-hand. Bergstein booked from a host with "terrific reviews." Unfortunately, this host also had bedbugs. The morning after their first night in the "charming" Silver Lake studio, Bergstein and her husband discovered a bedbug the size of an "apple seed" crawling across their duvet cover (See Figure 10).

As it turns out, the host Bergstein rented from was in fact "not the owner, or even a tenant... [h]e was a listing agent" who pointed Bergstein to the part of the AirBnB Terms of Service that reminded guests that bookings are "made at the guest's own risk." While Bergstein's host ultimately relented in offering her a refund, she was dismayed to find that receiving a refund meant that she could not leave a review warning other guests of the unit's bedbug problem. She reminds travelers in the review of her AirBnB experience that price should not be the only criterion when selecting a place to stay. As Bergstein noted "AirBnB might have the advantage over hotels when it comes to price and charm, [but] a midrange chain hotel is clearly a better choice if you care about quality control." Bergstein is not likely to give AirBnB another chance until "guests are assured of a corporate guarantee, too."[86]

Figure 11: Rachel Bassini discovered feces smeared on her couch after she rented out her space on AirBnB.

Figure 12: Rachel Bassini's bathroom after she rented out her space on AirBnB.

Host Guarantee and Peers' homesharing liability insurance

AirBnB does offer its hosts a guarantee that it will cover up to $1 million in "Covered Losses" as defined by the company.[87] However, this guarantee only covers property damage and not major areas of homeowner liability such as personal injury suffered by a guest. Moreover, a homeowner's existing insurance may not cover any such liability as the homeowner is engaged in a commercial enterprise.[88] This is a significant point because the fine print of AirBnB's Host Guarantee specifies that it will only cover losses once hosts have exhausted other coverage and only if hosts file claims with AirBnB within a specified window. Hosts are expected to wrangle with their own insurance companies, and with the guests who have damaged their home before AirBnB will even consider paying out on the Host Guarantee.[89]

In some cases, AirBnB has refused to abide by its own Host Guarantee, even where damage to a host's property was clearly the result of guest misbehavior. When Rachel Bassini returned to her home after renting it out through AirBnB, she discovered "feces covering the bathroom and couch, used condoms all over the bedroom, and chewed gum on the floors, walls, and couches."Some of the photographs of the damage to Bassini's home are pictured in Figures 11 and 12. When Bassini attempted to collect on the promise made by the Host Guarantee, an AirBnB representative told her that "the Host Guarantee only cover[s] structural damage, not contents." Fearing that she had no further recourse, Bassini attempted to recover damages from her guest, but his AirBnB account had been suspended. AirBnB again denied Bassini's claim because she failed to file a report within 72 hours. The Company issued her a $100 credit and deemed the matter closed. However, AirBnB reversed its decision after media inquiries and agreed to cover the cost to repair Bassini's home, so long as she "submits the proper paperwork."[90]

In January 2015, Peers, the lobbying group founded by AirBnB marketing executive Doug Atkin, began offering "Homesharing Liability Insurance." There is a monthly fee of $36 for this insurance, which will cover personal injury and other claims up to $2 million for Peers members. However, this insurance does not cover claims related to bedbugs — a key risk associated with accommodating the traveling public. Nor does the policy cover bodily injury arising from violations of the Americans with Disabilities Act or "federal, state, local or common law regulating fire or life safety."[91] This policy has only been available for a short time, and it remains to be seen how it will be applied to claims made by hosts who are in violation of their lease agreements and local zoning codes and regulations.

The Promise of Tax Revenue

Our best estimates show that AirBnB's Los Angeles County listings generated $80 million in revenue during 2014, of which approximately $58 million was earned within the City of Los Angeles.[92] The City of Los Angeles collects a 14 percent Transient Occupancy Tax (TOT) on a monthly basis from all hotel operators in the city limits, yielding a tax obligation of $8.1 million for AirBnB's City of Los Angeles hosts. This tax is meant to be assessed on travelers who rent a room from a hotel, motel, or inn.[93]

As we explore below, AirBnB often approaches cities with the promise of remitting a monthly fee equal to the TOT in exchange for the passage of regulations that legitimize their business model. The rationale behind this offer is that cities will be adding new revenue to municipal coffers. However, this revenue is mostly reallocated from hotels which would have remitted these taxes anyway.

In AirBnB's economic analysis, released in December 2014, the company asserts that 37 percent of its guests would not have visited Los Angeles or would not have stayed as long as they did were it not for AirBnB. Assuming AirBnB's numbers are true, a minimum of 63 percent of the revenue generated by its listings was reallocated from hotels and is not new. If AirBnB had no listings in Los Angeles, these guests would have stayed in Los Angeles hotels, supported good jobs for Angelenos, and had a negligible impact on the city's neighborhoods, all while paying taxes.

Because AirBnB merged the "would not have visited Los Angeles" and "would not have stayed as long" categories, it is not clear how these 37 percent of travelers are distributed. If we assume an even split, then the number of travelers who would have come to Los Angeles regardless of AirBnB's listings rises to 81.5 percent. This means Los Angeles would have received between $5.1 million and $6.6 million in TOT from hotel stays were it not for AirBnB. In this scenario AirBnB only offers $1.4 million in new TOT that would not have otherwise been collected by hotels. This figure is equal to about 45 percent of the wages lost by AirBnB's domestic cleaners each year because they are not paid the same wages as housekeepers in the hotel industry doing the same work.

AirBnB's study also claimed the company's activities were responsible for $312 million in economic activity and the "support" of 26,000 jobs. As with the tax revenue, we estimate that 81.5 percent of these benefits were merely shifted from one place to another, from hotels to AirBnB. In fact, since visitors who stay in hotels spend more than those who stay in homes, the net effect of staying in AirBnB instead of a hotel is a negative one, and that may well outweigh any additional travel days.

Beyond that, there are negative externalities which also go unconsidered in the limited economic impact data that AirBnB released in December 2014. For example, the UCLA Anderson School of Business study found that the high cost of housing has a generated a statistically significant drag on job creation in Los Angeles. Fewer rental units, a drag on job creation, a reduction in tax revenues and a qualitative assessment of AirBnB's effects

If AirBnB had no listings in Los Angeles, guests would have stayed in Los Angeles hotels, supported good jobs for Angelenos, and had a negligible impact on the city's neighborhoods, all while paying taxes.

in neighborhoods are key elements that must be considered before a accurate judgment of the company's impact can be rendered.

Fewer rental units, a drag on job creation, a reduction in tax revenues and a qualitative assessment of AirBnB's effects in neighborhoods must be considered before a true judgment of the company's impact can be rendered.

AirBnB revenue is clustered in established tourist districts

In Los Angeles, AirBnB revenue generation is clustered in key tourist districts. AirBnB claims its service helps drive tourist spending to neighborhoods that are not typically beneficiaries of that spending. However, data derived from the company's public listings do not support this claim.

The top ten AirBnB sub markets in Los Angeles are listed in Table 2, with the number of whole units and a revenue estimate.

These ten neighborhoods account for more than 50 percent of AirBnB listings as well as nearly 70 percent of AirBnB revenue generated in the Los Angeles area. Taken together, these neighborhoods encompass the heart of the L.A. tourist economy. A May 2014 Los Angeles Chamber of Commerce analysis found the Venice/ Santa Monica/ Marina del Rey area is Southern California's second most popular tourist destination, behind Disneyland. Hollywood, West Hollywood and Downtown Los Angeles are also singled out as key tourist-attracting districts.[94] Nestled between Hollywood and Downtown Los Angeles, Silver Lake and Echo Park contain many of the city's top rated bars and restaurants.[95] AirBnB is competing with traditional hotels for tourist dollars in the city's most popular tourist serving areas.[96]

Table 2

AirBnB's Top 10 Revenue Generating Neighborhoods

Neighborhood	Whole Units	Total Units	Whole Unit Percent of Units	Whole Unit Revenue	Total Revenue	Whole Unit % of Rev.
Venice	882	1,137	78%	$11,787,842	$13,474,974	87%
Santa Monica	538	773	70%	$8,077,411	$9,315,075	87%
Hollywood	646	980	66%	$5,544,207	$6,747,061	82%
Downtown LA	220	272	81%	$5,885,101	$6,038,738	97%
Mid-Wilshire	514	848	61%	$4,079,629	$5,021,018	81%
West Hollywood	455	619	74%	$3,666,100	$4,181,391	88%
Hollywood Hills	315	452	70%	$3,541,258	$3,956,867	89%
Silver Lake	268	361	74%	$2,681,351	$3,043,461	88%
Echo Park	230	325	71%	$ 2,427,196	$2,639,005	92%
Marina Del Rey	136	172	79%	$1,582,497	$1,677,048	94%
Total	4,206	5,942	71%	$48,273,023	$56,094,638	88%

Policy and Regulatory Intervention

AirBnB's financial future will be determined in large part by the company's ability to convince municipal authorities to grant the company legitimacy by establishing a regulatory framework around the company's operations. When we examine the experiences that city regulators have had with AirBnB three themes emerge:

1. AirBnB will offer to remit fees equivalent to local tax rates to cities in exchange for legalization. These fees are not negotiated into any public code, but instead are determined by a contract negotiated between the company and cities in private. AirBnB will not share information allowing cities to verify the accuracy of the payments.[97]

2. As evidenced in Portland, Oregon, AirBnB's flagship "Shared City," AirBnB will not participate in the enforcement of the model legislation it provided to the City, nor will the company monitor its listings for compliance.[98]

3. The majority of AirBnB hosts will not comply with any licensing or permitting systems.[99] AirBnB will not modify its listings to require hosts to display their permit numbers, nor will it voluntarily turn over the addresses of unlicensed hosts to regulatory agencies. This refusal extends to providing addresses so that cities can conduct basic safety inspections to ensure the health and well being of AirBnB's own community of hosts and guests.[100]

In the section that follows, we review the policy experience in several cities, and use the lessons from those cities to begin formulating criteria through which one can assess any potential AirBnB regulations.

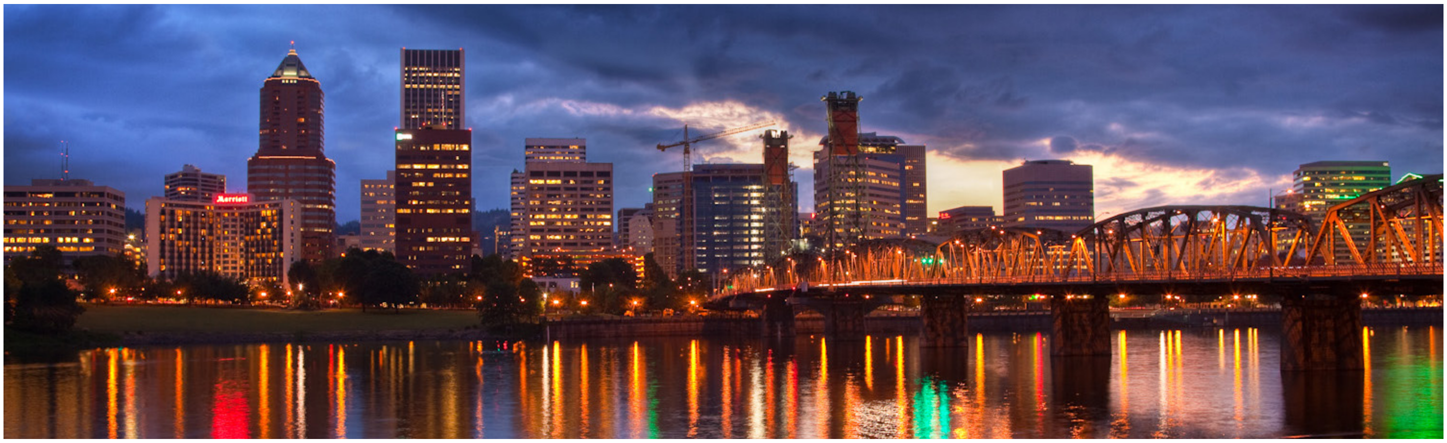
Before beginning that review, however, we want to raise a critical question about the basic proposal being offered by AirBnB—payment of significant funds in exchange for rules legalizing AirBnB's operations. This system has gone into effect in two cities, Portland and San Francisco.

According to a January 2015 *Washington Post* story, between July 1 and December 30 2014, AirBnB has turned over approximately $5 million in hotel fees to Portland and San Francisco.[101] The combined unit count of these two cities—7,600—is less than the approximately 8,300 units within Los Angeles city limits. Moreover, tax rates in Portland are three percentage points lower than in Los Angeles. Yet, in just six months, AirBnB has turned over to the two cities 62 percent of what we estimate it would owe in Los Angeles for whole year—a larger market with higher tax rates.

We may be severely undercounting AirBnB's Los Angeles revenues and tax obligation. If so, that would explain this discrepancy. However, this does not seem likely, given that we found twice as many hosts as AirBnB reported, and our estimates are based in part on the results of a subpoena by the New York Attorney General. If our estimates are correct, an alternative concern must be raised. By agreeing to a privately negotiated agreement with Portland and San Francisco, AirBnB may be paying more than it is required to pay in taxes. Many have rightly raised questions about how cities ensure they get all they deserve without proper monitoring. But the high payments here suggest an alternative danger—a company like AirBnB could overestimate the dollars involved to incentivize the city to adopt the laws the company wants.

Portland, Oregon

With much fanfare, AirBnB designated Portland its first "Shared City." This meant that the company and the city had determined to work together to create a regulatory framework that would allow the city to collect hotel taxes in exchange for creating a new category of housing in its planning code—the "Accessory Short Term Rental (ASTR)."[102] The City of Portland decided to divide its ASTR regulation into two separate pieces of legislation. The first piece covered AirBnB units in single-family homes, followed by a second ordinance governing AirBnB units in multi-family housing.



Both pieces of legislation relied on the same basic framework. If hosts complied with the application requirements, they would be granted an ASTR permit. This permit was to be displayed inside the ASTR unit and the permit number was required to be posted on all listings advertising the space. To receive this permit, hosts were obliged to pay a nominal fee, notify their neighbors (or landlords) of their intentions to rent their space and submit to an inspection to verify installation of smoke and carbon monoxide detectors. The policy also limited the number of days that a homeowner could rent a space in his home up to 95 days per year.[103]

Portland's ASTR policy was passed as an amendment to the City's zoning code. These ordinances remain silent on the issue of hotel taxes. Instead the City's Revenue Bureau negotiated a separate, private agreement to address specific issues around hotel tax collection. A redacted version of this agreement was only made public pursuant to a public records request made by reporter Elliot Njus at *The Oregonian* newspaper.[104] While AirBnB repeatedly denied it was a hotel operator in the agreement, the company was asking for the city to treat it "as though [it] were a single 1,600 room hotel."[105]

Further complicating matters is the fact that a miniscule proportion of Portland's AirBnB hosts have sought legitimization and taxation— the Portland Revenue Bureau estimates that 93 percent of all hosts have not obtained the necessary permits, had their units inspected for building and safety compliance, or notified their neighbors of their intent to operate a short-term rental.[106] Without any way to regularly identify individual hosts, the City of Portland Revenue Bureau had no way to monitor how the monies it was receiving did or did not relate to the overnight stays of visitors in AirBnB lodgings.

As Portland moved towards legalizing AirBnB rentals in multi-family units these issues became key political sticking points in negotiations. Portland Commissioner Nick Fish took the lead in pressing AirBnB to release host addresses to the city. At a late December 2014 hearing, the Regional Head of Public Policy for AirBnB, David Owen, argued against releasing such data on the grounds that it would constitute a violation of hosts' privacy rights. This argument did not pass muster with Commissioner Fish. As he put it:

> We are not asking for people's confidential information. We are asking for an address of a home-based business, and under your view because that has an internet component that raises privacy concerns that are different than motels and hotels. We invoke the internet and we claim an exemption from all the other laws and rules of society. We welcomed you to Portland, but we have to make sure that the guests in one of your hosts' places—and you do not inspect

> your hosts' places—we have to make sure that guest is safe, and the only way that we can do it is to have an address. If we don't have an enforcement mechanism that works why on earth would we give you the green light to do something that we can't reasonably enforce?[107]

The City did ultimately "green light" the ASTR program to include multi-family units. However, the city also passed legislation to address Fish's concerns. In exchange for granting legitimacy to the majority of AirBnB's Portland listings, companies like AirBnB must now submit contact information for all hosts for any regulatory or tax purpose to the Revenue Bureau, as well as prominently display the host's permit number on all listings.[108]

How well this will work is not clear. At a public hearing on this policy AirBnB's David Owen refused to commit to following Portland's new regulations if they included disclosure requirements for hosts.[109] The rules, as currently written, do not create any direct liability for AirBnB so long as they continue to pay money to the city.

San Francisco, California

Passage of San Francisco's AirBnB regulations was rendered no less contentious by the fact that the city is AirBnB's birthplace. As has been widely noted, San Francisco has undergone dramatic rent increases in recent years. These increases have been exacerbated by the limited supply of housing in the city. Not surprisingly then, the process to pass an ordinance pitted housing advocates against AirBnB as both sought to influence the San Francisco Board of Supervisors. Housing advocates pressed for a requirement that AirBnB pay some $25 million in back taxes.[110] They also wanted a ban on AirBnB units in rent-controlled buildings and a prohibition against renting units that have been vacated under the Ellis Act. None of these amendments were included in the final legislation, although some San Francisco Supervisors vowed to pursue these items as stand-alone legislation.[111]

Passed in 2014, the San Francisco policy caps the number of days that a whole unit can be rented out at 90 per year. Although monitoring bookings for compliance with this provision would be very simple for AirBnB, the company has refused to assist the city in enforcement. Out of approximately 5,000 hosts, as of February 15, 2015, only 130 had set appointments with the Planning Department to obtain their permits, drawing further comparisons to Portland's experience.[112]

Building in new enforcement mechanisms now seems necessary to some previous AirBnB supporters. San Francisco Supervisor Jane Kim voted for the original ordinance but is now working to pass a supplemental ordinance that would allow nonprofit organizations to sue to enforce the short term rental law. She believes the first ordinance does not "have enough teeth" to ensure effective enforcement.[113] Meanwhile, a coalition of affordable housing and community organizations known as Share Better S.F. has begun the process of collecting signatures to place an initiative on

the next municipal ballot that would implement far stricter regulations on AiBnB rentals in the City.[114]

New York City, New York

New York City has taken a more hardline approach to regulating AirBnB than either San Francisco or Portland. Under New York State law, residential rentals shorter than 30 days are considered illegal. New York City has taken the lead in halting AirBnB's expansion through rigorous enforcement of this law, while New York State Attorney General Eric Schneiderman has served the company with subpoenas to get exact addresses and revenues generated by AirBnB listings. As a result of these subpoenas, the Attorney General's office found that more than 72 percent of AirBnB's New York City revenue was generated by illegal listings. The Attorney General's report also found that commercial hosts dominated the New York City AirBnB market.

New York City residents rally against AirBnB ahead of a January 20, 2015 New York City Council hearing.

Share Better New York, a coalition of affordable housing, community, and labor organizations has been pressing New York City to address the proliferation of illegal hotels as part of a broader strategy to maintain rental affordability in the notoriously pricy city. The City Council has pressed for increased transparency and accountability from AirBnB. During the course of an eight hour hearing to determine what impacts AirBnB has had on New York's housing stock, it was found that AirBnB *could* force hosts to comply with state law, but the company has refused to do so. Upon pointed questioning from City Councilmembers, AirBnB Head of Public Affairs David Hantman admitted not having done any research to determine which listings

New York City Councilwoman Helen Rosenthal addressed a crowd of affordable housing advocates as they rallied against "illegal hotels" ahead af an eight-hour hearing on the sharing economy at the New York City Council (Photo: Capital New York).

are illegal.This answer failed to satisfy New York City Councilman Jumaane Williams. "Wouldn't that be something a responsible company would do if they wanted to keep doing business in New York City?" Williams asked.

The company's refusal to assist with enforcement in Portland, San Francisco and New York City seems to have more to do with ideology than with technical capacity. As expressed by the company's Head of Public Affairs, David Hantman, AirBnB believes "very strongly that you should be allowed to rent out your own home whenever you want."

The marathon hearing also found that complaint-based enforcement does not effectively curtail the proliferation of illegal AirBnB listings. In the last year, the Mayor's Office of Special Enforcement received nearly 1,150 complaints leading to nearly 900 inspections. However, a recent survey has shown the overall number of AirBnB listings in New York City has not changed since aggressive enforcement began.[115]

Southern California Cities

In the greater Los Angeles area, the cities of Malibu and West Hollywood have begun the process of regulating AirBnB-type rentals within their city limits.

The city of West Hollywood, under the direction of the City Manager, created the Shared Economy Task Force to study home and ride sharing in West Hollywood. The Task Force recommended that the West Hollywood City Council draft legislation to amend the zoning code to define "short term rentals" and reiterate that these types of rentals are illegal in West Hollywood. The West Hollywood City Council is now considering the matter.[116]

In May 2014, Malibu's City Council voted to authorize officials to issue subpoenas to gather accurate information on the scope of short term rentals. These types of rentals are legal under the Malibu zoning code, but must be registered with the city and remit hotel taxes. To date, only 50 Malibu properties have complied with these regulations, although the City noted there are more than 400 listings on various short term rental sites.[117]

Los Angeles City Council has also begun the process of assessing AirBnB's effects on the the city. The Council has convened a Shared Economy Working Group to assess the best practices in regulating the shared economy in the residential sector.[118]

Principles for Regulating AirBnB

As we have seen, cities are clearly grappling with how best to regulate AirBnB. While cities have employed a variety of strategies to control AirBnB's proliferation, no municipality has been able to effectively limit the growth and negative effects of the large-scale conversion of residential units into tourist accommodations. What may have been considered "best practices" a year ago, today seem rushed and nearly unenforceable. Given the shifting policy landscape, it may be worthwhile to establish an evaluative framework that can be applied to any proposed short-term rental policy.

Housing must be protected

Los Angeles has faced a severe shortfall in housing units, leading to low vacancy rates and rapidly increasing rents. AirBnB's highest density is in the neighborhoods where these dynamics have been especially pronounced. Any policy should have protecting housing units as a top priority.

Systematic approval requirements

Neighborhood cohesion is vital to preserving quality of life and safety in Los Angeles communities. One neighbor's decision to list her unit on AirBnB can have wide-ranging negative effects. As with any land use change that has a potentially negative effect on a community, neighbors in the vicinity of a prospective AirBnB unit should receive advance notification of the potential AirBnB listing and be granted an opportunity to object to this conversion. Based on public input, the city should have the opportunity to approve, reject or impose conditions on a proposed AirBnB conversion. In this way, AirBnB's impacts on neighborhoods can be mitigated and provisions for clear disclosure guidelines and dispute resolution procedures can be established. Los Angeles should also protect renters by requiring permission from landlords before a rental unit can be placed on AirBnB.

AirBnB must share the burden of enforcement

Cities have not been able to effectively regulate AirBnB. Without the company's cooperation, cities must pay the costs associated with investigation and enforcement of existing zoning codes. Even when AirBnB has seen its preferred legislation pass, the company has refused to participate in policing listings. As we have seen in New York City, enforcement strategies focused only on hosts but not on the company facilitating potentially illegal activity, will fall short.

Only true sharing should be allowed

The majority of AirBnB's Los Angeles hosts are on-site. Because they are present to monitor their guests' behavior, and because these types of AirBnB listings do not remove units from the Los Angeles housing market, they create fewer negative externalities than other types of AirBnB listings. Protecting these types of listings while curtailing off-site and commercial hosts represents a smart approach to balancing the needs of Los Angeles communities with the desire of some residents to rent out space in their homes while they are present.

Appendix A: Revenue Calculation

Our analysis shows that there were more than 114,000 reviews left on AirBnB listings. The number of reviews attached to each listing is the best approximation of the number of visitors that a given AirBnB unit has accommodated. Since travelers can only leave a review on a listing after they have completed their stay, every review indicates a confirmed stay. However, not every guest leaves a review after her stay, so our estimates are likely to undercount the volume of guests served by each unit.

The number of reviews also allows us to approximate the revenue generated by each unit listed on AirBnB. By multiplying the number of reviews, the minimum stay, and the listed price, we have been able to estimate the minimum total revenue generated for each individual unit in our dataset. This formula yielded our initial revenue estimate of $37,726,492 in Los Angeles for 2014.

We applied the same formula to data we pulled down from New York City's public AirBnB listings to yield a revenue estimate of $121,219,400. We also compared our estimated revenue to the actual value calculated by the New York Attorney General's AirBnB analysis. The Attorney General's report on AirBnB calculated AirBnB's 2014 New York City revenue based on booking information the company turned over after being served with subpoenas. The Attorney General's office showed AirBnB generated revenue of $282 million in 2014. Using this data point, we created a ratio to determine the relationship between our revenue estimates and actual revenue. We therefore concluded that our Los Angeles revenue was undercounted by a similar rate and revised our estimates upward. This formula also allows us to understand which hosts have failed to generate any revenue at all. We define the failure rate in this instance as the percentage of hosts who have not made any money by listing their space or spaces on AirBnB.

Appendix B: Occupancy Rates

Occupancy rates for AirBnB listings are calculated by first multiplying the number of reviews by the average minimum stay for all listings. Following the procedure described in Appendix A, we then create a conversion factor based on the New York Attorney General's bookings data. Our New York City dataset showed a total of 239,950 reviews had been left on New York's AirBnB listings. We know from the booking data that there were 497,322 AirBnB stays booked through AirBnB. We then applied this ratio to our own review data to obtain a more accurate estimate of the number of stays at a given AirBnB unit. Hosts list the year that they joined AirBnB, which allows us to then compare the number of stays to the number of days that the host has been active to generate an estimate of an individual unit's occupancy rate.

Endnotes

1. "AirBed & Breakfast for Connecting '07." *Core77*. N.p., 10 Oct. 2007. Web. 19 Feb. 2015. http://www.core77.com/blog/events/airbed_breakfast_for_connecting_07_7715.asp#comments.
2. Y-Combinator has been responsible for such varied tech mainstays as Dropbox, Reddit, commenting system Disqus, and meme sharing service 9Gag, among others.
3. Graham, Paul. "Subject: Airbnb." *Paulgraham.com*. N.p., Mar. 2011. Web. 19 Feb. 2015. http://www.paulgraham.com/airbnb.html
4. Bradshaw, Tim. "Airbnb Valued at $13B Ahead of Staff Stock Sale." *CNBC.com*. CNBC,LLC, 23 Oct. 2014. Web. 19 Feb. 2015. http://www.cnbc.com/id/102117120#.
5. De, Michael J. "New Capital Could Raise Airbnb Value To $10 Billion." *DealBook* New York Times, 20 Mar. 2014.
6. According to the company, AirBnB's commission on each booking is dependent on the "size of the reservation." The company is not clear on whether this refers to the dollar value, length of stay or some other factor.
7. Bradshaw, *AirBnB Valued $13B,* CNBC 2014.
8. Sumers, Brian. "Airbnb's Short-term Rentals Break Law in Los Angeles, Says City Memo." The Daily Breeze, 21 Mar. 2014. Web.
9. Kudler, Adrian. "Airbnb-Affiliated Lobbying Group Defeats Venice's Attempt To Regulate Vacation Rentals In Los Angeles." *Curbed LA*. Vox Media Inc, 25 Nov. 2013. Web. 19 Feb. 2015.
10. Spector, Michael. "TPG-Led Group Closes $450 Million Investment in Airbnb." *The Wall Street Journal*. Dow Jones & Company, 18 Apr. 2014. Web. 19 Feb. 2015.
11. Atkin is also the founder of Peers, a lobbying group representing several sharing economy enterprises including Uber, home cleaning service Handy, as well as AirBnB and its competitors like VRBO.
12. Atkin, Douglas. *The Culting of Brands: When Customers Become True Believers*. New York: Portfolio, 2004. Print.
13. Atkin, 2004.
14. LinkedIn Job Posting for AirBnB Community Organizer Position, https://www.linkedin.com/jobs2/view/12357022. .
15. New York City and San Francisco data from Slee, Tom. "The Shape of Airbnb's Business." *Whimsley*. N.p., 26 May 2014. Web. 19 Feb. 2015. Los Angeles data from author's data set.
16. Ibid.
17. Alpert-Reyes, Emily. "Los Angeles Gives Hosts, Neighbors Mixed Signals on Short-term Rentals." *Los Angeles Times*. Los Angeles Times, 7 Feb. 2015. Web. 19 Feb. 2015.
18. This market includes independent cities that are generally linked to Los Angeles by hotel industry analysts. These include Santa Monica, West Hollywood, Culver City, Long Beach, and Malibu.
19. Figure 2: Author's calculations.
20. Author's calculations.
21. Conley, Chip. "What I Learned from You." *Blog.airbnb.com*. AirBnB, Inc., 3 June 2014. Web. 19 Feb. 2015.
22. See Appendix B.
23. PKF Hospitality Research *Trends in the Hotel Industry U.S. Edition 2014.*
24. AirBnB, Inc. AirBnB Listing Page: https://www.airbnb.com/rooms/528860, Accessed 19 February 2015.
25. AirBnB, Inc. Ghc AirBnB Host Page https://www.airbnb.com/users/show/1463129, Accessed 19 February 2015.
26. Globe Homes and Condos, *About Us,* http://www.globehomesandcondos.com/about-us. Accessed 19 February 2015.
27. Los Angeles Short Term Rental Alliance, *Our Story,* http://www.la-stra.org/our-story/ Accessed 19 February 2015.
28. Los Angeles Short Term Rental Alliance, *Mission Statement,* http://www.la-stra.org/mission-statement/. Accessed 19 February 2015.
29. Higgins, Michelle. "Vacation Rentals Pile on Luxuries." *The New York Times*. The New York Times, 01 Jan. 2011. Web. 19 Feb. 2015.
30. Screen Shot of Danielle and Lexi Host Page. Accessed 3 December 2014.
31. LADBS Parcel Profile report.
32. "California Proposition 199, Phase-Out of Rent Control on Mobile Homes (1996)." *Ballotpedia*. N.p., n.d. Web. 19 Feb. 2015.
33. Ingram, Carl. "Voters to Decide Fate of Rent Control in Mobile Home Parks." *Los Angeles Times*. 12 Mar. 1996. Web. 19 Feb. 2015.
34. Streitfeld, David. "Ratings Now Cut Both Ways, So Don't Sass Your Uber Driver." *New York Times*. 30 Jan. 2015. Web. 19 Feb. 2015.
35. Mosendz, Polly. "Face-Off: NYC Lawmakers Grill Airbnb on Illegal Hotels." *Newsweek*. 21 Jan. 2015. Web. 19 Feb. 2015.

36. For a methodological breakdown on how we arrived at this figure, see Appendix A.
37. Analysis based on AirBnB dataset and Zillow neighborhood rent estimates.
38. Ong, Paul, Rosalie Ray, and Silvia Jimenez. "Impacts of the Widening Divide: Los Angeles at the Forefront of the Rent Burden Crisis." *UCLA Ziman Center for Real Estate Working Papers Series* (2014): UCLA Luskin School of Public Affairs, UCLA Anderson School of Business, Sept. 2014. Web. 19 Feb. 2015.
39. Edelman, Benjamin G. and Luca, Michael, Digital Discrimination: The Case of Airbnb.com (January 10, 2014). Harvard Business School NOM Unit Working Paper No. 14-054.
40. Mapping L.A. Project and ACS 2013 5-year Estimates.
41. Burns, Patrick and Daniel Flaming. *Repaying Hospitality: Economic Impacts of Raising Hotel Workers Wages and Benefits in the City of Los Angeles.* Economic Roundtable. 1 December 2013. Wage estimate based on wage level set by Los Angeles Hotel Worker Living Wage and average hotel worker wages as reported in the Bureau of Labor Statistics.
42. Lawler, Ryan. "Airbnb Drops Homejoy From Cleaning Trial, Handybook Remains On In Three Test Markets."*TechCrunch*. AOL, Inc., 21 July 2014. Web. 19 Feb. 2015.
43. Burnham, Linda, and Nik Theodore. "Home Economics: The Invisible and Unregulated World of Domestic Work." (2012): National Domestic Workers Alliance, 2012. Web.
44. Zervas, George et al. "The Rise of the Sharing Economy: Estimating the Impact of AirBnB on the Hotel Industry". Boston University School of Management. January 2014.
45. Theo, Nik, Beth Gutelius, and Linda Burnham. "Home Truths: Domestic Workers in California." (2013): n. pag. *Www.datacenter.com*. Center for Urban Economic Development, University of Illinois at Chicago, 2013. Web. 19 Feb. 2015.
46. Burnham, *Home Economics,* 2012.
47. LADCP Housing Needs Assessment http://planning.lacity.org/HousingInitiatives/HousingElement/Text/Ch1.pdf.
48. Bergman, Ben. "High Rent, Few Options: Rising Rents and Short Supply Have Angelenos Weighing Their Choices | 89.3 KPCC." *SCPR*. Southern California Public Radio, 17 Apr. 2014. Web. 19 Feb. 2015.
49. Ong, *Impacts*, 2014.
50. Coldwell Banker Exclusive Offering Memorandum, *The Morrison Apartments*, Accessed from: http://www.keepneighborhoodsfirst.com/wp-content/uploads/2014/07/14_Westminster_Marketing_Package.pdf.
51. PKF Trends 2014.
52. Wheatley, Jon. "I Bought An Apartment To Rent Out On Airbnb." *NeedWant*. N.p., 28 Oct. 2014. Web. 19 Feb. 2015.
53. Coldwell Banker, *Morrison.*
54. Haller, Eric. "Venice Tenant Evicted for Airbnb" *Yo Venice*. N.p., 2 July 2014. Web. 19 Feb. 2015. http://www.yovenice.com/2014/07/02/venice-tenant-evicted-for-airbnb/.
55. Zillow Median Rent Index.
56. Lovely, Inc. "Lovely Rental Market Report Q3 2014." *Livelovely*. Lovely, Inc, Jan. 2015. Web. https://livelovely.com/reports/q32014.
57. Yu, William. "Problems and Solutions for Los Angeles' Economy: Human Capital, Public Education and Migration."*UCLA Anderson Forecast, Human Capital Index March 2014* (n.d.): n. pag. UCLA Anderson Forecast, Mar. 2014. Web. 19 Feb. 2015.
58. Author's calculations based on Zillow Median Rent Index. Median rent differs here based on differences in proprietary methods used by Zillow and Lovely. Lovely provides a citywide median, while Zillow provides a neighborhood-specific breakdown of rent prices going back to 2011.
59. Calculations based on analysis of Zillow Median Rental Price report.
60. LAMC Section 12.95.2(F)(6).
61. "Purposes and Uses of Zoning." *Chapter 3 The Objectives, Purposes and Nature of Zoning* (n.d.): n. pag.*Albemarle.org*. Albemarle County, VA. http://www.albemarle.org/upload/images/forms_center/departments/County_Attorney/forms/LUchapter03-purposesandnatureofzoning.pdf.
62. See: LAMC Sec. 12.10.
63. Analysis based on population and average household size. Census 2010.
64. Mapping L.A. population estimate and AirBnB Listing data.
65. Morenoff et al (2001) and Sampson et al (1997) as cited

in Urban Institute “Building Succesful Neighborhoods”. April 2012.
66. Alpert Reyes, *Mixed Signals on short-term rentals,* 2015.
67. Liptak, Adam. “Supreme Court Will Consider Police Searches of Hotel Registries.” *The New York Times*. The New York Times, 20 Oct. 2014. Web. 19 Feb. 2015. http://www.nytimes.com/2014/10/21/us/supreme-court-will-weigh-in-on-police-hotel-searches.html.
68. Orwoll, Mark. “Hyatt Cleans Up Its Act with New Hypoallergenic Rooms.” *Travel + Leisure*. Time, Inc., 13 Oct. 2010. Web. 19 Feb. 2015.
69. Mulligan, Brenden. “Dirty Pillows: The Unsolved Problems Of Sharing Services.” *TechCrunch*. AOL, Inc., 1 Apr. 2012. Web. 19 Feb. 2015.
70. Lawler, *AirBnB Homejoy* 2014.
71. Handy Cleaning Services Page. http://www.handy.com/bookings/new/services/3 Accessed 19 February 2015.
72. U.S. Department of Justice, Civil Rights Division, Disability Rights Section. *ADA Checklist for New Lodging Facilities* < http://www.ada.gov/hsurvey.htm> Accessed 19 February 2015.
73. AirBnB, Inc. Host Help Center A*DA and FHA Compliance* https://www.airbnb.com/help/article/898.
74. At the time of this report’s writing, the Cozmo had 15 units for rent through AirBnB.
75. Hilton Corporation. *Hilton San Diego Airport Accessible Rooms Amenities*. http://www.hiltonsandiegoairport.com/rooms-suites/accessible. Accessed 19 February 2015.
76. AirBnB Listing for a unit in the Cozmo Building. https://www.airbnb.com/rooms/81543. Accesed 19 February 2015.
77. Bergstein, Rachelle. “What Happens When You Get Bedbugs From an Airbnb Rental? It Isn’t Pretty.” *Yahoo Travel*. Yahoo, Inc., 23 Oct. 2014. Web. 19 Feb. 2015. https://www.yahoo.com/travel/what-happens-when-you-get-bedbugs-from-an-airbnb-100719834572.html.
78. Rosario, Frank, C.J. Sullivan, and Joe Tacopino. “Airbnb Renter Returns to ‘Overweight Orgy’” *New York Post*. New York Post, 17 Mar. 2014. Web. 19 Feb. 2015. http://nypost.com/2014/03/17/airbnb-renter-claims-he-returned-home-to-an-orgy/.
79. Eaton, Perry. “Airbnb.com Renter Throws New York Sex Party, Costs $67k+ in Damages.” *BDCwire*. The Boston Globe, 17 Mar. 2014. Web. 19 Feb. 2015. http://www.bdcwire.com/airbnb-com-renter-throws-new-york-sex-party-costs-67k-in-damages/.
80. Rosario, *Overweight Orgy,* 2014.
81. Joie de Vivre Hotels, *About Us*, http://www.jdvhotels.com/about/ .
82. Lawler, Ryan. “Airbnb Launches New Mobile Apps, Introduces ‘Host Home’ To Provide Smarter Tools For Managing Listings.” *TechCrunch*. AOL, Inc., 12 Nov. 2013. Web. 19 Feb. 2015.
83. Carr, Austin. “Inside Airbnb’s Grand Hotel Plans.” *Fast Company*. 2015 Mansueto Ventures, LLC, 17 Mar. 2014. Web. 19 Feb. 2015.
84. AirBnB, Inc, *AirBnB Host Help Center,* https://www.airbnb.com/help/article/414 . Accessed 19 February 2015
85. Bridges, Virginia. “Airbnb Hosts Run Risks Renting Rooms.” *Raleigh-Durham News Observer.* 12 Jan. 2015. Web. 19 Feb. 2015.
86. Bergstein *Bedbugs* 2014.
87. AirBnB,Inc.*AirBnB Host Guarantee* https://www.airbnb.com/terms/host_guarantee Accesed 19 February 2015.
88. Lieber, Ron. “A Liability Risk for Airbnb Hosts.” *The New York Times*. 05 Dec. 2014. Web. 19 Feb. 2015.
89. https://www.airbnb.com/terms/host_guarantee
90. Bort, Julie. “An Airbnb Guest Held A Huge Party In This New York Penthouse And Trashed It.” *Business Insider*. 18 Mar. 2014. Web. 19 Feb. 2015.
91. Peers Homesharing Liability Insurance, http://www.peers.org/product/homesharing-liability-insurance/#product_details Accessed 19 February 2015.
92. See: Appendix A.
93. Advancement Project. “Following the Money: Understanding Los Angeles City’s Finances and Impacting the Budget.” (2011) Advancement Project, 2011. Web. 19 Feb. 2015.
94. Wallace, Emily. “Los Angeles Tourism: A Domestic and International Analysis.” (2014): n. pag. *Lachamber.com*. Los Angeles Chamber of Commerce, May 2014. Web.
95. Kuh, Patrick. “The 75 Best Restaurants in L.A. - Los Angeles Magazine.” *Los Angeles Magazine*. 9 May 2014. Web. 19 Feb. 2015.
96. Graham emails. Conley interview.
97. Section 8(a) of Transient Lodging Tax Agreement Between AirBnB, Inc. and the City of Portland Revenue Bureau states that “Street addresses will not be provided on tax returns. The Bureau will test the

ongoing accuracy… on audit." And Seciton 8(b) states: "Generally, no personally identifiable information… will be provided about guests, hosts or listings. AirBnB's platform creates unique identifiers for guests, hosts, listings and reservations and these will be provided to satisfy document requests upon audit." https://www.documentcloud.org/documents/1223398-lodging-tax-agreement-between-airbnb-and-the.html. 9 June 2014.

98. Author's transcription of video posted at https://vimeo.com/115206496. Willamette Weekly.
99. Leis, Michelle. "Portland Airbnb Hosts Are Slow To Comply With Regulations On Short Term Rentals." Oregon Public Broadcasting, 12 Nov. 2014. Web. 19 Feb. 2015.
100. Hutchins, Ryan. "Airbnb Comes under Fire during 8-hour City Council Hearing | Capital New York."*Www.capitalnewyork.com*. Capital New York, 20 Jan. 2015. Web. 19 Feb. 2015.
101. Badger, Emily. "Airbnb Is about to Start Collecting Hotel Taxes in More Major Cities, including Washington."*Washington Post*. 29 Jan. 2015. Web. 19 Feb. 2015.
102. Spencer, Malia. "Airbnb Launches Shared City Initiative in Portland" *PDX BizPulse*. Portland Business Journal, 26 Mar. 2014. Web. 19 Feb. 2015.
103. Portland Zoning Code Sec. 33.207.
104. Transient Lodging Tax Agreement Between AirBnB, Inc. and the City of Portland Revenue Bureau. Published by the Porltand Oregonian at https://www.documentcloud.org/documents/1223398-lodging-tax-agreement-between-airbnb-and-the.html#document/p3/a167055 .
105. Njus, Elliot "Airbnb, Acting as Portland's Lodging Tax Collector, Won't Hand over Users' Names or Addresses."*Oregonlive*. The Portland Oregonian, 21 July 2014. Web. 19 Feb. 2015.
106. Theriault, Denis. "Nick Fish Balks at Allowing Short-Term Rentals in Apartments and Condos; the Expansion Still Passes." *Portland Mercury*. Portland Business Journal, 14 Jan. 2015. Web. 19 Feb. 2015.
107. Mesh, Aaron. "VIDEO: City Commissioner Nick Fish Berates Airbnb Lobbyist." *Willamette Weekly*. 22 Dec. 2014. Web. 19 Feb. 2015.
108. Portland, OR Zoning Code Sec. 33.207.
109. Mesh, *Nick Fish Berates,* 2014.
110. Said, Carolyn. "Supes Back 'Airbnb Law' to Allow Short-term Rentals, with Limits." *SFGate*. San Francisco Chronicle, 8 Oct. 2014. Web. 19 Feb. 2015.
111. Jones, Stevem T. "SF Supervisors Vote to Legalize and Regulate Airbnb's Short-term Rentals." *San Francisco Bay Guardian*. 7 Oct. 2014. Web. 19 Feb. 2015.
112. Said, Carolyn. "S.F. Airbnb Law Slowly Takes Effect While Challenges Continue." *SFGate*. San Francisco Chronicle, 3 Feb. 2015. Web. 19 Feb. 2015.
113. Marzorati, Guy. "Enforcement Issues Remain as San Francisco's Airbnb Law Takes Effect." *KQED News*. KQED, 2 Feb. 2015. Web. 19 Feb. 2015.
114. *Ibid.*
115. Hutchins, *AirBnB Under Fire,* 2015.
116. Barragan, Bianca. "West Hollywood Thinking About an Outright Ban on Airbnb." *Curbed LA*. Vox Media Inc, 4 Feb. 2015. Web. 19 Feb. 2015.
117. Stevens, Matt, and Martha Groves. "Malibu to Crack down on Short-term Rentals via AirBnB, Other Websites." *Los Angeles Times*. Los Angeles Times, 27 Mar. 2014. Web. 19 Feb. 2015.
118. Los Angeles City Council File # 14-0593.

A NEW ECONOMY FOR ALL

464 Lucas Ave. Suite 202, Los Angeles, CA 90017

www.laane.org

ATTACHMENT F

PLANETIZEN
BLOG POST
MICHAEL LEWYN

Airbnb and Affordable Housing

Tuesday, April 21, 2015 - 12:00pm PDT by MICHAEL LEWYN
Housing
Shane Adams / Source *Blogger*

Over the past few years, the growth of Airbnb.com has made it much easier for people to rent out rooms in their houses and apartments. Before Airbnb, a traveler who wanted an alternative to hotels (which tend to be (a) quite expensive or (b) located in desolate-looking suburban arterials), would most easily be able to find a room through a temporary listing on Craigslist. However, these travelers had no way of knowing anything about their hosts, and would-be hosts had no way of knowing anything about their renters. By contrast, Airbnb, by providing a forum for hosts to review guests and vice versa, does allow some screening to take place.*

However, Airbnb has become politically controversial in high-priced, regulation-obsessed cities like Los Angeles and New York. Hotels and hotel unions quite understandably see Airbnb as competition in the short-term lodging industry, and wish to regulate it intensively (if not to destroy it). One common anti-Airbnb argument** is that Airbnb, by making short-term lodging more affordable, actually reduces the supply of traditional apartments—that is, apartments leased for a month or more at a time). The argument runs as follows: units that are on Airbnb for a few days at a time would, in the absence of Airbnb, be rented out as traditional apartments. Thus, Airbnb reduces the housing supply and raises rents.

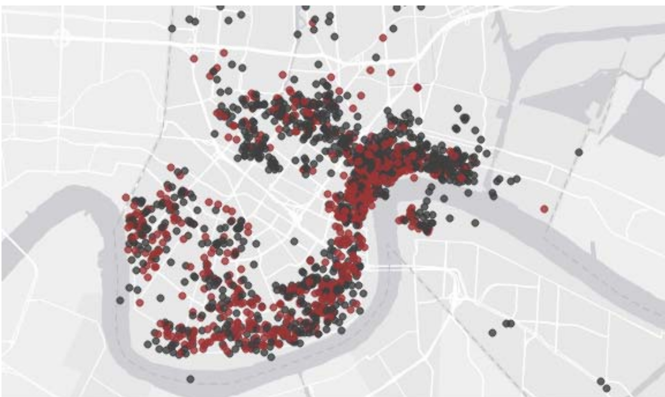
This argument rests on an essentially unprovable claim: that Airbnb units would otherwise be rented out as traditional apartments. More importantly, the argument proves too much. If Airbnb hosts reduce the supply of apartments by *not* using their houses and spare rooms as traditional apartments, why isn't this equally true of hotels who are *not* using their rooms as apartments, or homeowners who are *not* renting out every spare room? And if homeowners and hotels are reducing the rental housing supply, why shoudn’t they be forced to rent out their units as traditional apartments?

Finally, the argument rests on the assumption that Airbnb includes a significant share of the rental housing market. For example, LAANE (a union-affiliated policy organization based in Los Angeles) recently issued a report claiming that Airbnb takes ,7316 units off the Los Angeles rental market, which “is equivalent to seven years of affordable housing construction inLos Angeles." But since Los Angeles produces very little "affordable housing" (whatever that term means) this statistic proves nothing.

A better way of understanding Airbnb’s impact, if any, on rents is to compare it to the total number of housing units in Los Angeles. There are just over 1.2 million housing units in the city of Los Angeles; thus, Airbnb units are roughly 0.6 percent of the housing market. There are about 700,000 rental units in Los Angeles—so even if *every single* Airbnb unit would otherwise be part of the rental market, Airbnb units would comprise only 1 percent of the rental market. (I very much doubt that this is the case, if only because since some Airbnb units are in privately owned homes and not every part-time Airbnb landlord wants a permanent roommate). Thus, it seems to me that even if every single Airbnb unit would be used as traditional apartments in the absence of Airbnb, its impact on regional housing markets would be small.

Attachment G

MIT professor skeptical of Airbnb's impact on New Orleans housing prices



A map shows the approximate location of short-term rentals listed on Airbnb and HomeAway. The map was released as part of NolaRentalReport.com, a data analysis produced by New Orleans residents concerned that short-term rentals are pushing up rent.

By Robert McClendon, NOLA.com | The Times-Picayune

on September 22, 2015 at 9:24 AM,

updated September 22, 2015 at 9:45 AM

When a trio of New Orleans residents this month released the NOLA Rental Report, a locally produced analysis of Airbnb-style rentals in the city, many readers were struck by its map, which showed clusters of likely illegal vacation listings in neighborhoods where housing prices were either already sky high or headed rapidly in that direction.

The central conclusion drawn by the report's authors, Andru Okun, Breonne DeDecker and Darin Acosta: Short-term rentals are to blame for a significant share of those increases. By siphoning off housing supply that could be occupied by long-term tenants, short-term rentals drive up costs, they argued.

Albert Saiz, a real estate economist at the Massachusetts Institute of Technology, said that's a simplistic understanding of housing markets. The assumption underpinning the report's conclusion — short-term rentals eat up supply — is flawed, he said.

Every unit offered up short-term does not represent the loss of a unit that would otherwise be occupied by a local tenant, Saiz said. Homeowners who have no interest in renting long term might decide to relocate and rent short term because of the money to be made.

Units that were vacant or blighted may have been redeveloped expressly for use as short-term rentals. Landlords may rent short term when they are between long-term tenants or while waiting to perform repairs, he added.

Furthermore, Saiz said, the supply of housing is not static. Real estate investment is self-reinforcing. An influx of investment, even if it's for short-term rentals, will draw in the development of more housing, some of which will inevitably be dedicated to long-term tenants, Saiz said.

Saiz said it's natural to assume that, if short-term rentals are clustered in neighborhoods with high or rapidly increasing housing costs, that short-term rentals are to blame. But correlation is not causation. Cities and neighborhoods that are desirable to tourists are also likely to be desirable to residents, he said.

If housing prices are rising rapidly in certain New Orleans neighborhoods, it's probably because that's where people want to live, Saiz said.

DeDecker defended her and her partners' work on the NOLA Rental Report.

"The underlying question is not how Airbnb is affecting the overall housing market of New Orleans, but how it is affecting the poor working class of New Orleans. If the value of homes is rising because of Airbnb without an equivalent rise in wages, who benefits," DeDecker said. "While it may bring more money to the municipality, and may cause more housing to be built, it won't positively impact poor people if the units are unaffordable. Municipal policies should be based on how they improve the lives of those currently living in the city, especially those who are struggling the most."

Saiz, while well credentialed, is still only one economist, and his views shouldn't be seen as representative of academic consensus, she said.

Saiz was careful to say short-term rentals can drive up costs, but only where concentrations are high enough to devour any slack in the housing market. At some point, when there are no more available units to add to the supply, high concentrations of short-term rentals could affect housing costs locally, he said.

A clue that this is happening would be very low levels of what's called "homeowner vacancy," essentially the number of vacant housing units up for sale," Saiz said. When homeowner vacancy is low, that's a signal that there's no more slack left in the housing stock. Buyers drive up prices and that pushes up rents.

If there are high concentrations of short-term rentals in neighborhoods with very low homeowner vacancies, then it would be reasonable to assume that they are playing a significant role in high housing costs, Saiz said.

Unfortunately, measuring that data on the neighborhood level is difficult.

Take Faubourg Marigny and Bywater, two of the neighborhoods where short-term rentals are highly concentrated. Using data from Zilyo, a third-party rental aggregator that pulls listings from HomeAway and Airbnb, the NOLA Rental Report recently showed about 300 listings in around those neighborhoods. That number can only be considered a rough estimate.

There are a dozen or more websites that post short-term rentals. The report is based on data from only two of them, albeit two of the largest sites in the industry. And there's evidence Zilyo may not be posting all of Airbnb's listings, resulting in an artificially low number of overall listings in the NOLA Rental Report.

A data scrape by New York software engineer Murray Cox, made directly from Airbnb's site, found more than twice as many listings in New Orleans than the NOLA Rental Report.

On the other hand, it's not uncommon for people to post their property on more than one platform, so it's likely that some of the listings in the NOLA Rental Report are duplicates, units whose owners listed on HomeAway and Airbnb.

If it all the listings on NOLA Rental Report are discrete, whole-home rentals, they would make up about 6.5 percent of the housing units in Marigny and Bywater, according to the housing stock estimates The Data Center produced.

At that rate, Saiz said, the homeowner vacancy rate would have to be near zero in order for the short-term rentals to have a serious impact on housing prices.

Again, useful data is hard to come by. The U.S. Census Bureau's yearly survey reports, based on small sample sizes, become erratic when viewed by neighborhood. The most reliable source for homeowner vacancy on the micro level, the Census Bureau's decennial report, though, shows the market was already relatively tight even five years ago, before the excesses of the downtown real estate boom had set in.

In 2010, homeowner vacancy ranged from about 2 percent in the trendiest part of Faubourg Marigny to more than 7 percent in Bywater.

The Department of Housing and Urban Development keeps more recent vacancy data, but it is less useful as it lumps all vacancies into one pot without distinction between those that are slated to be rented, those that are up for sale or those that are simply abandoned.

That data, current as of this year, shows vacancy rates of between 3.4 percent in the trendiest part of Faubourg Marigny to about 14 percent in Bywater.

"It just doesn't appear that there's any evidence Airbnb is driving prices," Saiz said. Still, a rigorous study of short-term rental density and housing prices over time would be the only way to accurately measure the impact of Airbnb and other listing sites on housing affordability, he said.

To date, there hasn't been much, if any, scholarly work in that regard, the economist said.

Okun, one of the NOLA Rental Report authors, said Airbnb and other listing companies are exploiting their monopoly on the data to prevent such a study from happening. After the NOLA Rental Report was released, Airbnb dismissed it as inaccurate and released a handful of statistics aimed at reinforcing the company's dominant marketing narrative: Most of its hosts are average people renting out property part time, not fly-by-night hoteliers.

"If this isn't making such a negative impact, why not make that clear? Why not release the data, if it shows the opposite of what we are saying?" Okun said. "The fact of the matter is that nobody actually knows what the market looks like exactly because these companies keep their data private.

"Until that changes, we can say one thing, and (Saiz) can say one thing, and nobody actually knows for sure. That's a huge problem when you are trying to plan for an affordable and accessible housing market."

Attachment H

REPORT: Housing & The Airbnb Community in the City of Los Angeles

September 2015 |Airbnb

0 - EXECUTIVE SUMMARY

- **Most entire home listings are rented only occasionally.** 92 percent of Airbnb entire home listings are rented on a short-term basis for less than six months months of the year. In fact, 80 percent of entire home listings are rented less than 90 nights per year. Entire home listings do not represent housing units taken off the market, but rather the homes of regular citizens that are rented during the resident's vacation, work assignment, or other temporary absence.
- According to our analysis, a housing unit in the City of Los Angeles would need to be rented **more than 177 nights annually on a short-term basis** in order to make it financially beneficial to convert from a long-term rental to a short-term rental. Although the *average* break even point in the City of Los Angeles is 177 days, in the neighborhoods where Airbnb is most popular, the break even point is typically higher - for example, in Venice, Hollywood, and Echo Park, a housing unit would need to be rented more than 220 nights annually to make it financially beneficial to convert from a long-term rental to a short-term rental.
- Only **0.05 percent of all housing units** in the City of Los Angeles are rented more than 177 days on a short-term basis via Airbnb[1]
- Similarly, **less than 1 percent of vacant housing units[2]** in the City of Los Angeles are rented more than 177 days on a short-term basis via Airbnb.
- From 2005 to 2013 the **vacancy rate in Los Angeles has remained essentially unchanged**, further underscoring that the Airbnb community has no material impact on housing availability in the City of Los Angeles. If landlords were converting long-term housing into short-term rentals, this number would have increased.
- Asserting that the decades-long challenge of affordable housing is the result of a couple thousand middle class families sharing the home in which they live does a disservice to the broader problem. We look forward to working with everyone on smart, fair rules for home sharing.

1 - INTRODUCTION

For thousands of Angelenos, home sharing is an economic lifeline that makes it possible for long-time residents to pay the bills, make ends meet, and stay in the city they love. As detailed in **TABLE 1**, more than 80 percent of hosts in the City of Los Angeles (hereafter: Los Angeles[3]) share only the home in which they live and 70 percent use part of that money to pay their mortgage or rent. Across Los Angeles, the typical host[4] makes approximately $525 each month sharing their home through Airbnb.

[1] This analysis calculates all units across the city that are rented for more than 177 nights per year, to be conservative. If, instead, the analysis calculated all units per neighborhood that were rented for more than the neighborhood-specific break even point, the percentage would drop to 0.038% of all housing units.

[2] According to most recent data available through the American Community Survey, in 2013 there were an estimated 101,408 vacant units in Los Angeles (Selected Housing Characteristics, 2009-2013 American Community Survey 5-Year Estimates)

[3] All analysis in this report pertains to the City of Los Angeles, unless otherwise noted. All references to Los Angeles, unless otherwise noted, denote the City of Los Angeles.

[4] The typical host is the median host who has had an Airbnb listing for at least a year (based on a study period of August 1, 2014 through July 31, 2015).

TABLE 1 - Airbnb hosting data for Los Angeles

Typical Host Earnings[5] [Annually][6]	Typical Nights Hosted [Annually]	Hosts Using Earnings to Pay Rent/Mortgage[7]	Hosts Sharing Primary Residence[8]
$6,300	59	70%	82%

Many home sharing opponents continue to make inaccurate statements about our community and our impact in Los Angeles. Opponents have asserted that Airbnb is removing 'thousands of housing units' from the rental market, a statement that is both baseless and mathematically impossible.

Moreover, the United States Census Bureau tracks the number of vacant units in Los Angeles, and includes in that number any vacation rentals not occupied by permanent residents. If, as opponents claim, thousands of units had been removed from the market by Airbnb hosts, this would be reflected in Census data. However, in 2013, the number of vacant units dropped to 2006/2007 levels.[9] Furthermore, between 2005 (three years before Airbnb existed) and 2013 (the most recent data available) the proportion of vacation rentals not occupied by permanent residents in Los Angeles is largely unchanged. [10]

While interest groups have made their own conclusions about our community, we believe that a fair debate also requires a fair depiction of our community.

2 - AIRBNB HOUSING ANALYSIS

Although reports have been written about the impact of the Airbnb community on housing in Los Angeles, none is comprehensive enough to fully understand the impact of our community in Los Angeles. Our team of data scientists analyzed Airbnb proprietary data, publicly available census and community survey data, as well as third-party data to comprehensively understand the impact of the Airbnb community on housing in Los Angeles.

Home sharing opponents have claimed that entire home listings represent a loss of housing to the long-term tenant of Los Angeles. According to our booking data (**TABLE 2**), most entire home listings (55 percent) are short-term rented for less than 30 nights per year. In fact, 80 percent of entire home listings are rented less than 90 nights per year, with less than 10 percent rented more than 6 months of the year. These statistics do not support the assertion that entire home listings on Airbnb are full-time vacation rentals; rather, these statistics indicate that hosts are renting their homes while they are temporarily away (e.g. on vacation, on work assignment, etc.).

[5] *Typical Host Earnings* and *Typical Nights Hosted* are the median earning and nights hosted values across all hosts who have had an Airbnb listing for at least a year, and had at least one booking during the study period (August 1, 2014 through July 31, 2015)..

[6] Average host earnings presented here includes cleaning fees.

[7] Based on data from an email survey of Los Angeles hosts who hosted guests between May 2013 and April 2014.

[8] Based on data from an email survey of Los Angeles hosts who hosted guests between May 2013 and April 2014.

[9] Based on data from the Los Angeles Selected Housing Characteristics, American Community Survey 1-Year Estimates, for the years 2005 through 2013.

[10] Between 2005 and 2013, vacation rentals not occupied by permanent residents remains a steady 7 to 8 percent of all vacant units. Based on data from the City of Los Angeles American Community Survey, Vacancy Status (Table B25004) for the years 2005 through 2013.

TABLE 2 - Hosting frequency data for entire home listings on Airbnb[11]

Number of Nights Hosted [Annually]	**Percent of Airbnb Listings in the City of Los Angeles [cumulative]**	**Number of Entire Home Airbnb Listings**[12] **[non-cumulative]**
Less than 30	55%	5,400
Less than 60	72%	1,600
Less than 90	80%	840
Less than 120	86%	550
Less than 180	92%	650
More than 180	8%	760

To further assess whether entire home listings on Airbnb threaten the long-term tenant market of Los Angeles, our team has undertaken an analysis of the financial incentive to convert long-term housing into short-term rentals. The analysis includes the following inputs:

- **Long-Term Rental Income:** Using data from Rent Jungle, we built a snapshot of the market in Los Angeles, both holistically and by neighborhood (refer to **TABLE 5**).
- **Short-Term Rental Income:** To calculate this table, we looked at the average host income for all entire apartment listings that were booked from August 1, 2014 through July 31, 2015. The nightly cost represents the total host earnings for the Airbnb stay, excluding any fees that the host pays out to third parties.[13]
- **Discounts/Adjustments:** For a short-term host, operating costs tend to be higher than for a long-term landlord. Short-term hosts may be responsible for the cost of furniture, while a long-term landlord may not be. Coordinating short-term stays with multiple guests and cleaning schedules is typically more time-consuming than contracting with a single long-term tenant. Short-term rental income can be variable and uncertain, while long-term rental income is stable and largely guaranteed for the lease period. However, since it is impossible to know how one host or landlord spends money on upkeep, utilities, insurance, furniture, or otherwise, we do not include any assumptions about discounts or adjustments in our calculations.

According to our analysis in **TABLE 3**, at market rent, the typical unit of housing in Los Angeles would need to be rented more than 177 nights annually on a short-term basis in order to outcompete a long-term rental. More importantly, the quantity of Airbnb listings exceeding this cap represents just 0.98 percent of all vacant units in Los Angeles and just 0.05 percent of all housing units in Los Angeles.

TABLE 3 - Airbnb-calculated break even by unit type

	Days to Break-Even	**Units as % of all booked Airbnb listings in cohort**	**Units as % of all housing units**	**Units as % of all vacant units**[14]
Entire City, All Bedrooms	177	7.9%	0.050%	0.98%

Although the *average* break even point in the City of Los Angeles is 177 days, in the neighborhoods where Airbnb is most common[15], the break even point is typically higher. According to our analysis in **TABLE 4**, the break even point across

11 Based on bookings data of short-term rentals (rentals of less than 30 days) for the City of Los Angeles between August 1, 2014 and July 31, 2015.

12 Based on bookings of entire home listings from the City of Los Angeles between August 1, 2014 and July 31, 2015. Numbers rounded to the nearest ten or hundred.

13 The nightly cost includes the per-night cost and any additional fees collected by the host, including extra person fees, but excludes host and guest fees as well as cleaning fees, as this money is often passed on to a third party.

14 See definition of *Vacant units* above.

neighborhoods with more than 50 entire home Airbnb listings varies from 101 nights in Laurel Canyon to 321 nights in Del Rey. As noted earlier in this study, the typical host[16] in Los Angeles shares their space 59 nights per year and makes a little less than $6,300 doing so, further debunking the myth that our community is 'removing thousands of units' from the housing market as home sharing opponents have falsely stated time and again.

As shown in **TABLE 4**, in most neighborhoods, very few listings are rented frequently enough to outcompete the long-term rental market. In every neighborhood, less than half a percent of all the housing units are rented on Airbnb frequently enough to incentivize converting that unit from a long-term rental to a short-term rental.

TABLE 4 - Airbnb-calculated break even by neighborhood

Neighborhood	Monthly Rent [Rent Jungle][17]	Avg. Nightly Host Earnings	Days of STR to Equal Long-Term Rental (LRT) Income	Entire Home Units Rented above STR - LTR Break Even Point, As a Percent of All Housing Units in the Neighborhood[18]
Entire City, All Bedrooms	$2,296	$155	177	0.05%[19]
Del Rey	$3,165	$118	321	0.00%
Brentwood	$3,539	$149	286	n/a
Westside	$3,342	$141	284	0.03%
West Los Angeles	$2,867	$141	245	0.01%
East Hollywood	$2,274	$114	238	0.02%
Westwood	$3,037	$155	235	0.01%
South Robertson	$2,613	$134	234	0.02%
Atwater Village	$2,384	$124	231	0.13%
Westlake	$2,453	$128	230	0.10%
Hollywood	$2,437	$130	225	0.27%
Venice	$3,624	$193	225	0.48%
Sherman Oaks	$2,652	$142	225	0.00%
Echo Park	$2,263	$122	223	0.15%
Mar Vista	$2,473	$135	220	0.05%
Mount Washington	$1,894	$104	219	n/a
Eagle Rock	$1,766	$97	219	0.03%
Highland Park	$1,909	$105	218	0.02%
North Hollywood	$1,686	$98	206	0.02%
Pacific Palisades	$5,106	$304	202	n/a
Mid-City West	$2,892	$174	199	0.02%
Westchester/Playa Del Rey	$2,908	$177	197	0.01%
Mid-City	$1,981	$122	195	0.20%
Los Feliz	$2,145	$136	189	n/a

15 Only neighborhoods with 50 or more entire home Airbnb listings were analyzed.

16 The typical host is the median host who has had an Airbnb listing for at least a year (based on a study period of August 1, 2014 through July 31, 2015).

17 Rent Jungle data for Los Angeles based on the most recently available May 2015 data by neighborhood. Data accessed August 17, 2015. (http://webcache.googleusercontent.com/search?q=cache:https://www.rentjungle.com/average-rent-in-los-angeles-rent-trends)

18 Based on data from the City of Los Angeles 5-Year (2009-2013) American Community Survey, Housing Units (Table B25001); percentages rounded to the nearest hundredth. Where housing data was not available for a particular neighborhood, n/a denotes not available.

19 This analysis calculates all units across the city that are rented for more than 177 nights per year, to be conservative. If, instead, the analysis calculated all units per neighborhood that were rented for more than the neighborhood-specific break even point, the percentage would drop to 0.038% of all housing units.

Mid-Wilshire	$2,259	$145	187	n/a
Silver Lake	$2,253	$150	180	0.15%
Hollywood Hills	$2,821	$190	178	0.21%
Woodland Hills/Warner Center	$2,230	$151	177	0.00%
Palms	$2,364	$172	165	0.01%
Studio City	$2,303	$173	160	0.03%
Downtown	$2,069	$165	150	0.18%
Arts District	$2,037	$169	145	n/a
Cahuenga Pass	$2,437	$215	136	n/a
Bel Air/Beverly Crest	$3,991	$465	103	0.09%
Laurel Canyon	$2,821	$335	101	n/a

As the table above (**TABLE 4**) illustrates, most Airbnb hosts are ***not*** renting their entire unit listings at a rate that incentivizes taking the listing off the market.

Furthermore, Airbnb hosts sharing their homes with guests are not responsible for dramatic housing price increases in Los Angeles. Housing prices in Los Angeles have been increasing since the 1990's, well before Airbnb was established in 2008. Housing prices, in part, indicate the desirability of the neighborhood: that is, desirable neighborhoods see increases in housing prices. Desirable neighborhoods also attract visitors, which may trigger residents to open their homes to guests via Airbnb. In this way, Airbnb listings are an indication of a desirable neighborhood and increasing housing prices - ***not*** the other way around.

Zoning policies, employment patterns, public investment, economic health, and a number of other underlying factors also contribute to changes in housing prices. These drivers of housing prices are complex and multifactorial, and not particularly responsive to a small-scale, immediate-term resident behaviour like the rental of a handful of units in several neighborhoods for more than 177 days per year. Asserting that the rental of 0.05 percent of Los Angeles housing units for more than 177 days per year is a significant driver of housing prices is a misunderstanding of housing market dynamics.

3 - CONCLUSION

Many Airbnb hosts are middle class residents who share their homes to pay the bills. Meanwhile, Airbnb guests generate sustainable, local economic activity that supports small businesses. Time and again, home sharing opponents have attempted to misrepresent data to mislead Angelenos about an important issue that predated Airbnb's existence. According to this analysis, a unit would need to be booked 177 nights per year -- more than double the number of nights the typical host is currently sharing their space -- in order to outcompete a long-term rental. As we note in our analysis, entire unit listings currently booked more than 177 nights per year represent a non-material portion of the current vacant housing stock, and only a small percentage of Airbnb listings. By and large, Airbnb hosts are ***not*** renting their listings at a rate that incentivizes taking the listing off the market.

Asserting that the decades-long challenge of affordable housing is the result of a few thousand middle class families sharing the home in which they live does a disservice to the broader problem. Housing affordability is a challenge, and one that affects all of us, and deserves real policy solutions.

Understanding the impacts of home sharing is, undoubtedly, challenging. The comprehensive profile outlined in this report underscores what we have always known: as Los Angeles has become more and more expensive, home sharing has been the one thing making it possible for thousands of middle class families to stay in the city they love.

4 - APPENDIX

4.a - Methodology

Average nightly earnings is calculated as total host earnings for nights associated with rentals of fewer than 30 nights divided by the number of nights rented during the 12 month period cited. The nightly earnings includes the listing price plus the cost of any additional guests and excludes host and guest fees, taxes and cleaning fees. The framework is meant to reflect the total host revenue, which is comparable to rent collected by landlords.

Unless otherwise noted, all data presented in this memo is based on Airbnb bookings and listings data and Airbnb surveys of hosts and guests in the City of Los Angeles.

4.b Additional Figures

TABLE 5 - RentJungle Data by Neighborhood

Neighborhood	Monthly Rent [Rent Jungle][20]	Notes
Entire City, All Bedrooms	$2,296	-
Arleta	$1,586	-
Arts District	$2,037	Average rent of RentJungle data for Little Tokyo and Downtown
Atwater Village	$2,384	-
Baldwin Hills	$1,574	Average rent of RentJungle data for Crenshaw
Bel Air/Beverly Crest	$3,991	Average rent of RentJungle data for Bel Air
Boyle Heights	$1,468	-
Brentwood	$3,539	-
Cahuenga Pass	$2,437	Average rent of RentJungle data for Hollywood
Canoga Park	$1,836	-
Chatsworth	$1,794	-
Cypress Park	$1,720	-
Del Rey	$3,165	Average rent of RentJungle data for Venice and Westchester
Downtown	$2,069	-
Eagle Rock	$1,766	-
East Hollywood	$2,274	Average rent of RentJungle data for Los Feliz, Silver Lake, Mid Wilshire, and Hollywood
Echo Park	$2,263	-
El Sereno	$1,792	-
Elysian Valley	$2,160	Average rent of RentJungle data for Atwater Village, Glassell Park, Cypress Park, Echo Park, and Silver Lake
Encino	$2,260	-
Glassell Park	$2,181	-
Glendale	$2,785	-
Granada Hills North	$1,810	Average rent of RentJungle data for Granada Hills
Harbor City	$1,779	-
Habor Getaway	$1,637	-

[20] Rent Jungle data for Los Angeles based on the most recently available May 2015 data by neighborhood. Data accessed August 17, 2015. (http://webcache.googleusercontent.com/search?q=cache:https://www.rentjungle.com/average-rent-in-los-angeles-rent-trends)

Hermon	$1,909	Average rent of RentJungle data for Highland Park
Highland Park	$1,909	-
Hollywood	$2,437	-
Hollywood Hills	$2,821	-
Lake Balboa	$1,714	Average rent of RentJungle data for Northridge, Reseda, and Van Nuys
Laurel Canyon	$2,821	Average rent of RentJungle data for Hollywood Hills

Attachment I

State of California • Natural Resources Agency
Department of Conservation
Division of Land Resource Protection
801 K Street • MS 18-01
Sacramento, CA 95814
(916) 324-0850 • FAX (916) 327-3430

Edmund G. Brown Jr., *Governor*
John M. Lowrie, *Assistant Director*

November 18, 2015

VIA EMAIL: GRUSSELL@CO.SANTA-BARBARA.CA.US
Mr. Glenn S. Russell, PhD., RPA
Director, Planning and Development
President California County Planning Directors Association
County of Santa Barbara
123 Anapamu Street
Santa Barbara, CA 93101-2030

Dear Mr. Russell:

SHORT TERM "VACATION RENTALS" AS COMPATIBLE USE ON WILLIAMSON ACT CONTRACTED LAND

Santa Barbara County (County) has asked the Department of Conservation (Department) to comment on the issue of vacation rentals as a "compatible use" on land restricted under Williamson Act contracts. Specifically the request is in regard to renting of the main dwelling on an agricultural property. The Department offers the following discussion on compatible use as it relates to the Williamson Act.

In recent years there have been expanding opportunities for farmers and ranchers to utilize their land for adjunct non-agricultural commercial uses, as a means of broadening their income base. These uses are typically in addition to their agricultural and open-space uses. While some of these opportunities may be compatible with agricultural and open space use of the land, many proposed uses have the potential to displace or impair the property's agricultural productivity or open space character. The County's concern with short term vacation rentals is an example of one of the recent issues regarding compatible uses on Williamson Act contracted lands.

In summary, a use is compatible with a Williamson Act contract only if it does not compromise, displace or impair the agricultural use of the land or otherwise interfere with the land's devotion to agricultural use. However, the Williamson Act affords cities, counties and landowners latitude in determining whether a use is compatible with Williamson Act contracted land. Consequently, determining compatibility is a highly fact-specific analysis that encompasses a variety of factors.

Government Code § 51242 enables local governments to enter into Williamson Act contracts on land that is devoted to agricultural use and located in an area designated as an agricultural preserve. In return, restricted parcels are assessed for property tax purposes at a rate consistent with their actual agricultural and/or open space use, as opposed to potential market value. Because the Williamson Act provides a preferential tax assessment on contracted land in exchange for limiting the land to agricultural uses, any use other than the agricultural or open space use for which the property was placed under contract must be found to be compatible.

Typically, compatible uses are divided between activities that are clearly related to agricultural operations (such as vineyards or animal grazing), and those that require a special use permit (such as permanent roadside stands or wine tasting venues). The latter examples promote the sale of agricultural products produced on-site (such as wine and cheese), and are commonly termed 'agritourism'. The potential of an educational opportunity for consumers regarding where their food and fiber comes from may exist if agritourism uses are executed with sensitivity.

The Department supports the activities of an agribusiness venture on land under a Williamson Act contract as long as the marketing events support and promote the agriculture commodity being grown on the premises. Once events begin to overtake the main venture, or feature products not produced on the property, they no longer reflect the agricultural intent of the Williamson Act and become incompatible with the statute.

The level of discretion that counties have in regard to agritourism on Williamson Act enrolled land has not been settled and remains open to interpretation. The Department takes a conservative approach, recommending partial nonrenewal for land that would house the infrastructure hosting large events or those where questions regarding the source of the items for sale could occur. This would distinguish that the tax benefits to the landowner for the production of food or fiber, and the conservation of agricultural land, are not extended to uses that could occur in nonagricultural settings.

In regard to the exclusive use of a principle residence as a "vacation rental," the Department's interpretation of compatible use is reflected in Santa Barbara County's Uniform Rules for Agricultural Preserves and Farmland Security Zones, where it states:

Uniform Rule 2: Compatible Uses within Agricultural Preserves

> Land enrolled in the Agricultural Preserve Program is to be used principally for commercial agricultural production, with the exception of land enrolled for open space or recreational purposes. However, the Board recognizes that it may be appropriate to allow secondary uses on contracted land that are either incidental to, or supportive of, the agricultural operation on the property. This Rule provides guidance and criteria for evaluating these uses on land under Williamson Act and Farmland Security Zone contracts in terms of their compatibility and consistency with the purpose and intent of the Williamson Act. It is the goal of this County that, through application of the principles of compatibility in the Act, compatible uses allowed on contracted land will be beneficial to and inherently related to the agricultural use of the land.

In 1999 the Legislature spoke to the limitations upon compatible uses. In un-codified language adopted in Chapter 1018 of the statutes of 1999, the Legislature declared: "The latitude provided by the Williamson Act to participating local governments is not, and has never been, so great as to make uses that are not inherently related to, or beneficial to, the agricultural or open-space character of contracted land permissible under the compatible use provisions of the Williamson Act."

<u>Department Recommendations and Conclusions</u>

The Department recommends that any short term vacation rentals of the principle residence be limited in scope, and be allowable only if the landowner is on site to manage the agricultural operations. Short term rentals, with examples such as Airbnb[1] or VRBO[2], take on a number of forms, including partial and full house rentals. A limited use arrangement would be analogous to a bed and breakfast, with the renter having a specified footprint within the house. The overall number of days that the rental can occur should be restricted so as to ensure it remains incidental to the agricultural uses on the property.

The Department cautions that if the primary residence is rented for most or all of the year, the connection between its use and the agricultural operation is lessened to the point that a determination of compatibility is highly unlikely. Although the landowner could file for nonrenewal or partial cancellation for the portion of the property where the residence is located, that outcome may open the door for landowners to request additional conditional uses that future diverge from the surrounding agricultural operation. For this reason, the Department recommends that any allowance for vacation rental of the primary residence remain limited in scope and duration.

Thank you for giving us the opportunity to comment on compatible use as it relates to the Williamson Act. Please provide this Department with notices of any future hearing dates as well as any staff reports pertaining to this project. If you have any questions regarding our comments, please contact Farl Grundy, Environmental Planner at (916) 324-7347 or via email at Farl.Grundy@conservation.ca.gov.

Sincerely,

Molly A. Penberth

Molly A. Penberth, Manager
Division of Land Resource Protection
Conservation Support Unit

---

[1] www.airbnb.com
[2] http://www.vrbo.com/