

## Daly, Julia Rutherford

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**From:** Kathleen Weinheimer <kathleenweinheimer@cox.net>  
**Sent:** Wednesday, May 31, 2017 9:44 PM  
**To:** sbcob  
**Subject:** June 6 Board of Supervisors' Agenda: Short Term Rentals  
**Attachments:** Scan0201.pdf

To the Clerk of the Board,

Please include the attached report from Lea Associates in the packet of materials for the Board's consideration in connection with the short term rental item on the June 6, 2017 Board agenda.

Thank you.

Kathleen M. Weinheimer  
Attorney At Law

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May 31, 2017

Kathleen Weinheimer, Esq.  
420 Alameda Padre Serra  
Santa Barbara, California 93103

Re: Consulting Report:  
In Response to Report Titled: Short-Term  
Rentals vs. Long-Term Rentals, etc.,

Our Job No. 4848

Dear Ms. Weinheimer:

At your request and in accordance with our agreement, I have undertaken a reading of the report which you forwarded to me titled:

*Short-Term Rentals vs. Long-Term Rentals and the effect on Housing Supply and Quantity of Short-Term Rentals: The Real Estate Economics for Santa Barbara County*

The following are my comments on issues which my reading of the report revealed.

#### **Lack of Supportive Data**

Many numeric estimates and arithmetic calculations are provided under the headers Investor Analysis #1 and Investor Analysis #2. Crucially, no supportive data whatsoever is provided for any of the numbers or calculations.

In Investor Analysis #1, the author goes through a stream of calculations to show that the "effective net rent" for short-term rentals is lower than that for long-term rentals. But what data supports the numeric inputs? For example, under the short-term rental scenario, increasing occupancy by 10% would have the impact of increasing the effective net rental for short-term rentals to equivalency with the long-term rental rate. While it is possible that the author's numbers have some credence, the lack of any supporting data makes the conclusions, in my judgment, a poor basis for any decision-making.

#### **Investor Analysis #1 – Numerical Example**

The introduction to the example is framed in terms of a "typical two bedroom decent condition well located unit (apartment or small home) in Santa Barbara County". In my experience, within the same neighborhood, an apartment unit and single-family residence of the same size will not generate the same rent or the same expenses.

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### **Investor Analysis #2 – Return on Investment**

Again, there is no data basis for the stated rates of return/capitalization rates for residences or for other property types.

The author suggests that "The notion is absurd that investors are buying single-family homes in Santa Barbara County for purposes of renting them as short-term rentals only." In the discussion that follows, there is a crucial lapse. The author does not consider the prospect of the substantial motivation to an investor of purchasing a home and renting it for short-term periods with the prospect of enjoying a return generated by price increases for residences. The complete picture of an investor return is not solely represented by the annual return on investment but by the total returns at sale from both the income stream and price appreciation.

### **CONCLUSIONS**

Due primarily to the lack of data support for the numeric examples and calculations in the report, it appears to be a poor basis for decision-making. The author could have or indeed my firm or many others could actually perform studies to provide support for or refute the claims in the report. It appears that none has been undertaken.

I hope that this information provides you with assistance in your comprehension of the submitted report document (attached as addenda). If you have any further questions, please call and we will respond immediately.

Respectfully submitted,

LEA ASSOCIATES, INC.



Robert M. Lea, MAI  
CA # AG003090

RML:cr

## ROBERT M. LEA, MAI

### EXPERIENCE

**Lea Associates, Inc., 1976 - Present;** Chairman of the Board and President of the firm, providing varied services in real estate consulting including appraisal, analysis, market studies, demand and financial feasibility analysis.

Recent assignments have included the following:

- The valuation of over 100 properties, primarily partial acquisitions, to accommodate the construction of an electric power transmission line;
- Consulting assignment to provide insights into some of the issues that faced our client, the Don Bosco Technical Institute and whether its Board should pursue the concept of sale of portions of their property. Our report contained two major divisions: the division of the property and marketing and sale issues.
- A study concerning assessments versus market trends in the West Contra Costa Unified School District (WCCUSD) and City of Concord areas. We were provided Assessor's data for parcels within the WCCUSD area and the City of Concord for the 2009/2010 to 2013/2014 years (5 years). Our task was to design and carry out a study to measure changes in the assessed values for various property types receiving assessment reductions against changes in price levels in the marketplace over the same period, analyze the results and report to our client.
- Received an assignment and provided an appraisal for acquisition purposes of a 2,500 acre fully entitled solar power generating site near Mohave, California. A 250 Megawatt PV solar project was contemplated for the site;
- Lea Associates was retained by the lessees/homeowners of approximately 50 sites on the beachfront in Ventura County. The analysis required market value opinions for the home sites, as well as market rent estimates for rent resetting under the terms of a long-term ground lease. Testimony in arbitration followed.
- An assignment to provide the valuation for a private pipeline easement to be acquired from an Arizona municipality. The appraisal in this case was utilized in negotiations relative to an existing petroleum product pipeline.

Mr. Lea is a state certified instructor of an in-house developed course, Practical Aspects of Real Estate Appraisal, which is accredited by the state for 15 hours of basic or continuing education.

**Donahue and Company, Inc., 1972-1976;** Mr. Lea, a director and officer of the firm, directed operations of the company's regional offices in Inglewood, California. Mr. Lea held the responsibility for the completion of all types of real estate appraisal and analysis assignments and served as a consultant to public and private clients in real estate matters.

**El Camino College, 1974 - 1975;** Mr. Lea served as an instructor of real estate appraisal at El Camino College, Torrance, California.

**R. H. Flavell and Associates, 1965 - 1972;** Senior Appraiser completing appraisal assignments on virtually all types of property. Work was undertaken on both company contracts and independent assignments. Purpose of appraisal assignments included: to determine just compensation in eminent domain matters (including full and partial fee takings and various easement takings), to establish purchase or sale price to serve as a basis for financing, to determine market value for taxation purposes, and to assist in the settlement of domestic relations matters, estate distribution, etc. Served in a supervisory or management capacity on numerous large appraisal assignments.

#### **EDUCATION**

Continuous participation in classes and seminars in pertinent study areas.

Successfully completed examination for the State of California for Certified General Real Estate Appraiser, January 7, 1992.

Successfully completed examination for the Standards of Professional Practice Course, American Institute of Real Estate Appraisers, 1985, 1991.

University of Southern California, Graduate School of Business Administration, continuing study toward M.B.A. degree, 1977-81.

Successfully completed the Comprehensive Examination of the American Institute of Real Estate Appraisers, 1972.

Successfully completed examination for Course IV of the American Institute of Real Estate Appraisers, 1972.

University of Southern California, Graduate School of Business Administration, completed one year of part-time study toward M.B.A. degree, 1969-1970.

Successfully completed examination for Course I and II of the American Institute of Real Estate Appraisers, 1968.

University of California, Los Angeles, Bachelor of Science Degree in Business Administration with specializations in Real Estate and Finance, 1966.

**EXPERT TESTIMONY**

Mr. Lea has qualified as an expert witness in real estate matters and testified before:

- Superior Court, Los Angeles County
- Superior Court, Orange County
- Superior Court, Riverside County
- Superior Court, San Bernardino County
- Superior Court, San Diego County
- Superior Court, Ventura County
- United States Bankruptcy Court, Central District of California
- United States District Court, Central District of California
- United States Tax Court
- United States Court of Federal Claims

**ASSOCIATIONS**

**Member of the Appraisal Institute, MAI  
Designation Number 111368**

**Appraisal Institute Posts**

Over a period of more than 20 years, Mr. Lea provided volunteer service to the Appraisal Institute at the local, regional and national levels. In 1994, Mr. Lea served as President of the Southern California Chapter of the Appraisal Institute and in 2000-2002 served as a member of the General Appraiser Council, the body responsible for setting qualifications requirements for the MAI designation.

**Associate Member, Urban Land Institute**

**Certified General Real Estate Appraiser - AG003090, State of California**

**PUBLISHED ARTICLES**

**Appraisal Institute - National**

1994 "Subway Tunnel Easements in Metropolitan Areas," *The Appraisal Journal*, April 1994.

**Private - Local**

1989 "You and the Real Estate Appraiser," *Compensable Business Loss Review*, a publication of Desmond & Marcello, Inc.

**Appraisal Institute - National**

1987 "Meeting the Experience Requirements," *Candidate Guidance Programs*, American Institute of Real Estate Appraisers.

**SPEAKING ENGAGEMENTS**

Mr. Lea has been invited to speak by many organizations for over 20 years. Below are some of the recent engagements:

- November 13, 2014 Southern California Chapter of the Appraisal Institute  
*47<sup>th</sup> Annual Litigation Seminar*  
Subject: A Case Study: Severance Damage Issues in Grade Separation Projects
- November 2, 2012 International Right of Way Association, Chapter 57, *Pitfalls to Possession*  
Subject: The Appraisal, Offer, Negotiation and Impasse v. Resolution Process
- April 26-27, 2012 International Right of Way Association, Chapter 1, *Annual Valuation Seminar*  
Subject: Conflicting Mandates & Instructions Between USPAP, Yellow Book & Caltrans Appraisal Guidelines
- April 26-27, 2011 International Right of Way Association, Chapter 1, *Annual Valuation Seminar*  
Subject: Legal Issues of Grade Separation Projects
- November 17, 2010 Southern California Chapter of the Appraisal Institute  
*43<sup>rd</sup> Annual Litigation Seminar*  
Subject: The Effective Witness, Best Practices

**CLIENTELE (partial list)**

- |                                        |                                        |
|----------------------------------------|----------------------------------------|
| <b>Public</b>                          | City of Huntington Beach               |
|                                        | City of Los Angeles                    |
|                                        | Community Redevelopment Agency         |
| Agua Caliente Band of Cahuilla Indians | City of La Puente                      |
| City of Brea                           | City of Lancaster                      |
| City of Carson                         | City of Lancaster Engineering Division |
| City of Compton                        | City of Long Beach                     |
| City of Culver City                    | City of Lynwood                        |
| City of Gardena                        | City of Norco                          |
| City of Glendale                       | City of Palmdale                       |
| City of Hawthorne                      | City of Pasadena                       |
| City of Hemet                          | City of Redondo Beach                  |
| City of Hermosa Beach                  | City of Rancho Mirage                  |

City of Riverside  
City of Santa Clarita  
City of Santa Monica  
City of Temecula  
City of Thousand Oaks  
County of Los Angeles,  
    Community Development Commission  
County of Riverside  
    Economic Development Agency  
County of Riverside, Department of  
    Facilities Management  
General Services Administration  
Los Angeles County Metropolitan  
    Transportation Authority  
Los Angeles Department of Water and Power  
Los Angeles Harbor College  
Los Angeles Unified School District  
Metropolitan Water District of Southern  
    California  
Puente Hills Landfill Native Habitat  
    Preservation Authority  
Santa Monica Community College District  
Superior Court, Kern County  
Superior Court, Santa Barbara County  
United States Department of Justice  
United States Navy

**Financial Institutions**

Bank of America  
Coldwell Banker Residential Brokerage  
GMAC Commercial Mortgage Corporation  
Hanmi Bank  
Preferred Bank  
The Private Bank of California  
TIAA-CREF  
Union Bank  
Wells Fargo Bank

**Corporate**

CB Richard Ellis, Inc.  
Coldwell Banker Residential Brokerage, Inc.  
Epic Land Solutions  
Fairchild Industries  
Fiesta Development

International Harvester Corporation  
Kaiser Foundation Health Plan, Inc.  
Kinder Morgan Energy Partners, LP  
Lawyers' Title Insurance Company  
Lennar Communities  
McNelis & Company  
Mercy Housing  
Meta Housing Corporation  
Overland, Pacific & Cutler  
Paragon Partners  
RBF Consulting  
Sanli, Pastore & Hill  
Southern Pacific Transportation Company  
Texaco, Inc.  
The Deutsch Company  
TICOR Title Insurance Company  
Trammell Crow Company

**Attorneys**

Berman, Mausner & Resser, Los Angeles  
Best, Best & Krieger, Los Angeles, Riverside  
Blue, Schoor & Diehl, LLP, Los Angeles  
Brown, Winfield & Canzoneri, Abram, Inc.  
    Los Angeles  
Burke, Williams & Sorensen, LLP, Los Angeles  
Charles Ruben & Associates, Los Angeles  
Cox, Castle & Nicholson, LLP, Los Angeles  
Cummins & White, LLP, Newport Beach  
Demetriou, Del Guercio, Springer & Francis, Los  
    Angeles  
Gaims, Weil, West &  
    Epstein, LLP, Los Angeles  
Gordon & Holmes, San Diego  
Greenberg, Glusker, Fields, Claman &  
    Machtinger, Los Angeles  
Gresham, Savage, Nolan & Tilden,  
    San Bernardino  
Gotfredson & Associates, Los Angeles  
Hahn & Hahn, LLP, Pasadena  
Hanna and Morton, LLP, Los Angeles  
Hanger, Steinberg, Shapiro & Ash, ALC,  
    Woodland Hills  
Harper & Burn, LLP, Orange  
Kane, Ballmer & Berkman, Los Angeles  
Keeney, Waite & Stevens, San Diego



Lagerloft Senecal Gosney & Kruse, LLP,  
Pasadena  
Law Offices of Michael D. Berk, Los Angeles  
Law Offices of Michael E. Leight, Long Beach  
Lewis Brisbois Bisgaard & Smith, LLP, Los  
Angeles  
Lyster, Inc., Woodland Hills  
Mermel & Mermel, Los Angeles  
Miller, Starr & Regalia, Walnut Creek,  
Naumann & Levine, San Diego  
O'Melveny & Myers, Los Angeles  
Oliver, Sandifer & Murphy, Los Angeles  
Palarz & Williams, LLP, Los Angeles  
Richards, Watson & Gershon, Los Angeles  
Reuben, Raucher & Blum, Los Angeles  
Silldorf & Levine, San Clemente  
Slaughter & Reagan, LLP, Ventura  
SNR Denton, San Francisco  
Stradling, Yocca, Carlson  
& Rauth, Newport Beach, San Francisco  
Sullivan, Ballog & Williams, LLP, Santa Ana  
Thorsnes, Bartolotta & McGuire, San Diego

**Pro Bono**

Public Counsel (Southern California Affiliate  
of the Lawyers' Committee for Civil Rights  
Under Law)  
Boy Scouts of America  
Don Bosco Technical Institute

## **Short-Term Rentals vs. Long-Term Rentals and the effect on Housing Supply and Quantity of Short-Term Rentals: The Real Estate Economics for Santa Barbara County**

### **Investor Analysis #1 - Long-Term Rental Net Income vs. Short-Term Rental Net Income in Santa Barbara County**

In our local area, an investor will almost always have a higher net income by renting their property to a long-term tenant, rather than short-term tenants. While the "headline" rent advertised will be higher for short-term tenants, there are 4 cost factors associated with short-term rentals that an investor would not have with long-term rentals. These are 4 additional cost factors for short-term rentals:

**COST FACTOR #1 - Significantly higher vacancy rate for short-term rentals**  
While long-term vacancy rates have consistently varied locally between 1% and 4% for several decades, the vacancy rates for short-term rentals are much higher because of higher turnover and its niche-type of demand. The short-term rental vacancy rate can also vary a lot depending on the quality of the property and the quality of the management, as well as flexibility of the property to be available for rent (as stated below, almost all short-term rental properties in our local area are used part-time by the owners). Overall we estimate short-term rental vacancies rates at between 30% and 60%. However that figure can be misleading because often much of the occupancy of short-term rentals will be filled by more seasonal-type rentals for 1-3 months in less popular tourist seasons. The rental rates offered for those 1-3 month-type rentals is usually discounted from the headline weekly rental rate, so the effective occupancy rate at the "headline" rent will be lower, and the effective vacancy rate calculated at the headline rent will be higher. This effective vacancy factor at the headline rent will rise to closer to 40%-70% (from 30%-60% actual vacancy rate). At an average of 55% vs. 5% effective net vacancy for long-term rentals, the adjustment made from the "headline" short-term rent to the investor net income for this additional cost factor will be approximately 50%.

**COST FACTOR #2 - Higher management fees for short-term rentals**  
Typical property management fees are about triple for short-term rentals compared to long-term rentals. The reason is because of the need to find many more tenants each year, and for each tenant the management is much more intensive due to higher presentation and customer service expectations. Rather than 5%-8% typical management fees for long-term rentals, short-term rental property managers will charge 15%-22%. For those short-term rental owners that self-manage by using internet services or other methods to find tenants, the amount of time spent on managing each tenant and the operation of the property is still significant. They are adding a job for themselves, and the extra management fee is reflected in this manner compared to if the owner were to manage the property themselves as a

long-term rental. This adjustment to the net property management fees averages about **12%** taken off additionally from the short-term rental investor's net income.

**COST FACTOR #3 - All utilities must be paid by the short-term rental landlord**  
For long-term rentals, landlords will typically only pay for water and trash (though sometimes not even those if water meters are separate). There are a few long-term rentals where gas and electricity are master-metered and those bills paid by the landlord, but for the small number of properties set up in this manner, there is usually a rent premium paid by the tenant as they are aware that having gas and electricity paid is an extra perk. In a short-term rental situation, there is no practical way for the tenant to put utilities in their names for a short period of time, so all short-term tenants are expecting utilities to be included in their rent. In comparison with long-term rental utility situations as described above, the extra utilities paid for by the short-term rental owner are electricity, gas, cable and internet. For a typical short-term rental housing unit, this additional cost will take out another approximately **5%** from the investor's net income

**COST FACTOR #4 - Furnishings and presentation**

Short-term rental units need to be furnished of course, as tenants are not bringing their own furniture for a few days or weeks. Some long-term rentals are rented furnished, but for the purpose of comparing typical rents, our rental estimates are based on unfurnished long-term rentals. The furnishings in a typical short-term rental will need to be replaced on average approximately every 12 years, or about 8% per year of the initial cost. "Furnishings" refers to furniture, linens, kitchenware, decorations and everything else needed for a comfortable short-term tenant living experience. There is also a small cost typically associated with welcoming each short-term tenant, such as a gift basket and/or fresh flowers. This "presentation" cost added to the amortized furnishing cost combines to about another **5%** of additional cost to take from the short-term rental investor's net income vs. long-term net income.

**NUMERICAL EXAMPLE**

Below is a numerical example for short-term vs. long-term rental net income, for a typical 2-bedroom decent condition well-located unit (apartment or small home) in Santa Barbara County. We are assuming identical costs such as water, trash and repairs, then factoring in the 4 additional cost factors for short-term rentals. With the other costs the same, the difference will be illustrated in deductions from the "headline" rent for short-term rentals as quantified in percentages above, versus the actual rent for long-term rentals. For this typical 2-bedroom housing unit, here is the analysis:

**Long-Term Rent = \$2500/month**

**Short-Term "Headline" Rent = \$1500/week, which would be equivalent of \$6500/month (4.3 weeks per month)**

**Short-Rental Additional Cost Factor #1 (vacancy) = 50%**; now the effective monthly net rent coming down from the headline rent =  $\$6500 - (\$6500 \times 50\%) = \$3250/\text{month}$

**Short-Rental Additional Cost Factor #2 (management) = 12%**; now the effective monthly net comes down to  $\$3250 - (\$6500 \times 12\%) = \$2470/\text{month}$

**Short-Rental Additional Cost Factor #3 (utilities) = 5%**; now the effective monthly net comes down to  $\$2470 - (\$6500 \times 5\%) = \$2145/\text{month}$

**Short-Rental Additional Cost Factor #4 (furnishings and presentation) = 5%**; now the effective monthly net comes down to  $\$2145 - (\$6500 \times 5\%) = \$1820/\text{month}$

The effective net rent for short-term rentals in this typical example is actually  $\$1820/\text{month}$  vs.  $\$2500/\text{month}$  for a long-term rental of the same housing unit. *The net effective rent is about 27% lower if the unit is rented short-term.*

## CONCLUSIONS

While the figures and analysis can vary a little depending on the area within Santa Barbara County, in almost no cases will it be more profitable for an investor to rent their property short-term vs. long-term. Even in the waterfront areas where the equation is most beneficial to the short-term net income, while the figures may be a little better, short-term rental income still will at best equal and not surpass the long-term net income with all the cost factors properly accounted for. Even in these areas, just to break even would never be worth the extra hassle and uncertainty of renting short-term. Thus, there is no logical reason for a property owner to rent out short-term if their goal is to make the highest return. Instead the reason why there are short-term rentals is because property owners desire or need to have personal use of the property part of the time, and this prevents them from leasing long-term. Statistics show that about 80%-90% of properties that are rented short-term are 2nd homes for the owners. For this reason, most all short-term rentals would not become long-term rentals if they were banned, those housing units would already be in the housing supply as long-term rentals based on the economics of short-term net income vs. long-term net income.

Note that there are still a small percentage of owners locally (10%-20%) of short-term rentals that do not have a personal use component. This could be because some of them are truly investors, but who think they are smarter than the market somehow and can "cheat" these local economic facts. Eventually these handful of investors will understand they are losing money vs. renting long-term and those units will return to be long-term housing supply anyways, regardless whether a ban on short-term rentals is passed.

## **Investor Analysis #2 - Return on Investment for Single-Family Residences vs. Other Types of Real Estate Investment**

While there are parts of California where the investment equation is closer, virtually nowhere in Santa Barbara County is the investment return on a single-family residence even close to the return typical of other types of real estate investments such as apartment complexes or commercial buildings. Net returns expressed as capitalization rates and about double for these other types of real estate investments compared to single-family homes. Depending on the area of the County, a cap rate for a typical single-family residence will be 1.5%-3%, while the cap rates for apartment buildings and commercial office, industrial and retail buildings range from 3.5%-5.5%.

The notion is absurd that investors are buying single-family homes in Santa Barbara County for purposes of renting them as short-term rentals only. Having already shown above that an investor makes more money by renting long-term rather than short-term, to buy a single-family residence solely for the purpose of renting short-term, then compounds the loss of net income by additional factor of 2. No investor would ever make this move - the reason why single-family residences are purchased and rented short-term is once again because an owner desires or needs a component of personal use of the property. Thus, no resident in any neighborhood of Santa Barbara County should ever worry about investors buying up homes in bulk only for purposes of renting them out as short-term rentals, it makes zero financial sense.

There are of course many single-family residences that are rented long-term in Santa Barbara County, but there are a number of reasons these properties become rentals, none of which are for purposes of highest investor return. The home may be a family home for a long time, such that when an owner leaves the area for whatever reason, they may plan or hope to return some day to the same home. Or maybe that same home they are planning for the next generation to come live in when they return to Santa Barbara County. Sometimes when single-family homeowners move up to a larger home and are financially able to keep a 2nd piece of real estate, they may choose to keep the first home as a rental as opposed to switching to a higher return type of real estate investment, because of the hassle and cost of switching properties, or because they are familiar with the home and don't want to climb the learning curve for another kind of real estate investment. Another reason for a single-family residence to be a rental, is because an owner may plan to retire to Santa Barbara County and may not want to make a real estate investment switch to their ultimate home later, instead liking their future home they see now, and accepting a lower rate of investment return in the interim years. Again as described in Analysis #1, all of these single-family rental scenarios where the owner is not using the home part-time now, it is always better financially for the owner to keep the home as long-term rental and not have it become a short-term rental.

For the case of an investor buying an apartment building - which would be an example of a legitimate investor vehicle for residential property in our local area - then for the same reasons in Analysis #1 above, these apartments will stay as long-

term rentals instead of becoming short-term rentals. It appears a lot of the general public and housing supply advocates express concern when they see lower-income tenants displaced after an older apartment building is sold. Often this new owner will give notice to lower-paying tenants and proceed to improve the property to gain higher rents, and likely a higher net income. This concern is legitimate and is worthy of a separate debate about affordable housing and gentrification. But it is NOT related to short-term rentals. Once again, whether the apartment building has been re-habbed or not, the landlord will still make a higher net return if those apartment units are rented long-term vs. short-term. Maybe the better condition of the apartment now makes it feasible from a condition standpoint to be a short-term rental, but from an economic standpoint the property owner will receive a higher net income if the apartments remain rented long-term. The long-term tenant in a re-habbed apartment unit might now be a doctor or attorney instead of a restaurant server because of the higher rent which the better condition can command, but for economic reasons of our rental market as described in Analysis #1, it would still be a long-term rental.

## **Short-Term Rentals and Housing Supply**

### **VERY FEW SHORT-TERM RENTALS WOULD EVER BECOME LONG-TERM RENTALS**

While every region is different, and the economics may dictate something different for Los Angeles, San Francisco or New York, at least in our local area of Santa Barbara County, as described in the economic analysis above, most all properties that are rented short-term here are done so because the property owners have a use themselves of the property part of the time. They would never become long-term rentals to add to the housing supply. If there were a ban, they would just be rented slightly differently, or kept vacant in the time between personal use. Note that "personal use" can mean for the owners themselves to stay (usually), or might also mean to have the property for visiting family members or friends to have a place to stay in the area. Short-term rentals become so in our local area for this reason, not for investor reasons, as the economics illustrated in this paper explain. You can also survey short-term rental property managers to find out how many of their clients use the property themselves part-time, to confirm the 80%-90% figure. An unbiased study has shown this approximate figure as well.

### **SINCE VERY FEW HOUSING UNITS ARE SHORT-TERM RENTALS TO BEGIN WITH, THE NET NEW HOUSING SUPPLY WOULD BE TRIVIAL**

With approximately just 1.7% of housing units in the County ever being used as short-term rentals at some period, and approximately 85% of those units never returning to long-term housing supply due to the personal use component described above, even if the remaining 15% all became long-term rental housing units, that

would add only  $1.7\% \times 15\% = 0.25\%$  to the supply. This 0.25% figure is statistically insignificant as our local area adds 1%-1.5% every year to the total housing supply just in new construction. Furthermore for this tiny percentage of units that may become long-term rentals if there were a short-term rental ban, virtually none of those would fall in the "affordable" housing cost range. Most short-term rentals are set up for vacationers and are higher end properties, most would rent in the \$4000/month-\$10,000/month range if they were long-term rentals.

### IN THEORY, SHORT-TERM RENTALS MAY HELP HOUSING SUPPLY

In fact, it's possible that the existence of short-term rentals can help add units to our housing supply. In theory a more efficient use of existing housing space such as short-term rentals provide when tenants are filling in gaps between owner use, should free up *more* units of housing for long-term rentals. Here is an example of how that scenario works:

**Step 1:** A short-term rental unit is banned by an ordinance, and the owner of the housing unit who uses the property part of the time themselves, now chooses to either leave it vacant between their uses, or perhaps rents the property seasonally for a couple of months at a time.

**Step 2:** A short-term tenant who might have a need or desire to come to Santa Barbara County on a semi-regular basis for a week or two at a time, was previously able to come and go (perhaps to this same rental unit described in Step 1). Now they are not allowed to stay at the short-term rental unit anymore, but still have the need or desire to come to the area, and is considering the option of staying in a hotel.

**Step 3:** However for economic reasons and also for quality of life reasons, this short-term tenant does not want to stay in a hotel for 2 weeks at a time. They do the following math... 6 visits per year for 2 weeks at a time = 72 nights. At a nice hotel at \$200/night, this costs them \$14,400 per year, but still would not offer a comfortable experience as having your own full 1-bedroom place to spread out for 2 weeks. If the traveler used to pay \$1200/week for this short-term rental unit with a much better living experience, it was also costing them  $\$1200 \times 12 \text{ weeks} = \$14,400$  per year. A 1-bedroom unit locally for long-term rent costs \$1600/month plus utility use for the 12 weeks per year = approx.  $\$1800/\text{month} = \$21,600$  per year.

**Step 4:** For an extra \$7200/year (\$600/month), this repeat traveler to Santa Barbara County instead decides to just rent a long-term 1-bedroom unit for themselves, and can come and go as they please. It makes a lot more sense and is considerably more comfortable than staying in a hotel 12 weeks per year. Now the short-term rental unit that was banned has not become a long-term rental unit, but a unit of long-term supply has been taken by this repeat traveler. There is now a net loss of a unit long-term housing supply.

While there may not be that many examples of this situation, there will certainly be some for our local area. From a pure economic theory standpoint, it makes sense that a more efficient use of existing housing, such as short-term rentals provide, will result in *more* housing supply available for long-term rent.

## **CONCLUSION**

Because of the nature of how short-term rentals came about for our local area of Santa Barbara County, a ban or severe restriction on short-term rentals would only result in a very trivial amount of new supply of housing, and essentially no new supply would become available in the affordable rental ranges. Furthermore, there are scenarios where a short-term rental ban or severe restriction could actually take some long-term rental units off the market, resulting in a reduced supply of long-term rentals compared to if short-term rentals remain. In summary, short-term rentals have no detrimental effect on the long-term rental housing supply in Santa Barbara County.