

Oplinger - Chamber of the
Santa Barbara Region -
Letter dated 12.5.16

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Daly, Julia Rutherford

From: Ken Oplinger <ken@sbchamber.org>
Sent: Monday, December 05, 2016 10:01 AM
To: Ken Oplinger
Subject: Economic Impact of Short Term Rentals
Attachments: Santa Barbara STR Economic Impact Report.pdf

Chairman Adam & Members of the Board:

In preparation for tomorrow's hearing on Short Term Rentals in Santa Barbara County, please find attached an economic impact report concerning these properties.

As you can see, the attached report concludes that STRs generate approximately \$471 million in economic activity, and provide approximately 5,000 jobs.

STRs are an important part of our local economy, and the proposed STR Ordinance (which prohibits STRs in virtually all areas of the County) will likely have a negative effect on several aspects of our County's economy.

I look forward to speaking with you all tomorrow.

- Ken



The Chamber
OF THE SANTA BARBARA REGION
Helping Business Succeed Since 1899

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The Local Economic Impact of Short Term Rentals in Santa Barbara, CA



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Overview

Short term rentals (STR) are an increasingly popular lodging choice for travelers in almost all communities in the United States. With the growth of online reservation systems such as HomeAway and AirBnB, visitors are better able to select the accommodation style that fits their needs. Communities are increasingly focused on how best to appropriately incorporate STR properties into their existing regulatory and fiscal framework. This impact analysis is meant to inform the discussion of STR regulations in the Santa Barbara area.

Tourism has been a significant part of the Santa Barbara county economy for decades. With thousands of visitors drawn to the area's scenic beauty, calm atmosphere, and award-winning wineries and restaurants, the region benefits from a wide variety of lodging options. STRs have become an important part of the lodging market for the Santa Barbara area, with beach homes that boast great weather and spectacular coastal scenery and vineyard retreats that provide access to one of California's finest wine regions.

For the purpose of this study, STRs are defined as residential properties that are available to be rented for a period of less than 30 days. Any properties self-identifying as a short term or vacation rentals, as well as properties listed on major short term and vacation rental websites, were included. These properties tend to be rented out for leisure travel and for less than a month at a time. This report will refer to two areas of analysis – the City of Santa Barbara and the rest of Santa Barbara County (which includes the County's other municipalities as well as unincorporated areas of the County) – which can be summed to provide a total County-level figure.

The report that follows provides an overview of tourism trends in the Santa Barbara area, specific characteristics of the local STR market, and a discussion of the methodology, findings, and conclusions of the economic impact analysis.

Spending by STR guests contributes significantly to the Santa Barbara area economy. Nearly half the total County impact accrues to the City of Santa Barbara. The overall impact of STRs throughout Santa Barbara County in 2014 accounted for more than \$471.6 million in economic activity and nearly 5,000 jobs.

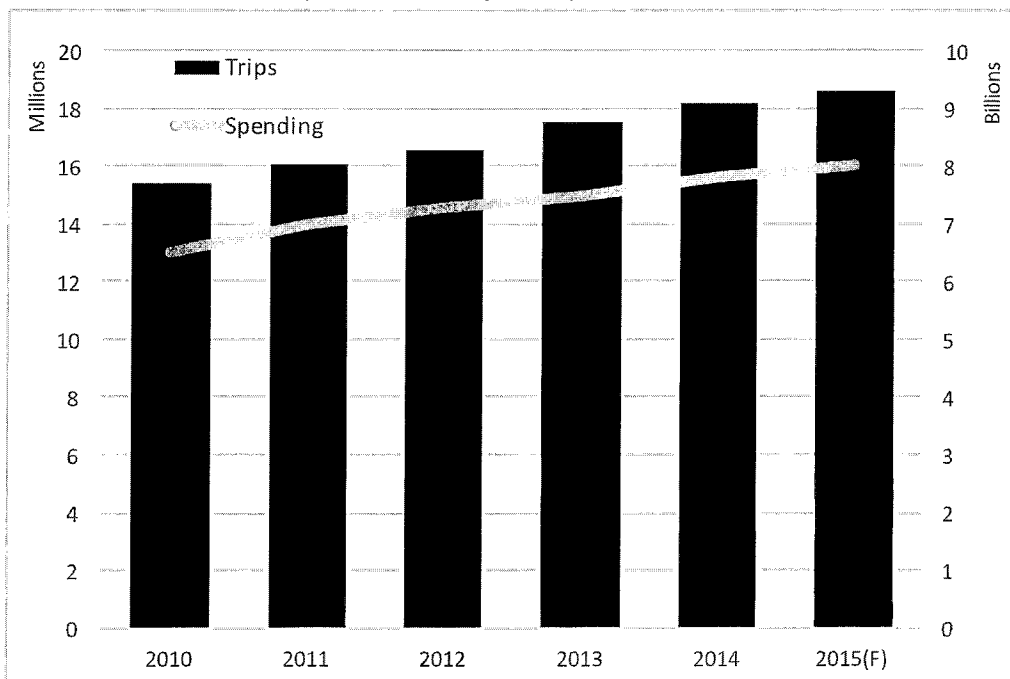
Tourism and the Santa Barbara Area Economy

Overall Context

With the draw of both coastline and vineyards, tourism is a central component of the Santa Barbara area economy. In a study conducted in 2012, the Santa Barbara County Workforce Investment Board found that the Agriculture, Tourism, and Wine industry cluster was the county's largest employer. Including wineries, accommodations, and amusement and recreation providers, this cluster accounts for more than 15 percent of the county's workforce. Though employment in these sectors is vulnerable to economic cycles, both total employment and the average annual wage per worker in tourism-related industries have seen a 25 percent increase over the past decade. The Workforce Investment Board forecast nearly 5 percent annual growth in Agriculture, Tourism, and Wine industry cluster employment over the next few years.

Nearly 19 million person-trips to the Central Coast region brought approximately \$9 billion worth of direct tourist spending to the area in 2015. The region has seen a steady increase in both trips and spending over the past five years. Direct tourist spending in Santa Barbara County accounts for more than \$2 billion of the larger Central Coast figure and has increased by nearly 50 percent in the past decade. In 2014, this direct tourist spending generated more than \$170.4 million in state and local tax for the communities in Santa Barbara County.

Figure 1: Total Annual Trips and Visitor Spending for California's Central Coast Region



Source: Tourism Economics; D.K. Shifflet & Associates (Note: Figures for 2015 are projections.)

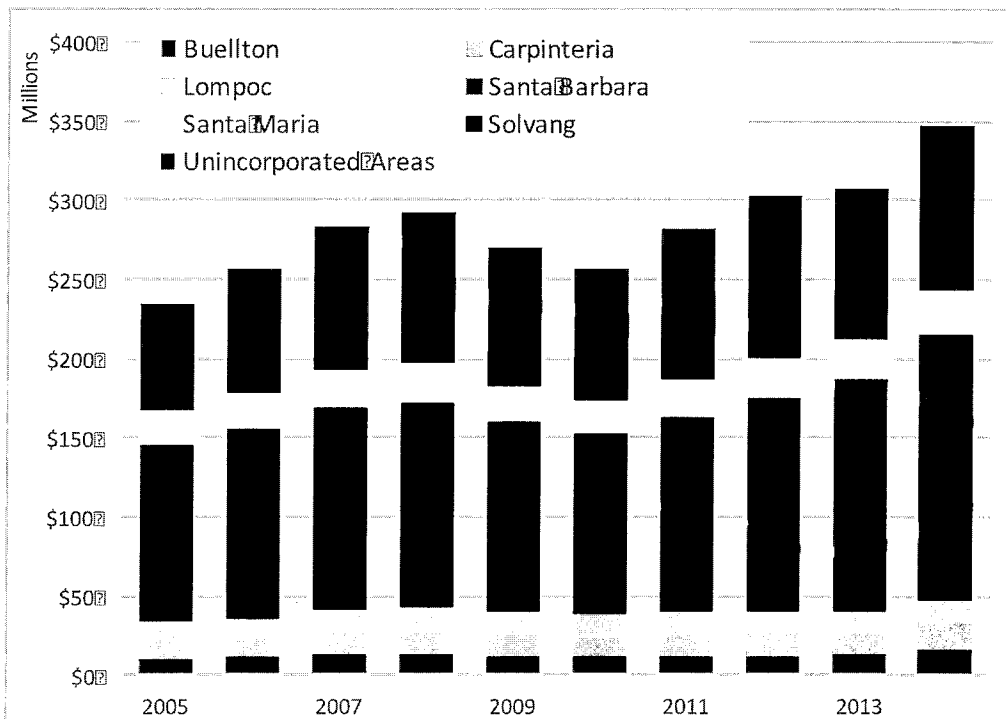
The hotel industry throughout Santa Barbara County has seen similar growth. Occupancy rates are estimated to climb well over 76 percent in 2015. By contrast, nationally hotels averaged 64.4 percent occupied in 2014. This, together with a climbing average daily rate, indicates that demand for hotel room-nights continues to far outpace supply. Going back a full decade it is possible to see the tourism industry following national economic trends, with a decline in room sales in 2009 and 2010 followed by a recovery from 2011 to the present. Throughout the past decade, the proportion of tourist activity in different areas of Santa Barbara County has remained consistent, with the City of Santa Barbara accounting for nearly half of all visitor stays.

Figure 2: Annual Hotel Industry Indicators in Santa Barbara County

Year	Annual Room Supply	Market Occupancy	Average Daily Rate
2011	1,950,925	69.8%	\$168.89
2012	1,972,825	71.4%	\$174.78
2013	2,003,211	73.4%	\$185.72
2014	2,007,135	75.6%	\$199.30
2015(P)	2,023,925	76.4%	\$212.27

Source: PKF Consulting (Note: Figures for 2015 are projections.)

Figure 3: Annual Taxable Room Sales



Source: Dean Runyan for Travel California

Short Term Rentals in the Santa Barbara Area

The STRs located throughout Santa Barbara County include rural ranch getaways, city-center condos, beach-adjacent vacation homes, and properties neighboring the county's vineyards. They provide additional rooms to supplement the supply of local hotel rooms, which is currently facing very high demand. Approximately 2,550 unique STR properties were listed in 2014 throughout Santa Barbara County across a variety of major online vacation rental platforms.

Regulation of STRs in Santa Barbara County differs dramatically depending on both specific municipal or county code, as well as enforcement of those statutes. Even so, there is a uniformity throughout the County in that room rentals (sometimes called "home stays," in which a homeowner rents out a room or rooms in their home while they remain on-site) are considered different from the rental of an entire property. It is the increased demand for property rentals, with continued regulatory uncertainty, which has contributed to conflict between STR owners, guests, and neighbors in the Santa Barbara area. The following jurisdictions have recently taken steps to clarify their restrictions and permissions associated with STRs:

- **City of Buellton:** The City issued cease-and-desist letters to six STR operators in April 2015 as the current municipal code prohibits bars and motels from operating within a single-family residential zoning district. Buellton is in the process of adopting an ordinance which will explicitly ban STRs from single-family residential zoned areas.
- **City of Carpinteria:** STRs are prohibited in single-family residential neighborhoods but allowed in multifamily and commercial areas. The majority of the nearly 300 licensed STR properties are concentrated along the beach and downtown. Currently, the City of Carpinteria is considering capping the total number of STRs permitted to operate.
- **City of Goleta:** Homeowners who obtain a license and operation permit, provide a "nuisance response" plan, and acquire a \$1,500 surety bond are allowed to operate an STR regardless of how their property is zoned.
- **City of Santa Barbara:** Current municipal zoning code prohibits STRs, considered businesses, in residential neighborhoods. This ban was upheld by a unanimous city council vote this summer. However, the City of Santa Barbara has been allowing STRs to register and operate throughout the city even in prohibited zones for a number of years. Property owners were required to secure a business license from the City and pay applicable transient occupancy

taxes to the City and State. These registered STRs contribute more than \$1 million annually in transient occupancy tax to the City of Santa Barbara. As a part of the resolution affirming the STR ban for residential neighborhoods, existing, licensed STRs are allowed to operate until the end of the year. Approximately 350 STRs are registered with the City of Santa Barbara. More than 70% of these are in residential neighborhoods and will be impacted by the City's enforcement of its zoning restrictions going forward.

- **City of Solvang:** In 2014, the City of Solvang allowed nine STRs already operating to continue their operations as part of a sanctioned "tourism zone."
- **Unincorporated Santa Barbara County:** STRs are not defined under the County's code. Currently the County has allowed property owners to register and operate STRs, provided that they collect and remit the appropriate transient occupancy taxes. The County Treasurer-Tax Collector estimates that there are more than 430 STRs registered in unincorporated parts of the County.

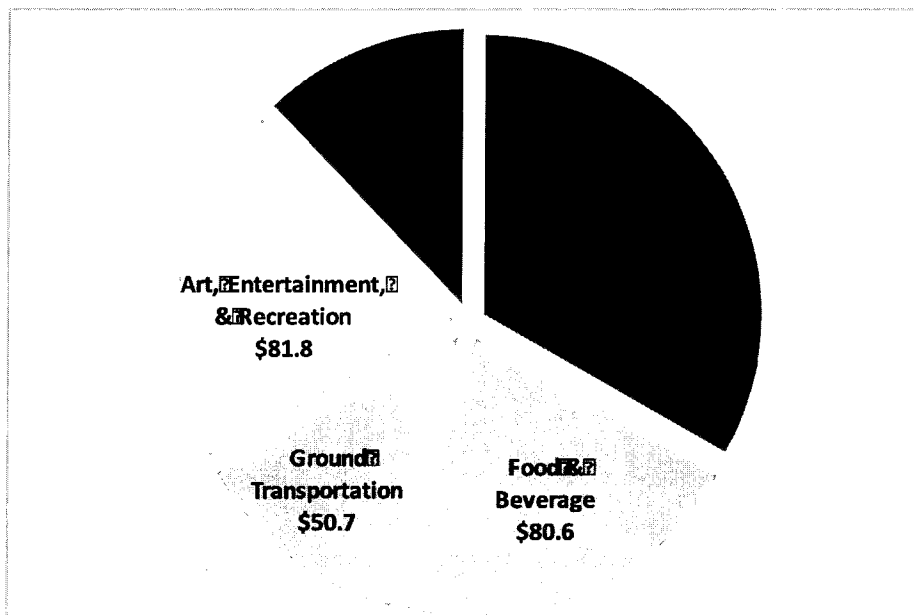
Economic Impact Calculations

The economic impact of STRs in Santa Barbara in 2014 was calculated by first estimating the direct accommodations spending by visitors using STRs. Next, this figure was used as the basis of calculating total STR direct spending. Using these figures, specific multipliers provided by the US Bureau of Economic Analysis RIMS II industry model for the Santa Barbara MSA were used to estimate the ripple effects of the induced and indirect impacts; the combination of these ripple effects and the direct spending forms the total economic impact.

Direct STR-Related Spending Estimates

Using a combination of data provided by STR property owners/managers and web-based vacation rental marketplaces the aggregate direct spending on lodging by STR guests in Santa Barbara County totaled \$129.8 million in 2014. As a part of the study, survey data was collected from property owners and managers for nearly 100 local properties. HomeAway provided data for the approximately 2,300 properties listed with their family of websites throughout all parts of Santa Barbara County. Data was also collected from other websites used for advertising and renting STRs, including AirBnB, Craigslist, and FlipKey. As all of our survey respondents indicated using one or more website to advertise and rent their properties, efforts were made to eliminate duplicative data. The estimated 2014 total revenue for STRs was validated using local stakeholder information and publicly available datasets including Visit California's travel impact figures, produced by Dean Runyan.

Figure 4: 2014 Total Direct STR Visitor Spending in Santa Barbara County (\$millions)



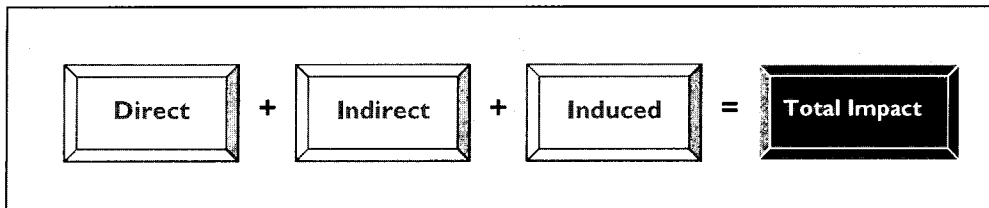
Source: US Bureau of Economic Analysis; Destination Analysts, Inc.; TXP, Inc.

Using data from the 2013 Santa Barbara South Coast Visitor Profile produced by Destination Analysts, Inc., it was possible to determine the proportion of tourism spending attributable to lodging in Santa Barbara County. This ratio was then applied to the amount spent by guests at STRs to calculate the total direct spending by STR users in 2014. This ratio of direct spending in different industry categories (i.e. lodging, food and beverage, recreation, retail, and transportation) was validated using data from the US Bureau of Economic Analysis' Travel and Tourism Satellite Accounts dataset. Visitors to Santa Barbara County spend proportionally more on accommodations and food, but less on retail sales and local transportation, during their stay than the national average. and less on retail sales during their stay than the national average. For every \$100 a traveler spent on lodging, they spent an additional \$62 on food, \$39 on local transportation, \$63 on recreation activities, and \$37 on retail shopping in the local economy. As a result, the total direct spending by STR visitors in Santa Barbara County in 2014 is estimated at \$390.4 million.

Economic Impact Methodology

The economic impacts extend beyond the direct activity outlined above. In an input-output analysis of new economic activity, it is useful to distinguish three types of expenditure effects: direct, indirect, and induced. Direct effects are production changes associated with the immediate effects or final demand changes. The payments made by a visitor to a hotel operator or taxi driver are examples of a direct effect.

Figure 5: The Flow of Economic Impacts



Indirect effects are production changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand for an overnight stay will require the hotel operator to purchase additional cleaning supplies and services, for example, and the taxi driver will have to replace the gasoline consumed during the trip from the airport. These downstream purchases affect the economic status of other local merchants and workers.

Induced effects are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. Both the hotel operator and taxi driver experience increased income from the visitor's stay, for

example, as do the cleaning supplies outlet and the gas station proprietor. Induced effects capture the way in which this increased income is spent in the local economy. Once the ripple effects have been calculated, the results can be expressed in a number of ways. Four of the most common are “Output,” which is equivalent to sales; “Value-Added,” which is sales minus the cost of goods sold; “Earnings,” which represents the compensation to employees and proprietors; and “Employment,” which refers to permanent, full-time jobs that have been created in the local economy.

The interdependence between different sectors of the economy is reflected in the concept of a “multiplier.” An output multiplier, for example, divides the total (direct, indirect and induced) effects of an initial spending injection by the value of that injection – i.e., the direct effect. Larger multipliers mean greater interdependence among different sectors of the economy. An output multiplier of 1.4, for example, means that for every \$1,000 injected into the economy, another \$400 in activity is produced in all sectors.

Economic Impact Results

The \$390.4 million in direct spending by visitors to Santa Barbara County staying in STR properties in 2014 created a total economic activity of \$471.6 million, earnings of \$133.4 million, and nearly 5,000 jobs in the regional economy. The majority of this generated activity is concentrated in the sectors with the highest direct tourism spending, such as Food Services and Arts, Entertainment, and Recreation.

Even so, the spending patterns of STR users, and particularly the indirect and induced effects of their lodging spending, are different than those visitors staying in traditional hotel/motel accommodations. To capture this difference, the total impact of lodging spending by STR users was calculated through the Households sector of the economy, rather than the Accommodations sector. The following tables details the total industry-level impact of STRs in the City of Santa Barbara, the rest of Santa Barbara County, and the total impacts for Santa Barbara County overall. As the City of Santa Barbara is home to the largest cluster of STRs in the county, it is not surprising that Just under half of the

Further benefits accrue to local cities, counties, and the State of California from taxes assessed on direct spending by visitors, as well as realizing revenue associated with the ripple effects of that spending.

Figure 6: Economic Impact of Short Term Rentals in the City of Santa Barbara

Industry	Output	Value-Added	Earnings	Jobs
Ag., forestry, fishing, & hunting	\$642,992	\$258,279	\$206,636	5
Mining	\$883,705	\$605,665	\$101,141	1
Utilities	\$1,176,598	\$628,793	\$113,003	1
Construction	\$1,843,460	\$989,072	\$513,537	9
Manufacturing (durable goods)	\$1,835,631	\$769,498	\$382,315	7
Manufactur. (nondurable goods)	\$4,380,364	\$1,307,494	\$574,587	11
Wholesale trade	\$4,015,897	\$2,723,120	\$1,123,803	16
Retail trade	\$22,639,204	\$14,737,303	\$6,541,010	251
Transportation & warehousing	\$26,714,853	\$12,358,184	\$8,653,102	290
Information	\$4,453,773	\$2,613,235	\$1,001,305	13
Finance & insurance	\$6,807,978	\$3,509,882	\$1,585,504	25
Real estate, rental, & leasing	\$26,104,748	\$18,257,993	\$3,666,096	138
Prof., scientific, & tech. services	\$6,443,507	\$4,040,465	\$2,417,688	35
Management of companies	\$2,972,850	\$1,783,433	\$1,065,008	10
Admin. & waste manag. services	\$5,172,149	\$3,241,695	\$1,975,683	59
Educational services	\$1,844,158	\$1,128,339	\$742,826	22
Health care & social assistance	\$12,479,818	\$7,498,297	\$4,695,542	105
Arts, entertainment, & recreation	\$39,541,768	\$22,012,140	\$11,430,290	590
Accommodation	\$1,896,883	\$1,201,094	\$494,635	15
Food services & drinking places	\$42,695,946	\$22,505,206	\$13,177,067	664
Other services	\$6,155,314	\$3,413,342	\$1,807,199	48
Households	n/a	\$142,844	\$142,844	12
Total	\$220,701,596	\$125,725,374	\$62,410,821	2,328

Source: TXP

Figure 7: Economic Impact of Short Term Rentals in the Rest of Santa Barbara County

Industry	Output	Value-Added	Earnings	Jobs
Ag., forestry, fishing, & hunting	\$731,036	\$293,645	\$234,930	5
Mining	\$1,004,709	\$688,598	\$114,990	1
Utilities	\$1,337,708	\$714,893	\$128,477	1
Construction	\$2,095,883	\$1,124,504	\$583,855	11
Manufacturing (durable goods)	\$2,086,982	\$874,865	\$434,665	8
Manufactur. (nondurable goods)	\$4,980,163	\$1,486,528	\$653,265	12
Wholesale trade	\$4,565,789	\$3,095,994	\$1,277,684	19
Retail trade	\$25,739,164	\$16,755,265	\$7,436,663	285
Transportation & warehousing	\$30,372,887	\$14,050,376	\$9,837,962	330
Information	\$5,063,623	\$2,971,062	\$1,138,413	14
Finance & insurance	\$7,740,186	\$3,990,486	\$1,802,605	29
Real estate, rental, & leasing	\$29,679,241	\$20,758,039	\$4,168,090	157
Prof., scientific, & tech. services	\$7,325,809	\$4,593,722	\$2,748,739	40
Management of companies	\$3,379,919	\$2,027,637	\$1,210,838	12
Admin. & waste manag. services	\$5,880,365	\$3,685,577	\$2,246,211	67
Educational services	\$2,096,676	\$1,282,841	\$844,541	25
Health care & social assistance	\$14,188,666	\$8,525,031	\$5,338,497	120
Arts, entertainment, & recreation	\$44,956,177	\$25,026,237	\$12,995,426	671
Accommodation	\$2,156,621	\$1,365,558	\$562,365	17
Food services & drinking places	\$48,542,253	\$25,586,818	\$14,981,387	754
Other services	\$6,998,154	\$3,880,727	\$2,054,656	55
Households	n/a	\$162,404	\$162,404	13
Total	\$250,922,011	\$142,940,805	\$70,956,663	2,646

Source: TXP

Note: The “rest of Santa Barbara County” refers to the County’s municipalities, excluding the City of Santa Barbara, as well as unincorporated areas of the County

Figure 8: Total Economic Impact of Short Term Rentals in Santa Barbara County

Industry	Output	Value-Added	Earnings	Jobs
Ag., forestry, fishing, & hunting	\$1,374,028	\$551,924	\$441,566	10
Mining	\$1,888,414	\$1,294,263	\$216,132	2
Utilities	\$2,514,305	\$1,343,686	\$241,480	2
Construction	\$3,939,343	\$2,113,576	\$1,097,393	20
Manufacturing (durable goods)	\$3,922,613	\$1,644,363	\$816,980	15
Manufactur. (nondurable goods)	\$9,360,527	\$2,794,022	\$1,227,852	23
Wholesale trade	\$8,581,685	\$5,819,114	\$2,401,487	35
Retail trade	\$48,378,369	\$31,492,568	\$13,977,673	536
Transportation & warehousing	\$57,087,740	\$26,408,559	\$18,491,064	620
Information	\$9,517,396	\$5,584,298	\$2,139,718	27
Finance & insurance	\$14,548,164	\$7,500,367	\$3,388,110	54
Real estate, rental, & leasing	\$55,783,990	\$39,016,032	\$7,834,186	295
Prof., scientific, & tech. services	\$13,769,317	\$8,634,187	\$5,166,427	76
Management of companies	\$6,352,768	\$3,811,070	\$2,275,846	22
Admin. & waste manag. services	\$11,052,514	\$6,927,272	\$4,221,894	126
Educational services	\$3,940,834	\$2,411,180	\$1,587,367	47
Health care & social assistance	\$26,668,484	\$16,023,328	\$10,034,038	225
Arts, entertainment, & recreation	\$84,497,945	\$47,038,377	\$24,425,716	1,261
Accommodation	\$4,053,503	\$2,566,651	\$1,057,000	33
Food services & drinking places	\$91,238,200	\$48,092,024	\$28,158,454	1,418
Other services	\$13,153,468	\$7,294,069	\$3,861,855	102
Households	n/a	\$305,248	\$305,248	25
Total	\$471,623,607	\$268,666,179	\$133,367,484	4,974

Source: TXP

Conclusions

The economic impact of STRs is substantial. STR guest spending ultimately creates thousands of jobs and millions of dollars of economic output, wages, and tax revenue in the local economy each year. This appears to be largely net new spending as recent increases in STR activity have coincided with growth in tourism-related activity throughout the Santa Barbara area. The historically high county-wide hotel occupancy rates indicate STRs are complementary, rather than substitute, goods in the local accommodations market. As such, STRs are a vital component of the overall local lodging portfolio and play an important role in the greater tourism-related economy of the Santa Barbara area.



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