

Schniepp - California  
Economic Forecast - letter #3  
dated 12.4.16

Daly, Julia Rutherford

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**From:** mark@californiaforecast.com  
**Sent:** Sunday, December 04, 2016 5:19 PM  
**To:** sbcob  
**Subject:** FW: STR studies  
**Attachments:** STR Effect on Nuisances Central Coast.pdf; STR Effect on Supply in Santa Barbara.pdf

To: Clerk of the Board of Supervisors ([sbcob@co.santa-barbara.ca.us](mailto:sbcob@co.santa-barbara.ca.us))

From: Mark Schniepp, California Economic Forecast

RE: on the subject of STRs in Santa Barbara County: two recently completed studies

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We recently conducted two studies on the STR issue at the request of Save the Rentals Santa Barbara.  
([www.strsantabarbara.com](http://www.strsantabarbara.com))

These reports were completed in July of this year.  
Save the Rentals asked me to forward these reports to the Board of Supervisors. Consequently they are attached.  
The reports can also be downloaded from our website here:

<http://californiaforecast.com/samples-of-our-research/>

The first report on the Neighborhood Safety issue addressed the question of whether Short Term Rentals cause an increase in nuisance complaints in Central Coast cities, versus all other residential homes.

We evaluated nuisance complaints in neighborhoods from a number of Central Coast cities from San Luis Obispo to Thousand Oaks including Santa Ynez, Santa Barbara, Santa Maria and Goleta. The analysis demonstrated that nuisance report rates for STRs in Santa Barbara, Goleta, and Ventura are substantially less than the nuisance report rate for all residential homes in all Central Coast cities, including Santa Barbara, Goleta, and Ventura.

We could therefore not confirm the allegation that STRs produce neighborhood safety issues in Santa Barbara or Santa Barbara County.

There is a valid concern that long term rental housing in the City and County of Santa Barbara is being negatively impacted by the operation of STRs.

The second report quantitatively analyzed survey responses from STR owners to determine how the supply of rental and purchase housing is impacted by short term rentals.

We found that if STRs were prohibited in the County of Santa Barbara, that the long term rental supply would increase by 1/10th of one percent.

This is not a significant increase in rental stock. In fact, it is actually miniscule. There is a similar finding regarding purchase housing as well. In summary, the empirical evidence does not justify the common perception that the operation of STRs in Santa Barbara County materially impacts the supply of housing for residents.

Please ask the Board of Supervisors to scan the short 2 page executive summaries of these studies for a brief review of the findings.

If there are any questions pertaining to these studies or our methodology associated with them, please contact me at anytime.

Thank you

— Mark

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# The Effect of Short Term Rentals on Neighborhood Nuisance Complaints Along the Central Coast



# **The Effect of Short Term Rentals on Neighborhood Nuisance Complaints Along the Central Coast**

**Do short-term rentals cause an increase  
in nuisance complaints in Central Coast cities?**

A report prepared by the

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June 28, 2016

**FINAL REPORT**

## Executive Summary

The purpose of this report is to present data-supported analysis and conclusions regarding the incidence of nuisance complaints for Short-Term Rentals (STRs) in cities and unincorporated areas along the Central Coast. This study addresses the specific question: Do short-term rentals cause an increase in nuisance complaints in Central Coast cities?

Nuisance complaints can be associated with safety issues for residential neighborhoods. Nuisance reporting includes noise, parking on front yards or setbacks, trash, suspicious activity, abandoned automobiles, and outside storage.

The areas that we evaluated for nuisances included the cities of San Luis Obispo, Santa Maria, Lompoc, Solvang, Goleta, Santa Barbara, Carpinteria, Ventura, Thousand Oaks, and the unincorporated areas of Santa Barbara County.

Nuisance report data for STRs are only collected in three cities along the Central Coast: Santa Barbara, Goleta, and Ventura. For Santa Barbara, the compiling of nuisance reported data for STRs began in 2006. For Goleta and Ventura, the compiling of nuisance reported data for STRs began in 2015.

For **STR residential homes**, the rate of nuisance reporting per year is as follows:

<u>Area</u>	<u>Reporting Period</u>	<u>Nuisance Report Rate per Home</u>
Santa Barbara City	01/06 – 05/16	0.00662
City of Goleta	02/15 – 05/16	0.00
City of Ventura	11/15 – 04/16	0.00

Nuisance report rates for all residential homes were compiled for the areas that maintain such records. These areas include the cities of Santa Barbara, Santa Maria, Thousand Oaks, and San Luis Obispo, and the unincorporated areas of Santa Barbara County.

For **ALL residential homes**, the rate of nuisance reporting per year is as follows:

<u>Area</u>	<u>Reporting Period</u>	<u>Nuisance Report Rate per Home</u>
City of Santa Barbara	01/06 – 05/16	0.00699
City of Santa Maria	03/97 – 03/16	0.065
Unincorporated Santa Barbara County		
Including Isla Vista	01/15 – 12/15	0.045
Excluding Isla Vista	01/15 – 12/15	0.014
Thousand Oaks	01/15 – 12/15	0.025
San Luis Obispo	01/15 – 12/15	0.019

The results above indicate that the nuisance report rates for STRs in Santa Barbara City, the City of Goleta, and the City of Ventura are substantially less than the nuisance report rate for all residential homes in Santa Maria, the unincorporated area of the County, Thousand Oaks, and San Luis Obispo.

Furthermore, the nuisance report rate for STRs in Santa Barbara City is slightly lower than the rate for all residential properties in the City.

**Consequently, the findings of this study strongly suggest that the presence of STRs do not result in heightened nuisance issues in Central Coast residential neighborhoods. Moreover, the presence of STRs may actually reduce the rate of nuisance complaints; possibly because of the type of occupant that utilizes STRs.**

## Nuisance Reports for Short-Term Rental Properties

In a separate report, we concluded that STR properties are principally single-family detached homes.<sup>1</sup> Consequently, they would largely be located in residential neighborhoods around the County of Santa Barbara.

The question of safety was originally raised in a report by the Los Angeles Alliance for a New Economy.<sup>2</sup> In the report, the authors write about numerous complaints made to Neighborhood Councils by neighbors over actions by tourists staying in AirBnB rentals. "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."<sup>3</sup>

For this study, we reviewed nuisance reports for 6 cities and found that the cities of Goleta, Santa Barbara and Ventura monitor these reports for homes designated as STRs. No such designation exists in Santa Maria, Lompoc, Carpinteria, or the unincorporated areas of Santa Barbara County.

The fact that the majority of cities have not deemed it necessary to establish a zoning designation for homes being used as STRs (for the purpose of monitoring complaints and/or safety issues) is evidence that they generally are not considered safety threats in neighborhoods.

In the City of Goleta, there have been no reports or complaints filed regarding short-term rentals since the monitoring started in February 2015. Our contact at the City of Goleta was Vyto Adomaitis, Director, Neighborhood Services and Public Safety.

In the City of Ventura, the monitoring of STR homes commenced in November 2015. We spoke to Noelle Sorensen, the administrator in the City of STRs. She indicated that no nuisance reports had been received regarding STRs in the 5-month period between the inception of the program and April 1, 2016.

However, in the City of Santa Barbara, there is a zoning designation for homes that rent short term, and this designation has been in effect for approximately 10 years.

In a report to the City Council, staff wrote the following:

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<sup>1</sup> "The Effect of Short Term Rentals on the Supply of Housing in Santa Barbara City and County," a report prepared by the California Economic Forecast, May 12, 2015.

<sup>2</sup> AirBnB, rising rent, and the housing crisis in Los Angeles, <http://www.laane.org/wp-content/uploads/2015/03/AirBnB-Final.pdf>

<sup>3</sup> *ibid.*, page 21

The City has seen a slight rise in complaints about vacation rentals, and the majority involve cases where the entire housing unit is being rented out as a vacation rental. The City has received very few complaints to date where a single room is rented out and the primary occupant remains on the property. Vacation rental complaints are extremely challenging enforcement cases, as the activity is not necessarily easily observed from the street or visible to the public. Since 2004, over 60 complaints regarding vacation rentals have been received. Zoning staff has been able to verify noncompliance and successfully abate most of those cases. The remaining cases were closed due to lack of evidence to confirm a violation. Currently, there are seven vacation rental complaints under investigation by zoning enforcement staff.<sup>4</sup>

We requested and were able to obtain nuisance report information from the Code Enforcement Department of the City of Santa Barbara, annually from 2006 through May of 2016.<sup>5</sup> For this 10 ½ year period, there were a total of 82 nuisance complaints:

2006	3
2007	4
2008	1
2009	3
2010	12
2011	7
2012	7
2013	11
2014	18
2015	11
2016	5

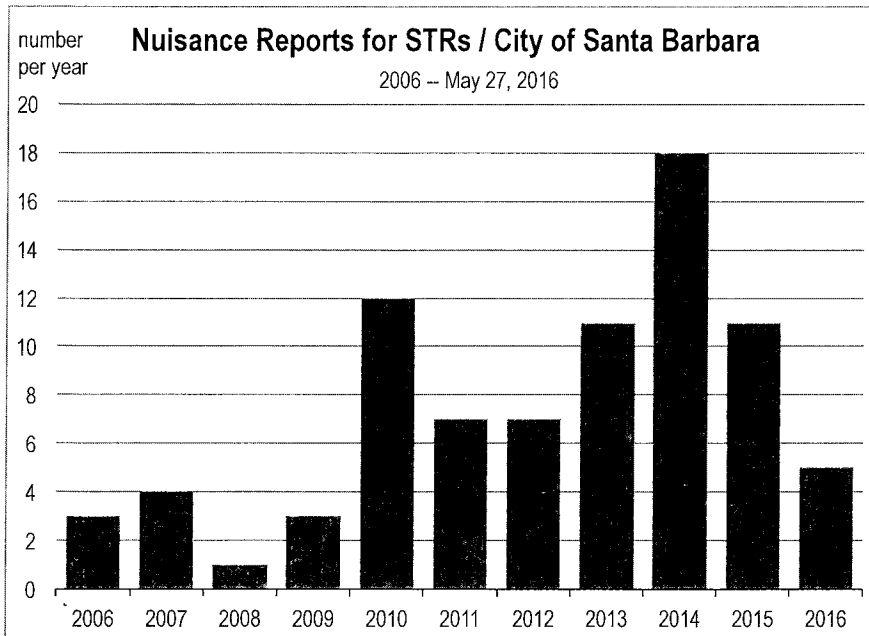
*Source: Andrew Perez, Code Enforcement Officer, City of Santa Barbara*

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<sup>4</sup> City of Santa Barbara Staff Report to the City Council; Subject: the Council Direction on Short-Term Vacation Rental Regulations, June 23, 2015, pages 5 and 6.

<sup>5</sup> The data was provided by Andrew Perez on May 27, 2016. (805) 564-5470 x4559. The reports for 2016 were year-to-date.





82 nuisance reports over a 10.42 year period produces an average of 7.9 nuisance complaints coming from STRs per year.

There are 1,193 STRs operating in the City of Santa Barbara as of 2015<sup>6</sup> and 7.9 nuisance reports per year on average. The rate of STR nuisance reports in the City of Santa Barbara for STRs is therefore:

$7.9 \text{ reports per year} / 1,193 \text{ STRs} = 0.00662 \text{ nuisance reports per STR per year.}$

## Nuisance Reports for ALL Residential Properties

Nuisance and/or noise complaint data for ALL residential properties is available for the City of Santa Maria, the unincorporated areas of Santa Barbara County, the City of San Luis Obispo, the City of Thousand Oaks, and the City of Santa Barbara.

Nuisance and/or noise complaint data for ALL residential properties was not available for the cities of Goleta and Ventura until only recently. For Lompoc, Solvang or Carpinteria, no complaint data on nuisance issues could be acquired because databases do not exist for non-STR properties in these jurisdictions. For the City of Santa Barbara nuisance report

<sup>6</sup> See: TXP, Inc., "The Local Economic Impact of Short Term Rentals in Santa Barbara, CA," Fall 2015, and page 7 of our first report entitled: "The Effect of Short Term Rentals on the Supply of Housing in Santa Barbara City and County," *op. cit.*

data for all residential properties was obtained annually for the 2006 through June 2016 period.<sup>7</sup>

### **City of Santa Barbara**

The report data for the City of Santa Barbara originate in 2006 and are available annually through May of 2016. Total residential nuisance complaints per year are as follows:

2006	278
2007	228
2008	294
2009	247
2010	151
2011	130
2012	151
2013	228
2014	210
2015	329
2016	378

Annual information on the occupied housing stock for the City of Santa Barbara was obtained from the Department of Finance, Report E-5 for all years since 2006. Consequently, a nuisance report rate for all residential properties could be computed each year.

For 2016, the annual rate was adjusted to account for the partial year-to date- in which total nuisance complaints have been received. There have been an extraordinary number of complaints during the first 6 months of 2016 for all residential properties in the City. The nuisance report rate was 0.0208 per home, or 2.08 per 100 homes.

The annual average over the entire 2006 to 2016 period was 0.00699 complaints per home (or 0.761 complaints per 100 homes).<sup>8</sup> A chart of the nuisance rate for STRs and All Residential Homes in Santa Barbara is presented here:

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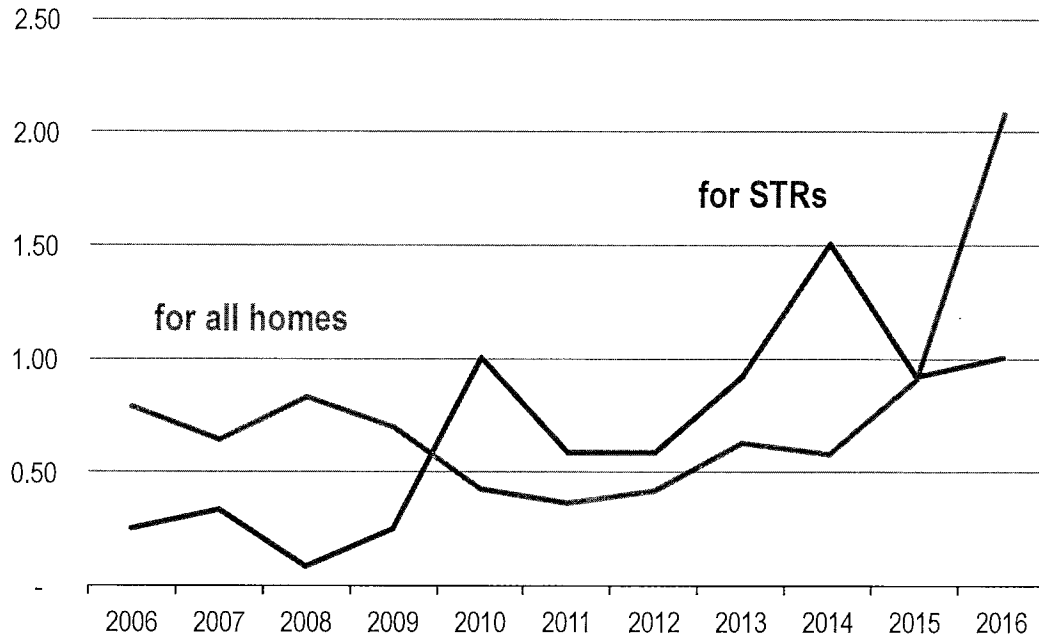
<sup>7</sup> This information was received from Andrew Perez in Code Enforcement on June 27, 2016.

<sup>8</sup> See Appendix A.

number of reports  
per 100 homes  
per year

## Nuisance Report Rates / City of Santa Barbara

2006 -- May 2016



The nuisance report rates over time for STRs versus All Homes are very close. The rate for STRs was the lower rate from 2006 to 2009. The rate for All Homes was lower between 2010 and 2014. The rates were even in 2015. The rate for All Homes is substantially higher this year.

### City of Santa Maria

The reports for the City of Santa Maria span 19 years and pertain to all properties. The total for the March 1997 to March 2016 period shows 38,131 complaints. Many of these complaints would not be the type associated with a short term rental, such as not having a temporary use permit, business sales without permits, keeping of roosters, living in recreational vehicles, legal recordings, conducting business in a residential neighborhood, or vector issues. If these are omitted, the total shrinks to 33,373, an average of 1,756 per year.

There are 27,185 occupied residential units in the City of Santa Maria. The average number of occupied housing units over the 19-year period was 26,936. Consequently, the rate of relevant nuisance reports is:

$$1,756 / 26,936 = 0.065 \text{ per home per year.}$$

## Unincorporated Areas of Santa Barbara County

For the unincorporated area of Santa Barbara County, we obtained the following information on noise complaints:

<u>Unincorporated Area</u>	<u>2014</u>	<u>2015</u>
Santa Barbara	152	174
Santa Maria	261	210
Lompoc	69	55
Santa Ynez	51	67
Isla Vista	1,353	1,476
Montecito/Summerland Area	91	68
<u>Totals</u>	<u>1,977</u>	<u>2,050</u>

Total residential units that are occupied in the unincorporated area of the County sum to 45,992.<sup>9</sup>

For 2015, the noise complaint rate was:

$$2,050 / 45,992 = 0.0446 \text{ complaints per home}$$

The rate is clearly skewed upward, by Isla Vista.

If Isla Vista is removed from the rate determination for the unincorporated area noise complaint rate, the rate declines to:

$$574 \text{ complaints} / 40,828 \text{ occupied housing units}^{10} = 0.0140 \text{ per home}$$

## San Luis Obispo and Thousand Oaks

We obtained information on nuisance reports in 2015 for Thousand Oaks and San Luis Obispo. The nuisance report rate for each was:

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<sup>9</sup> The housing stock information is from Table 2 of Report E-5 City/County Population and Housing Estimates 1/1/2015, from the Department of Finance, Population Research Unit.

<sup>10</sup> There are 5,164 occupied housing units in Isla Vista. If these are removed from the total occupied housing units in the unincorporated area of Santa Barbara County (45,982), the total is reduced to 40,828. See <http://islavista.areaconnect.com/statistics.htm>

Nuisance Report  
Rate per Home

San Luis Obispo      0.0252

Thousand Oaks      0.0193

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Calculations for these rates: see Appendix A

## Conclusion

One of the principal efforts to monitor the nuisance and/or safety issues associated with STRs in residential neighborhoods is to determine how many complaints are filed by neighbors for disturbances coming from STR homes.

### **Nuisance Reports for Short Term Rental Properties**

An average of 7.9 nuisance complaints per year for STR properties in the City of Santa Barbara were received over a 10.42 year period, ending May 2016. The rate of complaints per STR home is 0.0066 per year.

Zero nuisance complaints have been recorded for STR properties in the City of Goleta since monitoring commenced in February 2015. Zero nuisance complaints have been recorded for STR properties in the City of Ventura since monitoring commenced in November 2015.

### **Nuisance Reports for ALL Residential Properties**

Nuisance and/or noise complaint data for ALL residential properties is available for the City of Santa Maria, the Unincorporated Areas of Santa Barbara County, the City of San Luis Obispo, the City of Thousand Oaks, and the City of Santa Barbara.

Nuisance and/or noise complaint data for ALL residential properties was not available for the cities of Goleta or Ventura until just recently. Complaint data is entirely unavailable for Lompoc, Solvang or Carpinteria because databases do not exist-for non-STR properties.

The nuisance report rates for STRs in Santa Barbara, Goleta, and Ventura are substantially less than the nuisance report rate for all residential homes in the cities for which data could be obtained. For the City of Santa Barbara, the two rates were approximately the same, but slightly lower for STRs over the entire 2006-2016 period of examination.

**Consequently, the findings of this study strongly suggest that the presence of STRs do not result in heightened nuisance issues in Central Coast residential neighborhoods. Moreover, the presence of STRs may actually reduce the rate of nuisance complaints in residential neighborhoods.<sup>11</sup>**

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<sup>11</sup> See Appendix B

## Appendix A / Methodology and Calculations

A number of cities in the central coast were contacted to obtain reports on residential nuisances. For the central coast, the cities of Santa Barbara, Goleta, Carpinteria, Santa Maria, Ventura, Solvang, Thousand Oaks, Lompoc, and San Luis Obispo were contacted. We requested reports of the number of nuisance calls made on residential properties over time.

However, not every city maintained data on nuisance reports and virtually no cities maintained information that was separate between STR classified houses and non-STR classified homes. The cities of Santa Barbara and Goleta were the only two cities in our sample that tracked nuisance reports separately for STR classified properties and non-STR classified properties.

In fact, some cities, such as Lompoc, had no information on nuisance reports whatsoever. Furthermore, Solvang, Ventura, and Carpinteria reported that even though they have a Code Enforcement Division, they do not track the number of nuisance reports received over time, nor do they have any record of the current number of nuisance reports.

Below is a table that presents our city contacts:

<b>Location</b>	<b>Contact(s)</b>
Santa Barbara City	Andrew Perez
City of Goleta	Vyto Adomaitis
Carpinteria	Silvia Echeverria
Santa Maria	Ezekial Moran
Santa Barbara County - Uninc.	Jessica Metzger
Ventura	Noelle Sorensen
Solvang	805 - 688 - 5575 (Name Not Given)
Thousand Oaks	Geoff Ware
San Luis Obispo	805 - 781 - 7311 (Name Not Given)

Following receipt of the nuisance reported information from the cities, a ratio of nuisance reports per occupied housing unit was created by city for each year. The ratio was scaled per 100 homes.

<b>San Luis Obispo</b>			
<b>Year</b>	<b>Housing Stock</b>	<b>DAC Reports</b>	<b>Reports per 100 Homes</b>
2006	17867	1217	6.81
2007	17906	1286	7.18
2008	18022	1364	7.57
2009	18083	1148	6.35
2010	17,711	785	4.43
2011	17,720	639	3.61
2012	17,720	544	3.07
2013	17629	515	2.92
2014	17679	549	3.11
2015	17752	448	2.52
Average for 2006 to 2015			4.76

<b>Thousand Oaks</b>			
<b>Year</b>	<b>Housing Stock</b>	<b>Reports</b>	<b>Reports per 100 Homes</b>
2011	45913	879	1.91
2012	46278	1039	2.25
2013	46723	743	1.59
2014	46914	1327	2.83
2015	47095	907	1.93
Average for 2011 to 2015			2.10

<b>Santa Maria</b>			
<b>Year</b>	<b>Housing Stock</b>	<b>Reports per year</b>	<b>Reports per 100 Homes</b>
1997 - 2015 Cumulative			
	26936	1756	6.52

<b>Santa Barbara Unincorporated Cumulative</b>			
<b>Year</b>	<b>Housing Stock</b>	<b>Reports</b>	<b>Reports per 100 Homes</b>
2014	45751	1977	4.32
2015	45992	2050	4.46
Average for 2014-2015			4.39



## City of Santa Barbara

The total number of nuisance reports for STR properties in the City of Santa Barbara is 82 between January 2006 and May 2016. The average per year is therefore  $82 / 10.42 \text{ years} = 7.9$ . Total STR housing stock has been estimated at 1,193 in the City of Santa Barbara. The rate is therefore:

$$7.9 / 1,193 = 0.00662 \text{ per home}$$

Year	Number of STRs	Reports for STR	Reports per 100 STR Homes	adjusted
2006	1,193	3	0.25	0.25
2007	1,193	4	0.34	0.34
2008	1,193	1	0.08	0.08
2009	1,193	3	0.25	0.25
2010	1,193	12	1.01	1.01
2011	1,193	7	0.59	0.59
2012	1,193	7	0.59	0.59
2013	1,193	11	0.92	0.92
2014	1,193	18	1.51	1.51
2015	1,193	11	0.92	0.92
2016	1,193	5	0.42	1.01
Average rate for the 2006 to 2016 period			0.625	0.0662

Year	Housing Stock	Total Reports	Reports per 100 Homes	adjusted
2006	35,168	278	0.79	0.79
2007	35,270	228	0.65	0.65
2008	35,372	294	0.83	0.83
2009	35,413	247	0.70	0.70
2010	35,449	151	0.43	0.43
2011	35,633	130	0.36	0.36
2012	35,793	151	0.42	0.42
2013	36,154	228	0.63	0.63
2014	36,250	210	0.58	0.58
2015	36,337	329	0.91	0.91
2016	36,383	378	1.04	2.08
Average rate for the 2006 to 2016 period			0.667	0.0699

The adjusted column adjusted the rate for the full calendar year; only 2016 has been adjusted, based on reports for the first 5 months of 2016

Source: Andrew Perez City of Santa Barbara

For all residential properties in the City, the total number of nuisance complaints over the 10.5 year period (January 2006 through June 2016) was 2,624. The average per year is:

$$2,624 / 10.5 \text{ years} = 249.9 \text{ per year}$$

The average annual occupied housing stock in the City of Santa Barbara over the 2006 to 2016 time period was 35,747 homes. The nuisance rate is therefore:

$$249.9 / 35,747 = 0.006991 \text{ per home}$$

## Appendix B

### **STRs may actually reduce the rate of nuisance complaints in residential neighborhoods**

Because of the type of home (and therefore the type of occupant) that typically engages in STR activity, this conclusion should intuitively follow. A survey that was conducted of 319 STR homeowners indicated that the value of the median home was \$2.6 million.<sup>12</sup>

Occupants of these types of properties are more likely to be older and more affluent than the typical homeowner in Santa Barbara. More affluent and older users of STRs are going to be less likely to create nuisances in City neighborhoods.

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<sup>12</sup> *op.cit.*, "The Effect of Short Term Rentals on the Supply of Housing in Santa Barbara City and County," a report prepared by the California Economic Forecast, May 12, 2015. See page 13

# The Effect of Short Term Rentals on the Supply of Housing in Santa Barbara City and County



# **The Effect of Short Term Rentals on The Supply of Housing in Santa Barbara City and County**

**What is the effect of the short-term rental (STR) market  
on the supply of long-term housing?**

A report prepared by the

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May 12, 2016

**FINAL REPORT**

## Executive Summary

The purpose of this report is to present data-supported analysis and conclusions regarding the impact of Short-Term Rentals (STRs) on the supply of long-term housing in Santa Barbara City and County.

Short-Term Rentals (STRs) have grown to represent an important economic engine for the local economy. A recent STR Economic Impact Report for the Santa Barbara area concluded that the operation of STRs creates approximately \$471 million in overall economic activity per year, and approximately 5,000 jobs. STRs also provide significant annual Transient Occupancy Tax revenues to Santa Barbara City and Santa Barbara County.

However, community members and decision makers are concerned about the impact of STRs on the supply of long-term housing.

Is there a valid concern that the long-term rental housing supply in the City and County of Santa Barbara is negatively impacted by the operation of STRs? Yes. However the degree to which the supply is impacted is negligible, far less than presumed.

As a principal part of the study methodology, survey requests were sent to STR property owners in Santa Barbara City and County. The survey was conducted during the month of March 2016.

### Key Results of the Survey

- If STRs were prohibited in the City and/or County of Santa Barbara, 71% of STR owners would continue to rent their properties as short-term rentals. 49% would be rented legally (30+ night stays), and 22% illegally (less than 30-night stays).
- Less than 15 percent of STR property owners rent their properties full time throughout the year. The remaining owners only rent their properties part time. Most owners rent their homes out as vacation rentals for less than half of the calendar year.
- 51 percent of all STR properties in Santa Barbara County are located in the City of Santa Barbara.
- In 86 percent of all cases, the entire dwelling is rented out short term.
- Less than 13 percent of STR owners use the vacation rental business as their livelihood.

Using the survey responses as representative of all STRs in Santa Barbara County, extrapolations to the entire population of STRs show that the prohibition of STRs would create an estimated 67 additional long-term rental units in the City of Santa Barbara, and an estimated 77 additional long-term rental units in rest of the County of Santa Barbara. 144 total additional units out of 147,368 long-term housing units in the entire County of Santa Barbara represents 0.10% of total housing stock being added to the supply of rentals.

**An increase of 1/10<sup>th</sup> of 1% in the long-term rental supply is created by prohibition of STRs, and does not represent a significant number of housing units that would be converted from STR use to a longer term supply of housing for purchase or rent.**

This study also shows that if STR prohibition is enacted, 22% of STR operators may operate in a “grey market” in which rentals of less than 30-nights will continue in spite of the prohibition. This grey market will add additional regulatory costs, and will not produce transient occupancy revenues to Santa Barbara City and County.

In conclusion, the empirical evidence does not justify the perception that the operation of STRs in Santa Barbara County or City materially impacts the supply of housing for residents. Only a negligible increase in the long-term housing supply would be created by the prohibition of STRs, and approximately half of that negligible increase would not be considered “affordable” housing.

**Consequently, this study does not support the perception that STRs have a significant negative impact on the supply of long-term housing.**

# What is the effect of the short-term rental (STR) market on the supply of long-term housing?

In Santa Barbara City and County, and in other coastal areas of California, home prices are between 2 and 6 times higher than the median home price for all homes nationwide. Average rents for apartments are twice as high as the national average. Housing is simply more expensive in the Bay Area, Santa Barbara, and along Coastal California in general than in most other areas of the country. Why? Because demand for homes in California remains strong and the growth of housing supply is dwarfed by the growth of housing demand.

Housing supply growth is constrained by many factors, but the most prominent are growth controls and the regulation of new housing supply. Growth controls come in many forms, including zoning policies, urban growth boundaries, affordable housing policies, development fees, new unit limitations per year, and other land use policies.<sup>1</sup>



The screenshot shows the top portion of a news article from the Los Angeles Times. The masthead reads "Los Angeles Times" in a serif font. Below it, a navigation bar lists various sections: "HOME", "LOCAL", "NATIONAL", "ENTERTAINMENT", "TECH", "SPORTS", "BUSINESS", "OPINION", "CALENDAR". The main headline is "Airbnb and other short-term rentals worsen housing shortage, critics say" in a large, bold, sans-serif font. Below the headline is a photograph of a two-story house with a dark roof and white siding, partially obscured by tree branches in the foreground. Underneath the photo, there is a byline: "By Tim Lutz, Emily Alpert Reyes and Ben Poston • Contact Reporters" and a timestamp: "MARCH 31, 2015, 3:00 AM". The first paragraph of the article begins with a large drop cap "T" and reads: "he last time he advertised one of his apartments, longtime Los Feliz landlord Andre LaFlamme got a request he'd never seen before. A man wanted to rent LaFlamme's 245-square-foot bachelor unit with hardwood floors for \$875 a month, then list it himself on Airbnb."

**While there are many reasons for a constrained housing supply, a recent allegation has been aimed at short-term rentals as having a meaningful effect on restricting the supply of rental units.**

<sup>1</sup> See for example, the March 2016 edition of the California Economic Forecast's monthly newsletter on Urban Growth Controls: <http://californiaforecast.com/march-2016/>



If the owner of a condo, home, studio, or multi-family apartment structure (who does not use the property during a portion of the year) decides to dedicate an entire unit exclusively to STR use, there is the potential to remove housing from the stock available to local residents.

In the majority of cases, removing the housing unit from the housing stock would likely mean removing the unit from the rental housing stock, though it's also possible that a unit dedicated to STR use might otherwise be available for sale, too.

It is not accurate to say that all units that are dedicated to STR use are being removed from the rental stock because some of them have never been part of it, and/or the property owner is unwilling to have a non-relative tenant. Consequently, they would leave the unit vacant or exclusively available for relatives, friends or other uses if they were unable to rent it out short-term.

A full listing of STRs from short-term rental websites such as AirBnB.com, HomeAway.com, VRBO.com, and Flipkey.com would include the following types of listings:

Housing types that impact the supply of long-term housing:

- Units that are being short-term rented full time without a resident in the home, and there is no personal use of the property by the owner

Housing types that do not impact the supply of long-term housing:

- Second homes that are used a portion of the year by the owner
- Extra bedrooms that someone is renting out some of the time
- Full units that someone is renting out when they happen to be out of town
- Other listings by property owners who took the time to make a listing, but don't actually follow through with renting because they don't need the money at this moment.

For the purposes of determining the impact that STRs have on the supply of housing available to tenants or new purchasers, we need to know:

- (1) The total number of housing units in Santa Barbara City and County
- (2) The total number of STRs in Santa Barbara City and County
- (3) Whether the STRs are “whole house” or “whole units”, and if they are made available throughout the year.
- (4) What alternatives would current owners of STR properties choose if their current use of the property as a short-term rental was prohibited.

The current total supply of housing is presented here:

### Housing Supply today / Santa Barbara County

	Total Single Family	Total Apartments	Total Supply*
	----- units -----		
<b>Santa Barbara City:</b>	<b>21,457</b>	<b>16,609</b>	<b>38,066</b>
<b>Other Incorporated Cities in SB County**:</b>	<b>41,472</b>	<b>20,726</b>	<b>62,198</b>
<b>Unincorporated Areas of SB County:</b>	<b>38,505</b>	<b>8,599</b>	<b>47,104</b>
<b>Total Santa Barbara County</b>	<b>101,434</b>	<b>45,934</b>	<b>147,368</b>

\* Does not include mobile homes

\*\*Cities include: Santa Maria, Lompoc, Goleta, Carpinteria, Solvang, Guadalupe, Buellton

Source: Department of Finance, report E-5, May 2015

The table is the most recent inventory of housing stock in Santa Barbara County, and is updated annually every May by the Department of Finance. Currently, there are 38,066 housing units in the City of Santa Barbara, 62,198 housing units in

Other Incorporated Cities in SB County, and 47,104 housing units in the Unincorporated Areas of SB County. This results in a total of 147,368 housing units in Santa Barbara County.

### **Estimated STR Inventory / Santa Barbara City and County**

The total supply of STRs was determined in a recent report prepared by TXP, Inc.<sup>2</sup> “Approximately 2,550 unique STR properties were listed in 2014 throughout Santa Barbara County across a variety of major online vacation rental platforms.”<sup>3</sup>

TXP determined that the total output impact of STRs in Santa Barbara County is \$472 million per year and that the City of Santa Barbara’s contribution to that impact is 46.8 percent of the county total. Applying the ratio of the City to County output impact to the number of STR properties in the County, it is estimated that at most, there are 1,193 properties located within the Santa Barbara City limits.<sup>4</sup>

### **STR Inventory / Santa Barbara County**

	<u>number of properties</u>
Santa Barbara City:	1,193*
Rest of Santa Barbara County:	<u>1,357</u>
TOTAL:	2,550

\* represents 46.8 of total STR supply in the County of Santa Barbara

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<sup>2</sup> TXP, Inc., “The Local Economic Impact of Short Term Rentals in Santa Barbara, CA,” Fall 2015

<sup>3</sup> *ibid.*, page 4

<sup>4</sup> We say “at most” because STR properties in the City of Santa Barbara would, like housing prices, typically have a higher average rental price than the collective average of the properties outside of the City (including Carpinteria, Montecito, Goleta, Lompoc Santa Ynez and Santa Maria). A higher price would lead to a larger impact per property. A larger impact per property means that to contribute 46.8 percent of the total output in the county, the number of STR properties in the City would be less than 46.8 percent of the total STR properties in the County

## Survey of STR properties / County of Santa Barbara

A recent survey of STR property owners was conducted to obtain information that is pertinent in the determination of the STR impact on housing supply.

Two principal vacation rental websites (AirBnB.com and HomeAway.com) were contacted for the purpose of disseminating a survey to all STR property owners in Santa Barbara County. Surveys were also sent to owners of properties managed by professional STR management companies.

1,660 survey requests were sent to the following recipients:

Surveys sent to owners by email from HomeAway corporate office*:	575
Surveys sent to owners through the HomeAway inquiry system:	476
Surveys sent to owners through the AirBnB inquiry system:	336
Surveys sent to owners by local STR management companies:	<u>273</u>
<b>TOTAL:</b>	<b>1,660</b>

*\*Approximately 425 STR property owners were not sent the survey from HomeAway.com corporate office because those property owners had "opted out" of receiving ancillary email correspondence from HomeAway.com.*

The survey was conducted during the month of March 2016. A total of 319 responses were received. This represents a 19 percent response rate.

Responses to six principal questions were requested for the analysis. An additional 4 responses were requested from STR owners if they selected the 4<sup>th</sup> or 5<sup>th</sup> answer in question 6).

The Survey Questions and the responses are presented below.

### 1) Where is your property located?

Answer	percent	number
Santa Barbara	51.10%	163
Montecito	14.42%	46
Goleta	1.25%	4
Carpinteria	10.66%	34
Santa Ynez Valley	14.73%	47
Lompoc Valley	0.63%	2
Santa Maria Valley	0.94%	3

Other (please specify)	6.27%	20
Total	100%	319

The proportion of 51 percent of respondents having their properties located in Santa Barbara is statistically comparable to the 47 percent of total properties in Santa Barbara County estimated (above) to be located in Santa Barbara.

Most STRs are located along the South Coast of Santa Barbara County (83%) with only a small representation of properties in the North County.<sup>5</sup>

## 2) What type of property is your short-term rental?

Answer	percent	number
Single Family Home	76.18%	243
Condo or Townhouse	9.09%	29
Apartment	2.51%	8
Other (please specify)	12.23%	39
Total	100%	319

The dominant response is that the typical STR is a detached single-family home. Apartments really do not comprise a meaningful portion of the short-term rental stock. The “other” category of 39 properties was mostly guest homes or cottages, separate mother-in-law or grannie units, or artist or studios, or single-family ranch homes on a ranch.

## 3) What do you offer for rent?

Answer	percent	number
Entire dwelling	86.52%	276
Individual room(s) in the dwelling	13.48%	43
Total	100%	319

Clearly, most STRs comprise the entire property. Consequently, it would appear that the potential to augment the housing stock would be quite high if all of these homes were precluded from STR activity.

<sup>5</sup> The “other “ category included 5 homes in Summerland, 4 homes in “Noleta” (commonly interpreted as the unincorporated area between Goleta and Santa Barbara), 1 in Montecito, and 6 in the unspecified unincorporated South Coast region of the county. There were only 4 in the North County including the Santa Ynez Valley. Consequently, 16 of the 20 “other “ responses can be allocated into the South Coast.

**4) Please provide the best answer as to why you use your property as a short-term rental**

<b>Answer</b>	<b>percent</b>	<b>number</b>
I need to rent the property (or rooms) to help finance the mortgage	28.84%	92
I need the additional income to make ends meet	32.92%	105
I don't use the home full time, so I might as well rent it out when I'm not here	25.71%	82
This is my business	12.54%	40
<b>Total</b>	<b>100%</b>	<b>319</b>

Less than 13 percent of STR owners claim that the vacation rental business is their livelihood. The remainder engages in STR activity to augment their incomes to finance their properties or the general cost of living.

**5) How many nights during the year do YOU personally use your short-term rental property?**

<b>Answer</b>	<b>percent</b>	<b>number</b>
None. My property is available for rent 100 percent of the year	14.42%	46
1 to 90 nights	45.77%	146
91 to 180 nights	19.75%	63
181 to 364 nights	20.06%	64
<b>Total</b>	<b>100%</b>	<b>319</b>

Less than 15 percent rent their properties full time throughout the year. The remaining STR owners only rent their properties part time. And most rent their homes out as vacation rentals for less than half of the calendar year.

This is consistent with the previous question that property owners who rent their homes out as vacation rentals are doing so to augment their income. It is not their primary business. Furthermore, the home is used for their personal occupation (or their family's), and would not be available to augment the long-term supply of housing if STR activity was banned.

**6) If rentals of less than 30-nights were prohibited, what would you do?**

<b>Answer</b>	<b>percent</b>	<b>number</b>
I would personally live in the property full time	5.96%	19
I or my extended family (or friends) would use the property more	5.96%	19
I would continue to rent my property short-term, but with a 30-night minimum per rental	49.22%	157
I would convert the property to a long-term rental (1 year lease or longer)	5.64%	18
I would sell the property	10.97%	35
I would continue to rent my property for less than 30-nights, and accept the risk of enforcement action	22.26%	71
<b>Total</b>	<b>100%</b>	<b>319</b>

The responses above demonstrate that most STR owners would choose an option for their property other than one that would augment the housing supply in Santa Barbara County, including the City of Santa Barbara. Only 16.6 percent of respondents indicated they would either long-term rent or sell their property.

**Consequently, while some additional properties would be added to the housing stock, mostly as new for-sale inventory, the vast majority (72 percent) would continue to be used as short term rentals, legally or illegally.**

The following 3 questions pertained only to the 18 (5.6%) of respondents (above responders in blue) who indicated they would convert their rental to long-term rental property. The purpose of the 3 questions was to determine the potential rental rates of the homes (and, for shared homes, the “per-room” rental rates) that were added to the long-term housing supply.

**7) As a long-term rental (1-year leases or longer), what do you think you would rent the property for:**

<b>Answer</b>	<b>percent</b>	<b>number</b>
\$1,500 per month or less	11.11%	2
\$1,501 - \$3,000 per month	16.67%	3
\$3,001 - \$5,000 per month	22.22%	4
\$5,001 - \$7,500 per month	33.33%	6
\$7,501 - \$9,000 per month	11.11%	2

Greater than \$9,000 per month	5.56%	1
Total	100%	18

Half of respondents indicated they would rent their home for \$5,000+ per month. This tends to be the higher end of rental properties in Santa Barbara, Goleta, Montecito and Carpinteria, and very high elsewhere. A review of houses for rent on Craig’s List clearly demonstrates this. Consequently, only 9 homes out of 319 STR properties surveyed (2.8 percent) would be added to the rental supply of homes in an affordable range for professionally working families. The other half (2.8 percent) would be added to the rental supply in the luxury home category.

**8) As a long-term rental, how many bedrooms would be available in your property?**

Answer	percent	number
1	16.67%	3
2	22.22%	4
3	44.44%	8
4	5.56%	1
5	5.56%	1
6 or more	5.56%	1
Total	100%	18

**9) What would the “per room” rate be for your long-term rental (calculated as the total monthly rent divided by the total number of bedrooms)?**

Answer	percent	number
\$500 or less	0.00%	0
\$501 - \$1000	5.56%	1
\$1001 - \$1,500	50.00%	9
\$1,501 - \$2,000	33.33%	6
Greater than \$2,000	11.11%	2
Total	100%	18

The following question pertained only to the 35 (10.97%) of respondents (question 6 responders in green) who indicated that they would sell their property. The purpose of the question was to determine a potential for-sale price or “value” of the type of homes that would be added to the long-term housing supply.



### 10) What is the market value of your property?

<b>Answer</b>	<b>percent</b>	<b>number</b>
\$500,000 or less	0.00%	0
\$500,001 - \$1,000,000	18.92%	7
\$1,000,001 - \$1,500,000	13.51%	5
\$1,500,001 - \$3,000,000	32.43%	12
\$3,000,001 - \$5,000,000	21.62%	8
Greater than \$5,000,000	13.51%	5
<b>Total</b>	<b>100%</b>	<b>35</b>

25 of the 35 of the above responders indicated the market value of their home was \$1.5 million and up. 10 of the 35 indicated the market value of their home was \$3.0 million and up. The median value of the 35 STR homes is \$2,581,081.

## Conclusion

The tables below quantify the effect of STRs on the supply of long-term rental and for-sale housing units in the:

- 1) City of Santa Barbara
- 2) County of Santa Barbara (excluding the City of Santa Barbara), and
- 3) Combined Total: City & County of Santa Barbara.

<b><u>City of Santa Barbara (only)</u></b>	<b><u>Units</u></b>	<b><u>percent</u></b>
Total Housing units:	38,066	100.00%
Total Short-Term Rental units:	1,193	3.13%
Long-Term Rental Housing Inventory lost due to STR activity:	67	0.18%
Long-Term For-Sale Housing Inventory lost due to STR activity:	131	0.34%
Total Long-Term Housing Inventory lost due to STR activity:	198	0.52%
<b><u>County of Santa Barbara</u></b> <b><u>(excluding the City of Santa Barbara)</u></b>	<b><u>Units</u></b>	<b><u>percent</u></b>
Total Housing units:	109,302	100.00%
Total Short-Term Rental units:	1,357	1.24%
Long-Term Rental Housing Inventory lost due to STR activity:	77	0.07%
Long-Term For-Sale Housing Inventory lost due to STR activity:	149	0.13%
Total Long-Term Housing Inventory lost due to STR activity:	226	0.20%
<b><u>Combined Total: City &amp; County of Santa Barbara</u></b>	<b><u>Units</u></b>	<b><u>percent</u></b>
Total Housing units:	147,368	100.00%
Total Short-Term Rental units:	2,550	1.73%
Long-Term Rental Inventory lost due to STR activity:	144	0.10%

Long-Term For-Sale Housing Inventory lost due to STR activity:	280	0.19%
Total Long-Term Housing Inventory lost due to STR activity:	424	0.29%

Is the allegation true that the long-term housing supply in the City of Santa Barbara is impacted by the operation of STRs? Yes. But the degree to which the supply is impacted is statistically negligible.

Only 16.6 percent of current STR properties would be converted to long-term rental or for-sale housing stock in the event that STR activity was prohibited in Santa Barbara County. **This represents only 0.29% of the entire housing stock in Santa Barbara County.**

In conclusion, prohibition of STRs will create an estimated 67 additional long-term rental units in the City of Santa Barbara, and 77 additional long-term rental units in rest of the County of Santa Barbara. 144 total additional units out of 147,368 long-term housing units in the entire County of Santa Barbara **represents only 0.10% of the total housing supply**. This is a negligible increase in the supply of long-term rental units, and is unlikely a large enough increase in supply to have any long-term impact on rental rates.

Similarly, prohibition of STRs will create an estimated 131 additional for-sale housing units in the City of Santa Barbara, and 149 additional for-sale housing units in rest of the County of Santa Barbara. 280 total additional housing units out of 147,368 long-term housing units in the entire County of Santa Barbara represents only 0.19% of the total housing supply, and is unlikely a large enough increase in supply to reduce housing purchase prices.

Finally, for half of the estimated increase in the supply of long-term housing created by the prohibition of STRs, it is likely that rental rates for these properties would exceed \$5,000 per month (and, in a shared home, over \$1,500 per room per month). This level of monthly rent is generally not considered an “affordable housing” rate. Therefore, a significant amount of any increase in rental properties caused by prohibition of STRs would unlikely have any impact on the “affordable housing” problem in the region.

The empirical evidence does not justify the perception that the operation of STRs in Santa Barbara County or City materially impact the supply of housing for residents. Only a negligible increase in the long-term housing supply would be created by the prohibition of STRs, and approximately half of that negligible increase would not be considered “affordable” housing. Consequently, this study does not support the allegation that STRs have a significant negative impact on the supply of long-term housing.

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