

Switzer - Letter dated
12.5.16

#3

Daly, Julia Rutherford

From: Villalobos, David
Sent: Monday, December 05, 2016 3:14 PM
To: sbcob
Cc: Metzger, Jessica; Lackie, David; Richardson, Jennifer; Klemann, Daniel; Black, Dianne; Russell, Glenn
Subject: FW: Short-Term Rental Ordinance
Attachments: BOS letter re. STR's 12-5-16.pdf; Short-Term Rentals in Santa Barbara County - Economics and Housing Supply.pdf

For tomorrow

From: kenswitzer1@yahoo.com [mailto:kenswitzer1@yahoo.com]
Sent: Monday, December 05, 2016 2:56 PM
To: Villalobos, David
Cc: SupervisorCarbajal; Wolf, Janet; Farr, Doreen; Adam, Peter; Lavagnino, Steve
Subject: Short-Term Rental Ordinance

Dear County Clerk and Board of Supervisors:

See attached my letter and an associated reference material in 2 pdf files, regarding the Short-Term Rental Ordinance being considered on Tuesday.

Thank you,

Ken Switzer
(805) 680-4622 cell
kenswitzer1@yahoo.com

December 5, 2016

Dear Chairman Adam and Board of Supervisors:

I submit my comments as a local real estate agent, and as an owner of a 2nd home that I also use as a vacation rental property, and have for over 10 years. With that disclosure, though I rent my 2nd home short-term when not using myself, my interest in the issue is not out of self-interest. In fact with a 40+ acre AG-II property, I would be one of a very small handful of short-term rentals in the entire County (maybe 5 total?) that would still be allowed to be permitted under the proposed ordinance as written.

Despite this potential benefit for myself, I am strongly opposed to the ordinance as written for the Tuesday hearing. Instead I support compromise measures that actually look at the facts and are based on consensus support, rather than anecdotes and hysteria from a few people out of a County of 450,000 people.

I only rent the residence portion of my property when I'm not using it myself, it is within the 2-acre residential envelope and has zero effect on agricultural activity on my 150 total acres. I have a full-time ranch manager at the property, who is always there whether I am using the house myself, a tenant is renting the house, or it is vacant (approximately 50-70% of the year). Note that my soil is non-prime and I'm not able to grow any crops on my property, but I do have animals.

Though it might stay legal for myself, for all the other short-term rental owners who are also using their property themselves part of the time, and for whom the ordinance would ban less than 30-day rentals, they would now be renting for longer periods, and it would become an impingement on their property rights. It would also curtail their personal rights to come and go more freely to their property because of the longer tenant stays in-between, and to rent their property as they please to tenants who obey all laws and are respectful. The length of a tenant's stay is not relevant to their behavior.

Despite a potential personal financial windfall from this ordinance, I am strongly opposed for reasons of logic, principle, decency, and the harm it would cause to so many people, while solving no problems. The ordinance was crafted in an undemocratic way ignoring the wishes of the vast majority of stakeholders, and would hurt the livelihood of many innocent people in our local tourism industry, while not doing anything to help the purported issues of neighborhood nuisance or housing supply. Those are baseless claims pinned on short-term rentals - no facts or studies were considered during the planning process. In fact, studies have since shown that the issues of nuisance and housing supply are not relevant locally to short-term rentals on a statistical basis.

Beyond the actual studies which are now available, if you make the effort to truly listen to all the stakeholders as to what is really going on, you would see that the housing supply issue and nuisance issues are not factors for short-term rentals. Attached is a white paper addressing economic considerations of short-term rentals relevant to this debate, including an analysis showing housing supply to not be relevant to this matter.

As an alternative approach, I urge common-sense and simple STR regulations using a system of registration, on-line databases, enforcement hotlines, owner/manager contact numbers, and dedicated enforcement officers. All of these relatively simple and effective regulatory steps can be financed by a tiny portion of the Transient Occupancy Tax generated just by short-term rentals. Many of these types of STR regulatory systems have been used effectively by other jurisdictions throughout the state, including a couple of nearby cities. Many of these ideas have also already been crafted in more detail by other stakeholders.

For fairness and legal reasons, I also urge grandfathering of existing short-term rentals where owners have been operating legally and have done nothing wrong. I could support a temporary moratorium on any new short-term rentals as a compromise, and an immediate STR database and STR enforcement officer launch. At such time that a task force or other process can fine-tune a final version of these new regulations (the task force could also be paid for by a small fraction of the STR-related TOT), then potential new STR's can be applied for, with possible density limits to avoid over-concentration of STRs. With only 1.7% of housing in the County being used at any time for STR's, this entire issue seems completely overblown, but I can support a density clause if that provides a comfort level for those concerned about future over-concentration.

I have sympathy and concur with any resident who is being disturbed by an unruly neighbor, and I am open to new common-sense regulations that are logical and produce the desired solution. However to the extent that a short-term tenant is truly behaving differently than a long-term tenant or an owner-occupant on average, then there are many surgical steps that can be taken to resolve such an issue, besides taking a sledgehammer approach and in the process potentially affecting property rights, civil rights and the County's economy. A heavy-handed process that unnecessarily curtails law-abiding short-term rentals that doesn't even produce the desired solution, could also harm many lower-income and middle-class workers who may lose jobs in a then-reduced tourism industry.

And if we are making assumptions that certain types of tenants are inherently more likely to cause nuisances, then where do you draw the line? Do we ban students from renting long-term in certain areas of the County? Students are more likely on average to cause a disturbance than a non-student tenant, is that not correct? Instead of guessing who might cause a problem my hope is to regulate behavior and neighborhood nuisance on a consistent basis for everyone.

In my opinion, the best of government is to approach a problem and solution logically before crafting and adopting legislation. The first step should be to analyze and quantify what is the purported problem, based on facts and statistics, not just anecdotal stories. Understanding the ramifications of different potential solutions should also be considered. I fear that very little of these “good government” steps have been taken so far in the short-term rental debate. The policy process was rushed through without a study of the extent of the problem in real statistics, or a studying of the economic or legal ramifications that could be at stake. Without a proper analysis of the range of alternative solutions, it will not be possible to achieve the desired stated outcome of more peaceful neighborhoods. The only actual studies done so far have shown that short-term rentals in fact have a lower nuisance rate than long-term rentals or owner-occupied properties.

Likewise regarding the issue of housing supply, the only local study undertaken so far has shown that short-term rentals do not have an effect on the long-term housing supply. As discussed in detail in the Appendix attached and in the white paper prepared on the topic also attached, there are many reasons for our housing supply shortage, but short-term rentals are not one of them.

Nearly 4 years ago we sat here at the end of the last debate that would have curtailed property rights and a good chunk of Santa Barbara County’s tourism economy, an alternative ordinance was proposed based on traffic, noise, parking and other potential nuisances. The County Planning department at the time cautioned that there was no money to implement such an ordinance that would have resolved not only any issues with short-term rental tenants, but with long-term tenants and owner-occupants who might also misbehave. That ordinance was drafted, but nonetheless it was not allowed to be studied based on concerns about the cost of implementing the new ordinance. Suddenly there was money in the planning process to continue with a possible sledgehammer to tourism and its economic benefits, property rights and civil rights, rather than address directly the actual issues that everyone cares about – noise, traffic and parking, and protect neighborhoods from ALL nuisances, regardless of the tenancy status of a neighborhood’s residents. My request is that we simply and directly address the actual nuisance issues, not risk causing more harm than good by acting in a speedy and irrational manner.

An issue that drives approximately 1/3 of the County’s tourism income, \$470M of economic activity every year and 5,000 jobs, deserves more careful consideration, since the ramifications of a ban or severe restrictions are very serious. A rash vote to ban virtually all short-term rentals in the County will cause harm that could take years to reverse, and for no benefit, it is truly crazy. Please vote NO on the current proposed ordinance, and instead take a few simple steps at Tuesday's hearing that can be a compromise to start, and form a task force to complete the process soon.

Thank you.

Ken Switzer
Santa Barbara, California

APPENDIX

The following is a point-by-point summary of arguments against over-reaching with a ban or severe restriction on short-term rentals. The arguments are divided into 3 sections – 1) legal issues, 2) economic issues and 3) rebutting “conventional wisdom”. The lists and explanations are a compilation of collected opinions from myself and other stakeholders that share this type of view, looking for a reasoned analytical approach to short-term rentals. Also attached is a white paper on "Short-Term Rentals in Santa Barbara County - Economics and Housing Supply".

Legal issues

Property Rights #1 Property owners who bought a property in Santa Barbara County with an expectation of property use that was allowed at the time of property purchase, now are facing the possibility of the use being changed through no fault of their own.

Property Rights #2 The ability of an owner to rent to who they want, when they want and how they want (subject to tenants obeying all laws), is a fundamental right of property ownership; any diminishment of this right will diminish the value of an owner's real estate, once again while doing nothing wrong.

Civil Rights #1 A tenant would have fewer rights simply because of the length of their tenancy (29 days vs. 31 days in an extreme case), and not related to their behavior or anything else; short-term and long-term tenants have different rights.

Civil Rights #2 People would have less freedom to go where they want and stay where they want in Santa Barbara County; consider this aspect as it is a negative for any resident of our County who wishes to vacation locally in a short-term rental.

Economic issues

The proposed ordinance's negative economic impact on tourism and the overall County economy

- Less visitors overall, as many travelers will now go elsewhere to enjoy the non-hotel, residential-type experience they prefer during their vacation. To start with, the jobs in the vacation rental industry will be directly affected in a very negative way.
- Additionally, fewer tourists mean less spending at local restaurants, shops, attractions, entertainment venues, recreation, etc. The loss of this economic activity will result in lost service industry and tourism-related jobs.
- Furthermore, the short-term rental tourist are more likely to be higher-spending and spend more nights per visit in the County, than a typical tourist staying in a hotel or motel; thus there is a more severe impact per tourist of economic loss to the County and loss of jobs.
- A recent study showed that the short-term rental contribution to our local economy is about \$470M annually, or about 30% of the \$1.5B local tourism

industry. The amount of jobs this amount of economic activity provides is about 5,000.

- Most of this short-term rental economic benefit would go away if there were a short-term rental ban. The typical traveler in Santa Barbara County is a discretionary visitor, most are here for vacation and not for business. The type of traveler staying in short-term rentals is doing so for reasons of group size, finances or length of stay, where a hotel would never be an option; this huge amount of economic activity would therefore go to another County instead.

The proposed ordinance's negative impact on County tax revenue

- Transient occupancy tax goes down – many visitors staying overnight in short-term rentals are only interested in the residential-type experience and will not transfer that stay and TOT to a hotel

- Less sales tax collected on money not spent by tourists that are now not coming to Santa Barbara County

- Less money spent at restaurants, shops and other tourism-related businesses also means fewer employees, and thus a negative multiplier effect on spending and sales tax, property tax and income tax receipts throughout the County.

The proposed ordinance's negative economic impact on property values

- Rental value is the inherent economic value of a developed property, i.e. someone's home or apartment building; any restriction on rental flexibility will by definition lower a property's value.

- The claim that STR's harm the "value" of neighborhoods and the homes in those neighborhoods is based on the premise that short-term tenants on average cause more nuisance problems than long-term tenants or owner-occupants. There is not a factual basis to this claim and in fact many arguments can be made that the presence of short-term rentals in a neighborhood can increase the value of that area (see "conventional wisdom" points below).

“Conventional Wisdom” discussion/rebuttal

With respect to those who have different opinions, there have been positions stated during the short-term rental debate that are often accepted as gospel, and not challenged. Often those “assumptions” will appear in Planning Department documents as fact, without analysis or opposing arguments. Many of those assumptions or “conventional wisdom”, in my opinion are either not true, or there are contrary arguments that can be made, and until there is further study or analysis, could disprove the conventional wisdom. Given the potential negative economic and legal ramifications of the proposed ordinance to ban virtually all short-term rentals in Santa Barbara County, it merits careful consideration whether the “conventional wisdom” is true or not - i.e. what if the benefits that are supposedly gained by a heavy-handed reaction to the STR issue, are in fact not gained?

Conventional Wisdom: Short-term rental tenants behave differently on average than long-term rental tenants or owner-occupants, and cause more nuisance problems, since they don’t have any long-term stake in the property.

Rebuttal: Do you misbehave or would you misbehave or be disrespectful to neighbors if you were staying at someone else’s house while on vacation? Almost no one would, nor would anyone you know. How do we know someone is more likely to misbehave as a short-term tenant just because they don’t “have a stake” in the property or neighborhood? Almost all short-term rental properties are occupied part of the time by the property owners (research these statistics), wouldn’t those owners (and/or their property managers) choose tenants who won’t trash their house they use themselves part-time? With hefty deposits and lease requirements that are typically much stiffer than long-term leases? How about a long-term tenant that might be more likely to cause a nuisance, such as a college student? Should we start saying to long-term landlords that they can’t rent to students in certain neighborhoods, because they are more likely to cause a disturbance? Where do you draw the line in restricting use based solely on the status of a tenant, and not on their actual behavior? In fact, there is an unbiased neutral study by Santa Barbara's County's most reputable economist, showing that short-term rentals have lower nuisance rates than long-term rentals or owner-occupied properties.

Conventional Wisdom: Complaints about short-term tenant behavior are necessarily legitimate (in relation to County standards of behavior and nuisance), because why else would someone complain?

Rebuttal: While undoubtedly many of the anecdotal complaints are legitimate about behavior at certain properties or on occasion about a short-term tenant elsewhere, we don’t know that the nuisance rate is in any higher a proportion compared to the misbehavior of long-term tenants or owner-occupants. Short-term

tenants often make easy targets because they are “others” or “unknowns” from out of town, and its human nature to scorn more easily those we don’t know. But in reality this ire might be just as deserving on average towards long-term tenants or owner-occupants in the neighborhood. Additionally, there are likely those that move to quieter enclaves or rural neighborhoods with perhaps an unrealistic expectation of 100% solitude (i.e. no noise, no traffic). This is not reality, nor is it fair to the rights of others nearby (whatever their residency status) who wish to exercise their allowable rights of noise levels and guests visiting. Once again in these situations, when the unrealistic expectations are not met for these “special rights” of no noise and no traffic, the easy target may be the short-term tenant that they don’t know.

Conventional Wisdom: Short-term rentals in a neighborhood negatively affect property values.

Rebuttal: If the behavior of short-term tenants is no worse on average than long-term tenants or owner-occupants in a neighborhood (or can be simply regulated to ensure it is not worse), then there would be no adverse affect on property values for this reason. Often the supplemental income of these (typically) 2nd home owners is put back into the appearance and upkeep of a property; since these 2nd home owners occupy the property part of the time, it would make sense that these homes would be kept in better shape than absentee landlords that have long-term tenants and never live at the property themselves. In addition, any restriction on the rental flexibility of a piece of real estate will by definition diminish the value of a property. For these several reasons, it is more likely that allowing STR’s increases property values, whereas banning or curtailing STR’s would reduce property values.

Conventional Wisdom: Short-term rentals in a neighborhood negatively affect the “community aspect” of a neighborhood, and it is a “zoning” issue

Rebuttal: How many neighbors in a radius of 200 homes does a typical resident know well? If 1 or 2 of the 200 homes were occupied by different people every couple of weeks, would that affect the overall “community” feel of the block? Long-term tenants turn over every 1-2 years, wouldn’t this change of residents on the block also be taking away from the community aspect? (And maybe having a couple of homes on the block with interesting people visiting from around the country or the world every so often, might increase the sense of community.) In fact, only 1.7% of the properties in the County ever have short-term tenants; and given the typically low occupancy rate of short-term rentals, the effective percentage of residents who are short-term tenants at any given time is 0.5%-1%. That means that for the neighbor concerned about the “community aspect” of their neighborhood, they’d only find 1 out of every 100 or 200 people in their neighborhood is a short-term tenant on average. Do neighbors even know 20 or 30 out of 100 of their neighbors anyways, that figure may be a maximum anywhere. Why does it matter that there is one other neighbor they

don't know out of 70 or 80 (at least) that they don't know anyways? It is not a "zoning" issue if there is no neighborhood change or change in use of a property (see below). Perhaps it's a "xenophobia" issue, but it's not a "zoning" issue.

Conventional Wisdom: Owners who choose to rent their property short-term, are greedy mercenary people.

Rebuttal: First of all, almost every owner who rents their property short-term does so because they use the home themselves part of the time (or in the case of home-sharing, all the time). The economics don't usually make sense to rent out short-term vs. long-term, these properties are rented short-term because owner-use part of the year would not allow long-term rentals (as explained in the housing supply discussion below). But even if this did make economic sense, or for the times that these 2nd home owners or home-sharing hosts rent out short-term, since when does maximizing the income on your property become greedy? These have always been allowable rentals in the County (as has been documented in writing by the Planning Department in the past), why would making a more sound economic decision make someone greedy, or a scofflaw? Would you voluntarily reduce your work salary by \$10,000 per year? Then why would a property owner voluntarily not make use of the potential rental value of their property when not being used by the owner? (and maybe forfeit a similar \$10,000 per year?)

Conventional Wisdom: Short-term rentals are a "business", different than long-term rentals.

Rebuttal: Any property that is used as an investment can be considered a business; there are rental income and property expenses, whether the income comes in a steady monthly check of the same amount (long-term rental), or the income comes more sporadically (short-term rental). The timing and steadiness of the income part of the equation does not change the nature of a rental property being a "business" or not.

Conventional Wisdom: Short-term rentals are a "commercial use" of a property.

Rebuttal: The activities of any resident in a house or apartment is the same, whatever their residency status may be – owner-occupant, long-term tenant or short-term tenant. People park in the driveway, walk in the door, open the fridge and turn on the TV – all the same residential activity, residency status is not relevant. A short-term tenant is not going to open up a hair salon in the garage, they are using the property residentially just like any other occupant would. The "business" aspect of this connotation of "commercial" is covered in the above section. How is the use of the property any different by short-term tenants, or the operation of the property any different if an owner rents the property long-term or short-term? If there is no

difference, then either all rental properties should be considered “commercial”, or no rental properties should be considered “commercial”.

Conventional Wisdom: The use of the property is different if there is a short-term tenant vs. a long-term tenant vs. an owner-occupant.

Rebuttal: No it isn't, the use of the property is the same, see the section above.

Conventional Wisdom: Renting a property short-term vs. long-term turns a house into a “hotel”.

Rebuttal: The physical characteristics of the house are unchanged regardless of the length of the tenancy, and per the above sections, the use of the property is no different regardless of the length of the tenancy. It appears sometimes housing density becomes confused with length of tenancy, a house is still one unit. If the house stays identical in its appearance and the activities of the residents inside the house are identical, then the house has not changed in any way (let alone become a “hotel”), no matter the length of the tenancy. Just because there is a different car in the driveway every couple of weeks, or the resident has a different length and color of hair every couple of weeks, does not affect the house or its use in any way, nor should it affect the neighbors.

Conventional Wisdom: Short-term rentals are not currently legal in Santa Barbara County.

Rebuttal: The current zoning does not prohibit short-term rentals, and a written clarification allowing short-term rentals has been issued by the Planning Department in the past.

Conventional Wisdom: Short-term rentals deplete the stock of long-term rentals available to local residents.

Rebuttal: The lack of housing supply and high rents in the local area has many possible causes that are unrelated to short-term rentals – a high-quality of life that attracts people from around the world to live here, slow-growth development policies restricting new housing units from being built, a recently improving economy, many recent new residents who come as students through our expanding local public and private educational institutions, etc.

In fact, it is shown in surveys and by researching property management that almost all (80%-90%) full-unit (as opposed to home-sharing) short-term rental owners are renting this way because they use the property part-time themselves, and renting

long-term would never be a possibility. Thus those housing units would not become available to local residents to rent long-term if short-term rentals were not allowed, instead those owners would adjust and rent 30 or so days at a time, or not rent out at all.

It can also be shown that it would almost never make economic sense for a real estate investor to rent a residential unit short-term instead of long-term. The reason is that short-term rentals have at least 4 additional significant cost considerations: 1) much higher vacancy rates than long-term (30%-70%), 2) higher property management costs (about triple long-term property management fees), 3) paying of all utilities including cable/internet by the owner, and 4) furnishing costs. It is possible in a couple of slivers of locations such as by the waterfront or in the thick of a downtown tourist-town corridor, that short-term rental net income could compete with long-term net rental income, but even in those few cases, there is the factor of additional hassle and uncertainty with no added benefit to the investor. In essentially all locations in Santa Barbara County, it would only make sense for a property owner to rent out short-term if they use the property themselves part-time.

It is possible there are examples of a few 100% absentee property owners who are trying to overcome the economic investor disadvantage of short-term rentals vs. long-term rentals. They may be seduced by a higher potential headline short-term rental figure (which can typically be double the long-term rent), but in reality they are almost always worse off renting out short-term once the 4 major cost factors are included. Over time this small (misguided?) handful of investors will switch to long-term rentals once their balance sheets become clearer, and that small piece of inventory will become available again to local residents.

In the home-sharing example, it is a little more complicated because there are many types of home-sharing hosts who rent out short-term. Many of these owners would never make their extra room or separate cottage available long-term anyways for a variety of reasons – privacy, or not a need financially for a long-term tenant. More importantly, the same economic equation applies to home-sharing as full-unit rentals – it's almost always more profitable to rent the space long-term and not short-term. There are other reasons as described above and in the previous paragraphs for why short-term rentals come about, and their curtailing will not result in new housing supply of any significance – especially when compared to the many real and much more significant reasons for housing supply issues listed at the beginning of this section.

Finally to the extent that curtailing short-term rentals will result in less tourism-related economic activity and benefits, other alternative possibilities to replace that economic activity will result in more impact on the housing supply. Tourism is an amazing source of economic activity in that the dollars come to our region, and then the people leave and go live full-time somewhere else. In other words, tourism is generating economic activity without taking up new housing units. If instead that

same level of economic activity was replaced by a new office building and its employees, then those people will be needing local housing units and soaking up the supply. Thus if you think it through, curtailing short-term rentals and thereby dialing back the economic benefits of the tourism industry, could very well result in a legitimate taking of housing supply from a more housing impactful economic source that becomes the alternative to the tourism dollar.

See the attached white paper for further in-depth discussion of many of these and other economic issues in our local area relating to short-term rentals and housing supply.

Conventional Wisdom: Investors are buying up homes in bunches to use as short-term rentals and taking housing supply off the market.

Rebuttal: Per the detail in the above section, the economics of real estate simply do not support this assumption – investors would rent out a property long-term and not short-term if they wanted to maximize their net income. Furthermore, real estate investors would not buy single-family homes as investments, they don't yield as good a return in our area as apartment buildings or commercial real estate.

Conventional Wisdom: Renting out short-term is more profitable to a property owner than renting out long-term.

Rebuttal: Not true, for reasons described in detail in the previous 2 sections.

Conventional Wisdom: There is no other way to resolve alleged nuisances by short-term tenants, other than prohibiting or curtailing short-term rentals.

Rebuttal: Better enforcement and/or enhancement of current nuisance laws can eliminate the "rogue" vacation rental property or tenant(s), and at the same time hopefully make neighborhoods even better off by also regulating unruly long-term tenants and owner-occupants.

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 50% 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, these most 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 rental 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 many times 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.

Daly, Julia Rutherford

From: Carole Denardo <denardo@rain.org>
Sent: Monday, December 05, 2016 3:46 PM
To: sbcob
Subject: Short term rental comment
Attachments: Short Term Rental Comment- Denardo.pdf

Dear County Clerk,

Please find our letter regarding short-term rentals in Santa Barbara County.

Regards,

Tony & Carole Denardo

December 5, 2016

Santa Barbara County Clerk
1100 Anacapa Street
Santa Barbara, CA 93101

Re: Short-term rental properties

Dear County Clerk:

We have lived on 5 acres on Refugio Road in Santa Ynez, zoned agricultural, for about 27 years. In 2006, a very large home (nearly 6,500 square feet) was built at the end of a private lane fronting Refugio Road. A few years ago, a real estate broker purchased the property from the family who was living there and proceeded to remodel the house. The house has subsequently become an Airbnb type rental that is rented out most weekends during the summer months and on other weekends throughout the year; no one lives in the house when it is not rented. So, it appears the house was purchased specifically to be used as a short-term rental property. Because the house is so large it is rented out to big groups for parties, which are often very noisy, with loud music blaring throughout the day and into the night. During the summer months, when neighbors tend to keep their windows open at night, it interferes with our ability to sleep.

After several consecutive weekends of noise this summer we spoke with other nearby residents who had also had enough, and everyone agreed to sign a petition. I subsequently spoke to the owner and told him the reason we live where we do is because of the peacefulness and serenity of the area. I let him know how disgusted we were (as well as the other neighbors) that he didn't do a better job of screening his applicants before renting to them. Not once during our conversation did he apologize for the inconvenience it has caused us and the other neighbors. It is apparent the owner has no regard for others and is only interested in the revenue generated from the short-term rental.

We are against short-term rentals in Santa Barbara County because of the inconsideration and disrespect shown to full-time residents, especially on agricultural zoned property; it is diminishing the quality of life for full-time residents.

Sincerely,

Tony Denardo



Tony and Carole Denardo
1552 N. Refugio Road
Santa Ynez, California 93460
(805) 688-1040