Why Severe Regulations on Short-Term Rentals Will Make the Problem Worse

Prepared by Share San Diego

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The San Diego City Council is considering an ordinance by Councilmember Barbara Bry that would limit short-term occupancy to 90 days in only primary residences, even when the homeowner has obtained permits, paid taxes and notified neighbors. Based on an analysis of the current situation in San Diego and the results of similar ordinances in other jurisdictions, this proposal is deeply flawed and will exacerbate the problems it seeks to solve. For the reasons outlined below, Share San Diego urges the San Diego City Council to reject the Bry ordinance and instead adopt the more balanced alternative proposed by Council President Pro Tem Mark Kersey and Councilmembers Chris Ward, Scott Sherman and David Alvarez.

1. **Extreme restrictions will create a black market and reduce funds for enforcement**

The 90-day restrictive ordinance will place severe restrictions on short-term rentals, resulting in a black market in which bad operators advertise their properties outside regulated booking sites. Similar rules were passed about 30 years ago in the City of Coronado and reaffirmed again in 2010. However, violations continue through illegal vacation rental listings on Craigslist and other websites. Combatting this black market is both time consuming and expensive for the city, which employs an intern to monitor websites and newspaper ads for illegal rentals. Once identified, violators are fined, but in some cases they must be taken to court to recover enforcement costs and the transient occupancy tax (TOT) the city would have received from hotel guests.[1]

While the proposed ordinance requires short-term rental owners to pay taxes and a $2,000-per-day fine for any violations, black market operators will avoid paying these costs as they do in other cities. The city will also lose much of the TOT it currently collects from short-term rentals, which is projected to be nearly $20 million this year to help offset the deficit. Increasing enforcement of common sense regulation could increase TOT even further, but the loss of this revenue upon the passage of a restrictive ordinance will limit funds available for enforcement and increase costs for the city. In these circumstances, the new regulations would not have their intended effect and could have negative consequences for both neighbors and taxpayers as black market operators avoid paying TOT, tourism assessments and fines.

Further, black market operators who do not pay their taxes also tend to disregard the rules. Short-term rental owners who pay TOT and follow the law do not allow over occupancy, parties and weddings, and other disruptive activities. Bad operators, on the other hand, have no connection to the neighborhood and will allow anything that maximizes their profit. A restrictive ordinance will eliminate the good operators and open the playing field

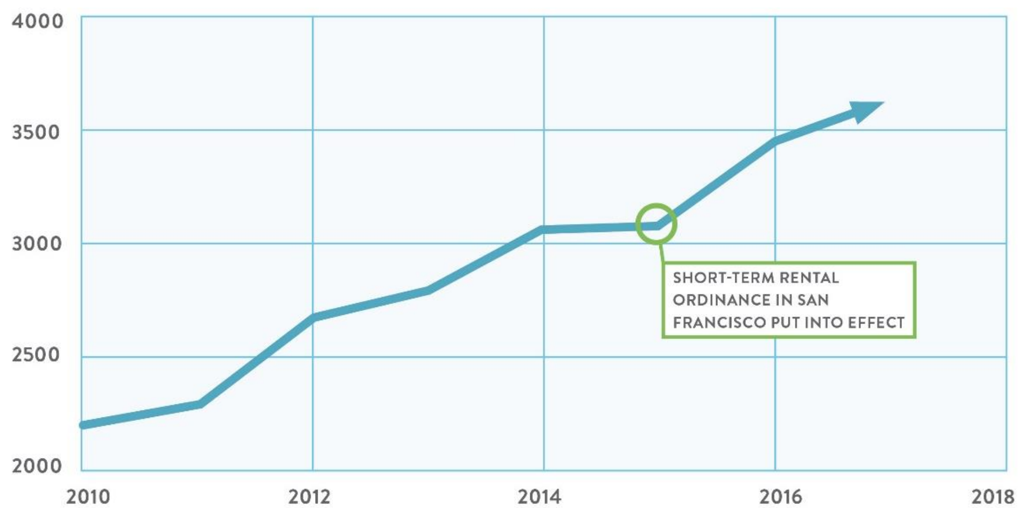
[1] https://coronadotimes.com/news/2017/08/16/short-term-rental-violator-fined/

for bad operators who create noise and other issues for their neighbors. These owners do not care about nuisances for the surrounding community because they have nothing to lose. They will continue to collect rents without paying taxes or risking the loss of a permit.

2. **Similar regulations in other cities have failed to prevent long-term rent increases**

The proposed ordinance attempts to prevent increases in the cost of long-term housing by placing restrictions on short-term rentals. This strategy has not been effective in other jurisdictions, such as the City of San Francisco. In February 2015, San Francisco's new ordinance went into effect and imposed rules similar to those being proposed in the City of San Diego. The ordinance only allows the short-term rental of primary residences and limits short-term rentals to 90 days per year when the host is not present.

If San Francisco's new laws were successful in stabilizing long-term rents, long term rental costs should have leveled off or even decreased beginning in February 2015. Instead, long-term rents continued to rise following the implementation of the ordinance, as they had for the previous five years. In 2016, the year after the short-term rental ordinance went into effect, long-term rents increased by more than 12 percent, the highest jump since 2012.[2]



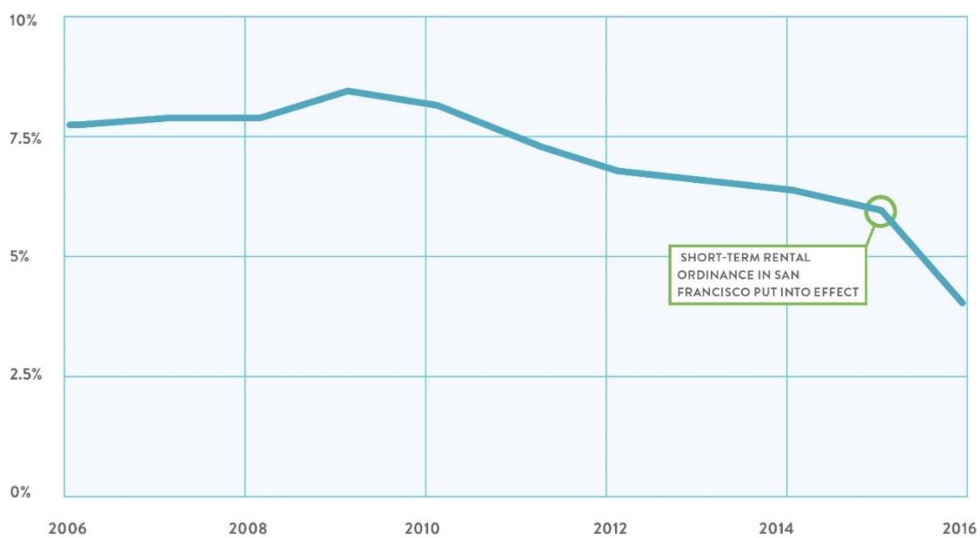
This example shows that short-term rental restrictions do not prevent long-term rental rates from increasing. The ordinance did not work in the City of San Francisco and will not work in San Diego.

3. **Restrictions on short-term rentals will not increase long-term housing stock**

[2] http://sfrb.org/sites/default/files/FileCenter/Documents/1862-sfhousingdatabook.pdf
https://www.zumper.com/blog/rental-price-data
https://medium.com/@mccannatron/1979-to-2015-average-rent-in-san-francisco-33aaea22de0e
https://www.cnbc.com/2017/11/07/more-housing-markets-are-overvalued-and-consumers-feel-the-pain.html

Placing restrictions on short-term rentals will not necessarily increase long-term rental opportunities in San Diego. Approximately 54 percent of short-term rentals managed by third parties are second homes owned by out-of-town residents who use the property for vacations and family visits. Second home owners are particularly prevalent in coastal communities such as Mission Beach. Long-term leases are not an option for these owners because they would no longer have access to their homes. If short-term rentals are restricted, vacation homes would remain vacant for much of the year. Unlike short-term rentals, vacant homes do not contribute to the economy or support local businesses.

San Francisco's short-term rental ordinance also shows that tougher restrictions do not increase the availability of long-term rentals. If that were the case, vacancy rates in the city would be expected to rise following the passage of the ordinance as short-term rentals converted to long-term. In fact, the opposite occurred. Vacancy rates in San Francisco have continued to decline after February 2015, dropping from 5.85 percent in 2015 to 3.70 percent in 2016.[3] This decrease means that, after the ordinance took effect, there was actually less long-term housing available. San Francisco's ordinance proves that short-term rentals do not have an effect on long-term rental housing stock.



In some cases, property owners may wish to convert their short-term rentals into long-term leases. For communities like Mission Beach, many of these new residents will likely be students, rather than families. Approximately 56 percent of undergraduate students at the University of California, San Diego and 86 percent at San Diego State University currently

[3] https://www.huduser.gov/portal/periodicals/USHMC/reg/SanFranciscoCA_HMP_July15.pdf
https://www.paragon-re.com/trend/bay-area-market-survey
http://www.deptofnumbers.com/rent/california/san-francisco/
https://www.huduser.gov/portal/periodicals/USHMC/reg/Pacific-RR-3Q16.pdf

live off campus, representing 16,000 student households in the San Diego County rental market.[4] These estimates do not include graduate students or students from the University of San Diego, Point Loma Nazarene University or local community colleges within the city limits. Noise associated with student parties is already an ongoing issue in Mission Beach, and increasing the student population could potentially worsen the problems for neighbors.

4. <u>Outside investment in short-term rentals will not affect the housing market</u>

Proponents of tough restrictions on short-term rentals frequently express concerns about outside investors purchasing properties and negatively impacting the housing market for residents. In fact, very few short-term rental properties are owned by outside investors. Approximately 80 percent of short-term rentals are managed by the owners, which indicates a local presence. The remaining 20 percent of short-term rental properties are managed by third party companies. Of those, 15 percent are owned by outside investors. Based on this data, only a small percentage of short-term rentals are investment properties.

It is also unlikely that investors will begin entering the market at an increased rate because short-term rentals in coastal areas such as Pacific Beach and Mission Beach do not make financial sense. Based on the example below, an average three-bedroom house in one of these communities would lose more than $15,000 per year as a short-term rental. Short-term rentals only pencil out for primary residents and owners of second homes who are seeking to offset their expenses, rather than generate income.

Based on average industry rates and occupancy percentages by season for a three-bedroom rental ($3,000 per week with 80 percent occupancy at peak and $1,500 per week with 63 percent occupancy at off-peak). Assumes home purchase price of $1,146,767 (Redfin average as of April 2015), 4 percent interest and average utilities.

Historical data also shows that the number of owner-occupied home sales has grown over the past several years in comparison to non-owner-occupied homes. In the case of the

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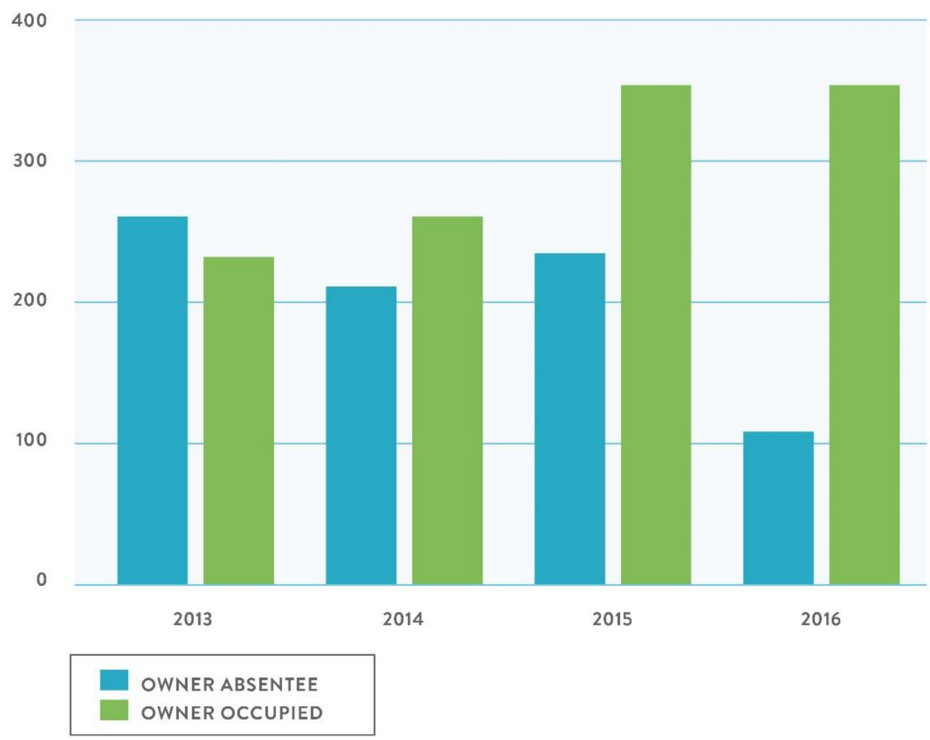
[4] https://www.huduser.gov/portal/publications/pdf/SanDiegoCA-comp-16.pdf

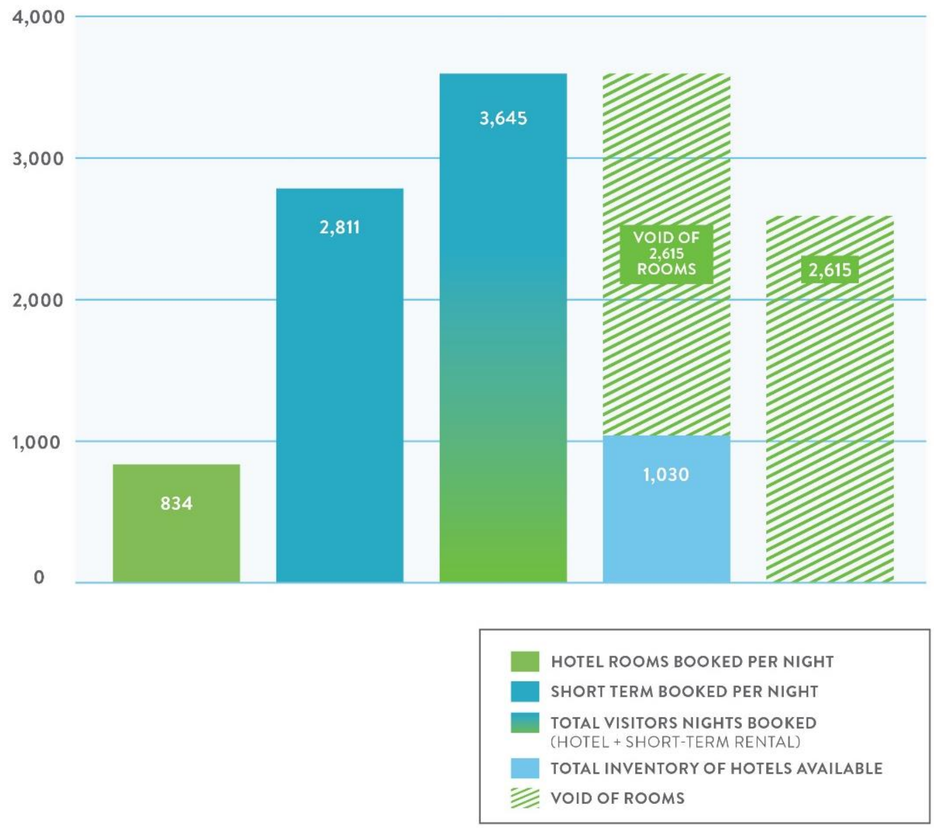
92109 zip code, as shown on the graph below, the percentage of home sales with absentee owners remained relatively stable from 2013 to 2015 and significantly decreased from 2015 to 2016. This example proves that while the online inventory of short-term rentals is increasing, this increase is not the result of absentee investors purchasing homes in the area. If that were the case, the percentage of non-owner-occupied home sales would be rising rather than falling. Instead, the data clearly shows there has not been an influx of outside investors purchasing properties or a decrease in owner-occupied home sales as a result of short-term rentals.[5]



5. <u>Restricting short-term rentals will negatively impact San Diego's tourism industry</u>

Short-term rentals provide a much-needed boost to San Diego's economy by accommodating additional visitors who exceed the capacity of local hotels. In Mission Beach in July, for example, the total hotel rooms and short-term rentals booked on a given night significantly exceeds the number of available hotel rooms. The graph below shows that, in the absence of short-term rentals, Mission Beach would experience a void of 2,615 rooms per night. This deficit will drive up hotel rates and make San Diego a less attractive place to visit. It will also force communities like Mission Beach to turn away thousands of visitors each night, resulting in negative economic impacts.

[5] Home purchase records, 2013-2016



This paper was authored by Share San Diego, a coalition of vacation rental property owners and professional management companies advocating for common-sense regulations for Short Term Rentals (STRs). We are dedicated to protecting private property rights while allowing our guests to enjoy the benefits of neighborhood living while supporting our local economy.

For media inquiries or to clarify data in this report, please contact Share San Diego President Jonah Mechanic, by phone at (858) 229-9499 or by email at WeShareSanDiego@gmail.com.