

Fellow STVR committee members:

Carol Polhamus

In the interest of time and creating effective recommendations for a regulatory framework, I took the County of Santa Cruz SVTR regulations and inserted the areas where we have previously expressed agreement (in red). The county rental ordinance is from the City of Santa Cruz's website, Attachment 5 (under January 11 agenda). At the end I also included survey results for topics we will be discussing at our March 30 meeting.

Santa Cruz County Vacation Rental Ordinance

The following analysis summarizes the key components of the County's vacation rental ordinance.

Land Uses Chart: The County has established two levels of vacation rental review: three or fewer bedrooms (Approval Level II Administrative); and four or more bedrooms (Approval Level V Public Hearing Zoning Administrator).

Survey 2, #7 states that there should not be two levels of review (55%), and survey 2, #4 states that the review should be principally permitted or staff permitted (63%)

Vacation Rentals:

(A) Purpose: To establish regulations applicable for dwellings rented as vacation rentals for not more than 30 days at a time.

Survey 1, question 1, states that 100% agreed STVR should be defined and regulated.

(B) Where allowed: In all districts that allow residential use. Prohibits use of habitable and nonhabitable accessory structures, second units, legally restricted affordable housing units as vacation rentals.

Survey 1, #2 states that 82% felt STVR should be allowed in ADUs.

Survey 2, #3 states that 64% felt property owner should be allowed to live in ADU and rent out main house.

(C) Definitions:

a. Vacation Rental: SFD, duplex, triplex units where the owner/operator/contact person does not occupy the dwelling unit while it is rented. (Non-hosted). The following are not considered vacation rentals:

i. On-going month to month tenancy Survey 2, question 8, 100% agreement

ii. One less-than-30-day period per year

iii. House exchange with no payment Survey 2, question 8, 90% agreement

iv. Renting individuals rooms in a dwelling unit while the primary occupant remains on-site. Survey 2, question 8, 100% agreement

Visits from friends and relatives without payment, Survey 2, question 8, 90% agreement.

b. Existing vacation rental: established prior to a certain date

c. New vacation rental: Not used prior to a certain date or for which a vacation rental permit has not been granted.

(D) Permit Requirements: Vacation Rental permit and TOT registration are required for each residential vacation rental. Permit remains valid as long as the vacation rental

operates at least three out of any consecutive five years where the permit expires the same month and day five years subsequently.

a. Existing Vacation Rental: Permit must be obtained. No public hearing required and no notice of permit application shall be given.

Survey 2, Question 18, states that 82% agree that there should be some form of "grandparenting" of existing vacation rentals in good standing.

i.– v. Application submittal requirements

vi. Retroactive TOT payment

vii. Number of People (guests) Allowed: Two people/bedroom plus two additional people, except celebrations and gatherings between 8am and 10pm when twice the maximum number of guests allowed. Children under 8 not counted as guest. Survey 1, question 2, states that 91% agree that occupancy and group limitation requirements need to be included. Survey 2, question 10 states that 73% agree that children 8 and older need to be counted as occupants. Survey 2, question 11 states that 70% agree that the maximum number of guests allowed in a non-hosted vacation rental should be limited to two persons per bedroom plus two. Survey 2, question 17, 64% agree that twice maximum number of guests can be allowed for large gathering and that celebrations should be limited to 8 am-10 pm

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b. New Vacation Rentals: Permit application required. Administrative review for 3 or fewer bedrooms, no public hearing, ten-day notice of proposed action provided. ZA hearing for 4 or more bedrooms. Survey 2, #7 states that there should not be two levels of review (55%), and survey 2, #4 states that the review should be principally permitted or staff permitted (63%)

c. Parking - Survey 1, question 2, states that 91% agree that parking regulations need to be included. Survey 2, question 9, 60% agree that the maximum number of vehicles allowed as part of a non-hosted vacation rental shall not exceed the number of existing non-site parking spaces

i. 10-day notice of ZA hearing required

iii. Application submittal requirements

iv. Letter of acknowledgement and no objection from all adjacent owners of units sharing common walls.

v. Only one vacation rental permitted per parcel

i. Application submittal requirements

ii. Presumption of permit approval based on findings for approval or denial

d. Transfer of Property with vacation rental; vacation rental permits expire and become nonrenewable at the time of property transfer. Survey 2, question 13, 73% state that non-hosted vacation rental permit should not be transferrable at time of sale; Survey 2, question 12, 55% state that hosted vacation rental permit should not be transferrable at time of sale.

e. Expansion of Permitted Vacation Rental: An expansion of square footage of 50 percent or more; or increase in number of bedrooms requires new vacation rental permit.

(E) Local contact Person: Must have a designated contact person within 30-mile radius, available 24-hours a day to respond to tenant and neighbor questions or concerns.

Name, address, telephone numbers of local contact to be provided to Planning Department, the local Sheriff Substation, main Sheriff's Office and local fire agency.

(F) Signs: All vacation rentals shall have a sign with 24-hour contact information.

Survey 1, question 2, states that 91% agree that owner/operation information should be included.

In , the sign shall include the beginning and end date of the five-year permit. Survey 2, question 15, 55% agree a sign is appropriate

(G) Posting of Rules: Must be posted inside, visible to guests, stating maximum number of guests, number of vehicles allowed, behavior standards including noise, illegal behavior and disturbances, county prohibition of fireworks, and trash management.

(H) Noise - Survey 1, question 2, states that 100% agree that noise needs to be included in regulations.

(I) TOT Requirements

(J) Dispute Resolution

(K) Violation: If more than two documented, significant violations occur within any 12-month period, permit may be reviewed for amendment or revocation.

Survey 2, question 14, 100% agreement that permit should be revoked for complaints or non-compliance.

Not included in the county regulations, but listed on your agenda for the March 30 meeting are these areas of previous agreement:

1. Key Subcommittee Decisions to Regulation (60 minute discussion followed by 10 minute summary)

- Decide that any regulation should strive to be enforceable. Can we agree that in the interest of simplicity and ease of review and enforcement, that there are certain items that should NOT be considered with any new ordinance; such as: a) attempting to regulate the number of days or months for a STR, b) attempting to regulate owners staying on-site during the STR visit, and/or c) limiting the number of STR by street block due to the broad diversity of street pattern and lengths in the City.

- Decide whether or not to treat Hosted differently than Non-hosted (define)

Survey 1, question 3, 64% agreed there should be different rules for hosted vs. nonhosted STR.

- Decide whether or not to institute a cap to STR's. If the City is at a critical point for the number of STR's, as evidenced by the City Council direction to impose the moratorium, how does the Subcommittee want to approach limitations? A CAP (either percentage or a fixed number) on all or certain types of STRs? Does the Subcommittee want to have a direct relationship between the number of STR's and the overall number of housing units?

Survey 2, question 20, 55% disagreed that there should be concentration limits

Survey 1, question 17, 50% stated there should be no percentage limit, the other 50% said 1-2% of the current registered units (288) was appropriate

- Decide whether or not to regulate STR's by geographic area or zone district.

Survey 2, question 1 - hosted vacation rentals should be allowed in residential districts

73%, tourist residential 73%, commercial 64%

Survey 2, question 2 - nonhosted vacation rental should be allowed in tourist residential

82%, commercial 73%, residential 55%

Case Study. How a four unit property near downtown Santa Cruz goes from long term housing to Airbnb hotel. This case study comes from three different tenants who lived long term on the property and had to leave when the units were converted to Airbnb. Their stories were collected separately.

This four unit property is zoned residential and sits in a neighborhood a few blocks from downtown. The property consists of two 2 bedroom houses, one 3 bedroom house, and one 1 bedroom cottage. There is also a small travel trailer that is permanently installed in the yard. The owners of this property are landlords with multiple properties who have owned their properties for many years. This particular property is managed by a family member who lives outside of California.

Before 2013 all four of these units (except the travel trailer) were rented as long term rentals. Over the last three years these units have been repurposed as short term rentals. The current status is as follows:

2 Bedroom: Currently an Airbnb rental.

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1 Bedroom: Currently occupied by a long term tenant who manages the Airbnb listings for the owner. The tenant/manager is listed on Airbnb as the host, not the property owner.

3 Bedroom: Has been an Airbnb rental in summers and a long term rental in winter.



Travel Trailer: Has been an Airbnb rental in the summer. The trailer has no heat and is too cold to rent out in the winter.

A cross-reference of this property address with the Finance Department's list of STR properties that remit occupancy taxes shows this property is not registered with the city.

For ten years Airbnb and Airbnb hosts have made the claim that their activities do not take long term housing off the market. That all changed on March 13, 2017 when Brian Chesky (Airbnb cofounder and CEO) was interviewed by Fortune Magazine editor Leigh Gallagher as part of a New York Economic Club lunch meeting. In response to a question about long term housing Chesky said:

“When we started Airbnb, we didn’t fathom millions of people doing this. So I did not consider landlords. I didn’t consider cities. It was so bigger than what our idea was. Our idea was just to bring two people together. It grew so fast. There were substantive problems, a phenomenon that occurred where landlords saw they could make a lot of money taking units off the market and renting them on a short-term basis. Though I think the scope of this was overstated on our platform, this was a problem, and people were doing this. We were a little behind on this and we had to play catch up.”

Chesky uses the past tense to describe the problems Airbnb presented to the housing markets as if the situation has been corrected. In Santa Cruz short term rental listings are growing at a rate of 115% per year (about 10 listings per week). The problem Chesky admits to above is getting worse, not better.

It is common for people to describe Airbnb hosts as homeowners making a little extra money on the side to help with bills or pay the mortgage. However, according to the latest data scrape of Airbnb 64.5% of all listings in the city of Santa Cruz are whole house listings. The email below (dated March 22, 2017) from Scott Shattford of Airdna.com gives us a sense for how "rentpreneurs" and real estate investors view a city's housing stock.



Six years ago, a friend told David Malka, co-founder and CEO of Odyssey Vacations, about his Airbnb listing. David's friend was paying \$1400 per month for a long term lease on a Los Angeles apartment. He was placing the property on Airbnb and earning \$4,500 in short-term rental income.

David's friend was tripling his long term rental cost. He described the rate of return as "insane."

Not long after this conversation, David partnered up with his friend. They leased a couple of Los Angeles properties and a new business venture was born.

Over time, pressure from Home Owners Associations (HOAs) drove David to drop his leased apartments. Many HOAs were restricting short-term rental activities. For example, some were adding clauses specifying that rentals must have a minimum duration of 30 days.

David knew that the short-term rental market still had immense potential. Instead of leasing apartments, he decided to purchase his rental properties. He initially focused on the Las Vegas market. It was an area David was familiar with and one that had a strong vacation rental market.

"The returns were so good that I targeted as many properties as I possibly could," David said.

That was two years ago. David now runs 11 vacation rentals. He purchased each property, either alone or with a partner. His top performing properties earn over \$70,000 per year.