

# Sharp rise in Sonoma County vacation rentals offers mix of benefits and conflicts

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THE PRESS DEMOCRAT | November 27, 2016, 8:23AM

Just as it has for untold years, the arrival of the holiday season brings family visitors and tourists into Sonoma County by the thousands for reunions in noisy living rooms on neighborhood blocks and getaways amid the vineyards and on the scenic coast.

Many of those who aren't put up in a spare bedroom or booked into a hotel will stay in a vacation rental, and it might be next door.

The number of people doing just that, paying for short-term stays in residential properties owned by others and reserved online through outlets such as Airbnb, has exploded in recent years, providing an economic shot in the arm worth millions of dollars for rental owners and local governments.

But the sharp growth of vacation rentals also has led to an array of problems, including nuisances for neighbors and trouble for cities and counties in laying down the law and collecting the required bed taxes.

Affordable housing is in short supply these days in Sonoma County, so the most pressing concern is that vacation rentals not overwhelm neighborhoods and displace units that might otherwise be occupied by residents.

That's already happening in locales popular with tourists, officials and housing advocates say.

The proliferation of short-stay rentals in Sonoma Valley led county supervisors earlier this year to pass “exclusion zones” to prohibit any new rentals in Kenwood, Glen Ellen, Agua Caliente and Boyes Springs, among other places.

“Our housing stock was evaporating by the minute in The Springs, and I needed to put a stop on real estate speculation and little mini-hotels that were picking up all of our housing stock,” said Supervisor Susan Gorin, whose district includes Sonoma Valley.

In their decision, supervisors also cited the need to preserve residential character, and in some cases problems with poor roads, parking scarcity and high fire danger.

Vacation rentals, alternately praised and reviled, present a dilemma for governments seeking to allow visitors a popular alternative to hotel stays but also rein in unpermitted units and crack down on scofflaws who don’t pay lodging taxes.

Elsewhere, some cities have limited the total number of days per year property owners can offer their homes as vacation rentals. San Francisco reduced that limit from 90 days to 60.

Other communities, like Healdsburg, don’t allow them at all in residential areas, mainly because of concern they take away scarce housing and can turn neighborhoods into hotel-like districts.

### **Exclusion zones in county**

Sonoma County’s newly created exclusion zones affect more than 6,300 parcels in unincorporated areas that are no longer eligible for use as vacation rentals.

They also include Fitch Mountain just outside Healdsburg, the Foothills in northeast Santa Rosa, and Palomino Lakes east of Cloverdale.

For all their controversy, vacation rentals are here to stay and have mushroomed with the popularity of web hosting sites such as VRBO and Airbnb, in which properties are advertised and can be rented directly from the owner, or a company representing the owner.

In most cases they include rental of the entire house, or maybe just a room with the host present.

### **Global popularity**

It's clearly a worldwide phenomenon, as illustrated by Airbnb's reach. The company offers its service in more than 34,000 cities in 191 countries.

Vacation rentals are popular because they can provide a lower-cost alternative to hotels and sometimes a different cultural experience, or a new part of town to stay in.

Daniel Sanchez, government affairs director for the North Bay Association of Realtors, said he has used them all over the world, from Washington, D.C., to Istanbul, Seoul, Lake Tahoe, Mendocino and Lake counties.

"In Istanbul, I got to stay in a neighborhood that doesn't have many hotels and got a much more local feel for my trip," he said, adding that he prefers hosted rentals when he travels.

It's a great resource if you don't know the area, he said, and "it's a way to meet people in a new city that I'm visiting."

For many hosts, the extra money from renting to guests helps them afford their homes.

Though his mortgage is paid off, Charles Metz has been using Airbnb for several years to rent three rooms in his four-bedroom Santa Rosa house. He shares the Montecito Road home with an ever-changing parade of vacationing guests who

might hail from as far away as Germany, South Korea, China, Turkey, New Zealand or Dubai.

"I totally enjoy it, and my guests seem to enjoy it," he said. And it helps pay the bills.

But along with the positives, there are also downsides.

County officials say if vacation rentals multiply too much, it can displace long-term residents, impacting school attendance figures and even voter precinct numbers.

And then there are nightmare stories of people who have had to put up with a noisy vacation rental next door.

Susan Strong said that for five years, she had to endure a "party house" vacation rental next to her Shiloh Greens home in Windsor, with loud music, yelling and people laughing. It was especially obnoxious when her husband was dying of cancer.

"It was disturbing his ability to sleep," she said.

Strong said the noise has subsided lately, perhaps because the agency that rents it out is getting "tighter" on the guests.

Ken Fischang, president and CEO of Sonoma County Tourism, a marketing organization, said vacation rentals fill a unique niche of their own and don't necessarily compete with hotels.

People staying at a hotel might be coming for a meeting and attracted to amenities like a restaurant, while guests at a vacation rental may prefer a house with the ability to cook meals.

"Obviously, we have the Sonoma County tourism economy doing very well. Vacation rentals provide unique housing for folks who are looking for that product outside a traditional hotel or bed and breakfast," he said.

## **Quarter of lodging inventory**

In one glimpse of how quickly vacation rentals are spreading, there were 866 approved in Sonoma County as of July 2015, not including the coastal zone. But currently there are 1,333 approved, not including more under review, according to Jane Riley, supervising county planner.

Add in the coastal zones and most of the nine cities in Sonoma County, and the number more than doubles.

Vacation rentals make up roughly one-quarter of the lodging inventory in Sonoma County, according to Lowell Johnson, president of the Sonoma County Lodging Association.

Of the 14,041 total lodging units — including rooms in hotels and inns, and campsites — 3,355 are vacation rental homes, he said.

“When I look at how economically important tourism is to the county, vacation rentals play a huge role in that,” said Johnson, who closely tracks almost 50 vacation rental websites, including VRBO, Airbnb, Flip Key and others.

Vacation rentals contribute an outsized amount of bed taxes compared to other sectors of the hospitality industry. Even though they represent 24 percent of lodging in Sonoma County, they contributed 43 percent of the total transient occupancy tax collected in 2015.

Of the \$12.5 million in transient occupancy taxes collected last year in the unincorporated areas, \$5.3 million came from vacation rentals, according to the Economic Development Board.

But a significant amount of taxes is not being paid as required by vacation rentals owners.

A county audit in 2014 estimated \$500,000 to \$1.3 million was slipping through the cracks.

Based on his close tracking of the industry, Johnson estimates it is even greater. "It's more like \$2.8 million that's not being collected and submitted," he said.

At the county, bed tax revenues are divided up, with a quarter going to the county general fund and the rest to tourism and advertising programs. But some also goes to pay for parks and affordable housing.

"It's important for the county to pay attention to this," Johnson said, adding that he represents vacation rental owners too and wants all of his constituents to be compliant.

### **Cities, county shifting stance**

County supervisors launched an effort to more aggressively collect hotel bed taxes from vacation-rental hosts who have flouted the rules for years by not registering with the county and paying the tax.

Supervisors this month approved an agreement with Airbnb requiring the guest-hosting site to collect bed taxes beginning Jan. 1 and hand the revenue over to the county.

Sonoma County is one of 17 jurisdictions across the state to require such tax-collecting arrangements, including San Francisco, Humboldt and Santa Cruz counties.

Sonoma County officials say they are exploring whether to adopt similar agreements with other guest hosting sites.

Donna Dunk, the county's auditor/controller/treasurer/tax collector, said "we're doing absolutely everything we can," including looking to hire "data scraping

services" that help pinpoint which vacation rental hosts are collecting and remitting bed taxes.

Cities also are grappling with policing vacation rentals, or capturing the transient occupancy taxes they owe.

In 2015, Petaluma approved short-term rentals in residential areas, and has issued 21 permits since the program's initiation. But it appears upwards of 100 hosts are currently listing properties on short-term rental sites, so only about 20 percent are complying with Petaluma's ordinance, according to City Attorney Eric Danly.

He estimated the city should have received \$162,000 in annual revenue, but has received less than \$19,000 this year.

Danly said the location and identity of the property owner is often shielded on the vacation rental site.

To go after bed taxes that aren't being paid, the Petaluma City Council last week approved his recommendation to issue "legislative subpoenas" for VRBO and Airbnb to produce the names of the vacation rental owners.

Other cities like Sonoma don't allow vacation rentals in residential zones unless it's adaptive reuse of a historic structure. They are allowed, however, in commercial areas.

But Sonoma last week extended an emergency moratorium for another 10 months on any new vacation rentals until it can re-examine its policies toward them. One change under consideration is to not allow the use permit for a vacation rental to last indefinitely, but expire when ownership changes.

And Healdsburg, which prohibits them in residential neighborhoods, just received an update from Police Chief Kevin Burke on enforcement efforts to crack down on

illegal vacation rentals. He said the city has issued 47 warnings and nine citations since 2014.

But according to Burke, short-term rentals can produce up to \$4,800 a week in income and there is often a cat-and-mouse game on websites that makes it difficult to pinpoint the owners.

"The fact it's so lucrative makes it tempting, even when fines are as stiff as they are," he said.

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