



Utility Services / Land Use / Energy Development Committee

City of Arts & Innovation

TO: UTILITY SERVICES / LAND USE / ENERGY DEVELOPMENT COMMITTEE MEMBERS **DATE: OCTOBER 15, 2018**

FROM: COMMUNITY & ECONOMIC DEVELOPMENT DEPARTMENT **WARDS: ALL**

SUBJECT: UPDATE ON RESIDENTIAL SHORT-TERM RENTALS AND GUIDANCE ON LOCAL REGULATION AND POLICY DEVELOPMENT - DIRECT SUBMITTAL

ISSUE

An update on “residential short-term rentals” in the City of Riverside including an overview of issues, potential regulations and policies.

RECOMMENDATIONS

That the Utility Services/Land Use/Energy Development Committee:

1. Receive a report on residential short-term rentals in the City of Riverside, including an overview of issues, potential regulations and policies that can be applied; and
2. Provide direction on next steps, including a potential regulatory and policy framework for residential short-term rental uses in the City of Riverside.

LEGISLATIVE HISTORY

“Short-term rentals” are generally defined by local jurisdictions as properties rented for less than 30 consecutive days. This definition, which has historically been used to describe properties that operate as hotels, has been used to determine and apply the Transient Occupancy Tax (TOT). Recent changes in the way that people travel and reserve accommodations has resulted in a change in short-term rentals. With on-line platforms such as Airbnb (“Air Bed n’ Breakfast”) and VRBO (“Vacation Rentals by Owner”), many residential units are now being used as short-term rentals. These residential rentals are the subject of this Staff Report.

The State Legislature has not yet adopted specific regulations on residential short-term rentals (RSTRs). Local jurisdictions have been managing impacts of these rentals by adopting policies and regulations specific to their community’s needs. The Riverside Municipal Code (RMC) does not specifically define “residential short-term rental”, and no regulations are in place for RSTRs.

Hotels are defined in two ways in the RMC. The first, in Title 5 – *Business Taxes, Licenses and Regulations*, is used as a basis for collecting TOT. It reads:

"Hotel" means any structure, which is occupied or intended or designed for use or occupancy by transients, including but not limited to dwelling, lodging or sleeping purposes, and includes any hotel, inn, tourist home or house, motel, studio hotel, bachelor hotel, lodging house, rooming house, apartment house, dormitory, public or private club, mobile home or house trailer at a fixed location, or other similar structure or portion thereof.

The second, in Title 19 – Zoning, regulates the use as it relates to development, and reads:

A facility offering transient lodging accommodations to the general public with access to guest rooms provided by interior corridors. All of the accommodations in a hotel shall be for the use of transients. For the purpose of this Title, transients shall be defined as any person who exercises occupancy or is entitled to occupancy or is entitled to occupancy by reason of concession, permit, right of access, renting accommodations or by other agreement of whatever nature, for a period of 30 consecutive calendar days. Up to a maximum of 5 percent of the total number of units can be occupied by guests that exceed these occupancy limits at any given time. The limitations on occupancy shall not apply to hotels with National Historic Landmark status and during the existence of a public emergency or natural disaster requiring the provision of emergency public shelter. Hospitals, sanitariums or orphanages, asylums, detention homes, jails, prisons, transitional shelters/housing, bed and breakfast, group housing or similar buildings where human beings are housed or detained under legal restraint or part of a treatment or other regulated program are specifically excluded.

BACKGROUND

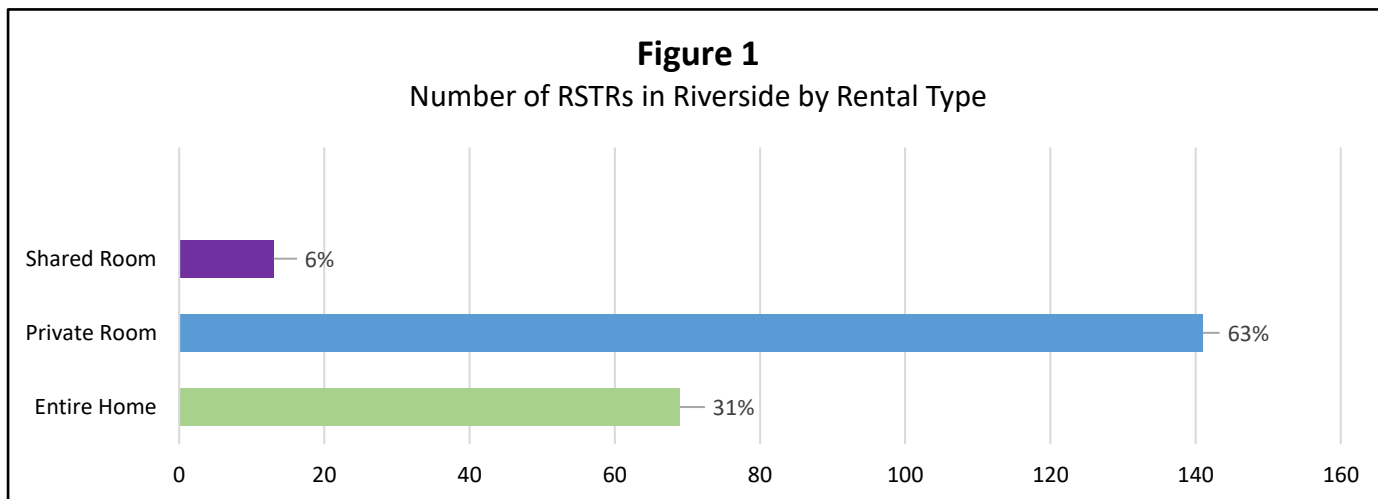
Community concerns with RSTRs relate to security/safety, stability and integrity of the neighborhood. To ensure that RSTRs do not become an issue in Riverside, the City is exploring ways to regulate them. The City's Code Enforcement Division has indicated that they have received approximately five (5) inquiries on RSTRs from August 2017 to August 2018. The inquiries have not been specific complaints, but rather requests for information on if and how they are allowed.

The City of Riverside does not currently collect TOT on RSTRs. The City's Finance Department will be bringing forth a Voluntary Collection Agreement with Airbnb for City Council approval on October 16, 2018. This agreement will require Airbnb to charge and collect TOT to guests booking a rental in the City of Riverside. Other cities have adopted this approach and could be also used for the City to negotiate with other RSTR platforms.

The number of RSTRs in Riverside is not known. On-line listings, across several different platforms, are based on region (not specific to a City) and properties are listed only when available. To help estimate the number of RSTRs in Riverside, Staff has used data supplied by AirDNA, who provides on-line analytics and research data on RSTRs. A review of AirDNA data shows that at the end of August 2018 there were approximately 225 registered RSTRs in the City of Riverside, with approximately 46% available for rent throughout the past year. The following summarizes characteristics of RSTRs in Riverside.

Residential Short-Term Rentals – Rental Types

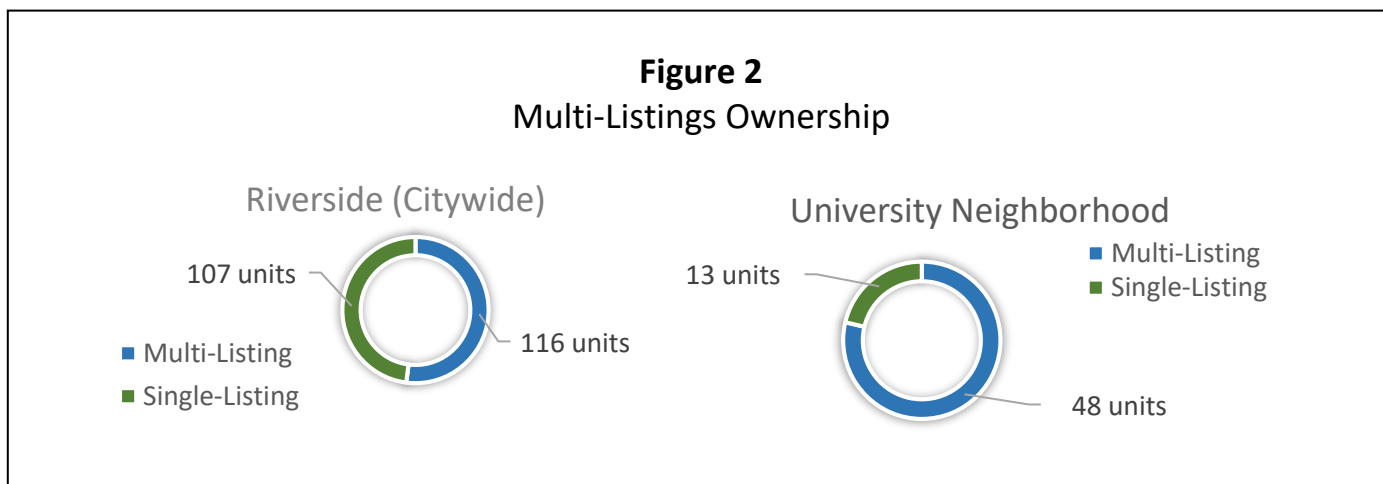
AirDNA identifies three different types of RSTRs, including shared homes, private rooms and entire homes. Figure 1 shows that the majority of RSTRs in the City of Riverside are private rooms (141), followed by entire homes (69), or 63% and 31% of the total number of rentals respectively.



Source: AirDNA.com

Residential Short-Term Rentals – Multi-Listing Ownerships

According to AirDNA, approximately 116 of the RSTRs in Riverside are associated with “multi-listing hosts”, which is defined as a “host” who rents out more than one unit at a time. Of all of the neighborhoods in the City, the University Neighborhood, adjacent to the University of California Riverside campus, has the highest number of “multi-listing properties” with approximately 48 of 61 units (80%) (see Figure 2).



Source: AirDNA.com

Residential Short-Term Rentals – Growth in Bookings

According to AirDNA, over the past five (5) years the total number of RSTR bookings in the City of Riverside has increased. Table 1 shows that the number of bookings have grown from 5 in 2013 to 530 in 2017. In 2018, the total number of rentals from January through July was 664. Approximating

this volume on an annual basis is anticipated to provide at least a 50% increase in 2018 from 2017. This shows that the RSTR trend is significantly growing.

Table 1
Growth in Bookings

Year	Number of Bookings
2013	5
2014	34
2015	124
2016	301
2017	530
2018 (January-July only)	664

Source: AirDNA.com

DISCUSSION

Evidence demonstrates the increasing popularity of RSTRs that directly connect property owners to individuals seeking accommodations. RSTRs provide revenue to the property owners, and cost effective accommodations for the traveler. It is likely that the RSTR market will continue to grow. In reviewing potential impacts, the City of Riverside can ensure that RSTRs are regulated in a way that will meet the needs of the City, the RSTR owner, neighbors and future travelers. A summary of potential impacts include:

Residential Short-Term Rentals - Potential Positive Impacts

1. Homeowners

- a. RSTRs provide supplemental income to homeowners. According to AirDNA, from January to July 2018, the approximate revenue from RSTRs in Riverside ranged from \$1,400 to \$2,350 per monthly rental unit.
- b. RSTRs provide homeowners flexibility and less long-term rental commitments. Owners can rent out single rooms to an entire house; and can choose specific days and duration. For instance, a homeowner can rent their entire home while on vacation, which offsets the cost of vacationing.
- c. RSTRs are easy to advertise and manage using on-line platforms.

2. Renters

- a. RSTRs are readily accessible using a smart phone or personal computer.
- b. RSTRs benefit renters who are transitioning between homes, and tourists vacationing for more than a few days. In some cases, RSTRs are more affordable than a standard hotel, and provide different amenities, such as a kitchen, additional bedrooms (for families), private backyards and more.

3. City of Riverside

- a. RSTRs can provide local jurisdictions with additional revenue through TOT, permits

and business licenses. Many cities have agreements with RSTR companies to automatically incorporate TOT during the booking process.

- b. RSTRs support a local tourism economy, especially for cities that lack traditional lodging. Affordable and accessible accommodations encourages tourism dollars to stay within the City, rather than renters staying in nearby cities. Some cities encourage the economic benefit of RSTRs by having less restrictive regulations.
- c. RSTRs encourage upkeep of properties, and provide regular use of second homes or investment properties. Well maintained homes can be desirable high-demand accommodations that are easy for owners to rent, and which bring back reoccurring customers. RSTRs encourage investment in maintenance of properties, which in turn help maintain neighborhood character and property values.

Residential Short-Term Rentals - Potential Negative Impacts

1. Housing Supply

- a. California's housing shortage continues to be a challenge for jurisdictions across the State. The residential units used as RSTRs take potential housing units off of the market which may impact housing stock and affordability.
- b. Some jurisdictions have also experienced problems with rent-controlled properties being converted to RSTRs. Enforcing rent-controlled regulations is challenging as the renter, not the owner, could be listing the RSTR.

2. Residential Neighborhoods

- a. RSTRs have the potential to impact residential areas when rented out to large groups, or for events. Impacts can include noise, disorderly conduct, traffic/parking, congestion, excessive trash and other code violations.
- b. Areas with RSTRs may see impacts on neighborhood character, especially as units are purchased as RSTRs. A concentration of RSTRs can result in "commercialized" neighborhoods, as the impacts can be similar to those where hotels are located.

3. Fiscal/Business

- a. Many cities do not collect TOT from RSTRs, even though their operations are similar to hotels/motels. While it is possible to enter into an agreement to collect TOT at the time of booking, these agreements must be made with each company. These negotiations may not always be successful, and the TOT may not be collected from some companies.
- b. RSTRs can have impacts on the hotel industry because RSTRs do not have staff, advertising costs or may not have clear regulations that apply to them. RSTRs can offer lower rates and, in many jurisdictions, are not regulated. Unless specifically required by a jurisdiction, TOT is not collected. In many cases RSTRs operate without business licenses.

Residential Short-Term Rentals (RSTR) Regulations

Jurisdictions are beginning to address the impacts of RSTRs on their communities. Many are developing regulations to control their use, and some are banning them outright. Attachment 1 of this Report provides an overview of RSTR regulations from several Southern California jurisdictions. Jurisdictions that allow, or are considering allowing RSTRs, include but are not limited to: Riverside County, Corona, Pomona and Fullerton. Commonalities on regulating RSTRs, include the following:

1. Annual RSTR permits are required with initial filing fees ranging from \$100 to \$250 (renewal fees are nominal);
2. Business registration is required (i.e., “Business License”);
3. Transient Occupancy Tax (TOT) is collected in the range of 10% to 15%:
 - a. Many jurisdictions have agreements with major RSTR companies to include the TOT into the booking process; and
 - b. This is convenient for all parties involved, including the “host”, “guest” and local jurisdiction.
4. RSTRs are limited to specific zones or areas:
 - a. Communities can prohibit RSTRs in single-family residential zones, such as the City of Newport Beach, which only allows RSTRs in higher density areas near the coast;
 - b. Communities can limit RSTRs to areas that are near amenities, or residential areas in transition, so that RSTRs accommodate the needs of the community and visitors;
5. A local contact person is required twenty-four hours a day, seven days a week. The contact person is responsible for responding to complaints from their guests or adjacent neighbors; and
6. Code enforcement violations are issued for operational requirements including property maintenance, trash in public view, unauthorized parking, etc.; multiple violations can result in a permit or business license being revoked.

Residential Short-Term Rentals (RSTR) Prohibited

There are a growing number of cities that have prohibited RSTRs, as identified in Attachment 1. In summary:

- Cities with tourist attractions have seen significant RSTR growth in recent years. According to the City of Anaheim’s website, as of February 2018 there were approximately 300 licensed RSTRs in the City, which has a TOT of 15% and requires a \$250 annual registration fee. According to AirDNA, there were also at least another 500 unpermitted RSTRs in the City, mostly around Disneyland, the Anaheim Convention Center, and Angel Stadium. Based on input received from the hotel industry and residents, relating to parking, late-night noise and litter, the City Council voted to prohibit all RSTRs in June 2016. Owners with previously approved RSTRs had 18 months to phase out rentals before a ban on RSTRs took effect on February 12, 2018.

- Some jurisdictions have prohibited RSTRs in all single-family and multi-family zones, including the cities of Eastvale, Chino Hills, Rancho Cucamonga, and Irvine. The concerns that led to the prohibition of RSTRs in residential zones included the preservation of quality of life and the character of residential neighborhoods. Defining and classifying RSTRs as hotel/motels, which are only allowed in commercial zones, is another method by which jurisdictions prohibit them in residential zones.

Conclusion

Riverside has not experienced significant issues with RSTRs; however, other communities, particularly those with a high levels of tourism, have had many challenges. As the number of RSTRs in Riverside is anticipated to grow, so will the potential for both positive and negative impacts to the community.

Given the above factors, the Land Use Committee, should consider the current and future need for regulating RSTRs in Riverside. If the Land Use Committee determines that RSTR regulation is needed, such regulation should appropriately balance the economic benefits of RSTRs with preserving the supply of adequate and affordable housing, and the quality of life of residential neighborhoods. Furthermore, Planning Division staff will need to prepare a Zoning Code amendment to establish RSTR regulations subject to future City Council approval.

FISCAL IMPACT

There is no fiscal impact associated with the preparation of this staff report. If City Council determines that RSTRs should be regulated, it is anticipated that there will be a positive fiscal impact to the General Fund associated with the collection of new TOT revenues and business license fees that are not currently being collected with RSTRs.

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Attachments:

1. RSTR Regulations of Local Government Municipalities
2. RSTR Potential Positive and Negative Impacts
3. Presentation