

# **The Effect of Short Term Rentals on The Supply of Housing in Santa Barbara City and County**

**What is the effect of the short-term rental (STR) market  
on the supply of long-term housing?**

A report prepared by the

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**FINAL REPORT**

## Executive Summary

The purpose of this report is to present data-supported analysis and conclusions regarding the impact of Short-Term Rentals (STRs) on the supply of long-term housing in Santa Barbara City and County.

Short-Term Rentals (STRs) have grown to represent an important economic engine for the local economy. A recent STR Economic Impact Report for the Santa Barbara area concluded that the operation of STRs creates approximately \$471 million in overall economic activity per year, and approximately 5,000 jobs. STRs also provide significant annual Transient Occupancy Tax revenues to Santa Barbara City and Santa Barbara County.

However, community members and decision makers are concerned about the impact of STRs on the supply of long-term housing.

Is there a valid concern that the long-term rental housing supply in the City and County of Santa Barbara is negatively impacted by the operation of STRs? Yes. However the degree to which the supply is impacted is negligible, far less than presumed.

As a principal part of the study methodology, survey requests were sent to STR property owners in Santa Barbara City and County. The survey was conducted during the month of March 2016.

### Key Results of the Survey

- If STRs were prohibited in the City and/or County of Santa Barbara, 71% of STR owners would continue to rent their properties as short-term rentals. 49% would be rented legally (30+ night stays), and 22% illegally (less than 30-night stays).
- Less than 15 percent of STR property owners rent their properties full time throughout the year. The remaining owners only rent their properties part time. Most owners rent their homes out as vacation rentals for less than half of the calendar year.
- 51 percent of all STR properties in Santa Barbara County are located in the City of Santa Barbara.
- In 86 percent of all cases, the entire dwelling is rented out short term.
- Less than 13 percent of STR owners use the vacation rental business as their livelihood.

Using the survey responses as representative of all STRs in Santa Barbara County, extrapolations to the entire population of STRs show that the prohibition of STRs would create an estimated 67 additional long-term rental units in the City of Santa Barbara, and an estimated 77 additional long-term rental units in rest of the County of Santa Barbara. 144 total additional units out of 147,368 long-term housing units in the entire County of Santa Barbara represents 0.10% of total housing stock being added to the supply of rentals.

**An increase of 1/10<sup>th</sup> of 1% in the long-term rental supply is created by prohibition of STRs, and does not represent a significant number of housing units that would be converted from STR use to a longer term supply of housing for purchase or rent.**

This study also shows that if STR prohibition is enacted, 22% of STR operators may operate in a "grey market" in which rentals of less than 30-nights will continue in spite of the prohibition. This grey market will add additional regulatory costs, and will not produce transient occupancy revenues to Santa Barbara City and County.

In conclusion, the empirical evidence does not justify the perception that the operation of STRs in Santa Barbara County or City materially impacts the supply of housing for residents. Only a negligible increase in the long-term housing supply would be created by the prohibition of STRs, and approximately half of that negligible increase would not be considered "affordable" housing.

**Consequently, this study does not support the perception that STRs have a significant negative impact on the supply of long-term housing.**



# What is the effect of the short-term rental (STR) market on the supply of long-term housing?

In Santa Barbara City and County, and in other coastal areas of California, home prices are between 2 and 6 times higher than the median home price for all homes nationwide. Average rents for apartments are twice as high as the national average. Housing is simply more expensive in the Bay Area, Santa Barbara, and along Coastal California in general than in most other areas of the country. Why? Because demand for homes in California remains strong and the growth of housing supply is dwarfed by the growth of housing demand.

Housing supply growth is constrained by many factors, but the most prominent are growth controls and the regulation of new housing supply. Growth controls come in many forms, including zoning policies, urban growth boundaries, affordable housing policies, development fees, new unit limitations per year, and other land use policies.<sup>1</sup>



SDAY DEC 30 2015 MOST POPULAR LOCAL ENTERTAINMENT SPORTS EDUCATION POLITICS OPINION PLACE #

## Airbnb and other short-term rentals worsen housing shortage, critics say



By **Tim Logan, Emily Alpert Reyes and Ben Poston** - Contact Reporters

MARCH 11, 2015, 1:00 AM

**T**he last time he advertised one of his apartments, longtime Los Feliz landlord Andre LaFlamme got a request he'd never seen before.

A man wanted to rent LaFlamme's 245-square-foot bachelor unit with hardwood floors for \$875 a month, then list it himself on Airbnb.

**While there are many reasons for a constrained housing supply, a recent allegation has been aimed at short-term rentals as having a meaningful effect on restricting the supply of rental units.**

<sup>1</sup> See for example, the March 2016 edition of the California Economic Forecast's monthly newsletter on Urban Growth Controls: <http://californiaforecast.com/march-2016/>



If the owner of a condo, home, studio, or multi-family apartment structure (who does not use the property during a portion of the year) decides to dedicate an entire unit exclusively to STR use, there is the potential to remove housing from the stock available to local residents.

In the majority of cases, removing the housing unit from the housing stock would likely mean removing the unit from the rental housing stock, though it's also possible that a unit dedicated to STR use might otherwise be available for sale, too.

It is not accurate to say that all units that are dedicated to STR use are being removed from the rental stock because some of them have never been part of it, and/or the property owner is unwilling to have a non-relative tenant. Consequently, they would leave the unit vacant or exclusively available for relatives, friends or other uses if they were unable to rent it out short-term.

A full listing of STRs from short-term rental websites such as AirBnB.com, HomeAway.com, VRBO.com , and Flipkey.com would include the following types of listings:

Housing types that impact the supply of long-term housing:

- Units that are being short-term rented full time without a resident in the home, and there is no personal use of the property by the owner

Housing types that do not impact the supply of long-term housing:

- Second homes that are used a portion of the year by the owner
- Extra bedrooms that someone is renting out some of the time
- Full units that someone is renting out when they happen to be out of town
- Other listings by property owners who took the time to make a listing, but don't actually follow through with renting because they don't need the money at this moment.

For the purposes of determining the impact that STRs have on the supply of housing available to tenants or new purchasers, we need to know:

- (1) The total number of housing units in Santa Barbara City and County
- (2) The total number of STRs in Santa Barbara City and County
- (3) Whether the STRs are “whole house” or “whole units”, and if they are made available throughout the year.
- (4) What alternatives would current owners of STR properties choose if their current use of the property as a short-term rental was prohibited.

The current total supply of housing is presented here:

**Housing Supply today / Santa Barbara County**

|  | Total<br>Single<br>Family | Total<br>Apartments | Total<br>Supply* |
|--|---------------------------|---------------------|------------------|
|  | ----- units -----         |                     |                  |
| <b>Santa Barbara City:</b>                       | <b>21,457</b>             | <b>16,609</b>       | <b>38,066</b>    |
| <b>Other Incorporated Cities in SB County**:</b> | <b>41,472</b>             | <b>20,726</b>       | <b>62,198</b>    |
| <b>Unincorporated Areas of SB County:</b>        | <b>38,505</b>             | <b>8,599</b>        | <b>47,104</b>    |
| <b>Total Santa Barbara County</b>                | <b>101,434</b>            | <b>45,934</b>       | <b>147,368</b>   |

\* Does not include mobile homes

\*\*Cities include: Santa Maria, Lompoc, Goleta, Carpinteria, Solvang, Guadalupe, Buellton

Source: Department of Finance, report E-5, May 2015

The table is the most recent inventory of housing stock in Santa Barbara County, and is updated annually every May by the Department of Finance. Currently, there are 38,066 housing units in the City of Santa Barbara, 62,198 housing units in

Other Incorporated Cities in SB County, and 47,104 housing units in the Unincorporated Areas of SB County. This results in a total of 147,368 housing units in Santa Barbara County.

### Estimated STR Inventory / Santa Barbara City and County

The total supply of STRs was determined in a recent report prepared by TXP, Inc.<sup>2</sup> “Approximately 2,550 unique STR properties were listed in 2014 throughout Santa Barbara County across a variety of major online vacation rental platforms.”<sup>3</sup>

TXP determined that the total output impact of STRs in Santa Barbara County is \$472 million per year and that the City of Santa Barbara’s contribution to that impact is 46.8 percent of the county total. Applying the ratio of the City to County output impact to the number of STR properties in the County, it is estimated that at most, there are 1,193 properties located within the Santa Barbara City limits.<sup>4</sup>

### STR Inventory / Santa Barbara County

|                               | <u>number of<br/>properties</u> |
|-------------------------------|---------------------------------|
| Santa Barbara City:           | 1,193*                          |
| Rest of Santa Barbara County: | <u>1,357</u>                    |
| TOTAL:                        | 2,550                           |

\* represents 46.8 of total STR supply in the County of Santa Barbara

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<sup>2</sup> TXP, Inc., “The Local Economic Impact of Short Term Rentals in Santa Barbara, CA,” Fall 2015

<sup>3</sup> *ibid.*, page 4

<sup>4</sup> We say “at most” because STR properties in the City of Santa Barbara would, like housing prices, typically have a higher average rental price than the collective average of the properties outside of the City (including Carpinteria, Montecito, Goleta, Lompoc Santa Ynez and Santa Maria). A higher price would lead to a larger impact per property. A larger impact per property means that to contribute 46.8 percent of the total output in the county, the number of STR properties in the City would be less than 46.8 percent of the total STR properties in the County



## Survey of STR properties / County of Santa Barbara

A recent survey of STR property owners was conducted to obtain information that is pertinent in the determination of the STR impact on housing supply.

Two principal vacation rental websites (AirBnB.com and HomeAway.com) were contacted for the purpose of disseminating a survey to all STR property owners in Santa Barbara County. Surveys were also sent to owners of properties managed by professional STR management companies.

1,660 survey requests were sent to the following recipients:

|  |              |
|--|--------------|
| Surveys sent to owners by email from HomeAway corporate office*: | 575          |
| Surveys sent to owners through the HomeAway inquiry system:      | 476          |
| Surveys sent to owners through the AirBnB inquiry system:        | 336          |
| Surveys sent to owners by local STR management companies:        | <u>273</u>   |
| <b>TOTAL:</b>  | <b>1,660</b> |

*\*Approximately 425 STR property owners were not sent the survey from HomeAway.com corporate office because those property owners had "opted out" of receiving ancillary email correspondence from HomeAway.com.*

The survey was conducted during the month of March 2016. A total of 319 responses were received. This represents a 19 percent response rate.

Responses to six principal questions were requested for the analysis. An additional 4 responses were requested from STR owners if they selected the 4<sup>th</sup> or 5<sup>th</sup> answer in question 6).

The Survey Questions and the responses are presented below.

### 1) Where is your property located?

| Answer             | percent | number |
|--------------------|---------|--------|
| Santa Barbara      | 51.10%  | 163    |
| Montecito          | 14.42%  | 46     |
| Goleta             | 1.25%   | 4      |
| Carpinteria        | 10.66%  | 34     |
| Santa Ynez Valley  | 14.73%  | 47     |
| Lompoc Valley      | 0.63%   | 2      |
| Santa Maria Valley | 0.94%   | 3      |

|                        |       |     |
|------------------------|-------|-----|
| Other (please specify) | 6.27% | 20  |
| Total                  | 100%  | 319 |

The proportion of 51 percent of respondents having their properties located in Santa Barbara is statistically comparable to the 47 percent of total properties in Santa Barbara County estimated (above) to be located in Santa Barbara.

Most STRs are located along the South Coast of Santa Barbara County (83%) with only a small representation of properties in the North County.<sup>5</sup>

## 2) What type of property is your short-term rental?

| Answer                 | percent | number |
|------------------------|---------|--------|
| Single Family Home     | 76.18%  | 243    |
| Condo or Townhouse     | 9.09%   | 29     |
| Apartment              | 2.51%   | 8      |
| Other (please specify) | 12.23%  | 39     |
| Total                  | 100%    | 319    |

The dominant response is that the typical STR is a detached single-family home. Apartments really do not comprise a meaningful portion of the short-term rental stock. The "other" category of 39 properties was mostly guest homes or cottages, separate mother-in-law or grannie units, or artist or studios, or single-family ranch homes on a ranch.

## 3) What do you offer for rent?

| Answer                             | percent | number |
|------------------------------------|---------|--------|
| Entire dwelling                    | 86.52%  | 276    |
| Individual room(s) in the dwelling | 13.48%  | 43     |
| Total                              | 100%    | 319    |

Clearly, most STRs comprise the entire property. Consequently, it would appear that the potential to augment the housing stock would be quite high if all of these homes were precluded from STR activity.

<sup>5</sup> The "other" category included 5 homes in Summerland, 4 homes in "Noleta" (commonly interpreted as the unincorporated area between Goleta and Santa Barbara), 1 in Montecito, and 6 in the unspecified unincorporated South Coast region of the county. There were only 4 in the North County including the Santa Ynez Valley. Consequently, 16 of the 20 "other" responses can be allocated into the South Coast.

**4) Please provide the best answer as to why you use your property as a short-term rental**

| <b>Answer</b>  | <b>percent</b> | <b>number</b> |
|--|----------------|---------------|
| I need to rent the property (or rooms) to help finance the mortgage              | 28.84%         | 92            |
| I need the additional income to make ends meet                                   | 32.92%         | 105           |
| I don't use the home full time, so I might as well rent it out when I'm not here | 25.71%         | 82            |
| This is my business  | 12.54%         | 40            |
| <b>Total</b>   | <b>100%</b>    | <b>319</b>    |

Less than 13 percent of STR owners claim that the vacation rental business is their livelihood. The remainder engages in STR activity to augment their incomes to finance their properties or the general cost of living.

**5) How many nights during the year do YOU personally use your short-term rental property?**

| <b>Answer</b>   | <b>percent</b> | <b>number</b> |
|---|----------------|---------------|
| None. My property is available for rent 100 percent of the year | 14.42%         | 46            |
| 1 to 90 nights  | 45.77%         | 146           |
| 91 to 180 nights  | 19.75%         | 63            |
| 181 to 364 nights   | 20.06%         | 64            |
| <b>Total</b>  | <b>100%</b>    | <b>319</b>    |

Less than 15 percent rent their properties full time throughout the year. The remaining STR owners only rent their properties part time. And most rent their homes out as vacation rentals for less than half of the calendar year.

This is consistent with the previous question that property owners who rent their homes out as vacation rentals are doing so to augment their income. It is not their primary business. Furthermore, the home is used for their personal occupation (or their family's), and would not be available to augment the long-term supply of housing if STR activity was banned.



## 6) If rentals of less than 30-nights were prohibited, what would you do?

| Answer  | percent | number |
|---|---------|--------|
| I would personally live in the property full time   | 5.96%   | 19     |
| I or my extended family (or friends) would use the property more  | 5.96%   | 19     |
| I would continue to rent my property short-term, but with a 30-night minimum per rental                 | 49.22%  | 157    |
| I would convert the property to a long-term rental (1 year lease or longer)                             | 5.64%   | 18     |
| I would sell the property   | 10.97%  | 35     |
| I would continue to rent my property for less than 30-nights, and accept the risk of enforcement action | 22.26%  | 71     |
| Total   | 100%    | 319    |

The responses above demonstrate that most STR owners would choose an option for their property other than one that would augment the housing supply in Santa Barbara County, including the City of Santa Barbara. Only 16.6 percent of respondents indicated they would either long-term rent or sell their property.

**Consequently, while some additional properties would be added to the housing stock, mostly as new for-sale inventory, the vast majority (72 percent) would continue to be used as short term rentals, legally or illegally.**

The following 3 questions pertained only to the 18 (5.6%) of respondents (above responders in blue) who indicated they would convert their rental to long-term rental property. The purpose of the 3 questions was to determine the potential rental rates of the homes (and, for shared homes, the "per-room" rental rates) that were added to the long-term housing supply.

## 7) As a long-term rental (1-year leases or longer), what do you think you would rent the property for:

| Answer                      | percent | number |
|-----------------------------|---------|--------|
| \$1,500 per month or less   | 11.11%  | 2      |
| \$1,501 - \$3,000 per month | 16.67%  | 3      |
| \$3,001 - \$5,000 per month | 22.22%  | 4      |
| \$5,001 - \$7,500 per month | 33.33%  | 6      |
| \$7,501 - \$9,000 per month | 11.11%  | 2      |

|                                |       |    |
|--------------------------------|-------|----|
| Greater than \$9,000 per month | 5.56% | 1  |
| Total                          | 100%  | 18 |

Half of respondents indicated they would rent their home for \$5,000+ per month. This tends to be the higher end of rental properties in Santa Barbara, Goleta, Montecito and Carpinteria, and very high elsewhere. A review of houses for rent on Craig's List clearly demonstrates this. Consequently, only 9 homes out of 319 STR properties surveyed (2.8 percent) would be added to the rental supply of homes in an affordable range for professionally working families. The other half (2.8 percent) would be added to the rental supply in the luxury home category.

**8) As a long-term rental, how many bedrooms would be available in your property?**

| Answer    | percent | number |
|-----------|---------|--------|
| 1         | 16.67%  | 3      |
| 2         | 22.22%  | 4      |
| 3         | 44.44%  | 8      |
| 4         | 5.56%   | 1      |
| 5         | 5.56%   | 1      |
| 6 or more | 5.56%   | 1      |
| Total     | 100%    | 18     |

**9) What would the "per room" rate be for your long-term rental (calculated as the total monthly rent divided by the total number of bedrooms)?**

| Answer               | percent | number |
|----------------------|---------|--------|
| \$500 or less        | 0.00%   | 0      |
| \$501 - \$1000       | 5.56%   | 1      |
| \$1001 - \$1,500     | 50.00%  | 9      |
| \$1,501 - \$2,000    | 33.33%  | 6      |
| Greater than \$2,000 | 11.11%  | 2      |
| Total                | 100%    | 18     |

The following question pertained only to the 35 (10.97%) of respondents (question 6 responders in green) who indicated that they would sell their property. The purpose of the question was to determine a potential for-sale price or "value" of the type of homes that would be added to the long-term housing supply.

## 10) What is the market value of your property?

| Answer                    | percent | number |
|---------------------------|---------|--------|
| \$500,000 or less         | 0.00%   | 0      |
| \$500,001 - \$1,000,000   | 18.92%  | 7      |
| \$1,000,001 - \$1,500,000 | 13.51%  | 5      |
| \$1,500,001 - \$3,000,000 | 32.43%  | 12     |
| \$3,000,001 - \$5,000,000 | 21.62%  | 8      |
| Greater than \$5,000,000  | 13.51%  | 5      |
| Total                     | 100%    | 35     |

25 of the 35 of the above responders indicated the market value of their home was \$1.5 million and up. 10 of the 35 indicated the market value of their home was \$3.0 million and up. The median value of the 35 STR homes is \$2,581,081.



## Conclusion

The tables below quantify the effect of STRs on the supply of long-term rental and for-sale housing units in the:

- 1) City of Santa Barbara
- 2) County of Santa Barbara (excluding the City of Santa Barbara), and
- 3) Combined Total: City & County of Santa Barbara.

| <b><u>City of Santa Barbara (only)</u></b>                                      | <b><u>Units</u></b> | <b><u>percent</u></b> |
|---|---------------------|-----------------------|
| Total Housing units:  | 38,066              | 100.00%               |
| Total Short-Term Rental units:  | 1,193               | 3.13%                 |
| Long-Term Rental Housing Inventory lost due to STR activity:                    | 67                  | 0.18%                 |
| Long-Term For-Sale Housing Inventory lost due to STR activity:                  | 131                 | 0.34%                 |
| Total Long-Term Housing Inventory lost due to STR activity:                     | 198                 | 0.52%                 |
| <br>  |                     |                       |
| <b><u>County of Santa Barbara<br/>(excluding the City of Santa Barbara)</u></b> | <b><u>Units</u></b> | <b><u>percent</u></b> |
| Total Housing units:  | 109,302             | 100.00%               |
| Total Short-Term Rental units:  | 1,357               | 1.24%                 |
| Long-Term Rental Housing Inventory lost due to STR activity:                    | 77                  | 0.07%                 |
| Long-Term For-Sale Housing Inventory lost due to STR activity:                  | 149                 | 0.13%                 |
| Total Long-Term Housing Inventory lost due to STR activity:                     | 226                 | 0.20%                 |
| <br>  |                     |                       |
| <b><u>Combined Total: City &amp; County of Santa Barbara</u></b>                | <b><u>Units</u></b> | <b><u>percent</u></b> |
| Total Housing units:  | 147,368             | 100.00%               |
| Total Short-Term Rental units:  | 2,550               | 1.73%                 |
| Long-Term Rental Inventory lost due to STR activity:                            | 144                 | 0.10%                 |

|  |     |       |
|--|-----|-------|
| Long-Term For-Sale Housing Inventory lost due to STR activity: | 280 | 0.19% |
| Total Long-Term Housing Inventory lost due to STR activity:    | 424 | 0.29% |

Is the allegation true that the long-term housing supply in the City of Santa Barbara is impacted by the operation of STRs? Yes. But the degree to which the supply is impacted is statistically negligible.

Only 16.6 percent of current STR properties would be converted to long-term rental or for-sale housing stock in the event that STR activity was prohibited in Santa Barbara County. **This represents only 0.29% of the entire housing stock in Santa Barbara County.**

In conclusion, prohibition of STRs will create an estimated 67 additional long-term rental units in the City of Santa Barbara, and 77 additional long-term rental units in rest of the County of Santa Barbara. 144 total additional units out of 147,368 long-term housing units in the entire County of Santa Barbara **represents only 0.10% of the total housing supply.** This is a negligible increase in the supply of long-term rental units, and is unlikely a large enough increase in supply to have any long-term impact on rental rates.

Similarly, prohibition of STRs will create an estimated 131 additional for-sale housing units in the City of Santa Barbara, and 149 additional for-sale housing units in rest of the County of Santa Barbara. 280 total additional housing units out of 147,368 long-term housing units in the entire County of Santa Barbara represents only 0.19% of the total housing supply, and is unlikely a large enough increase in supply to reduce housing purchase prices.

Finally, for half of the estimated increase in the supply of long-term housing created by the prohibition of STRs, it is likely that rental rates for these properties would exceed \$5,000 per month (and, in a shared home, over \$1,500 per room per month). This level of monthly rent is generally not considered an "affordable housing" rate. Therefore, a significant amount of any increase in rental properties caused by prohibition of STRs would unlikely have any impact on the "affordable housing" problem in the region.

The empirical evidence does not justify the perception that the operation of STRs in Santa Barbara County or City materially impact the supply of housing for residents. Only a negligible increase in the long-term housing supply would be created by the prohibition of STRs, and approximately half of that negligible increase would not be considered "affordable" housing. Consequently, this study does not support the allegation that STRs have a significant negative impact on the supply of long-term housing.

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