Short-Term Rentals, Long-Term Solutions:

Trends, Tools, and Best Practices for Regulating STRs

Join League Partner, Expedia Group, for a presentation and panel discussion on topics ranging from travel and tourism in a COVID-19 world, to how to effectively regulate short-term rentals in your city and achieve compliance. The City of Palm Springs will share how they created fair and effective short-term rental regulations that achieve high compliance

Moderator: Bismarck Obando, Director of Public Affairs, League of California Cities

Presenters: Richard de Sam Lazaro, Senior Government Affairs Manager, Expedia Group; **Councilmember Lisa Middleton**, Palm Springs; and **Boris Stark**, former Palm Springs Vacation Rental Code Enforcement Official

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LEAGUE PARTNER

LEAGUE OF CALIFORNIA CITIES

Partner Program Webinars

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Trends, Tools, and Best Practices for Regulating STRs

Moderator:

Mike Egan, Manager, Sponsorship and Corporate Development

Presenters:

- Richard de Sam Lazaro, Senior Government Affairs Manager, Expedia Group
- Lisa Middleton, Councilmember, Palm Springs
- Boris Stark, former Palm Springs Vacation Rental Code Enforcement Official

Short-Term Rentals, Long-Term Solutions:

Trends, Tools, and Best Practices for Regulating STRs

A Collaborative Approach to Sustainable Policymaking

October 21, 2020

Today's Agenda

1. Welcome and Introductions
2. Expedia Group 101
3. California COVID-19 Travel and Tourism Trends
4. What Makes a Fair and Effective STR Policy?
5. Case Study: Palm Springs
6. Q&A

Introductions

Richard de Sam Lazaro

- Expedia Group's Senior Manager, Government and Community Affairs
- 10 years working on housing and economic development policy in Congress, and West Coast cities and states
- Leads Expedia Group's public policy work in California, Hawai'i, and Washington State

Councilmember Lisa Middleton

- Member of the Palm Springs City Council since 2017
- Former Palm Springs Planning Commissioner
- Former Chair of ONE-PS, a city-recognized organization advocating on behalf of neighborhood associations

Boris Stark

- Former Vacation Rental Compliance Official for the City of Palm Springs
- Created SOP and compliance processes, identified & shut down bad actors, worked with the vacation rental stakeholders
- Joined a local vacation rental management agency in 2019 in a senior management role

Who We Are

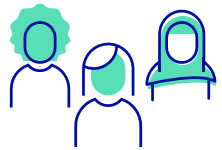
Expedia Group is the world's travel platform.

- **We are the global leader in travel technology**, empowering travelers with the options and confidence necessary to bring the world within reach.
- In terms of market footprint, Expedia Group represents **13% of the $501 billion travel market** in the U.S. and Canada, more than **60 million room nights**, more than **19 million flight tickets** are booked with us, **39 million car rental days**, and **2.7 million activity tickets (2019).**

Who We Are

- **We are committed to nurturing a holistic approach to public policy** that fosters a healthy tourism marketplace and truly helps benefit communities.

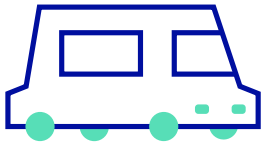
- **Our experience and unique position in the marketplace helps cities and states address neighborhood concerns** while preserving the benefits and opportunities the tourism economy brings.



- **We believe good regulation balances the needs of all involved**: homeowners, travelers, governments, and communities.

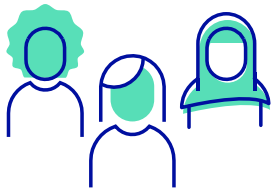
COVID-19 Travel and Tourism Trends for California

CA COVID-19 Travel Trends



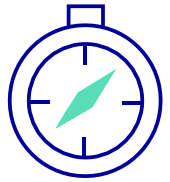
Close To Home

- Majority of CA bookings are intrastate travel
- Majority of bookings are travelers traveling <250 miles



Family Group Travel

- Large family bookings
- Decrease in business travel



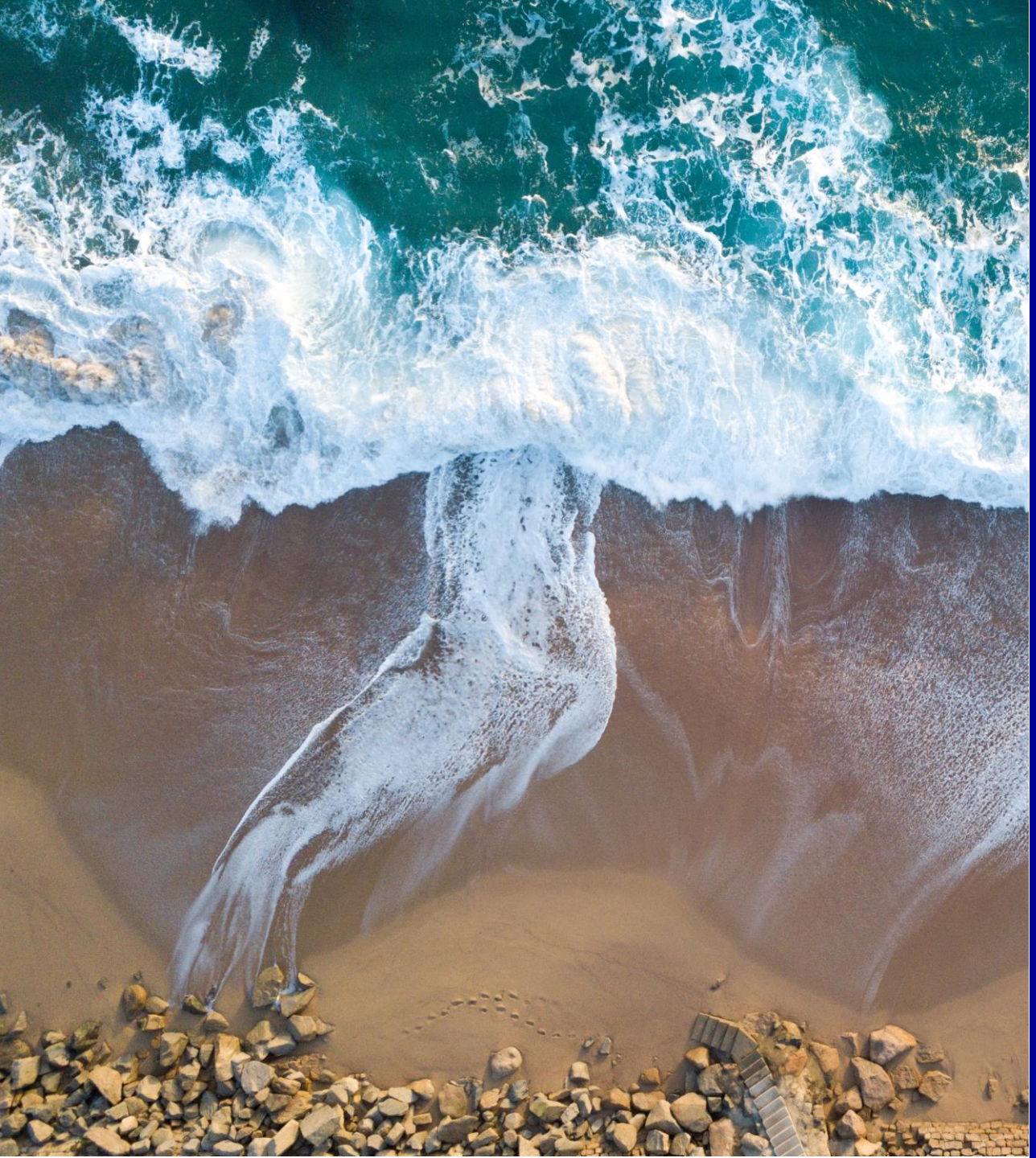
Off The Beaten Path

- Less interest in urban destinations
- Increased interest in mountain, lake, and river destinations

Our Approach

Balancing community needs with responsible policy is our top priority.

- Safety, housing, and nuisance concerns are important issues that can be addressed with balanced with regulatory tools.
- By collaborating with each individual municipality, we can offer tailored solutions that meet the needs of all community stakeholders.



What Makes A Fair and Effective STR Policy?

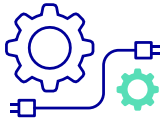
A Sustainable Framework

Reasonable Limits

- Communities deserve to manage growth, but outright bans and hosted-stay requirements unfairly punish responsible operators and guests. Expedia Group works with cities to craft outcome-based regulations.

Good Neighbor Policies

- Clear expectations around noise, trash, parking, and other neighborhood concerns are good for operators, travelers, and communities alike.



Delisting Noncompliant Properties

- Expedia Group supports laws that include platforms as partners in driving a high rate of compliance while reducing costs for city enforcement agencies.

High Compliance, Low Cost

Mandatory License Field

- Platforms must require STR operators to input a license number before a listing can be displayed.

Up-to-Date License Registry

- City maintains a live registry of all valid licenses, accessible to platforms via API.

Real Time Compliance

- Platforms must verify license numbers against the city's registry before performing any booking services.

Examples

Seattle, WA

- **Established reasonable limits.** This limits the growth of short-term rentals and addresses concerns related to affordable housing.
- **Provided tax dollars and a new housing affordability fund.** A special tax on short-term rentals creates a robust revenue stream to fund the city's Equitable Development Initiative.

Kauai, HI

- **Enlisted industry cooperation to assist in driving enforcement.** Expedia Group's platform requires the display of a Tax Map Key number and the removal of noncompliant listings.

Truckee, CA

- **Addressing community concerns directly** by setting clear health, safety, and good neighbor guidelines.

Case Study:
Palm Springs

Many policy experts point to Palm Springs as a community that reached an effective compromise on short-term rental policy. Can you explain what the "secret sauce" was?

How did the Vacation Rental Compliance Department achieve a high rate of compliance in the short-term rental community upon passage of the city's ordinance?

How do you balance the needs of all stakeholders in a conversation like this?

Can you explain the Vacation Rental Compliance Department operationalized this ordinance? How does the City cover the cost of enforcement?

After a few years in place are you and the rest of the Palm Springs City Council pleased with the City's short-term rental ordinance? Do you see it as a long-term solution?

Has your perspective changed since you left the Vacation Rental Compliance Department and joined a vacation rental management company? If so, how?

What is the single lesson you hope other city staff and elected officials take away from your experience?

Q&A

Thank You

TM
expedia group™

We are the world's travel platform.

Technology that empowers travel

As a technology leader, Expedia Group brings the world within reach by connecting customers with virtually every aspect of planning and booking travel. We know today's travelers are driven by technology and look online for destination inspiration, bookings and activities. We offer value at their fingertips through our partner brands, who cover the entire spectrum of travel; from destination suggestions, flights, cruises, rail, and car rentals to lodging, vacation rentals and activities. Over the past 20 years we have earned our reputation as a trusted travel partner for both our customers and business partners.

Expedia Group's U.S. market footprint

13% of the **$501B** travel market share in U.S. & Canada[1]

19+ million flight tickets[2]

60+ million room nights[2]

39+ million car rental days[2]

2.7+ million activity tickets[2]

$30,000 avg. yearly income for Vrbo owners[3]

We want to help craft smart regulation

Over the years Expedia Group has provided solutions to people's travel needs through our portfolio of strong brands that have simplified and enriched the travel experience. This puts us in the unique position to help address complex challenges faced by cities across the nation. As we serve the entire travel ecosystem, we are interested in nurturing a holistic approach to public policy that fosters a healthy tourism marketplace and truly helps communities benefit. We understand and respect the need for smart regulation, and we'd like to help. After all, we see travel as a force for good.

[1] Expedia Group's share of travel market defined as gross bookings during 2018. Travel market size estimates based on Phocuswright data for 2019. 2019 data includes alternative accommodations and activities, which were not included prior to 2018. Sources: Phocuswright estimates and Expedia Group data.
[2] 2018 U.S. data from Expedia.com, Orbitz, CheapTickets, Hotwire, Hotels.com, Travelocity and Ebookers.com
[3] Vrbo Owner Demographic Data, Q4 2018

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Expedia
As one of the world's largest travel sites, Expedia helps customers across the world plan and book travel easily and with confidence. With localized websites in 33 countries and more than 40 million post-stay reviews, we connect millions of customers with high-quality travel experiences every day. Expedia leverages its technological prowess and award-winning mobile app to provide the widest selection of top holiday destinations, affordable airfares, hotel deals, car rentals, cruise deals, vacation rentals and in-destination activities and attractions.

Vrbo
In 1995, Vrbo introduced a new way for people to travel together, pairing homeowners with families and friends looking for places to stay. As part of Expedia Group, we offer homeowners and property managers exposure to over 750 million site visits each month. Our goal is to give people the space they need to drop the distractions of everyday life and simply be together in homes, cabins and condos around the world.

Egencia
Egencia, the business travel arm of Expedia Group, is reimagining global corporate travel to help customers unlock more value from their travel programs. Our fully-integrated platform provides a simple, consistent booking experience, expansive inventory, and real time data and reporting to help travel managers analyze their program's strategic business value – all in one central location. Egencia serves businesses of all sizes with 24/7 local language customer support in more than 60 countries.

Expedia Local Expert
Experiences are at the heart of travel and Expedia Local Expert helps travelers connect with local communities to enhance every trip they take. We curate a global portfolio of more than 50,000 activities — from theme park tickets, cultural tours and sharing meals with local families to snorkeling and iconic landmark admissions. We work with more than 7,000 suppliers in 2500+ destinations globally to offer activities on more 60+ travel sites, in 17 languages and 20 currencies.

EPS
Expedia Partner Solutions (EPS) is a global B2B partnership brand within Expedia Group that powers the travel business of leading airlines, top consumer brands, travel agencies and thousands of other B2B partners. Through our versatile API, online template solutions and powerful agent tools, we unlock the power of Expedia Group for thousands of partners around the world. Our mission is to fuel our partners' growth through world-leading technology, travel supply, and enterprise-level support.

And more...

The world's travel platform.

expedia group™

Expedia Group Leadership in Navigating the COVID-19 Pandemic

Expedia Group is the world's travel platform. As the global leader in travel technology, we're addressing relief, reopening, and recovery in unique ways and empowering travelers with the options and confidence necessary to bring the world within reach.

Robust Recovery

COVID-19 understandably halted travel around the world, and our partners have suffered very real economic losses as a result. Some have had to lay off staff and local small businesses who work as their vendors. Supporting our partners is critical to a robust, responsible recovery.

Expedia Group launched a $275 million partner recovery program to support furloughed and displaced workers, to provide financial relief for partners, and to raise awareness of new destinations to explore through marketing efforts. Core components of the program include:

- Providing proprietary data and analytical tools to our partners so they can stay ahead of trends on website traffic, stay dates, and demand source markets.
- Developing Expedia Group Academy, a complimentary training and education program that offers skills development through online learning modules and live content; graduates of the academy will be provided with recruitment opportunities for new employment.
- Helping customers discover new destinations and exposing future travelers to new locales to explore through global brand campaigns.

This three-pronged approach will help restore partners, destinations, and industry.

Refunding Travelers

Travelers have been clear about what they're looking for when they feel it's safe to travel: self-contained spaces, flexible cancellation policies, and enhanced cleaning measures. Expedia Group and its brands – including Vrbo – have implemented new policies to refund travelers whose trips were cancelled due to COVID-19, as well as to instill the confidence needed to revive travel once it's safe to do so.

Nearly 70% of lodging rate plans on Expedia Group sites are now refundable. Vrbo has implemented a policy that automatically refunds 100% of the company's service fee, in addition to incentivizing partners to issue a full credit or at least a 50% refund for cancellations as a result of the COVID-19 crisis. **This policy has resulted in the vast majority of travelers receiving a refund or future credit.**

Additionally, we have developed tools that allow customers to filter options based on refund policies and cleanliness protocols adopted, ensuring travelers are armed with the knowledge they need to confidently book the best option for their family.

Supporting Frontline Workers, First Responders, and Communities

When the pandemic first hit, Expedia Group quickly realized we had resources that could prove extremely useful to first responders and patients traveling for medical needs.

- Vrbo partnered with local hosts offering their properties for free or discounted rates to frontline workers to share best practices with other property owners, including how best to connect with workers or patients in need of housing, contactless customer service, and disinfection guidelines

- Expedia Group's Egencia offered a program for frontline health workers traveling to coronavirus hotspots to find hotels if they need to be isolated or stay close to places where they're working. We offered three months of free travel management services, including waived transaction and onboarding fees, access to special healthcare hotel rates with an average saving of up to 30% per night, and 24-hour customer service in over 30 languages.

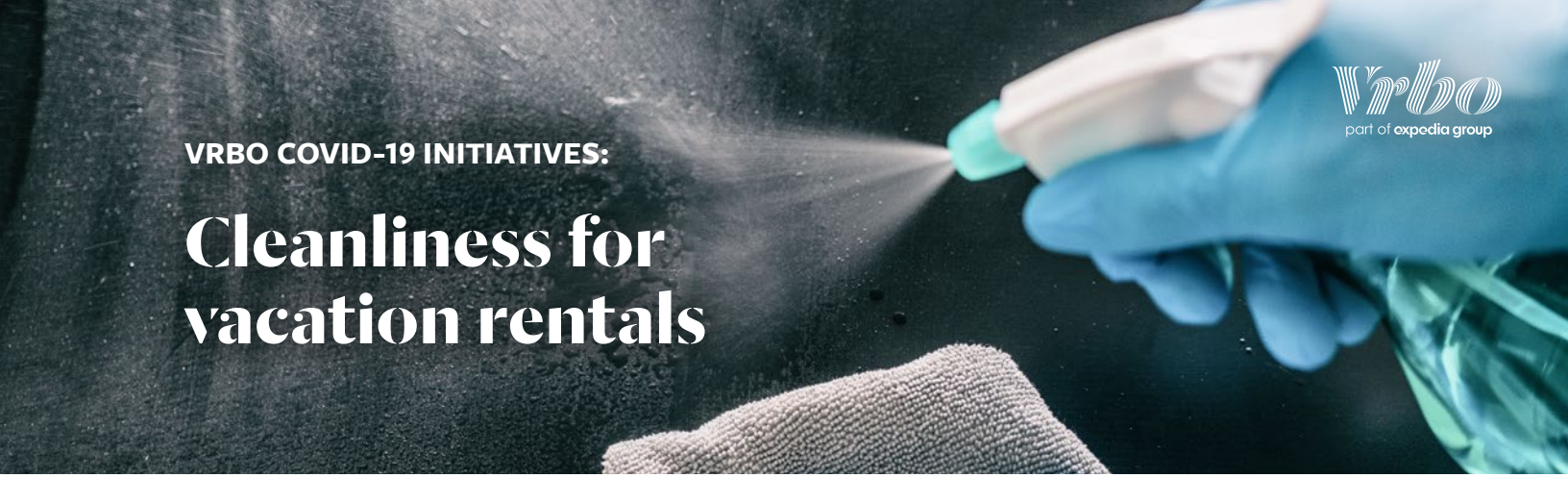
We were proud as a company to facilitate booking accommodations to serve a community in need.

Partner Education and Outreach

COVID-19 understandably resulted in many local and state governments issuing travel and lodging restrictions. Throughout this fluid situation, we have worked to keep our partners informed on local restrictions as they were unveiled or updated in real time, and what the restrictions would mean for partners' small businesses.

In the months following the coronavirus outbreak, we sent hundreds of emails on COVID-19 restrictions to partners in markets across the country, and these efforts continue today.

Additionally, we've compiled an expansive network of resources to help our partners navigate the relief programs available to them through the CARES Act and other small business assistance opportunities. We hosted an easily digestible webinar, breaking down the available relief programs and encouraging partners to apply as soon as possible.



VRBO COVID-19 INITIATIVES:

Cleanliness for vacation rentals

In response to the COVID-19 crisis, Vrbo has provided vacation rental owners and property managers with an updated, comprehensive set of cleaning and disinfecting guidelines.

These new guidelines combine information from:

- Centers for Disease Control and Prevention
- World Health Organization
- Cristal International Standards (part of international certification and training company Intertek Group).

They have also been reviewed by Dr. Daniel Lucey, an infectious diseases expert with more than 25 years of experience, who consulted with Vrbo on behalf of the Infectious Diseases Society of America.

In combination with these efforts, Vrbo was part of the U.S. Travel Association task force charged with developing travel industry guidelines, and collaborated on the Vacation Rental Management Association's (VRMA) guidelines.*

New guidelines for enhanced cleaning and disinfection

Homeowners and property managers now have clear guidelines outlining best practices for:

- Disinfecting high-touch surfaces
- Managing their calendars to avoid back-to-back stays
- Stocking antibacterial handwashes, cleaners, and hand sanitizers for guests

How we're getting the word out to our partners

Vrbo has taken the following multitiered approach to communicating this information to homeowners and property managers.

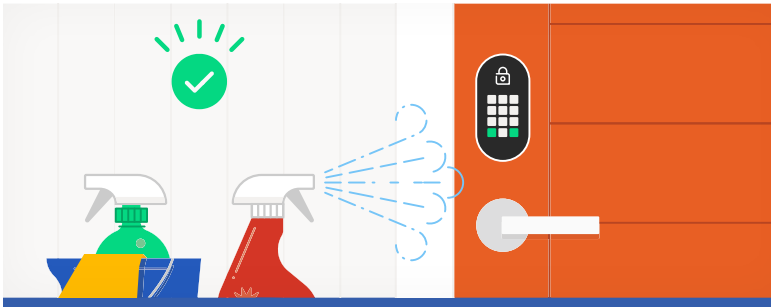
- Publicly posted guidelines and shared via email and in-product communications
- Hosted a training webinar with Cristal International Standards
- Shared a video update from Expedia's Senior Director of Global Trust and Safety Kelly Barton
- Shared supplemental articles with additional information via email and in the Vrbo product for partners

How we're getting the word out to travelers

To help spread awareness of new cleaning initiatives to travelers, Vrbo is adding enhanced cleaning and disinfection steps partners are taking to property descriptions and search filters so travelers can choose places to book that meet their expectations.

Homeowners and property managers can now include the following information on their listings:

- If enhanced cleaning and safety measures are currently implemented at the property
- If the property is being cleaned with disinfectant
- If guests can check in and out without any person-to-person contact
- If the property is unavailable for at least 24 hours between guests
- Are high-touch surfaces cleaned with disinfectant? Examples: countertops, light switches, handles, and faucets
- Are all towels and bedding washed between stays in water that's at least 60ºC/140ºF?
- Which regional standard sanitization practices are followed at the property?
- Which industry association's recommended cleaning practices are followed at the property?



Results we've seen so far

As of early June, partners have added cleaning practices to more than 100,000 properties and shared that they are implementing enhanced cleaning and safety measures and cleaning with disinfectant.

Travelers can also use search filters to see vacation rentals with the highest cleanliness reviews from other travelers — and **former guests have already provided cleanliness reviews on 900,000 Vrbo properties**.

*None of these organizations endorse these guidelines or EG/Vrbo. Neither Expedia Group nor Vrbo make any representations or warranties of any kind, express or implied, about the completeness, accuracy, reliability, or suitability of these guidelines. Any reliance a partner places on these guidelines is at their own risk. These guidelines are subject to change based on new information arising. For the most up-to-date information, please refer to the World Health Organization (WHO), the Centers for Disease Control (CDC), and your local health authority.

Vrbo
part of expedia group

Whole Home, Whole Community

A foundation for comprehensive, enforceable short-term rental solutions.

Vrbo believes that balanced and enforceable vacation rental policies are achievable in every market. Smart, responsible regulations address community concerns, while allowing vacation rentals to operate legally. This is how communities are able to reap the economic and tourism benefits of the vacation rental industry.

The most effective policies come from collaboration, including with platforms like Vrbo that offer important perspective to the conversation. **That collaboration begins with Vrbo's three-tiered commitment to communities:**

Tax Collection

Vrbo will collect taxes on behalf of our homeowner partners, and remit them to the appropriate tax authority.

Non-Compliant Listing Removal

Vrbo will require owners to list their permit number, and we will remove those that are not in compliance.

Reasonable Limits

Vrbo supports reasonable limits on licenses, density, and/or nights per year.

Vrbo has already partnered with many cities including Seattle, San Antonio, and Louisville to create fair and effective policies based on this three-tiered commitment.

Vrbo's commitment to being good neighbors and contributing positively to communities is grounded in our policy solution framework — Whole Home, Whole Community — which offers a path forward to achieving balanced, responsible policy that:

- **Respects** community concerns.
- **Provides** important income to vacation rental owners.
- **Supports** lodging options for travelers.
- **Spreads** the benefits of tourism around the community.
- **Ensures** valuable tax dollars are brought to state and local governments.

Please contact GovernmentRelations@Vrbo.com for more information.

All Articles

Why Short-Term Rentals Matter to Reopening Cities

AUGUST 17, 2020

Since the outbreak of COVID-19, many cities have come to a standstill—closing most restaurants, gyms and other businesses while the virus spread and stressed hospital systems. These closures have been critically

Skip to Content

outbreaks, it's now clear that we may not return to normal as early as hoped. In the meantime, Expedia Group has been working to lead recovery and relief efforts across the entire travel ecosystem and the country to help everyone endure this difficult chapter.

In May, Expedia Group announced a $275 million partner recovery program to support furloughed hotel workers and to prepare to rebuild cities' economies when it's safe to do so. The program offers a complimentary training and education program called Expedia Group Academy, reinvests a proportion of last year's earnings into marketing credits for partners, extends payment terms to provide additional financial relief, provides new analytics through a Market Insights tool, and supports a series of global brand campaigns to help travelers discover new cities as they consider a future travel adventure.

Expedia Group has also worked closely with public health officials and other travel leaders to ensure that communities stay safe during this outbreak. We collaborated with other industry groups to issue new cleanliness guidelines, through our vacation rental brand Vrbo, that bring together recommendations from the Centers for Disease Control and Prevention, the World Health Organization and Cristal International Standards, and were reviewed by infectious diseases expert Dr. Daniel Lucey. Vrbo customers can filter properties based on specific hygiene measures adopted, as well as flexible fare policies, so they can book with confidence for when they are ready to travel.

Now cities are starting to grapple with how to help their economies recuperate once it's responsible to do so. Expedia Group has proactively supported mayors and city council members with these decisions and with other issues unrelated to COVID-19.

In San Diego, for instance, Expedia Group worked closely with the mayor

Skip to Content

monitor the city's short-term rental properties under comprehensive new rules and guidelines. Similarly, in Kauai County in Hawaii, Expedia Group led a year-long effort to work alongside Mayor Kawakami and sign another new MOU that helps facilitate enforcement of non-compliant properties and to promote only compliant properties. These are both historic agreements for the travel industry and the short-term rental community-at-large. Specifically, the MOU signed in Kauai is the first example of an online rental platform and a Hawaiian government entity reaching an agreement of this kind and stature.

Short-term rentals are a vital component of Kauai County, San Diego, and communities across the country. Those who rely on the industry for income and support have continually faced regulatory hurdles that have been exacerbated by the COVID-19 pandemic. The agreements achieved in both jurisdictions should serve as a precedent moving forward to ensure that short-term property owners, their customers, and the residents of each city have clear rules that promote safety and certainty.

Now more than ever, in this environment, it is critical that cities and platforms work together to help local communities—and the travel ecosystem writ large—recover in a responsible, safe and inclusive way. Expedia Group will continue to advocate for and collaborate with communities, local officials, and short-term rental owners on policies that create inclusive, safe, and responsible regulatory environments like those in San Diego and Kauai.

About the Author:

Philip Minardi is the director of policy communications at Expedia Group.

Skip to Content

OXFORD ECONOMICS

Vrbo

THE DRIVERS OF HOUSING AFFORDABILITY

An assessment of the role of short-term rentals

NOVEMBER 2019

TABLE OF CONTENTS

Executive summary **3**

1. Scope and structure of this report **8**

2. America's affordable housing crisis **9**

2.1. The rental market 11

2.2. The home-owner market 12

2.3. The short-term rental market 13

3. The housing market: an analysis of existing studies **14**

3.1. Existing literature on housing market dynamics 14

3.2. Existing literature on short-term rentals 15

4. Modeling approach and data **17**

4.1. The rental model 18

4.2. The house price model 21

5. Results and discussion **25**

5.1. The rental model 25

5.2. The house price model 25

5.3. Contribution analysis 26

6. Conclusion **30**

STR literature findings **31**

Methodological appendix **32**

EXECUTIVE SUMMARY

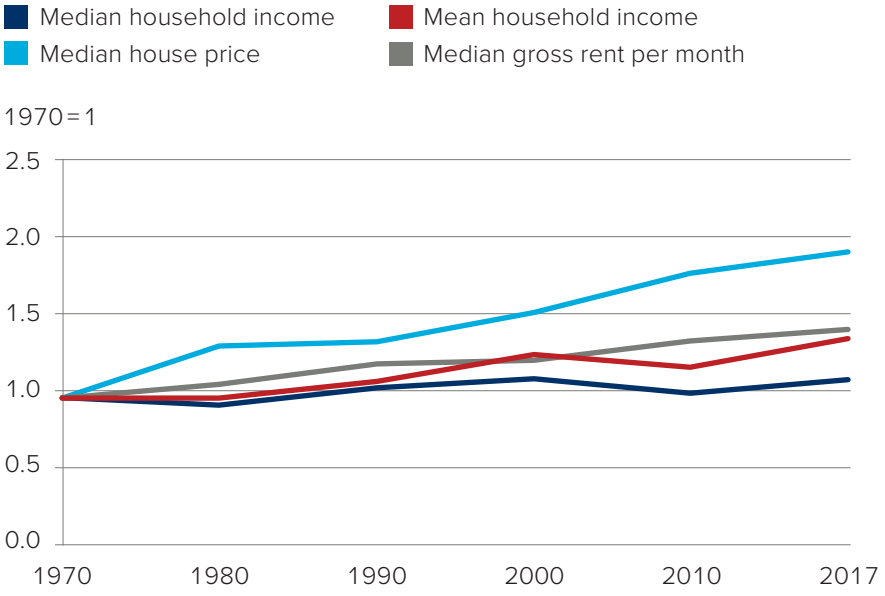
In the past year, **the US-wide affordable housing crisis has consistently made headlines.** Today, some 18 million US households spend more than half their gross income to pay basic accommodation costs.[1]

The root causes of the housing crisis can be traced back to changes that significantly pre-date the growth of the short-term rental (STR) market. The rising unaffordability of housing is a long-term trend reflecting four decades during which rental and house prices have grown consistently faster than incomes (Fig. 1). Indeed, Fig. 1 also provides a strong indication of the underlying causes of the problem. While the income of a typical (median) household stagnated between 1970 and 2010, average US household incomes grew strongly, supporting sustained growth in house prices. These trends were the manifestation of the significant increase in income inequality that occurred in the US during this period.

18.2 million

Number of US households who now spend more than half their income paying basic housing costs.

Fig. 1. Growth rate of median and mean household incomes, median house prices and median gross rent per month, 1970–2017[2]



Source: 1970–2000 Decennial Censuses, 2010 and 2017 ACS

[1] Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing 2019", 2019.

[2] It is important to note that rents have been growing faster than incomes over the past decades, as illustrated in Fig. 1. However, over the past few years, incomes have picked up and therefore, during our study period, the real growth in income was greater than that in rents.

> *"The shortfall in new homes is keeping the pressure on house prices and rents—eroding affordability, particularly for modest-income households in high-cost markets."*
>
> *—Joint Center for Housing Studies*

Recently, public attention has increasingly focused on supply side issues in the market, which have been argued to have exacerbated the current crisis. For example, in a recent study, the Joint Center for Housing Studies concluded that the core of this crisis is a supply issue, with net new housing supply held back mainly by high building costs, zoning restrictions, and labor shortages in the construction sector. On the other hand, other commentators have focused on the role of STRs, as they allegedly reduce the supply of affordable housing by removing properties from the rental market, displacing long-term tenants, and raising the cost of living.

Given this context, Oxford Economics was commissioned by Vrbo to carry out a study to:

1) learn the key drivers of increasing house prices and rents; and
2) analyze the role played by STRs with regard to housing affordability.

The dynamics of housing markets have been the subject of academic literature for decades, with the general consensus concluding that:

- **rent** is mainly determined by the number of housing units, the number of households, and income levels; while
- **house prices** depend positively on disposable income and demographic growth, and negatively on housing stock and the "user cost of capital".[3]

Our study borrows the backbone of its modeling framework from this literature. We also included STR density and a mix of other explanatory variables to answer our second research question.

MODEL FINDINGS

For this study we constructed a comprehensive dataset of all US counties over the period 2014–2018.[4] The dataset included over 70 variables, ranging from average household income to the number of residential building permits in each county.[5] We then used this database to build two econometric models, one aimed at determining the drivers of rents, and

[3] The user cost of capital includes the mortgage interest payments that an owner has to make, but also annual property taxes, depreciation costs, and any expected capital gain.

[4] 2014 was the first year covered in the AirDNA database, our data source for STR listings. Listing data were missing for some US counties, so we had to exclude those from our study.

[5] Building permits represent the number of new privately-owned housing units authorized by building permits in the United States. As shown later in this document, we derive our "permits per household" variable by dividing the number of building permits by the number of households.

the second focusing on house prices. In both models, all variables have the expected effect and are statistically significant—for example:

- Household income is found to have a *positive* impact on both rents and house prices—the greater purchasing power afforded by higher incomes enables households to increase expenditure on housing.
- On the other hand, housing supply is found to have a *negative* impact on rents and house prices—more abundant supply, as defined as a higher number of housing units per household, allows house buyers to shop around more, helping to keep a lid on price growth.[6]

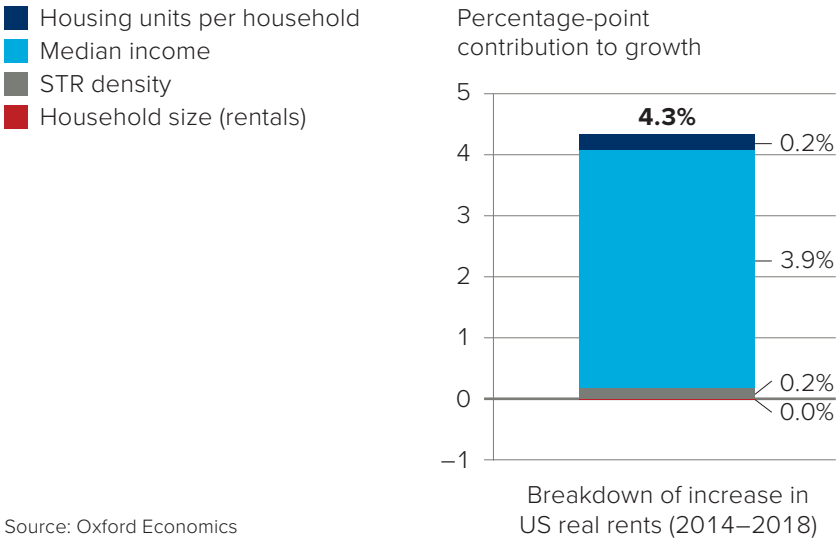
The findings of our rental model, combined with changes in the explanatory variables over the study period, show that the **overwhelming driver of the observed increase in real rental prices during the 2014–18 period was household earnings.** Median income increased by 10.4% in real terms over our study period. We estimate that this growth alone was responsible for around 3.9 percentage points (or 91%) of the overall 4.3% increase in median real rents in this period (see Fig. 2).

3.9 percentage points

Estimated increase in real rents attributed to rising household earnings between 2014 and 2018.

The overall increase was 4.3%.

Fig. 2. Drivers of the growth in real rents between 2014 and 2018



Source: Oxford Economics

[6] Housing supply is measured as the number of housing units divided by the number of households in each county. As a result, our housing supply variable is independent of the STR density. For example, if one unit is subtracted from the STR market and added back to the long-term rental market, this will not have any impact on housing stock per household. In other words, the effect of this change would be fully captured by the impact of STR density and would not "double up" as a boost in housing stock.

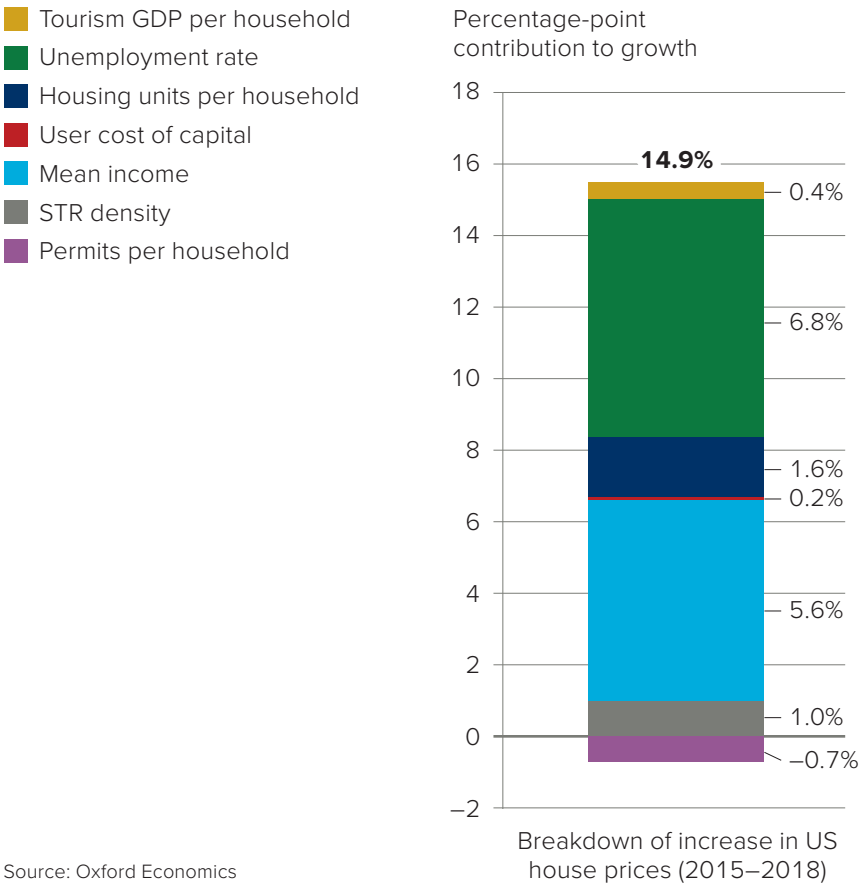
6.8 percentage points

Estimated increase in real house prices attributed to dropping unemployment over the study period.

The overall increase was 14.9% between 2015 and 2018.

In our house price model, we found that **the biggest contribution to the growth in house prices came from labor market improvements.** Specifically, the drop in US unemployment over the study period is estimated to have added 6.8 percentage points to US house prices growth (see Fig. 3). Income was another major contributor, adding 5.6 percentage points to house price growth over the study period. We also find that housing supply and building permits had an impact on house prices growth during the period.

Fig. 3. Drivers of growth in US house prices between 2015 and 2018[7]



Source: Oxford Economics

[7] The inclusion of lagged variables in the house price model implies that their growth between 2014 and 2015 starts affecting prices in 2015–16. For this reason, the contribution analysis for house prices only covers the period 2015–18 and not 2014–18.

THE IMPACT OF SHORT-TERM RENTALS

Our modeling indicates that **the presence of STRs has not substantially driven the US house price and rent increases over the past few years.**

For the period 2014–18, we find that, in the absence of any growth in the number of STRs, real rents would still have grown by 4.1%, as opposed to the actual growth rate of 4.3%. Put another way, **median monthly rents would have been only $2 lower in 2018** if STRs had remained at their 2014 levels. In the homeowners' market, the impact attributable to the growth in STR density represents less than a one-percentage-point difference in house prices growth. In other words, we estimate the **average annual mortgage payment would have been $105 cheaper** if STRs had remained at their 2014 levels.

What do these findings tell us about affordability? To answer this question, we estimated the 2018 median price of a property in the US in a counterfactual scenario where STRs did not grow over the study period. When considering these counterfactual house prices in relation to average household incomes, we found that **the price-to-income ratio would have increased to 2.39 in 2018 in a scenario with no STR growth, as opposed to the actual value of 2.41.**

Interestingly, an extension of our baseline models suggests that, in the long run, **the effect of STRs on both house prices and rents is weaker in highly seasonal areas.**[8] One explanation for this is that, in vacation markets, homes are less likely to be rented on a long-term basis. In addition, home owners of properties in seasonal destinations have been renting out their properties long before the advent of internet platforms offering STRs (through agencies and brokers) and therefore the value from such rental revenue has long been priced in the value of homes in these localities.

Our findings suggest that adopting stricter regulations on STRs is unlikely to solve the housing affordability crisis faced by many American households, in both the rental and homeowners' market. Moreover, it is important to weigh these potentially modest affordability benefits against the associated negative consequences for the local economy, e.g. lower levels of tourist expenditure and tax receipts.

$2

Estimated reduction in median monthly rent for 2018 if STR density remained at its 2014 level.

$105

Estimated increase in average annual mortgage payment attributed to growing STR density over the study period.

> *"Adopting stricter regulations on STRs is unlikely to solve the housing affordability crisis faced by many American households."*

[8] Short-run effects look at the immediate impact of a variable X over Y. Over time, given the dynamic nature of the housing market, there will be several equilibrating adjustments to the short-run effects, as the economy and people readjust. As a result, the long-run effect of a given variable X over Y is different.

1. SCOPE AND STRUCTURE OF THIS REPORT

Oxford Economics was commissioned by Vrbo to carry out a study of housing affordability and short-term rentals. Specifically, our analysis sought to:

- learn the key drivers of house prices and rents;
- analyze the role played by short-term rentals on affordability; and
- establish whether relationships vary across housing market types.

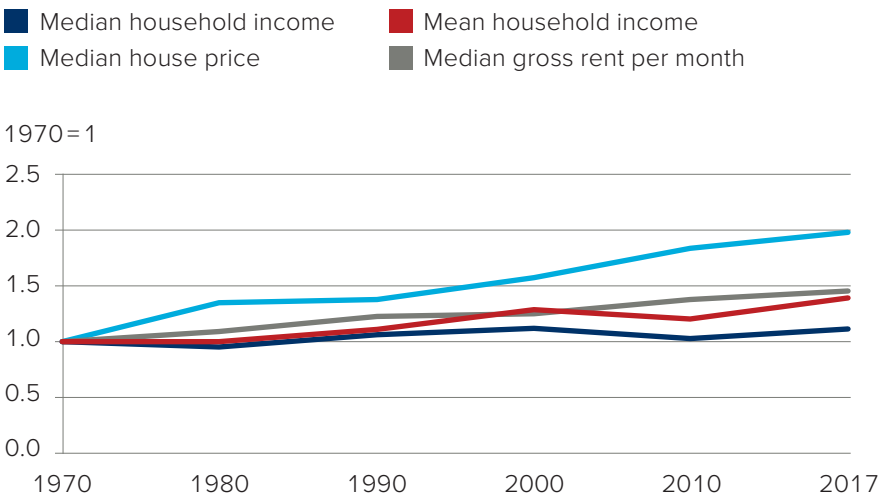
The resulting report begins by introducing the US affordability crisis (Chapter 2), before reviewing existing literature on housing and short-term rentals (Chapter 3). First and foremost, this study aims to contribute to the literature on housing market dynamics, as well as adding to the still limited literature studying the effect of short-term rentals on housing markets.

In Chapter 4, we set out a new approach to modeling house prices and rents, based on a panel dataset covering the period 2014–18, with the objective of identifying which variables are statistically significant drivers of prices and rents.

Our results from this approach, set out in Chapter 5, illustrate the sensitivity of house prices and rents to different macroeconomic drivers, including the supply of housing, cost of capital, and household earnings, as well as STR density. Armed with these results, we then calculated the contribution that each macroeconomic driver made to the housing market variable. We find that economic and labor market conditions explain the lion's share of housing market developments during our study period.

2. AMERICA'S AFFORDABLE HOUSING CRISIS

Fig. 4. Growth rate of median and mean household incomes, median house prices and median gross rent per month, 1970–2017[9]



Source: 1970–2000 Decennial Censuses, 2010 and 2017 ACS

Housing is increasingly an issue of public policy concern, as the US faces an affordable housing crisis. For decades, rents have been growing faster than incomes (Fig. 4), and nearly 200 US cities had a median home value of at least $1 million as of June 2018.[10] After a few years of decline, the number of people experiencing homelessness has grown again over the past couple of years.[11]

Theoretical models and the empirical literature on the housing market suggest that, over the long run, house prices depend positively on disposable income and demographic needs, and negatively on user costs and the housing stock.[12] This last factor in particular has been thoroughly discussed in the policy debate.

Many experts have argued that, at its core, the US housing crisis is a supply issue.[13] Between 2014 and 2018 (the period covered in our study), 5.1 million new households are estimated to have formed in the US, while net new housing supply was up only 4.1 million.[14] This implies the ratio of housing units-to-households declined between 2014 and 2018.

In the remainder of this chapter, we present snapshots of the affordability issue for renters and homeowners in turn. We then introduce the short-term rental market, the growth of which has created debate among local governments, housing activists, and residents about its impact on the availability of affordable long-term housing.

[9] It is important to note that rents have been growing faster than incomes over the past decades, as illustrated in Fig. 4. However, over the past few years, incomes have picked up and therefore, during our study period, the real growth in income was greater than that in rents.

[10] Zillow, "List of $1M (Home Value) Cities Could Grow by 23 in the Next Year", 9 August 2018.

[11] HUD Exchange, "2018 AHAR: Part 1 – PIT Estimates of Homelessness in the U.S.", December 2018.

[12] A variable X is said to have a positive impact on variable Y when an increase in X is associated with an increase in Y. A variable X is said to have a negative impact on variable Y when an increase in X is associated with a drop in Y. IMF, "Fundamental Drivers of House Prices in Advanced Economies", *IMF Working Paper*, July 2018.

[13] Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing 2019", 2019.

[14] These numbers represent the net growth in the two variables. In other words, more than 5.1 million households may have formed over the study period, but at the same time some households may have dissolved. The net household formation was 5.1 million between 2014 and 2018.

WHY CAN'T THE US BUILD ENOUGH HOUSES TO MEET THE DEMAND?

Since 2011, residential housing construction has increased, but not enough to meet demand, according to Freddie Mac. There are various reasons for this.

First, the **housing boom in the early 2000s** produced an excess stock of houses, making builders and creditors more cautious of speculative construction projects that would inflate the housing stock too fast. Another contributing factor is **home building cost**, which encompasses the cost of land and raw materials. The price of raw materials has risen by over 20% since the recession, according to Bureau of Labor Statistics' data.

Laws and regulations such as local **zoning restrictions** on lot sizes, building height, and minimum number of parking spots also increase the cost of building a home, in turn reducing the supply of new houses. The National Association of Home Builders (NAHB) estimates that regulatory costs increased by 29% between 2011 and 2016.

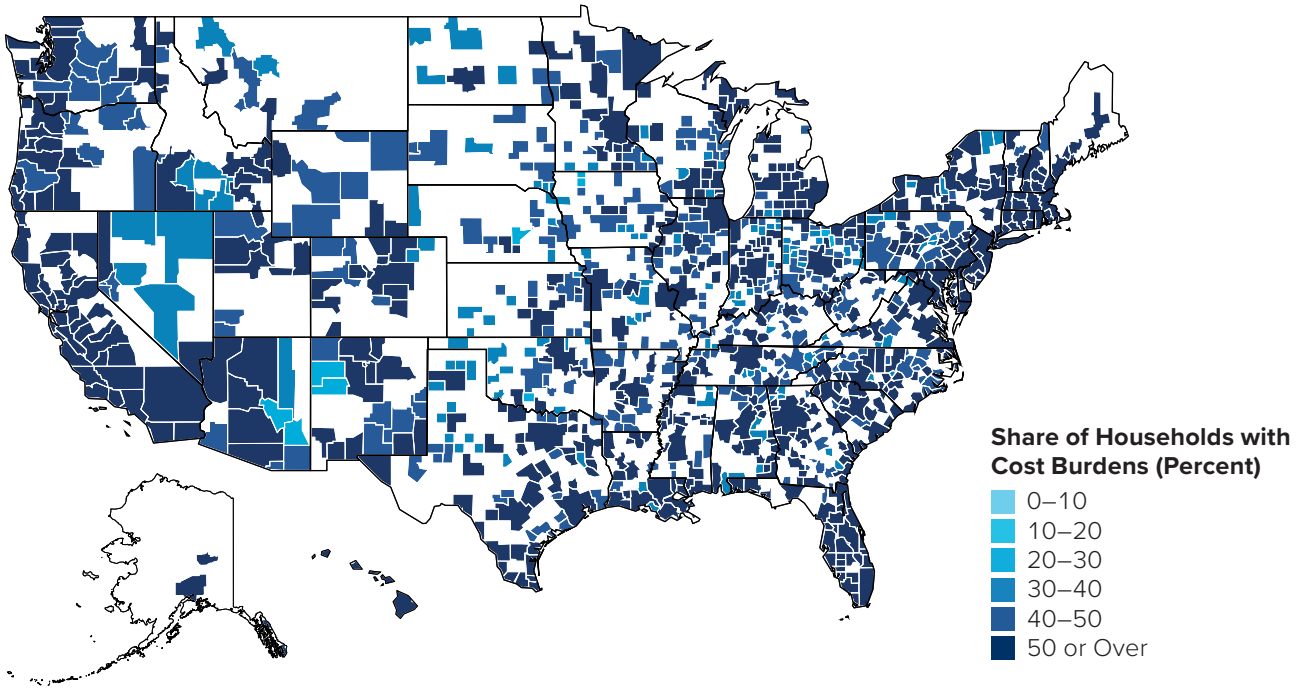
Another reason for the lower level of housing production, relative to the population, is said to be the **shortage of skilled labor** currently faced by the construction industry. The NAHB reports that the number of unfilled jobs in the construction sector reached post-crisis highs in 2018.

2.1. THE RENTAL MARKET

A study by the Joint Center for Housing Studies of Harvard University found that renters appear to be more burdened by housing costs than homeowners, with cost-burdened renters outnumbering cost-burdened homeowners by more than 3.0 million (where cost-burdened is a household paying more than 30% of its gross income for housing).[15] In addition, renters make up 10.8 million of the 18.2 million severely burdened households that pay more than half of their incomes for housing.

The spread of renter cost burdens is most evident in expensive metropolitan areas such as Los Angeles, New York, San Francisco, and Seattle (see Fig. 5). Not surprisingly, households with the lowest incomes have the highest cost-burden rates, although such rates are rising rapidly among renters higher up the income scale. The cost-burdened share is highest among among African American and Latinx American renters, suggesting minorities are heavily hit by America's housing affordability crisis.

Fig. 5. Share of cost-burdened households, renters



Source: Joint Center for Housing Studies of Harvard University

[15] Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing 2019", 2019.

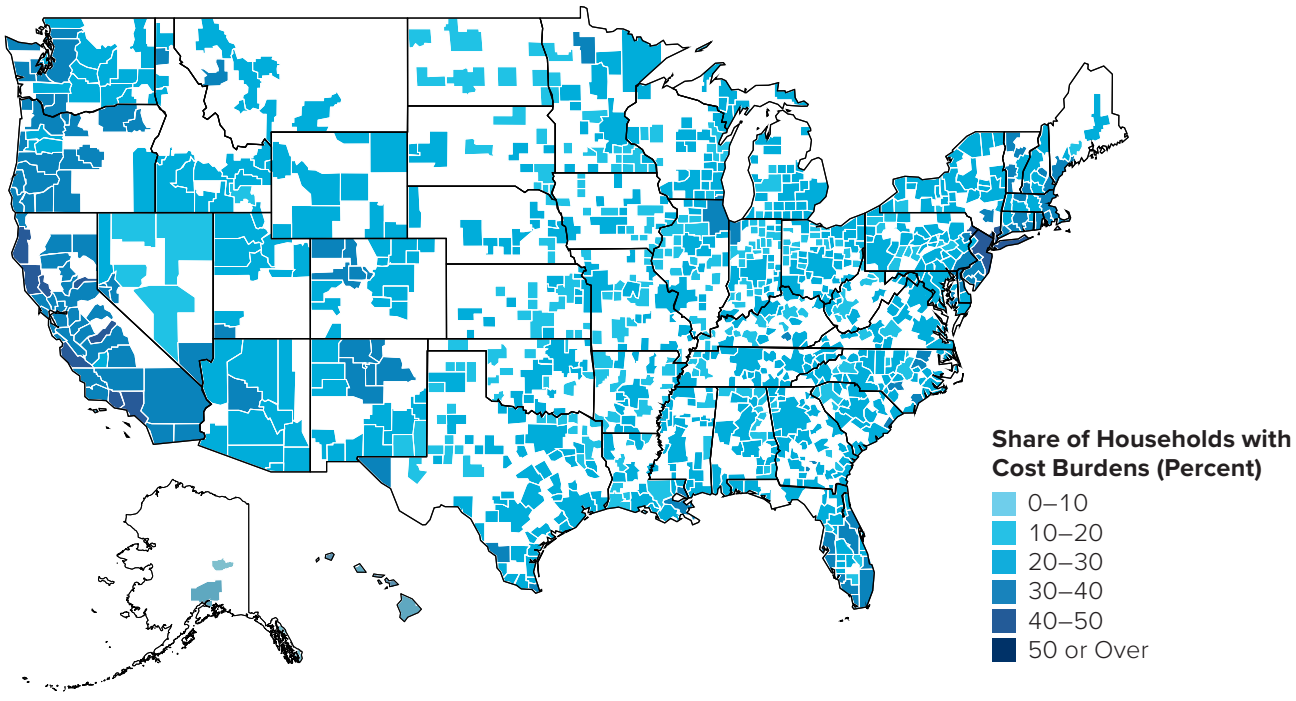
2.2. THE HOME-OWNER MARKET

In the owners' market, much lower proportions of households appear cost-burdened.[16] After falling for over a decade, US homeownership rates edged up in both 2017 and 2018, reaching 64.4%. This rebound in homeownership comes amid worsening affordability, with house prices having climbed steadily since the recession. Nationwide, the ratio of median house price to median household income rose sharply from a low of 3.3 in 2011 to 4.1 in 2018, having reached its peak at 4.7 in 2005.

Interestingly, however, cost burdens are improving for homeowners, with the latest American Community Survey reporting the share of cost-burdened households inched down 0.5 percentage point. Much of this progress was among homeowners, whose overall cost-burden rate declined by nearly 8.0 percentage points in 2010–2017. Its 2017 value was the lowest level since 2000. Among the metropolitan areas characterized by the highest cost-burden shares among owners are Los Angeles, New York, and Miami (Fig. 6).

Even if house prices have made homeownership less accessible

Fig. 6. Share of cost-burdened households, owners



Source: Joint Center for Housing Studies of Harvard University

[16] For homeowners, housing costs include mortgage payments (including interest), taxes and insurance.

for the median US resident, those who are able to move up the housing ladder are less burdened than they used to be a decade ago.

2.3. THE SHORT-TERM RENTAL MARKET

Short-term rentals (STRs) are often cited as intensifiers of the affordability crisis. Increasingly, affordable housing advocates have argued that STRs are displacing long-term tenants and raising their cost of living. Therefore, in the name of protecting affordable long-term housing, several cities are reducing the number and type of housing units that can be offered as short-term rentals.[17] These include Washington, D.C., New York, Chicago, and San Francisco.

On the other hand, short-term rental advocates argue that the presence of STRs lowers travel costs by increasing the supply of travel accommodation. This in turn attracts a wider pool of visitors, whose spending benefits the local economy, supporting jobs and business creation in the area. In addition, the earnings from renting out their properties are likely to be spent locally, further contributing to the economy. Lastly, tax revenues raised on short-term rental income can be used to fund housing services, as demonstrated by the city of Seattle, which earmarked such revenues to support affordable housing.

[17] The Pew Charitable Trusts, "Cities Tell Airbnb to Make Room for Affordable Housing", 18 October 2018.

3. THE HOUSING MARKET: AN ANALYSIS OF EXISTING STUDIES

Our study contributes to two key research questions: (i) what are the key drivers of house prices and rents? and (ii) what is the impact of short-term rentals on these variables? Before we introduce our modeling, this chapter presents a review of some of the existing academic literature addressing these questions.

3.1. EXISTING LITERATURE ON HOUSING MARKET DYNAMICS

Housing market dynamics have been widely studied in academic literature for decades. Because this literature is well established, this section does not point to individual studies, but rather takes a meta-analysis approach by reviewing the key drivers of housing market dynamics.

Academic studies of the rental market show that rent is determined by the **number of housing units, the number of households, and income levels.**[18] Similarly, theoretical models and empirical literature on house prices suggest that, over the long run, house prices depend positively on **disposable income** and **demographic needs**, and negatively on the **housing stock** (undersupply conditions can contribute to housing price gains) and **user cost**.[19]

This last factor—user cost—requires further explanation, as it comprises many elements. These include not just the mortgage interest payments that an owner has to make, but also annual property taxes, depreciation costs, and any expected capital gain. Taken all together, and adjusted for expected inflation, these costs are referred to as the real user cost of capital. Multiplying this by the house price gives us the annual user cost of owning and can be understood as the rent equivalent for homeowners.

Housing market equilibrium is described in Fig. 7. When rents and annual user costs of owning are not aligned, markets automatically move toward equilibrium conditions through adjusting demand for housing investments.

Fig. 7. Housing market equilibrium conditions

RENT = COST OF OWNING

- Equilibrium conditions
- Costs of owning a given house equals the cost of renting it

RENT > COST OF OWNING

- Purchasing a home is more attractive for a given level of rent (for example, when mortgage rates fall)
- More demand for housing for sale in turn bids up house prices to the point where the user cost of owning is brought back in line with rents

RENT < COST OF OWNING

- Purchasing a home is less attractive for a given level of rent (for example, when mortgage rates rise)
- Lower demand for housing for sale in turn depresses house prices to the point where the user cost of owning is brought back in line with rents

[18] For example, C. Swan, "Model of Rental and Owner-Occupied Housing", *Journal of Urban Economics*, 16(2) (1984): 297–316.
[19] For example, IMF, "Fundamental Drivers of House Prices in Advanced Economies", *IMF Working Paper*, July 2018.

3.1.1. Applications for our study

We borrow the backbone of our modeling framework from the studies referenced above. In particular, we exploit the fact that rents are found to have an impact on house prices and, following the example of other studies, in our house price equation we replace real rent with its main determinants—real income, housing stock, and household numbers.

In addition, a recent Oxford Economics (2016) study of the UK housing market found rising employment was among the main drivers of the boom; we therefore also include labor market conditions as an additional driver.[20] Moreover, our price model takes into account the hedonic characteristics of the area, measured by tourism GDP, and supply constraints, measured by building permits per household.

3.2. EXISTING LITERATURE ON SHORT-TERM RENTALS

We are aware of only a handful of academic papers that directly study the effect of short-term rentals on housing costs. There are two main reasons for the dearth of literature. First, the STR phenomenon is relatively recent and therefore a limited amount of data exists. Second, the research question is methodologically challenging, since many cities have become increasingly popular among both locals and tourists in recent years, leading to higher housing prices and a higher number of STR listings. In other words, "popularity" affects both prices and listings positively, as locals and tourists have a preference for living and staying in neighborhoods with high-quality amenities. This "popularity" variable, however, is unobservable, and its omission in the model implies that the impact of STR on prices is biased upwards, as part of the popularity impact gets erroneously captured by STRs.

The study whose methodology most closely aligns with our approach is that of Barron et al. (2018), which assesses the impact of STRs on residential house prices and rents.[21] The authors, however, fail to control for a number of explanatory variables included in our models. Using a dataset of Airbnb listings from the entire United States and an instrumental variables estimation strategy, they find that a 10% increase in the number of Airbnb listings leads to a 0.39% increase in rents and a 0.65% increase in home values. In Section 5.3.3, we show how our results compare to this study and conclude that our findings show a much smaller impact over our study period.

Most other studies, however, differ from ours (and Barron's) in two key respects. First, they focus on specific housing markets, rather than looking at US-wide relationships. Secondly, they use sales-level data to determine whether the proximity to STR-intensive areas affects sale prices.

[20] Oxford Economics, "Forecasting UK house prices and home ownership", November 2016.

[21] Barron, Kyle and Kung, Edward and Proserpio, Davide, "The Effect of Home-Sharing on House Prices and Rents: Evidence from Airbnb", 29 March 2018. More detail on the instruments used can be found in Fig. 18.

Among these studies, Horn and Merante (2017) use Airbnb listings data from Boston in 2015 and 2016 to study the effect of Airbnb on rental rates.[22] Similarly, Sheppard and Udell (2018) present an evaluation of the impacts of Airbnb on residential property values in New York City.[23] A third example is the article by Koster et al. (2019), which studies the effects of STRs in Los Angeles County using a quasi-experimental research design.[24] The main findings of these studies, and their main limitations, are summarized in the Appendix.

Another strand of literature provides descriptive analysis of STRs in specific markets. For example, Lee (2016) focuses on the Los Angeles housing market and makes recommendations on how municipal policymakers can best regulate Airbnb.[25] Other articles simply apply coefficients from other authors' analyses to their specific markets to derive estimates of local STR impacts (for example, Wachsmuth et al., 2018).[26]

3.2.1. Applications for our study

We build upon the studies referenced above to produce a nation-wide estimate of the impact of STRs on the housing market. In particular, this work presents the first econometric estimate that uses comprehensive data from across the US, as well as covering more STR platforms than only Airbnb. This means that we are able to include both owner-occupied home sharing and whole-property STRs. Our study does not have the objective of challenging existing literature, but rather to provide context for the findings and contribute to the body of work on housing dynamics.

As discussed earlier, one of the challenges in determining the impact of STRs on prices (and rents) relates to the fact that neighborhoods (and cities) tend to become popular with residents and tourists at the same time. In order to try to control for the so-called hedonic features of an area, we have used tourism GDP as a proxy. As an area becomes more popular for residents, bars and restaurants will start to appear, and at the same time hotels will start attracting tourists. Astoria in New York City or Corktown in Detroit are great examples of these popularity bursts.

[22] Keren Horn and Mark Merante, "Is home sharing driving up rents? Evidence from Airbnb in Boston", *Journal of Housing Economics*, 38 (2017): 14–24.

[23] Stephen Sheppard and Andrew Udell, "Do Airbnb properties affect house prices?", 1 January 2018.

[24] Hans R.A. Koster and Jos van Ommeren and Nicolas Volkhausen, "Short-term rentals and the housing market: Quasi-experimental evidence from Airbnb in Los Angeles", 8 March 2019.

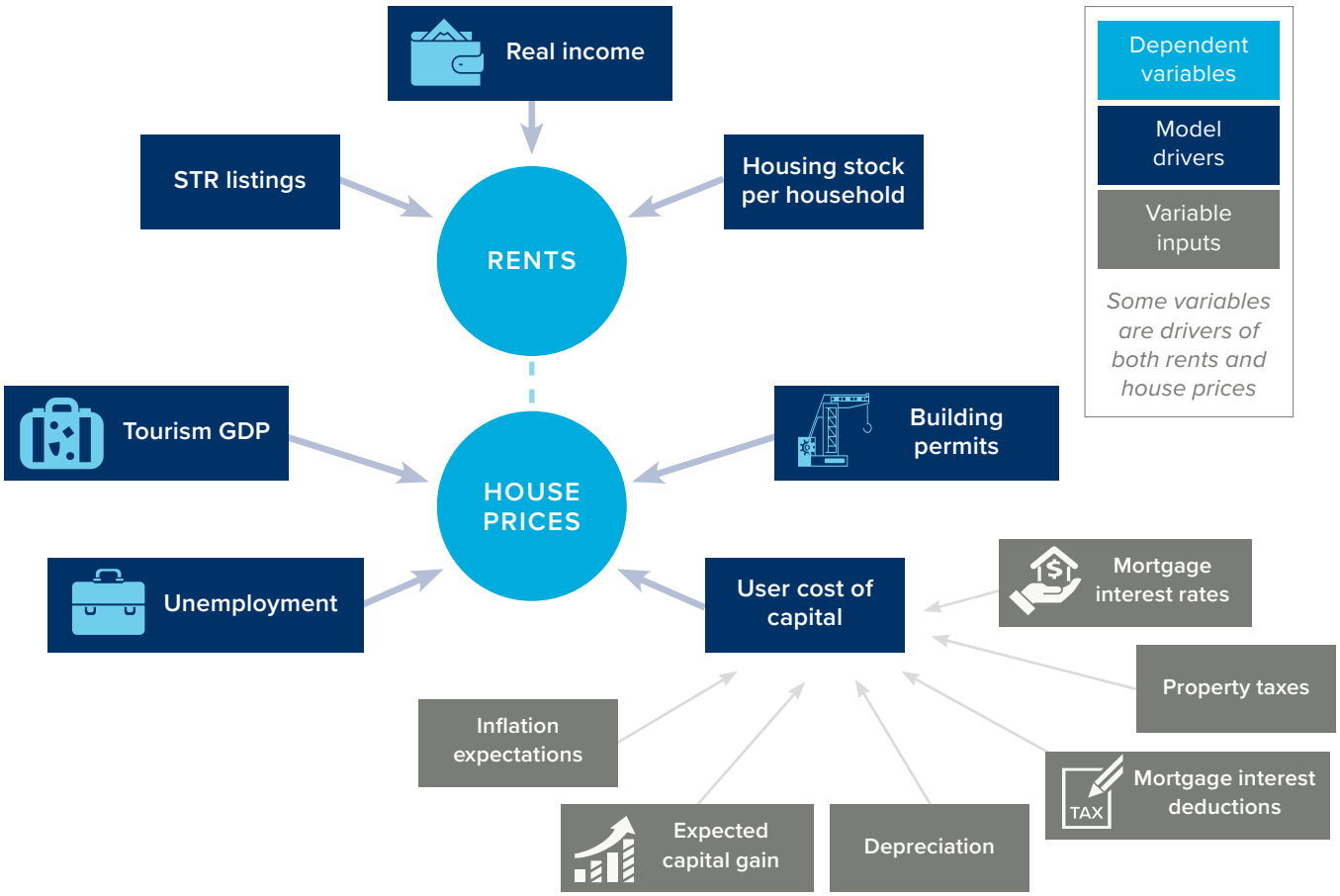
[25] Dayne Lee, "How Airbnb Short-Term Rentals Exacerbate Los Angeles's Affordable Housing Crisis: Analysis and Policy Recommendations", 2 February 2016.

[26] Urban Politics and Governance research group - School of Urban Planning - McGill University, "The High Cost of Short-Term Rentals in New York City", 30 January 2018.

4. MODELING APPROACH AND DATA

This chapter sets out our approach to modeling rents and house prices, in the context of the housing market relationships explained in the previous chapter. For this study we constructed a comprehensive dataset of all US counties over the period 2014–2018. The dataset included over 70 variables, ranging from average household income to the number of residential building permits in each county. This chapter begins by considering how best to model rents, and then moves on to house prices. All the relationships analyzed in this work are illustrated in Fig. 8.

Fig. 8. Drivers of rents and house prices



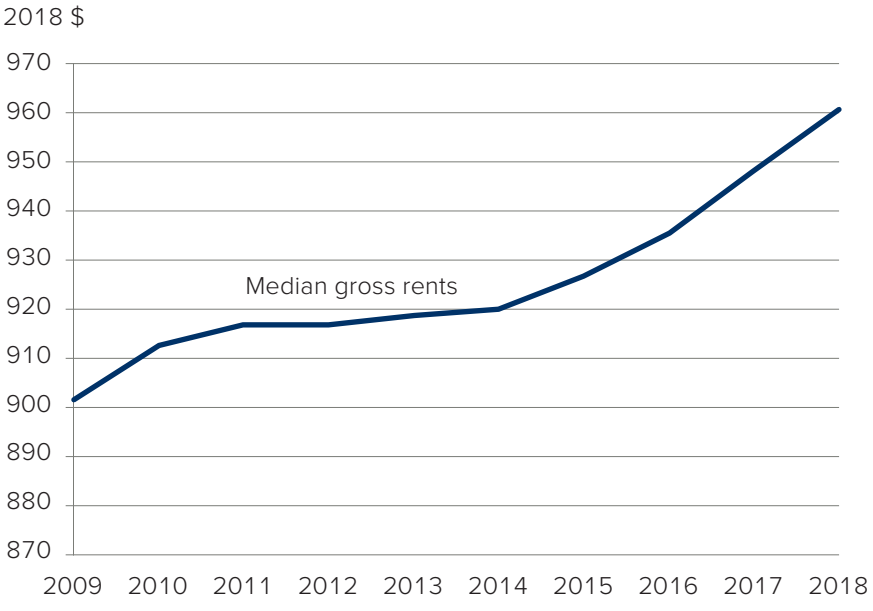
4.1. THE RENTAL MODEL

In this chapter, we argue that household income, housing stock, and the number of households are the main determinants of residential rent. We do so by analyzing rental prices, STRs and several socio-economic features of over 2,500 counties between 2014 and 2018.[27] Each variable is described below in turn.

4.1.1. Median rents

The dependent variable of this first model is real median rent (in logarithmic form, to be more specific). Real rents increased by just over 1% per year over the study period, but they had been flat in the years just before that (Fig. 9). The data were sourced from the American Community Survey (ACS), and the 2018 data point was estimated using historical growth rates.

Fig. 9. Median gross rents



Source: ACS

4.1.2. The STR density variable

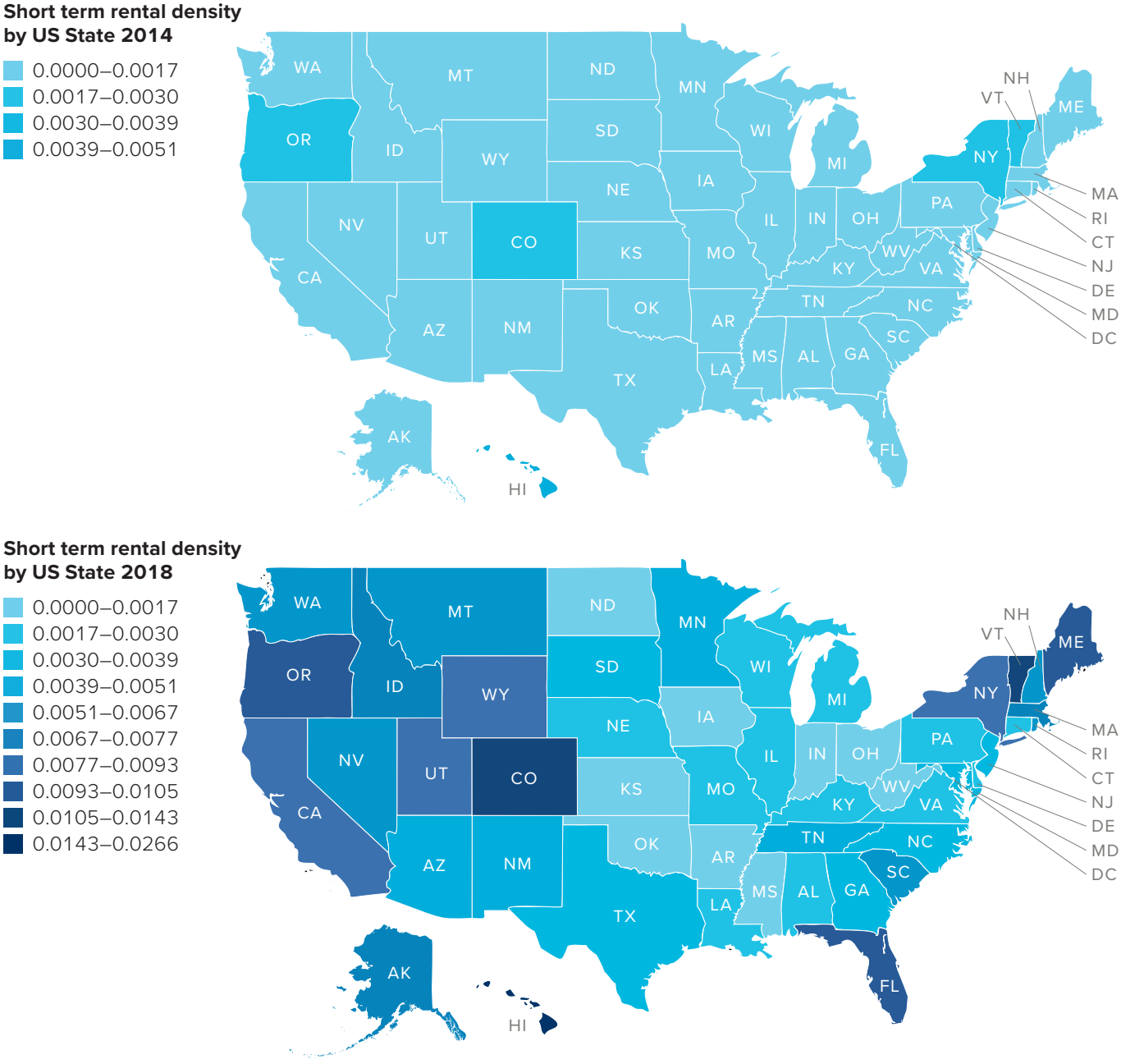
The advent and fast growth of the sharing economy have impacted the accommodation sector. While vacation rentals have been a critical component of communities across the globe for well over a hundred years, the technology revolution in flexible accommodations brought about by platforms like Vrbo and Airbnb has not only opened up millions of unique rental options for travelers but also changed the foundation of the travel ecosystem.

Data provider AirDNA suggests there were over 1.3 million active listings across the US as of June 2019, rising from just over 70,000 five years earlier.[28] Back in 2014, for every 1,000 housing units there was just over one STR listing, while in 2018 this ratio grew to 8 listings per 1,000 housing units.[29]

Fig. 10 shows the geographic distribution of STR density in 2014 and 2018. It shows there is significant geographic heterogeneity in STR density, with most listings occurring in states with large cities and along the coasts. Moreover, there exists significant geographic heterogeneity in the growth of STR density over time. The

[27] Listing data were missing for some US counties, so we had to exclude those from our study.
[28] This study does not distinguish between whole-home rentals and owner-occupied units and includes both types of STRs.
[29] This is how we define STR density, i.e. as the number of STR listings per 1,000 housing units.

Fig. 10. STR density in 2014 and 2018, by state



Source: AirDNA, ACS, Oxford Economics

number of listings per housing unit grew exponentially in some states, while in others there was no growth at all.

4.1.3. Real incomes

Real mean household income data from the Census Bureau show a marked slowdown in growth in 2018 relative to previous years (Fig. 11). Median household incomes also only rose slightly in 2018 and 2017, after registering more impressive gains in the two years prior: a 5.2% gain in 2015 and a 3.2% gain in 2016.

Income data by county and over time were obtained from the American Community Survey and complemented with Oxford Economics' North American Cities and Regions databank to fill the gaps left in 2018 by the ACS (the latest available edition was 2017).

4.1.4. Housing supply

Since reaching their lowest point in 2011 at just 633,000 new housing units that year, additions to the housing stock have grown at a fairly slow pace, partly in response to persistently weak growth in the number of households after the recession. With the economy finally back on track, household growth picked up in 2016–2018, but new construction was still depressed relative to demand, with additions to supply barely keeping pace with the number of new households.

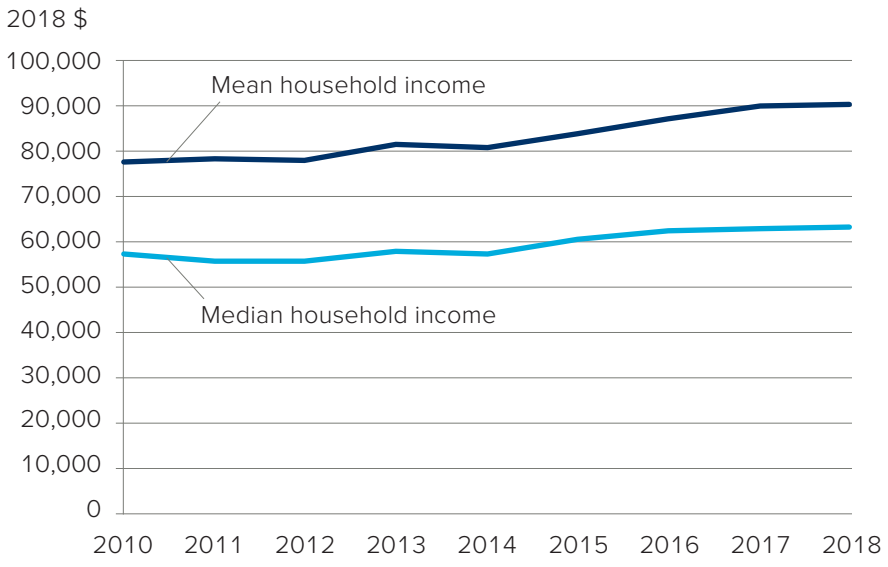
In our dataset, the number of housing units was drawn from the Census' Population Estimates, while the number of households was drawn from the ACS and carried forward to 2018 using Oxford Economics' North American Cities and Regions databank.

4.1.5. Household size

As one might expect, median rents are also related to the size of the average household (average number of people in one household). As this grows, households will require bigger properties, resulting in higher median rents. In particular, we restrict our analysis to households that occupy rented accommodations (i.e., in our rental model, we disregard the size of owner-occupier households as this should not affect rents; only the size of renter households is expected to impact rents).

Generally speaking, household size has been on a declining trend for centuries, with an

Fig. 11. Average and median household income, constant prices, 2010–18



Source: Oxford Economics

average of 5.79 people per household in 1790 to 2.58 in 2010.[30] However, Census Bureau data suggests this might be the decade when this long-term trend is reverted, with 2018 size ticking up to 2.63. Going forward, this might have impacts on housing demand, and therefore housing costs (provided it does not immediately translate into weaker residential construction).

4.2. THE HOUSE PRICE MODEL

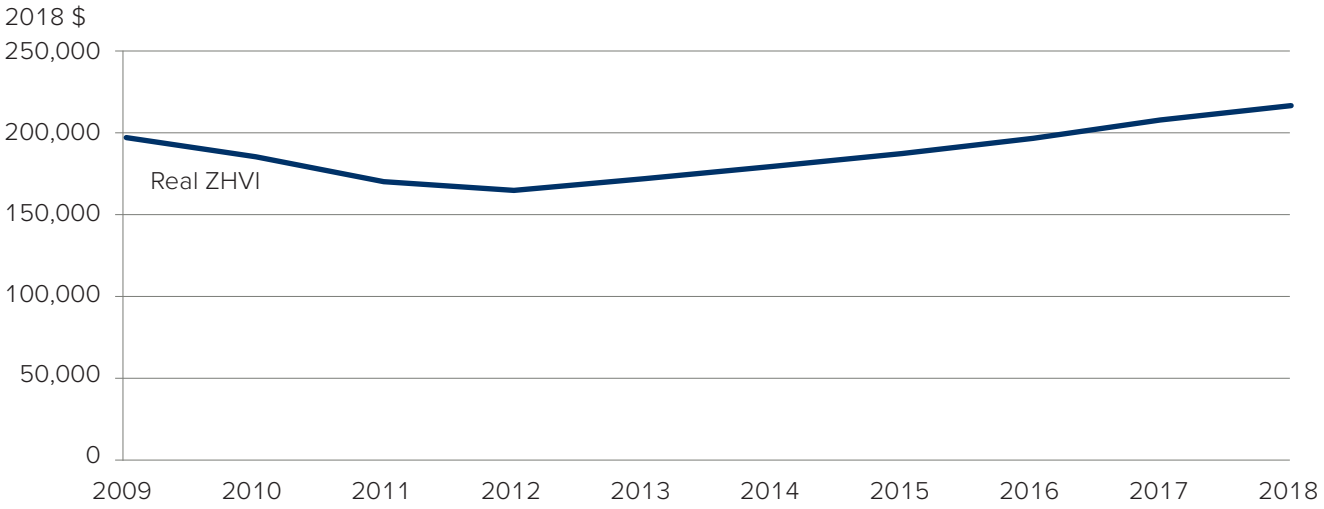
As discussed in Section 3.1, rents are likely to affect home buying decisions, and therefore most of the drivers of rents are also included in the house price model. Above and beyond these, we also included labor market outcomes, the user cost of capital, the availability of building permits, and the size of the tourism sector as additional explanatory variables. The rest of this chapter describes each variable in turn and provides a rationale for inclusion in the model.

4.2.1. House price index

As a dependent variable for our second econometric model, we used the Zillow Home Value Index (ZHVI), a smoothed measure of the median home value across all US counties. This is a dollar-denominated figure, which we then adjusted for inflation using the Consumer Price Index (CPI). This variable was available on a monthly basis for all counties in the US.

Since the recession, house prices have climbed steadily, boosted by low interest rates and the recovering economy (Fig. 12). This study aims at identifying the key drivers of house prices during the period between 2015 and 2018.

Fig. 12. Real US Zillow Home Value Index, 2008–2019



Source: Zillow, Oxford Economics

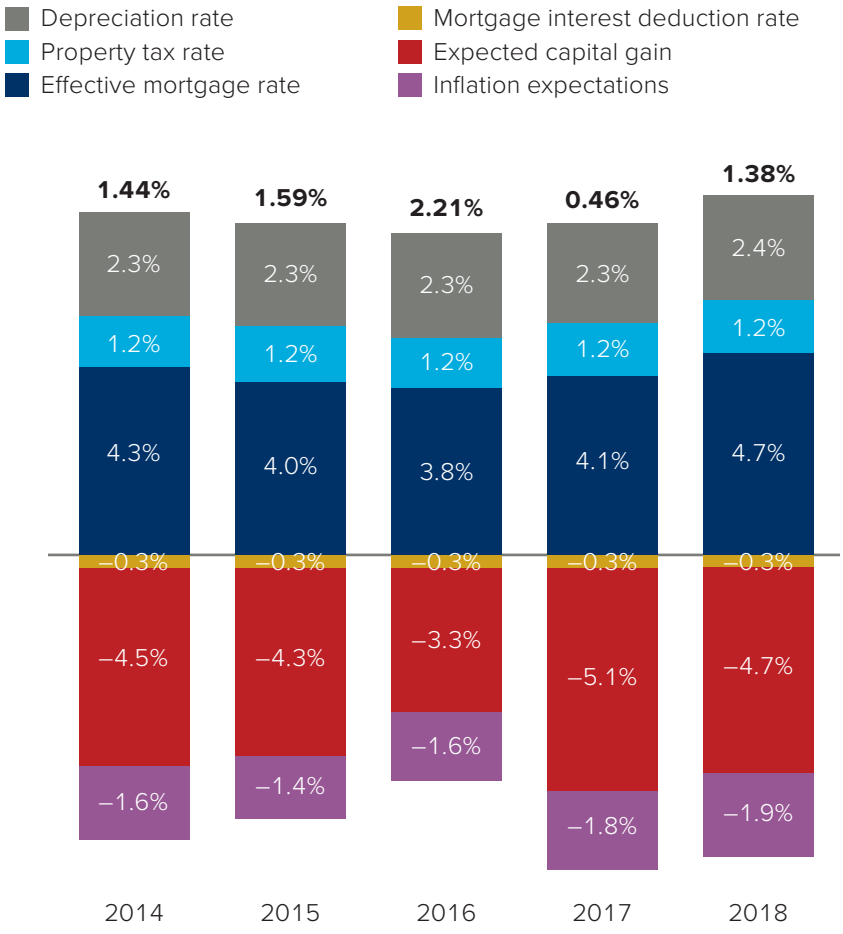
[30] Pew Research Center, "The number of people in the average U.S. household is going up for the first time in over 160 years" <https://www.pewresearch.org/fact-tank/2019/10/01/the-number-of-people-in-the-average-u-s-household-is-going-up-for-the-first-time-in-over-160-years/> [accessed 22 October 2019]

4.2.2. User cost of capital

As discussed in Chapter 3.1, the so-called "user cost of capital" is determined most obviously by the mortgage interest rate (Fig. 13); if this rises so does the cost of owning a property at any given price level. In addition to this, property taxes (minus mortgage interest deductions), expectations of inflation and capital gains, and depreciation rates all affect how costly it is to own a house of any given price.

Not all components of this variable could be gathered at the county level; for example, effective interest rates paid by mortgage holders were obtained from the Federal Housing Finance Agency by state. Expected inflation, capital gains, depreciation and mortgage interest deductions were estimated for the US as a whole. Average property tax rates, however, were estimated using ACS data at the county level, dividing the median tax value by the median property value.

Fig. 13. Estimated user cost of capital, 2014–18



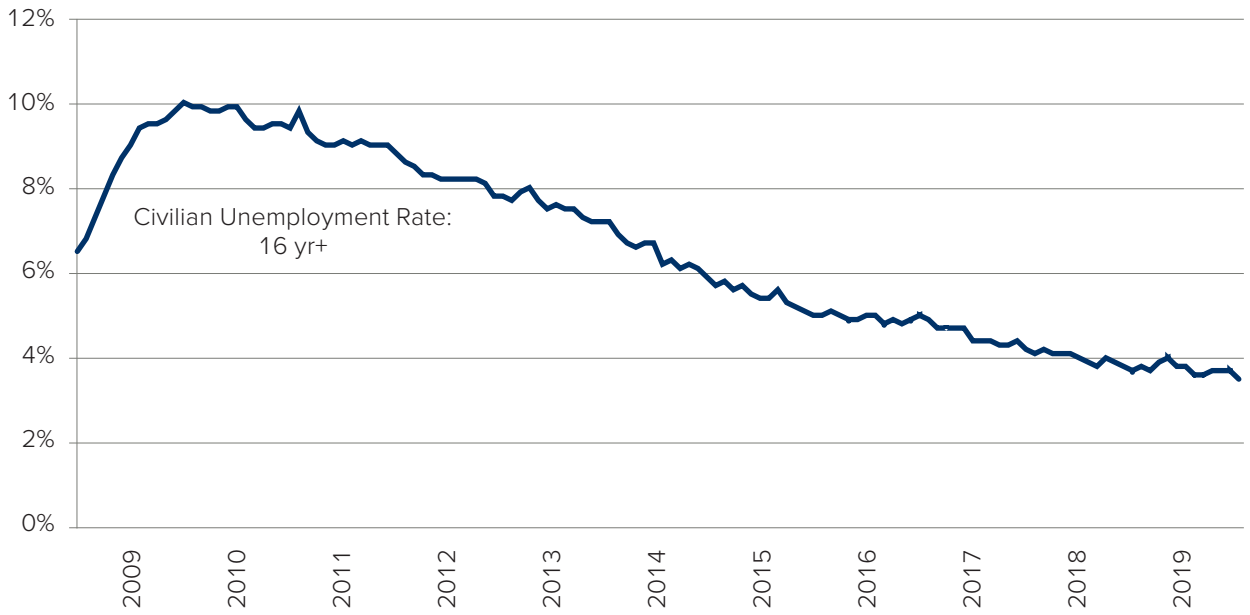
Source: Oxford Economics

4.2.3. Unemployment rate

Existing academic research provides an analysis of the extent to which unemployment influences housing market outcomes (see for example Gan and Zhang, 2018, among others).[31] Intuitively, a stronger local labor market makes an area more desirable to potential migrants and increases willingness to pay for housing in the area, and vice versa.

This channel is particularly relevant in light of the recent positive developments of the US labor market. September's unemployment rate hit a 50-year low, reaching 3.5% (Fig. 14). These labor market improvements are found to have had an impact on house prices, as we will discuss in Chapter 5.

Fig. 14. US unemployment rate



Source: BLS

[31] Li Gan and Qinghua Zhang, "Market Thickness and the Impact of Unemployment on Housing Market Outcomes", *Journal of Monetary Economics*, 98 (2018): 27–49.

4.2.4. Building permits

As described in Section 4.1.4, housing supply is a key determinant of housing market dynamics. However, the actual number of housing units is not the only supply-related factor that is likely to affect house prices. Projected housing supply is also potentially relevant for today's house prices. In our model, building permits are used as a proxy for this. This variable was obtained from the Building Permits Survey, produced by the Census Bureau.

The latest national level data released in September show that permits for future home construction rose to levels last seen in 2007. The recent surge in both housing starts and permits relieved some of the pressure on house prices over our study period, as we will describe in Chapter 5.

4.2.5. Tourism

As discussed earlier, one of the challenges in determining the impact of STRs on prices (and rents) relates to the fact that neighborhoods (and cities) tend to become popular with residents and tourists at the same time. In order to try to control for the so-called hedonic features of an area, we propose using tourism GDP as a proxy.

This work controls for growth in the tourism sector (food and beverage and accommodation services), as we believe **it is important to break down the impact of tourist attractiveness of a locality from the pure impact of STRs**. We measure tourism as the average GDP produced by the hospitality sector for each resident household. Therefore, areas where hospitality GDP has grown at a faster pace than household formation will see a growth in their tourism variable, and vice versa.

In the US as a whole, tourism GDP has grown at a slightly faster pace than households during our study period, thus exerting a slight positive pressure on house prices, as shown in Chapter 5.

5. RESULTS AND DISCUSSION

In this chapter, we set out the results of our models of rents and house prices and explain their interpretation. We also compare our results with those of past studies where comparable analysis has been carried out.

5.1. THE RENTAL MODEL

In the rental model, all variables have the expected impact and are statistically significant. The effect of income is positive and significant, while that of housing stock per household is negative and significant, as expected.

The long-run impact of STR listings is equivalent to 0.0007, or in other words, an increase of one listings per 1,000 housing units is associated with a 0.07% increase in median rents.[32] In a hypothetical county with a $1,000 median rent, if STR density increased by one listing per 1,000 units, the associated long-run increase in median rents is equivalent to $0.7 per month.

The long run coefficients from the model for the other explanatory variables can be interpreted as follows:

- a 10% increase in real median income is associated with an 8.8% increase in median rents.
- a 10% fall in the housing units-to-household ratio is associated with a 4.9% increase in median rents.
- a 10% increase in the average household size is associated with a 2.6% increase in median rents.

How well does this model reflect the reality of how rent is determined? We can calculate a MAPE (Mean Absolute Percentage Error) to assess our model accuracy.[33] We calculated this to be 2%; in other words, considering the average rent across the counties used in our dataset, the margin of error in our model prediction will be around $14.

5.2. THE HOUSE PRICE MODEL

In the house price model, all variables have the expected impact and are statistically significant. The effect of income is positive and significant, while that of housing stock per household is negative and significant, as expected.

Focusing on some of the long-run effects, the coefficient for the variables can be interpreted as follows:

- an increase of one STR listing per 1,000 housing units is associated with a 0.13% increase in the real house price index. In other words, in a hypothetical county with a $100,000 house price index, if STR density increased by one listing per 1,000 units, the associated long-run increase in the price index is equivalent to $130.
- a 10% increase in mean income is associated with a 3.2% increase in the real house price index.
- a 10% fall in the housing units-to-household ratio is associated with approximately a 18.9% increase in the real house price index.
- a 1-percentage-point increase in the unemployment rate is associated with a 2.4% fall in the real house price index.

[32] Short-run effects look at the immediate impact of a variable X over Y. Over time, given the dynamic nature of the housing market, there will be several equilibrating adjustments to the short-run effects, as the economy and people readjust. As a result, the long-run effect of a given variable X over Y is different. Our econometric methodology can distinguish between the long-run and short-run effects. The estimated coefficients presented in Fig. 19 represent the short-run effects, and the long-run effects are estimated using the Delta method, whereby the short-run effects are discounted by one minus the coefficient on the lagged dependent variable.

[33] The mean absolute percentage error (MAPE) is the mean or average of the absolute percentage errors of forecasts. Error is defined as actual or observed value minus the forecasted value (in our case, the model predicted value). This measure is easy to understand because it provides the error in percentage terms.

- a 1-unit increase in the number of building permits per household is associated with a 6.9% fall in the real house price index.

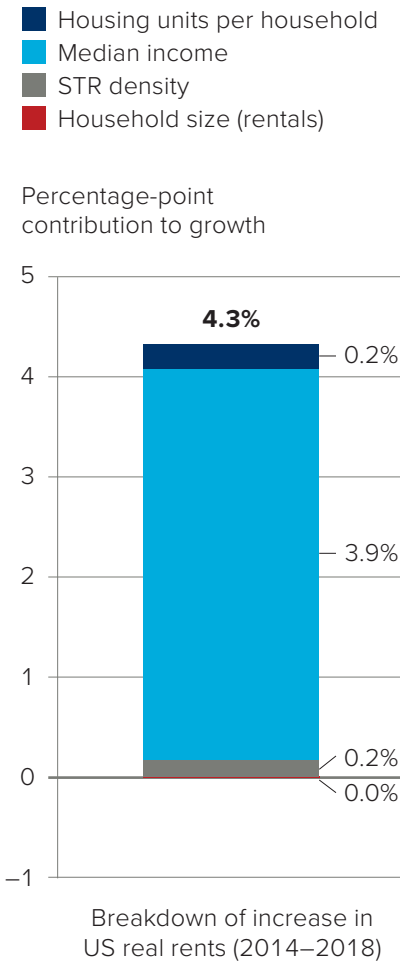
Here too, the house price model fits the actual data well, as illustrated by the MAPE. We calculated this to be 1.7%. In other words, considering the average house price across the counties used in our dataset, the margin of error in our model prediction will be around $2,600.

5.3. CONTRIBUTION ANALYSIS

5.3.1. Rent growth between 2014 and 2018

In the four years between 2014 and 2018, US median rental prices rose by 4.3% in real terms. The findings of our rental model, combined with changes in the explanatory variables over the study period, show that the **overwhelming driver of the observed increase in real rental prices during the 2014–18 period was household earnings.** Median income increased by 10.4% in real terms between 2014 and 2018 and we estimate that this growth alone was responsible for around 3.9 percentage points of the 4.3% increase (Fig. 15).

Fig. 15. Drivers of the growth in real rents between 2014 and 2018[34]



Source: Oxford Economics

Between 2014 and 2018, 5.1 million new households are estimated to have formed in the US, while net new supply was 4.1 million in the same period. This implies the ratio of housing units-to-households has declined between 2014 and 2018, pushing up rents. We estimate this drop contributed about 0.2 percentage point of the 4.3% increase in real rents.

The ratio of STR listings to housing units has grown by a factor of 6 during the study period. This increase, however, contributed to 0.2 percentage point of the increase in rents. Putting it all together, Fig. 15 reveals the contributions of various factors to the 4.3% increase in rents in the four years from 2014 to 2018.

5.3.2. House price growth between 2015 and 2018

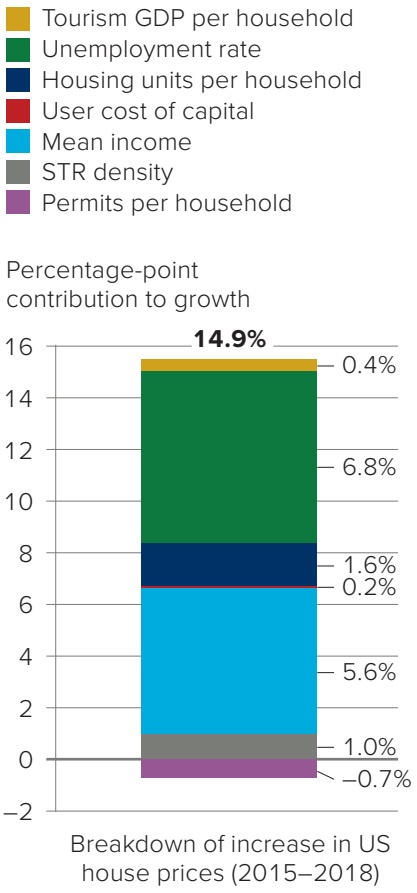
House prices have increased steadily during our study period, with real US median price index estimated to have increased by 14.9% during the period 2015–18.[35] Using the model to break down the causes of this rapid growth, we see that **the biggest contribution to the increase came from labor market improvements.**

[34] This section and chart assume that 100% of the growth in median rents can be explained through the model's explanatory variables. This is a simplifying assumption, and we are aware that our model's variables do not explain the totality of the change.

[35] As the house price model contains some lagged variables, the focus of this contribution analysis will be limited to the period 2015–18. The inclusion of lagged STR in the model implies that STR growth between 2014 and 2015 (the first available year-on-year growth rate) only starts affecting house prices in 2015–16. For this reason, the contribution analysis presented here only covers the period 2015–18 and not 2014–18.

More specifically, the drop in unemployment rate is estimated to have contributed 6.8 percentage points to US house price growth by the end of 2018 (Fig. 16).

Fig. 16. Drivers of the growth in house prices between 2015 and 2018[36]



Source: Oxford Economics

The second-largest contributor to the house price growth was the increase in average incomes. Over the whole period, higher real incomes are estimated to have boosted house prices growth by 5.6 percentage points.

The drop in housing stock-per-household has also contributed to house price growth. This reduction contributed to an increase in house price growth over the period of around 1.6 percentage points. The ratio of STR listings to housing units has grown by a factor of 3 during 2015–18. This increase contributed 1.0 percentage point to the house price increase based on our econometric model. The number of building permits per household has grown over this period, which offset some of the increase driven by other factors. Lastly, tourism GDP growth and the drop in user cost of capital contributed around 0.4 and 0.2 percentage points to price growth, respectively.

5.3.3. Discussion

Summing up the findings presented in Fig. 15 and Fig. 16, we estimate the growth in STR density only contributed to 0.2 percentage point of the 4.3% increase in rents (or 6%) and 1.0 percentage point of the 14.9% increase in house prices (or 5%) over our study period.[37]

This result is more modest than than the conclusions drawn by Barron et al., who found that the growth in Airbnb listings contributed to about one-fifth of the average annual increase in US rents and about one-seventh of the average annual increase in US housing prices. Our model includes a number of explanatory variables not considered by Barron et al., suggesting their results are likely to suffer from omitted variable bias.

5.3.4. What does this tell us about affordability?

When interpreting the house price model, it is important to note that, while house prices are interesting per se, housing affordability is a more relevant metric for policy makers. In this work, we measure affordability as the median house price divided by the mean household income.

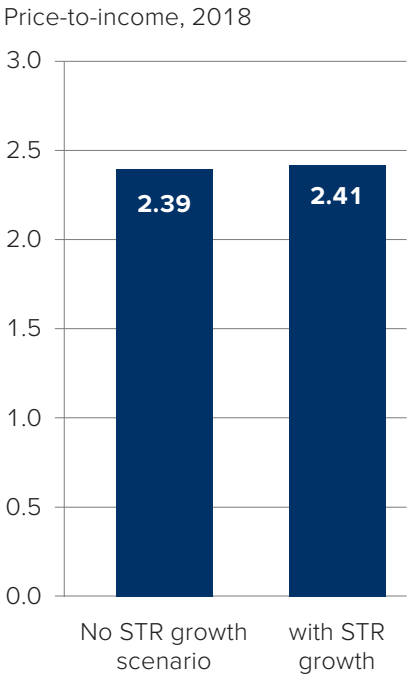
[36] This section and chart assume that 100% of the growth in median house prices is explained through the model's explanatory variables. This is a simplifying assumption, and we are aware that our model's variables do not explain the totality of the change.

[37] Adding up all the individual explanatory variables' contributions (measured in percentage points) results in the total growth rate in the dependent variable (measured as a percent increase).

In this study, we found that house prices have increased by 14.9% during the period 2015–18, and that only 1.0 percentage point of this growth can be attributed to increased STRs. We are therefore able to estimate the 2018 median price of a property in the US in a counterfactual scenario where STR numbers did not grow. We do so by subtracting from the current house price value the amount that was due to STR growth. By dividing this estimated counterfactual house price by the average household income in 2018, we obtained the price-to-income ratio for the scenario where STR did not grow.[38]

We find that the price-to-income ratio would have increased to 2.39 in 2018 (from 2.23 in 2015) in a scenario with no STR growth (Fig. 17). In the current baseline scenario (with STR growth), the price-to-income ratio was at 2.41 in 2018. This suggests that STRs are estimated to be responsible for a 0.02-point fall in affordability (or increase in the price-to-income ratio).

Fig. 17. Price-to-income ratio in 2018, with and without STR growth



Source: Oxford Economics

[38] The underlying assumption here is that the lack of STR growth would have no impact on average incomes.

MODEL EXTENSION 1: THE IMPACT OF STRS IN VACATION DESTINATIONS

Is the impact of STRs on prices and rents different in traditional vacation markets? In both the house prices and the rental model, we find that, in the long run, the effect of STRs on the dependent variable is weaker in these highly seasonal areas.

This result is in line with expectations. As far as the **rental market** is concerned, in vacation markets, homes are less likely to be rented on a long-term basis. That means that STRs have an even smaller effect on rents in these markets. For example, **Tillamook County, OR,** popular for its scenic coastline and rivers, has seen its STR density grow by a factor of 10 between 2014 and 2018, but its median rents have actually fallen in real terms. Some 88% of its vacant housing is for seasonal use in the area.

In the **homeowners' market**, by their very definition, vacation-destination housing markets have higher vacancy rates that reflect more volatile seasonal housing demand. The impact of STRs on house prices is found to be weaker in these areas, as home owners have been renting out their properties long before the advent of internet platforms offering STRs (through agencies and brokers) and therefore the value from such rental revenue has long been priced in the value of homes in these localities. An example of this is **Barnstable County, MA,** home to popular New England beach destination Cape Cod. In this county, over 91% of vacant properties are for seasonal use, and STR density has increased by a factor of four between 2015 and 2018, which was faster than the national average. Real house prices, however, have increased by 11.2% over the same period, a slower pace than the US as a whole.

MODEL EXTENSION 2: THE IMPACT OF STRS IN URBAN AREAS

Does the impact of STRs on prices and rents vary across urban and rural counties? In both the house prices and the rental model, we find that the effect of STRs on the dependent variable does not depend on the level of urbanization. In other words, we do not see a significant difference in the long-run impact of STRs on prices and rents between urbanized and rural areas.

San Diego is an example of how the US-wide results apply to highly urbanized areas. Its house prices have grown by an estimated 15.0% between 2015 and 2018, and its STR density has grown by a factor of 3 within the same period. This compares to a very similar US-wide house price growth of 14.9% and an STR density growth of a factor of 3.

6. CONCLUSION

The aim of this study was to assess the contribution of STR growth on the growth in house price, rental price, and affordability. We have found that **the rapid US house price and rent increases of the past few years have not been substantially driven by STRs.** We estimate the growth in STR density only contributed to 0.2 percentage point of the 4.3% increase in rents and 1.0 percentage point of the 14.9% increase in house prices over our study period. This compares to a 3.9 percentage points impact of median incomes to rental growth and a 6.8 percentage points effect on house price growth stemming from the drop in US unemployment over the study period.

This has important implications for a policy debate that has focused heavily on short-term rentals as both the cause of the problem of high house prices and its solution. It suggests instead that **the major sources of volatility in rental and house prices lie in economic and labor market outcomes.**

Second, this study has found that **additional housing supply and more abundant building permits are likely to have a meaningful impact on house prices.** It is estimated that in the long run, a 10% increase in the housing units-to-household ratio is associated with approximately a 18.9% fall in the house price index, and a one-unit increase in the number of building permits per household is associated with a 6.9% fall in the house price index.

Finally, our analysis has pointed to the fact that **adopting strict regulations on STRs is unlikely to solve the housing affordability crisis faced by many US households.** During the period 2014–18, in the absence of STR growth, real rent would have grown by 4.1%, rather than 4.3%. In other words, monthly rents would have been $2 lower in 2018 if STRs had not increased from their 2014 levels.

Similarly, in the homeowners' market, prices would have been only $1,800 lower in 2018 if STR density had not gone up from its 2014 level. Considering that most households do not pay the full price of a house upfront, but rather apply for long-term mortgages, the expected annual impact attributable to the STR sector is $105.[39]

Interestingly, a model extension suggests that the effect of STRs on both house prices and rents is weaker in vacation destinations. Possible explanations for this are that, in vacation markets, homes are less likely to be rented on a long-term basis and home owners in these destinations have been renting out their properties long before the advent of internet platforms offering STRs. On the other hand, the effect of STRs on both variables does not appear to depend on the level of urbanization.

[39] Mortgage maturity and effective interest rate are assumed to be as reported in the latest Federal Housing Finance Agency's Monthly Interest Rate Survey.

STR LITERATURE FINDINGS

Fig. 18 summarizes the main findings of the studies presented in Chapter 3.2, and their main limitations.

Fig. 18. Summary of existing STR literature

Author	City of interest	Main findings	Main limitation
Barron et al. (2017)	US-wide	A 10% increase in Airbnb listings leads to a 0.39% increase in rents and a 0.65% increase in home values.	The authors construct an instrument based on Google Trends searches for Airbnb. Unfortunately, these are not accurately available at the zip code level, so to obtain an instrument that varies at the zip code level they interact these searches with a measure based on the number of hospitality establishments in the zip code area. The validity of this instruments can therefore be disputed.
Horn and Merante (2017)	Boston	0.4% increase in asking rents associated with a one-standard-deviation increase in Airbnb listings	The authors rely on weekly rent data from September 2015 through January 2016 and Airbnb data from September 2014 to January 2016. Thus their time dimension is fairly limited. We believe this hinders their ability to establish meaningful relationships between the various variables.
Sheppard and Udell (2018)	New York	6.46% increase in NYC property values associated with a doubling in the number of total Airbnb accommodations	The authors do not convincingly account for the fact that neighborhoods tend to become more attractive to residents and tourists at the same time.
Koster et al. (2019)	Los Angeles	3% fall in house prices as a result of Home Sharing Ordinances in Los Angeles	The authors use Airbnb listings as a proxy for tourism demand, which means that they do not control for other tourism variables. That runs the risk of overestimating the impact of Airbnb and attributing the entire “touristic location” effect to the fact that STRs are present. In contrast, this work controls for tourism GDP unrelated to STR activity.

METHODOLOGICAL APPENDIX

INTRODUCTION TO DYNAMIC PANEL MODELS

House prices (or rents) in the current period might be affected by past trends in house prices (or rents), as well as housing supply and general economic conditions. In such cases, dynamic panel methods, such as the Arellano Bond estimator (also known as Difference GMM) and Blundell Bond estimator (System GMM), would allow us to account for the presence of such "dynamic effects." Difference GMM estimation starts by transforming all regressors, usually by differencing, and uses the generalized method of moments (GMM). This work employs Difference GMM.

Dynamic panel models have become increasingly popular in many areas of economic research, and their use has provided new insights. Using dynamic panel models allows us to find overall (long-run) coefficients for the explanatory variables as well as the contemporaneous (or short-run) ones.

The advantages of dynamic models include:

- controlling for the impact of past values of house prices (or rents) on current values;
- estimation of overall (long-run) and contemporaneous (short-run) effects; and
- use of past values of explanatory variables as instrumental variables to mitigate the bias due to: two-way causality between economic conditions and the housing market, omitted variable bias and measurement error.

The need for a dynamic model: Wooldridge test for serial correlation

The Wooldridge test allows us to test whether the errors are serially correlated; if these are found to be autocorrelated, we may infer that there is a need for a dynamic model.[40] The disadvantage of a dynamic panel model, however, is that it can add considerable complexity to the modeling process. A simpler static model might therefore be a preferable approach if the Wooldridge test does not suggest a dynamic panel is necessary.

[40] Strictly speaking, the Wooldridge test is a test for autocorrelation and not a definitive test to choose between static and dynamic panel methods. However, it is commonly applied to inform choices between static and dynamic panels.

Use of instruments

Instruments are used to control for potential endogeneity in a regression. We have found median incomes (rent model), permits per household, housing supply per household and STR density (house prices model) to be endogenous variables, and therefore the instrumental variable method was used to estimate their impact.

MODEL RESULTS

As explained, our model specification is known as Difference GMM; such approach, by virtue of being a dynamic model, has both a short- and long-run impact. The short-run results from the rent and house price models are given in Fig. 19. To obtain the long-run impact, we used the Delta method and discounted the short-run impact by one minus the coefficient on the lagged dependent variable.

Contribution analysis

The modeling results shown in Fig. 19 tell us about the sensitivity of rents and prices to changes in their macroeconomic determinants. But these results can also be used to find out which of the determinants were responsible for past changes in the dependent variables. For instance, Fig. 19 shows that the user cost of capital has a significant negative effect on house prices. But while house prices may be sensitive to changes in the user cost of capital, if there was no (or little) change in the user cost over the study period, then this variable will not have influenced house prices during that period.

The "contribution" of a given variable in explaining changes in house prices or rents is therefore a combination of both the estimated sensitivities and the change in that variable over the period under analysis.

Fig. 19. Models results

Rental price model *Dep var: Log real median rents*	**Short-run coefficients**
Lagged log real median rents	0.706***
STR density	0.0002**
Log median income	0.259***
Log housing units per household	-0.144*
Log household size (rental)	0.076*

House price model *Dep var: Log real median house prices*	**Short-run coefficients**
Lagged log real median house prices	0.719***
Lagged STR density	0.0004*
Lagged log mean income	0.091***
Lagged user cost of capital	-0.161***
Log housing units per household	-0.531***
Lagged unemployment rate	-0.663***
Lagged tourism GDP per household	6.345**
Permits per household	-1.929***

legend: * p < 0.1; ** p < 0.05; *** p < 0.01

Models with interactions

Is the impact of STRs on prices and rents different in traditional vacation markets? The model coefficients described so far measure the average impact of STRs on the dependent variables (prices and rents). Our baseline model looks as follows (in the example of prices):

$$house\ prices_{it} = \alpha \times STR_{it} + \beta X_{it} + \gamma house\ prices_{it-1}$$

However, in order to isolate vacation markets, we added an interaction term to our models, using the percentage of seasonal housing as a proxy to define these areas.[41] The model is now specified as follows:

$$house\ prices_{it} = \alpha 1 \times STR_{it} + \alpha 2 \times STR_{it} \times vacation_{i} + \beta X_{it} + \gamma house\ prices_{it-1}$$

Without the interaction term, α would be interpreted as the total effect of STRs on prices. But the interaction means that the effect of STRs on prices is different for vacation markets and less touristic areas. The effect of STRs on prices in non-touristic counties is equal to $\alpha 1$. However, in vacation markets the effect is equal to $\alpha 1 + \alpha 2$.

In both the house prices and the rental model, the interaction term for vacation markets is negative and statistically significant, suggesting that the effect of STRs on the dependent variable is weaker in these highly seasonal areas.

We run a similar model replacing the vacation dummy variable with an urban dummy variable.[42] In this case, however, the interaction term for urban centers is not statistically significant, suggesting that the long run effect of STRs on the dependent variable (either house prices or rents) does not depend on the level of urbanization.

[41] The vacation variable is a dummy taking value 1 if the county's % of seasonal housing is above average, and 0 otherwise.
[42] The urban variable is a dummy taking value 1 if the county's % of urban population is above average, and 0 otherwise.

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City of Palm Springs Short-Term Vacation Rental Ordinance

ORDINANCE NO. 1918

AN ORDINANCE OF THE CITY OF PALM SPRINGS, CALIFORNIA, AMENDING AND RESTATING CHAPTER 5.25 OF, AND ADDING SECTION 93.23.16 TO, THE PALM SPRINGS MUNICIPAL CODE RELATING TO VACATION RENTALS.

City Attorney's Summary

This Ordinance amends and restates in full the City's adopted Vacation Rental Ordinance. This Ordinance imposes additional restrictions on occupancy and use of vacation rental properties in Palm Springs different and complimentary to restrictions initially included in Ordinance No. 1907, and provides additional enforcement oversight.

The City Council of the City of Palm Springs ordains:

SECTION 1. Chapter 5.25 of the Palm Springs Municipal Code is amended to read:

Chapter 5.25
VACATION RENTALS

5.25.010 Title.

This Chapter shall be referred to as the "Vacation Rental Ordinance."

5.25.020 Findings.

The City Council finds and determines as follows:

(a) The primary use of single-family and multi-family dwelling units in the City of Palm Springs is the provision of permanent housing for full time and part time residents of the City who live and/or work in the City. Vacation Rentals and Homesharing are not uses specifically recognized in the City's Zoning Ordinance, nor are these uses expressly identified as uses permitted in single-family or multi-family zones. Vacation Rentals and Homesharing are similar in character and use as hotels and other commercial short term uses and can only be permitted in single-family or multi-family zones if such uses are ancillary and secondary to the residential use of property. This Ordinance confirms Vacation Rentals and Homesharing as ancillary and secondary uses of residential property in the City.

(b) The purpose of this Chapter is to establish a regulatory program for Vacation Rental and Homesharing lodging, with appropriate standards that regulate vacation rental of residential property, minimize adverse effects of vacation rental uses on surrounding residential neighborhoods, ensure that vacation rentals and homesharing are ancillary and secondary uses of residential property consistent with the provisions of

the City's Zoning Ordinance, preserve the character of neighborhoods in which Vacation Rental and Homesharing uses occur, and provide an administrative procedure to preserve existing visitor serving opportunities and increase and enhance public access to areas of the City and other visitor destinations.

(c) Limiting Vacation Rental and Homesharing lodging to single-family dwelling units subject to the regulations provided in this Chapter and prohibiting Vacation Rental and Homesharing lodging in apartments will safeguard, preserve, and protect residential housing stock in the City.

(d) The adoption of a comprehensive code to regulate issuance of, and attach conditions to, Registration Certificates for Vacation Rental and Homesharing lodging within single-family residential neighborhoods and the related use of residential property preserves the public health, safety, and welfare. This Chapter provides a permitting process and imposes operational requirements consistent with the ancillary and secondary status of Vacation Rentals and Homesharing, for the purpose of minimizing the potential adverse impacts of transient uses on residential neighborhoods.

(e) This Chapter is not intended to regulate hotels, motels, inns, time-share units, or non-vacation type rental arrangements including, but not limited to, lodging houses, rooming houses, convalescent homes, rest homes, halfway homes, or rehabilitation homes.

5.25.030 Definitions.

For purposes of this Chapter, the following words and phrases shall have the meaning respectively ascribed to them by this Section:

"Apartment" means (a) a residential unit in a multi-family development of two (2) dwelling units where both dwelling units are rented or leased for occupancy as a residence for individual families, and (b) a residential unit in a multi-family development of three (3) or more dwelling units.

"Applicant" means the Owner.

"Bedroom" means an area of a Vacation Rental normally occupied and being heated or cooled by any equipment for human habitation, which is 120 square feet and greater in size, consists of four walls to the ceiling, at least one of which is located along an exterior wall with a window, and contains a built-in closet.

"Business Entity" means a corporation, partnership, or other legal entity that is not a natural person or a personal or family trust or a limited liability company consisting solely of natural persons.

"Change of Property Ownership" means the transfer of title from one person to another.

"Cluster or Compound" means any two or more Vacation Rentals that operate on a unified or shared basis where residents of such Vacation Rentals have exclusive access to more than one Vacation Rental and/or the facilities of such Vacation Rentals, including by way of example, a swimming pool, tennis court, or cooking facilities.

"Contract" means an agreement or evidence of any tenancy that allows or provides for the vacation rental of property.

"Daytime occupancy" means the hours between 10:00 am and 10:00 pm. "Daytime occupants" mean the guests who may occupy a Vacation Rental during a daytime occupancy.

"Enforcement Official" means the City Manager, the Police Chief, the Fire Marshall, the Building Official, or one or more of their respective designees.

"Exclusive listing arrangement" means a written agreement between an Owner and an agent or representative where the agent or representative has the sole and exclusive right to rent or lease a Vacation Rental unit to any person and the Owner is prohibited from renting or leasing the Vacation Rental unit except through the Owner's agent or representative.

"Estate Home" means a single family dwelling with five or more bedrooms located on property zoned R-1-B, R-1-A, R-1-AH, or G-R-5.

"Good cause" for the purposes of denial, suspension, revocation, imposition of conditions, renewal, and reinstatement of a Vacation Rental Registration Certificate, means (1) the Applicant, Owner, the Owner's Agent, or the Local Contact Person has failed to comply with any of the terms, conditions, or provisions of this Chapter or any relevant provision of this Code, State law, or any rule or regulation promulgated thereunder; (2) the Applicant, Owner, Owner's Agent, or Local Contact Person has failed to comply with any special conditions that were placed upon the Vacation Rental Registration Certificate by the Enforcement Official; or (3) the Vacation Rental has been operated in a manner that adversely affects the public health or welfare or the safety of the immediate neighborhood in which the Vacation Rental is located.

"Good Neighbor Brochure" means a document prepared by the Enforcement Official that summarizes general rules of conduct, consideration, and respect, including without limitation provisions of the Palm Springs Municipal Code applicable to or expected of guests to the City.

"Homeshare Interest" means a portion of an Owner's home that is subject to homesharing as provided in this Chapter.

"Homesharing" means an activity whereby the Owner hosts visitors in the Owner's home, for compensation, for periods of twenty-eight (28) consecutive days or less, while the Owner lives on-site and in the home, throughout the visitor's stay.

"Hotline" means the telephonic service operated by or for the City for the purpose of receiving complaints regarding the operation of any Vacation Rental and the forwarding of such complaints to the appropriate city enforcement officials or, if applicable, the Local Contact Person. For the purposes of this Chapter, the term "Hotline" also includes any contact in person or by telephone, email, digital or electronic communication, or correspondence of any kind to and/or from any Enforcement Official.

"Local contact person" means the Owner, a local property manager, or agent of the Owner, who is available twenty-four hours per day, seven days per week for the purpose of responding in-person within thirty (30) minutes to complaints regarding the condition, operation, or conduct of occupants of the Vacation Rental, or any agent of the Owner authorized by the Owner to take remedial action and who responds to any violation of this code.

"Owner" means the natural person or persons who is/are the owner of record of the Property. The term "Owner" also includes a personal or family trust consisting solely of natural persons and the trustees of such trust or a limited liability company and the members of such company, insofar as the disclosure requirements pursuant to Section 5.25.085 are satisfied. The term "Owner" does not include a Business Entity.

"Property" means a residential legal lot of record on which a Vacation Rental is located.

"Rental Term" means the period of time a Responsible Person rents or leases a Vacation Rental.

"Responsible Person" means an occupant of a Vacation Rental who is at least twenty-five (25) years of age and who shall be legally responsible for compliance of all occupants of the unit and/or their guests with all provisions of this Chapter and/or this code.

"Third Quarter" means the entire months of July, August, and September in one calendar year.

"Vacation Rental" means a single-family dwelling, or any portion thereof, utilized for occupancy for dwelling, lodging, or sleeping purposes without the Owner being present for a period of twenty-eight (28) consecutive days or less, other than ongoing month-to-month tenancy granted to the same renter for the same unit, occupancy of a time-share basis, or a condominium hotel as defined in Section 91.00.10 of this Code. The term "vacation rental" is synonymous with "short term rental" and "transient use" and does not include homesharing.

"Vacation Rental Registration Certificate" or "Registration Certificate" means the annual permit and/or a registration for a Vacation Rental or a Homeshare Interest issued by the City pursuant to this Chapter.

5.25.040 Registration Certificate Required.

(a) The operation of a Vacation Rental or a Homeshare Interest without a Vacation Rental Registration Certificate is prohibited.

(b) A Vacation Rental Registration Certificate shall not be issued to any Business Entity other than a limited liability company. A natural person, limited liability company, or personal or family trust shall not maintain any financial interest in more than one Vacation Rental. For this purpose, financial interest includes both legal and beneficial ownership as well as any arrangement that provides for receipt of any portion of the revenues generated by the Vacation Rental. An Owner shall only be issued, and can only maintain, one Vacation Rental Registration Certificate at any time.

(c) The provisions of Subsection (b) of this Section shall not apply to or be enforced against any Owner who operates a Vacation Rental pursuant to a valid Vacation Rental Registration Certificate issued prior to January 10, 2017 and shall only apply to each specific Vacation Rental owned by such Owner as of January 10, 2017 and only so long as such Owner for each Vacation Rental complies with the provisions of this Code. The purpose of this exception is to afford current owners of vacation rental property a reasonable opportunity to recoup costs reasonably invested for vacation rental use and which may not have been recouped during the period of vacation rental use and which cannot be recouped once the vacation rental use is terminated.

(d) Each Owner of a Vacation Rental who rents, exchanges, trades, gifts, or grants such Vacation Rental for a period of twenty-eight (28) consecutive days or less shall fully comply with all provisions of this Chapter related to the use and occupancy of a Vacation Rental, and the operational requirements, provided in this Chapter. Each rental, exchange, trade, gift, and grant of a stay of less than twenty-eight (28) days shall count as one Contract.

(e) No Owner of residential property in the City shall rent any Homeshare Interest for a period of twenty-eight consecutive days or less without a valid Rental Registration Certificate for Homesharing pursuant to this Chapter for such Homesharing Interest.

(f) A copy of the current Registration Certificate as issued by the City and the maximum number of guests allowed on the premises shall be displayed in a clear and legible manner in a conspicuous and easily accessible location in the unit and on all advertising related to each Vacation Rental or Homesharing Interest, including without limitation, web based advertising, hosting platform, print media, and television.

(g) The issuance and or renewal of a Registration Certificate shall be deemed evidence that the holder of such Registration Certificate has registered a vacation rental

property with the City and that the holder acknowledges the holder's obligation to comply with all provisions of this Chapter and the Code. The issuance of a Registration Certificate shall not be construed as bestowing or granting any vested right or entitlement.

5.25.050 Agency.

(a) An Owner may retain an agent with an exclusive listing arrangement or a representative to assist in the compliance with the requirements of this Chapter, including, without limitation, the filing of a complete Vacation Rental registration the management of the Vacation Rental unit or units, and compliance with the requirements of this Chapter including the collection and payment to the City of all transient occupancy taxes due and payable on the Vacation Rental unit. The Owner and any such agent or representative of Owner must have the authority to evict any tenant, resident, or guest permitted to reside at the Vacation Rental for violation of any provision of this Chapter or regulation thereof. Except as provided in Subsection (b) of this Section and notwithstanding any agency relationships between an Owner and an agent or representative, the Owner of the Vacation Rental unit or units shall execute all applications and documentary requirements as provided in this Chapter and shall remain responsible for compliance with the provisions of this Chapter. The failure of an agent to comply with this Chapter shall not relieve the Owner of the Owner's obligations under the provisions of this Chapter.

(b) In the event an Owner enters into an exclusive listing arrangement, the Vacation Rental registration certificate may be secured, and the transient occupancy registration certificate requirements provided in this Chapter may be performed, by the agent or representative and not by the Owner; however, the agent or representative shall separately account all revenues and costs on a per property basis, including without limitation transient occupancy taxes and the gross rent amounts used to calculate such taxes.

5.25.060 Vacation Rental Registration Requirements.

(a) Prior to use of a property as a Vacation Rental, and annually thereafter, the applicant shall register the property as a Vacation Rental with the City on a registration form furnished by or acceptable to the Enforcement Official and signed by the applicant under penalty of perjury. Each application shall contain the following information:

(1) The name, address, and telephone number of the Owner of the unit for which the Vacation Rental registration certificate is to be issued. The name, address and telephone numbers of any other natural persons, limited liability companies or personal or family trusts that hold any financial interests in the Vacation Rental as well as copies of legal documents creating such financial interests.

(2) The name, address, and telephone number of the exclusive listing agent, if any, of the Owner of the unit.

(3) The name, address, and twenty-four-hour telephone number of the Local Contact Person and verification that the Local Contact Person can respond in-person to the site of the Vacation Rental within thirty (30) minutes. The Local Contact Person may only use the address of the Vacation Rental if the Local Contact Person will be present at the unit for the duration of each Contract.

(4) The address of the residential property proposed to be used as a Vacation Rental.

(5) The number of bedrooms and the applicable overnight and daytime occupancy limit of the unit consistent with the provisions of Section 5.25.070 (c).

(6) Evidence of a valid business license issued by the City for the separate business of operating Vacation Rentals or submission of a certificate that Owner is exempt or otherwise not covered by the City's Business Tax Ordinance (Division II, Title 3 of the Palm Springs Municipal Code) for such activity.

(7) Evidence of a valid transient occupancy registration certificate issued by the City for the Vacation Rental unit.

(8) Acknowledgement of receipt and inspection of a copy of all regulations pertaining to the operation of a Vacation Rental.

(9) Executed indemnification and hold harmless agreement in a form approved by the City Attorney, agreeing to indemnify, save, protect, hold harmless, and defend the City of Palm Springs, the City Council of the City of Palm Springs, individually and collectively, and the City of Palm Springs representatives, officers, officials, employees, agents, and volunteers from any and all claims, demands, damages, fines, obligations, suits, judgments, penalties, causes of action, losses, liabilities, or costs at any time received, incurred, or accrued as a result of, or arising out of Owner's actions or inaction in the operation, occupancy, use, and/or maintenance of the Property.

(10) Evidence of insurance coverage as required under Section 5.25.070(t) of this Chapter.

(11) Completion of building, fire, and safety inspection and completion of any corrections identified by an Enforcement Official. Such inspections shall include a review of the premises for compliance with the operational requirements of this Chapter, including without limitation determining the total number of qualified bedrooms.

(12) Written acknowledgement in a form approved by the Enforcement Official that there are no covenants or other deed restrictions on the property that prohibit or limit the use of the property as a Vacation Rental. The Enforcement Official may accept a written consent from the governing board of a homeowners' association with jurisdiction over the property in satisfaction of this requirement.

(13) Such other information as the Enforcement Official deems reasonably necessary to administer this Chapter.

(b) The registration of a Vacation Rental shall be accompanied by a fee established by resolution of the City Council; provided, however, the fee shall be no greater than necessary to defer the cost incurred by the City in administering the provisions of this Chapter.

(c) A Vacation Rental registration certificate shall be denied if a registration certificate for the same unit and issued to the same Owner has previously been revoked pursuant to Section 5.25.090. The denial of a registration certificate for any reason may be appealed in accordance with to the provisions of Chapter 2.50 of the Municipal Code.

(d) Upon Change of Property Ownership, the Registration Certificate shall expire and the property shall not be used as a Vacation Rental until the new or successor Owner is issued a Vacation Registration Certificate for the property. The provisions of Section 5.25.040(b) shall be applicable to any such new or successor Owner. In the event of a change in agent or the occurrence of any other material fact set forth in the annual registration, a new registration for a Vacation Rental shall be required to continue operation of the Vacation Rental and within seven days of said change the Owner or his or her exclusive listing agent shall submit the required registration and fee.

(e) The Owner or his or her exclusive listing agent shall cancel the Vacation Rental Registration Certificate within seven (7) days of the date the Vacation Rental is sold or otherwise disposed of or after an event that results in the unit no longer in use as a Vacation Rental.

(f) Each applicant for a Registration Certificate, including without limitation the Owner and the Owner's agent and/or representative, shall annually attend and/or participate in an educational program devised and administered by the City Manager for the purpose of training applicants for vacation rental registration certificates, or renewals

thereof, on their respective roles and responsibilities in the successful administration and compliance with the City's Vacation Rental program. Each applicant shall annually take a test prepared and administered by the City Manager regarding each applicant's role and responsibilities in the Vacation Rental Program and Registration Certificates will not be issued or renewed until the applicant has successfully passed such test.

5.25.070 Operational Requirements and Standard Conditions.

(a) The Owner shall use reasonably prudent business practices to ensure that the Vacation Rental unit complies with all applicable codes regarding fire, building and safety, health and safety, and all other relevant laws.

(b) No more than thirty-two (32) Contracts for Vacation Rental use of a property shall be allowed or provided in any calendar year; however, up to four (4) additional Contracts shall be allowed or provided for the Third Quarter of a calendar year so long as the entire term of each such Contract occurs during such Third Quarter A Contract includes any occupancy of a property subject to a Vacation Rental registration certificate by persons other than the Owner when the Owner is not present during such occupancy, regardless of whether compensation is paid for such occupancy or whether occupancy is evidenced in an agreement or document.

(i) In the event the number of fully executed and enforceable Contracts for a Vacation Rental of a property for calendar year 2017 exceed the Contract limitations provided above as of February 15, 2017, such limitations shall not apply; however, no new or additional Contracts for such property shall be allowed for calendar year 2017.

(ii) For the first year a Vacation Registration Certificate is in effect, the thirty-two (32) contract limit shall be prorated based on the number of months that elapse prior to the subsequent calendar year and in the event any portion of the Third Quarter occurs during the first year a Vacation Registration Certificate is in effect, the four (4) additional Contracts may be used during such Third Quarter.

(iii) Notwithstanding the restrictions imposed by this Subparagraph, the Owner at the time an application or renewal is submitted can designate and file with the Enforcement Official the names of up to five (5) persons who may occupy the Vacation Rental unit at no cost and without requiring the presence of the Owner on the premises of the Vacation Rental. Each such occupancy shall fully comply with all other provisions of this Chapter.

(c) The Owner shall limit overnight occupancy of the Vacation Rental unit to a specific number of occupants, with the maximum number of occupants as no more than two (2) persons per bedroom within each Vacation Rental unit and a maximum of no more than eight (8) persons total within the Vacation Rental unit, except that Owner may allow up to two (2) minor children, age 12 or under, to occupy the Vacation Rental in addition to the maximum number of occupants otherwise provided in this Subsection.

The number of bedrooms in a Vacation Rental shall be verified by the Enforcement Official using County Assessor and/or City Building records and/or a physical inspection of the premises, prior to the issuance of a Registration Certificate. The Owner may also allow up to four (4) daytime occupants in addition to the total number of guests allowed for overnight occupancy pursuant to this Subsection. No more than one (1) automobile per bedroom shall be allowed for each Vacation Rental. Advertising and/or renting one or more Vacation Rentals as part of a cluster or compound is prohibited.

(d) The Owner of an Estate Home shall be exempt from the limitations of Subsection (c) of this Section for up to two (2) additional bedrooms for housing to accommodate no more than two (2) persons for each additional bedroom approved pursuant to the Exemption up to a maximum of twelve (12) guests and up to two (2) minors age twelve (12) and under.

(e) During the Rental Term each Vacation Rental unit is rented, the Owner, his or her agent, and/or the Local Contact Person designated by the Owner, after being contacted by the Enforcement Official, shall be available twenty-four hours per day, seven days per week, for the purpose of (1) responding by telephone within fifteen (15) minutes of complaints from or through the Hotline and (2) responding in-person within thirty (30) minutes to any additional or successive complaints regarding the condition, operation, or conduct of occupants of the Vacation Rental.

(f) The Owner shall use reasonably prudent business practices to ensure that the occupants and/or guests of the Vacation Rental unit do not create unreasonable noise disturbances, engage in disorderly conduct, or violate provisions of the Municipal Code or any state law.

(g) Notwithstanding the provisions of Section 11.74.043, any radio receiver, musical instrument, phonograph, loudspeaker, sound amplifier, or any machine or device for the producing or reproducing of any sound shall be conducted within a fully enclosed Vacation Rental unit and shall not be audible at the property line of the Vacation Rental.

(h) Prior to occupancy pursuant to each separate occasion of rental of a Vacation Rental, the Owner or the Owner's agent or representative shall enter into a written Contract with a Responsible Person where (1) the Responsible Person will provide the Responsible Person's name, age, address, and a copy of a government issued identification; (2) establishes and sets out the terms and conditions of the Contract, including without limitation occupancy limits, noise prohibitions, and vehicle parking requirements; (3) requires the Responsible Person to acknowledge and agree that he or she is legally responsible for compliance of all occupants of the Vacation Rental or their guests with all provisions of this Chapter and/or the Municipal Code; (4) the Owner or the Owner's Agent provides a copy of the "Good Neighbor Brochure" to the Responsible Person; (5) the Responsible Person provides a list of all guests by name; and (6) the Responsible Person provides a list of all guests' vehicles, including license plate numbers. Each Contract shall be maintained by the Owner or the Owner's Agent for a minimum of four (4) years and shall be readily available for inspection upon request of

the Enforcement Official. A summary or abstract of the written Contract, in a form approved by the Enforcement Official, shall be filed with the Enforcement Official prior to occupancy, in a manner approved by the Enforcement Official, and shall be posted in a conspicuous location on the Vacation Rental property and shall be made available on site at the request of an Enforcement Official.

(i) The Enforcement Official shall be the first responder and have primary responsibility for the enforcement of this Chapter. In the event the Enforcement Official notifies the Owner, or his or her agent, the Owner, or his or her agent, that the responsible person, including any occupant and/or guest of the Vacation Rental unit, has created unreasonable noise or disturbances, engaged in disorderly conduct, or committed violations of provisions of the Municipal Code or any state law, shall promptly respond in a timely and appropriate manner to prevent a recurrence of such conduct by those occupants or guests, and evict one or more of the guests when requested by the Enforcement Official. For the purpose of this Subsection and Subsection (j) below, the phrase "in a timely and appropriate manner" shall mean in-person contact within thirty (30) minutes for any call from the Enforcement Official.

(j) Failure of the Owner or his or her agent to respond to calls or complaints regarding the condition, operation, or conduct of occupants of the Vacation Rental in a timely and appropriate manner shall be grounds for imposition of penalties as set forth in this Chapter. It is not intended that an Owner, agent, or Local Contact Person act as a peace officer or place himself or herself in an at-risk situation.

(k) Trash and refuse shall not be left stored within public view, except in proper containers for the purpose of collection by the collectors and between the hours of five a.m. and eight p.m. on scheduled trash collection days. The Owner of the Vacation Rental unit shall use reasonably prudent business practices to ensure compliance with all the provisions of Chapter 6.04 of the Municipal Code (Waste Disposal and Diversion), and shall provide "walk-in service" or as may otherwise be approved by the Enforcement Official.

(l) All home repairs (external and internal), garden and yard maintenance, and pool cleaning and maintenance shall not be performed between the hours of 5:00 pm on Friday through 8:00 am on Monday, except in the case of an emergency or the occurrence of an unexpected event that reasonable warrants a timely or immediate response. Repairs and maintenance shall not be scheduled in advance to occur during the days and time specified in this subsection.

(m) The Owner or the Owner's agent or representative shall meet the Responsible Party in person at the Vacation Rental or the Owner's or Owner's agent's office prior to, or within twenty-four (24) hours of, the commencement of the occupancy and verbally explain and describe all rules and regulations applicable to the use of the property as a Vacation Rental and the responsibilities of the Responsible Party to the neighbors and the City as well as the Owner. The Owner shall secure the signature of the Responsible Party and all adult guests to a statement of rules and regulations prepared by the City

Manager prior to or within twenty-four (24) hours of the arrival of the guest at the Vacation Rental.

(n) The Owner of the Vacation Rental unit shall post a copy of the Registration Certificate and a copy of the conditions set forth in this Section, including all rules and regulations applicable to the use of the property as a Vacation Rental, on the inside of the front door and the primary door to the backyard or in a conspicuous location near each such door.

(o) The Owner shall provide each occupant of a Vacation Rental with the following information prior to occupancy of the unit and/or post such information in a conspicuous place within the unit:

(1) The name of the managing agency, agent, rental manager, Local Contact Person, or Owner of the unit, and a telephone number at which that party may be reached on a twenty-four-hour basis;

(2) The maximum number of occupants permitted to stay in the unit;

(3) The trash pick-up day and applicable rules and regulations pertaining to leaving or storing trash or refuse on the exterior of the property;

(4) Notification that any radio receiver, musical instrument, phonograph, loudspeaker, sound amplifier, or any machine or device for the producing or reproducing of any sound shall only be operated within a fully enclosed Vacation Rental unit and shall not be audible at the property line of the Vacation Rental;

(5) Notification that the occupant may be cited or fined by the City and/or immediately evicted by the Owner pursuant to state law, in addition to any other remedies available at law, for creating a disturbance or for violating any provision of this Chapter;

(6) Notification that failure to conform to the occupancy requirements of the Vacation Rental unit is a violation of this Chapter;

(7) A copy of this Chapter of the Palm Springs Municipal Code, as may be amended from time to time.

(p) The use of a Vacation Rental unit shall not violate any applicable conditions, covenants, or other restrictions on real property.

(q) The Owner shall comply with all provisions of Chapter 3.24 of the Municipal Code concerning transient occupancy taxes, including, but not limited to, submission of a monthly return for each Vacation Rental in accordance with Section 3.24.080. The monthly return shall be filed each month regardless of whether the Vacation Rental unit was rented or not during each such month.

(r) The City Manager shall have the authority to impose additional standard conditions, applicable to all Vacation Rental units or identifiable classes of Vacation Rentals, as necessary, to achieve the objectives of this Chapter. A list of all such additional standard conditions shall be maintained and on file in the Office of the City Clerk and such offices as the City Manager designates.

(s) Notwithstanding the provisions of Subsection (p) above, upon a determination of Good Cause, the City Manager may impose additional or special standards or requirements for placement or imposition of special conditions or performance standards for Owners, Owner's Agents, Local Contact Persons, and their affected Vacation Rentals. (r) The standard conditions may be modified by the Enforcement Official upon request of the Owner or his or her agent based on site-specific circumstances for the purpose of allowing reasonable accommodation of a Vacation Rental. All requests must be in writing and shall identify how the strict application of the standard conditions creates an unreasonable hardship to a property such that, if the requirement is not modified, reasonable use of the property for a Vacation Rental would not be allowed. Any hardships identified must relate to physical constraints to the subject site and shall not be self-induced or economic. Any modifications of to the standard conditions shall not further exacerbate an already existing problem.

(t) The City Manager shall have the authority to establish administrative rules and regulations, which may include, but are not limited to, registration conditions, reporting requirements, inspection frequencies, enforcement procedures, advertising restrictions, disclosure requirements, or insurance requirements, consistent with the provisions of this Chapter, for the purpose of implementing, interpreting, clarifying, carrying out, furthering, and enforcing the requirements and the provisions of this Chapter. No person shall fail to comply with any such regulation. A copy of such administrative rules and regulations shall be on file in the Office of the City Clerk.

(u) Owner shall procure, maintain, and pay premiums for commercial insurance policies that cover short term rental of property for each Vacation Rental with minimum limits as may be established by the City Manager from time to time.

(v) Owner shall annually secure a building and fire and safety inspection prior to renewal of the Vacation Registration Certificate.

5.25.075 Specific Prohibitions.

(a) No person or entity shall offer or provide an Apartment, or any portion thereof, for rent for 28 consecutive days or less to any person.

(b) No person or entity shall maintain any advertisement of a Vacation Rental that is in violation of any provision of this Chapter.

(c) No person, including without limitation, an apartment owner, an apartment manager, or a representative of the apartment owner or manager, shall evict any tenant or otherwise terminate a lease for the purpose of converting an apartment to a vacation rental or in anticipation of converting an apartment to a vacation rental. In addition to any other remedy provided under the Palm Springs Municipal Code, failure to comply with this provision may be asserted as an affirmative defense in an action brought by or on behalf of the apartment owner, apartment manager, or representative to recover possession of the unit. Any attempt to recover possession of a unit in violation of this Ordinance shall render the apartment owner, apartment manager, or representative liable to the tenant for actual or punitive damages, including damages for emotional distress, in a civil action for wrongful eviction. The tenant may seek injunctive relief and money damages for wrongful eviction and the prevailing party in an action for wrongful eviction shall recover costs and reasonable attorneys' fees.

(d) The provisions of Subsection (a) of this Section shall not apply to or be enforced against any person or entity who rents an apartment or portion thereof pursuant to a valid vacation Registration Certificate issued prior to April 15, 2016 for the period of time between April 15, 2016 through January 1, 2019. The purpose of this deferral of the enforcement of the provisions of this Section is for persons or entities issued valid vacation registration certificates prior to April 15, 2016 to be afforded a reasonable opportunity to recoup costs reasonably invested for vacation rental use of apartments and which may not have been recouped during the period of vacation rental use of the the apartment and which cannot be recouped once the vacation rental use is terminated.

(e) The provisions of Subsection (a) of this Section, Subsection 5.25.040(b) [limits on number of units], and Subsection 5.25.070(b) [limits on number of Contracts] shall also not apply to any building in which an apartment is located that meets all requirements of an R-1 occupancy under the City's building and fire code and for which such apartment has a valid Vacation Rental Registration Certificate issued prior to April 15, 2016.

Ed. Note. Subsection (d) of Section 5.25.075 shall be deemed repealed and no longer in effect as of 12:01 am on January 1, 2019 and all persons and entities shall fully comply with the provisions of Subsection (a) of Section 5.25.075 of this Code. See § 4 of Ord. 1902 (2016).

5.25.078 Homesharing Authorization.

(a) The Notwithstanding any provision of this Chapter to the contrary, homesharing shall be authorized in the City, provided that the Owner complies with each of the following requirements:

(1) Obtains and maintains at all times a Vacation Rental Registration Certificate for Homesharing;

(2) Operates the Homesharing Interest in compliance with all Vacation Registration Certificate for Homesharing conditions, which may be imposed by the Enforcement Official to effectuate the purpose of this Chapter;

(3) Collects and remits Transient Occupancy Tax to the City and complies with all City Transient Occupancy Tax requirements as set forth in this Code;

(4) Takes responsibility for and actively prevents any nuisance activities that may take place as a result of homesharing activities;

(5) Complies with all applicable laws, including all health, safety, building, and fire protections laws;

(6) Complies with the regulations promulgated pursuant to this Chapter.

(b) In the event the Owner of a Homeshare Interest does not live on-site, in the home, and is not able to respond within thirty (30) minutes to complaints regarding the condition, operation, or conduct of occupants of the Homesharing Interest, the property shall be deemed a Vacation Rental and Owner shall be required to fully comply with the provisions of this Chapter relating to Vacation Rentals, including without limitation, securing a Vacation Rental Registration Certificate.

5.25.080. Audit.

Each Owner and agent or representative of any Owner shall provide the Enforcement Official with access to each Vacation Rental and the books, records, documents, papers, tax returns, and bank accounts at any time during normal business hours as the Enforcement Official may determine are necessary or convenient for the purpose of inspection or audit to determine that the objectives and conditions of this Chapter are being fulfilled.

5.25.085 Disclosure of Business Entitites, Limited Liability Companies, and Personal or Family Trusts

On or before June 1, 2017, all Business Entities, limited liability companies, and personal or family trusts owning one or more Vacation Rentals shall disclose to the Enforcement Official the names, relevant contact information, and any such other information as may be requested by the Enforcement Official of each natural person holding the legal, equitable, and/or beneficial interest of each such Business Entitiy, limited liability company, or personal or family trust and the address of each Vacation Rental owned by each such Business Entity, limited liability company, or personal or family trust. Each Business Entity that complies with the provisions of this Section prior to June 1, 2017, shall, prior to June 1, 2018 transfer each Vacation Rental to a natural person who can otherwise comply with the provisions of this Chapter or cease operating any Vacation Rental properties owned by the Business Entity as Vacation Rentals. Any Business Entity that fails to comply with the disclosure requirements provided in this Subsection, shall cease operating all Vacation Rental properties owned by the Business Entity as Vacation Rentals no later than June 1, 2017.

5.25.090 Violations.

(a) Any person who violates a provision of this Chapter is subject to criminal sanctions and administrative penalties pursuant to Chapters 1.01 and 1.06 of this Code and the specific penalties as provided in this Chapter. Any person who uses, or allows the use of, residential property in violation of the provisions in this Chapter is guilty of a misdemeanor for each day in which such residential property is used, or allowed to be used, in violation of this Chapter. An administrative citation issued pursuant to Chapter 1.06 for a first violation shall be five hundred dollars ($500.00) and each subsequent violation shall be one thousand ($1,000.00) dollars. Each administrative citation for a violation of any provision of this Chapter shall be levied or assessed against the Owner.

(b) Upon the third violation in any twelve month period, the City Manager shall suspend the Vacation Registration Certificate for two (2) years.

(c) Any person who operates a Vacation Rental without a Vacation Registration Certificate, shall be liable to the City for the payment of transient occupancy tax pursuant to the provisions of the Palm Springs Municipal Code Chapter 3.24, including without limitation penalties and interest, payment of an administrative fine in the amount of Five Thousand Dollars ($5,000.00), and permanent ineligibility to operate a Vacation Rental in the City. In the event the person continues to operate a Vacation Rental without a Vacation Registration Certificate, the person shall be liable for an administrative fine in the amount of Ten Thousand Dollars ($10,000.00) and any successive violations shall be subject to fines provided in an escalation formula established by the City Council by resolution.

(d) Any person who advertises a Vacation Rental without including the Vacation Registration Certificate in any advertising for such Vacation Rental, or operates a

Vacation Rental without a contract, or without providing the City with a summary or abstract of such contract, or without timely tendering full monthly payments of transient occupancy tax, shall pay a fine in the amount of Two Thousand, Five Hundred Dollars ($2,500.00) and the Owner's Vacation Registration Certificate shall be suspended for six (6) months for a first offense and shall pay a fine in the amount of Five Thousand Dollars ($5,000.00) and the Owner's Vacation Registration Certificate shall be revoked for a second offense. Any subsequent violations will be subject to the provisions of Subsection (c) of this Section.

(e) The failure of an Owner or the Owner's agent or representative to comply with an order of any police officer shall result in the revocation of the Vacation Registration Certificate.

(f) The appeal and hearing provisions of Chapter 2.50 shall apply to any revocation or suspension of a Registration Certificate.

(g) Any person who fails to pay any fee or charge provided in this Chapter within the time required, shall pay a penalty in the amounts established by the City Council by resolution. Such penalty may also include interest from the date on which the fee or charge became due and payable to the City until the date of payment.

(h) The filing of knowingly false claims against a Vacation Rental or the guests staying in a Vacation Rental is prohibited and shall be punishable by administrative fines as provided in Chapter 1.06 of this Code.

(i) In addition to, and not in lieu of, any other remedy allowed by law, all remedies prescribed under this Chapter are cumulative and the election of one or more remedies does not bar the City from the pursuit of any other remedy, criminal, civil, or administrative which may be pursued by the City to enforce this Chapter and/or address any violation of this Code or to remedy any other public nuisance.

5.25.100 Requirements Not Exclusive.

The requirements of this Chapter shall be in addition to any license, permit, or fee required under any other provision of this Code. The issuance of any permit pursuant to this Chapter shall not relieve any person of the obligation to comply with all other provisions of this Code pertaining to the use and occupancy of Vacation Rental or the property on which it is located.

SECTION 2. Section 93.23.16 is added to the Palm Springs Municipal Code to read:

93.23.16. Special Standards for Vacation Rentals of Estate Homes

A. The vacation rental of an Estate Home shall be deemed a use permitted pursuant to a land use permit under the provisions of Palm Springs Municipal Code

Section 94.02.01. For the purposes of this Section, the terms "Estate Home" and "Owner" shall have the meanings provided in Section 5.25.030 of this Code.

B. Any Owner of an Estate Home with an active vacation rental certificate in full force and effect on February 8, 2017, shall be deemed in compliance with this Subsection and shall be issued a land use permit for such Estate home from the Director of Planning Services subject to standard conditions of approval consistent with the provisions of this Chapter and the Zoning Ordinance. Each application by an Owner for the vacation rental of an Estate Home after February 8, 2017, shall be subject to the applicant applying for and receiving a land use permit under the provisions of Section 94.02.01 of this Code. Any land use permit issued for the vacation rental of an Estate Home shall be issued to the Owner, subject to the provisions of this Chapter and such additional conditions as may be required pursuant to Section 94.02.01 of this Code. Any land use permit issued for a vacation rental of an Estate Home shall not run with the land.

C. Upon a determination by the City Manager of a third qualified violation within any twenty-four (24) month period regarding the vacation rental of an Estate House, the land use permit for such vacation rental shall be subject to revocation or modification by the Planning Commission at a noticed public hearing to be held in the manner provided for in Section 94.09.00 of this Code.

D. The revocation or modification process shall be conducted pursuant to the following:

1. The Commission shall, not less than ten (10) nor more than thirty (30) days after the notification of the Owner of revocation or modification, hold a public hearing on the matter.

2. The Commission shall reach its decision within thirty (30) days after the conclusion of the public hearing. The decision shall set forth the findings of the Commission and any recommended conditions, including without limitation any time limit deemed necessary to protect the health, safety, and welfare of persons in the neighborhood and in the city as a whole.

3. The decision and findings shall be filed with the City Council within fifteen (15) days after they have been reached. A copy of the minutes thereof shall be mailed to the Owner. The action of the Commission shall be final unless appealed to the City Council.

4. The Commission shall consider the following issues and potential conditions in its review of a vacation rental of an Estate Home:

a. Regulation of use,

b. Special yards, space, and buffers,

c. Fences and walls,

d. Surfacing of parking areas subject to city specifications,

e. Requiring street, service road or alley dedications and improvements or appropriate bonds,

f. Regulation of points of vehicular ingress and egress,

g. Regulation of signs,

h. Requiring landscaping and maintenance thereof,

i. Requiring maintenance of the grounds,

j. Regulation of noise, vibration, odors, etc.,

k. Regulation of time for certain activities,

l. Time period within which the proposed use shall be developed,

m. Duration of use,

n. Dedication of property for public use,

o. Limitation on the number of guests,

p. Limitation on the number of vehicles,

q. Imposition of building and/or safety requirements applicable to small hotels,

r Such other conditions as will make possible the development of the City in an orderly and efficient manner and in conformity with the intent and purposes set forth in this Zoning Code, including but not limited to mitigation measures outlined in any applicable environmental assessment.

SECTION 3. The City Council finds and determines that this Ordinance is not subject to the California Environmental Quality Act (Public Resources Code Section 21000 *et seq.*) pursuant to Section 15060(c)(2) and 15060(c)(3) of the State Guidelines, because the Ordinance will not result in a direct or reasonably foreseeable indirect physical

change in the environment and is not a "project," as that term is defined in Section 15378 of the State Guidelines. In addition, The City Council also determines this Ordinance consists of regulations intended to ensure that commercial short term rental use of residential property remains an ancillary and secondary use of residential property in the City and thereby preserve the residential character of the City's single-family and multi-family neighborhoods as identified in the City's adopted General Plan, and its concomitant Environmental Impact Report. Thus, to the extent there is any environmental impact from the adoption of this Ordinance, the City Council finds that the Environmental Impact Report for the adopted General Plan is the controlling environmental document.

SECTION 4. This Ordinance generally deals with the subject matter of Ordinance 1907, which was the subject of a referendum submitted on January 12, 2017. The City Council repealed Ordinance 1907 on February 15, 2017. The City Council finds that this Ordinance is essentially different from Ordinance 1907 in that it contains modifications, amendments, and changes that are now endorsed by several local interests who participated in the circulation of, and who supported the referendum petition. Specifically, this Ordinance recognizes vacation rentals as ancillary and secondary uses of residential property in the City. In addition, Ordinance 1907's prohibition on multiple ownerships contained an amortization period that would require Owners to dispose of vacation rental properties by the end of the amortization period; this Ordinance grandfathers all existing ownerships thereby allowing Owners to continue to operate vacation rental properties they currently own until they sell or otherwise choose to dispose of each property. Ordinance 1907 allowed a maximum of 32 vacation rental contracts per property; this Ordinance allows an additional 4 vacation rental contracts during the summer months and grandfathers Contracts in excess of such limits for calendar year 2017 entered into prior to February 15, 2017. Ordinance 1907 provided exceptions from certain occupancy limitations as applied to estate homes; this Ordinance includes vacation rental estate homes as a use subject to a land use permit coupled with an administrative review before the Planning Commission under certain circumstances. This Ordinance also includes additional requirements on Owners and their agents and representatives, including periodic training and testing, prohibitions on gardening and property maintenance on weekends, imposition of face to face meetings with a Responsible Party within 24 hours of commencement of occupancy, securing written acknowledgements of rules and regulations from all adult guests within 24 hours of the commencement of occupancy, and reduced the number of on-site locations for the posting of rules and regulations. The City Council further notes that Ordinance 1907 was also a restatement of the Vacation Rental Ordinance in effect at the time Ordinance 1907 was adopted and therefore finds that the provisions of the Code in effect at the time Ordinance 1907 was adopted and that were not changed or amended by Ordinance 1907 were not subject to the referendum and therefore were not matters the referendum proponents contested. The revisions to Ordinance No. 1907 as provided in this Ordinance are due in part to the efforts of the City Council's subcommittee to negotiate with representatives of those who supported the referendum, the referendum proponents, and affected residents. This Ordinance reflects changes suggested and/or supported by all such interests.

SECTION 5. The City Manager is authorized to exercise reasonable administrative discretion in the implementation of this Ordinance during the first year this Ordinance is in effect, including without limitation phasing in of programs, policies, and practices consistent with the business needs of the City, any department, division, bureau, or section designated to enforce this Ordinance, and the overall responsibilities and priorities of the City Manager as provided by the City Council.

SECTION 6. Any valid rental agreement for a Vacation Rental with occupancies in terms of number of guests and/or vehicles in excess of the requirements of Section 5.25.070(c) of this Ordinance, entered into between an Owner or an Agent with a renter and the renter has paid a deposit for such rental prior to November 30, 2016, shall be deemed consistent with the provisions of this Ordinance so long as such rental agreement and the Vacation Rental otherwise complies with the requirements of this Ordinance. In addition and notwithstanding any provisions to the contrary within Section 5.25.070(b)(ii), any holder of a Registration Certificate as of the effective date of this Chapter can submit a list of names as provided in Section 5.25.070(b)(ii) within thirty (30) days of such effective date.

SECTION 7. It is the intent of the City Council that the implementation and administration of this Ordinance shall be monitored and reviewed by the City Council's subcommittee and the City Manager in consultation with members of the vacation rental industry and residents of the City. It is also the intent of the City Council that the subcommittee will periodically report and/or make recommendations to the City Council regarding such implementation and administration. It is the expectation of the City Council, notwithstanding any other provision in this Ordinance, that the subcommittee will endeavor to meet monthly as provided herein and that in no event later than April 1, 2019, or as soon thereafter as may be reasonably practicable, provide to the City Council a report on the overall implementation and administration of this Ordinance, including recommendations regarding refinements, amendments, or revisions as the subcommittee may deem appropriate.

SECTION 8. The provisions of this Ordinance are severable. If any portion, section, subsection, paragraph, clause, sentence, phrase, work, or application of this Ordinance is for any reason held to be invalid by a decision of any court of competent jurisdiction, that decision shall not affect the validity of the remaining portions of this Ordinance. The City Council declares that it would have adopted this Ordinance and each and every portion, section, subsection, paragraph, clause, sentence, phrase, word, and application not declared invalid or unconstitutional without regard to whether any portion of this Ordinance or application thereof would be subsequently declared invalid.

SECTION 9. The Mayor shall sign and the City Clerk shall certify to the passage and adoption of this Ordinance and shall cause the same, or the summary thereof, to be published and posted pursuant to the provisions of law and this Ordinance shall take effect thirty (30) days after passage.

PASSED, APPROVED AND ADOPTED BY THE PALM SPRINGS CITY COUNCIL THIS ___ DAY OF _____, 2017.

_____
ROBERT MOON, MAYOR

ATTEST:

_____
KATHIE HART, INTERIM CITY CLERK