PLACEWORKS

TECHNICAL MEMORANDUM

Date: May 2024

To: County of San Bernardino
Mark Wardlaw, Land Use Services Director

From: Colin Drukker, Principal

Subject: Housing Element Program 4
Summary of Short-term Rental Outreach and Study Findings

Executive Summary

OVERALL CONCLUSION

Clear and empirical data was not found indicating that short-term rentals (STRs) have a substantial and distinct impact on the availability of long-term, rental or ownership housing options in most unincorporated Mountain and East Desert communities. However, an accumulation of data and analysis of key factors indicates that STR activity is negatively affecting the long-term ownership and rental housing market in Joshua Tree (see Table ES-1).

Figure ES-1. Key Factors Indicating STR Activity Affecting Long-term Housing Market, by Community

	Unincorporated Mountain				Unincorporated East Desert		
FACTOR	**Big Bear City**	**Crestline**	**Lake Arrowhead**	**Running Springs**	**Homestead Valley**	**Joshua Tree**	**Morongo Valley**
1. Community History	-	-	-	-	✓	✓	✓
2. STR Presence	✓	-	-	-	✓	✓	-
3. Seasonal Homeownership	-	-	-	-	-	✓	-
4. Occupancy Trends	-	-	-	-	-	✓	-
5. Non-seasonal Vacancy	✓	-	-	-	-	✓	✓
6. Highly Active STRs	✓	-	✓	-	-	✓	-

✓ indicates STR activity may be affecting the housing market

\- indicates STR activity unlikely to be affecting housing market

Note: the above table and summary findings below reflect data that is available for larger communities, especially those communities that contain the largest number of STRs. When data is available, analysis for other communities is contained elsewhere in the memo.

SUMMARY FINDINGS

The primary driver of rising housing costs in the unincorporated Mountain and East Desert communities was the COVID Pandemic. Areas that were once viewed as too far from major employment centers became part of the conventional housing market for many households. Additionally, retirees and white-collar workers along the coast and other affluent areas, flush with cash from home equity and/or high salary jobs, viewed the unincorporated Mountain and (especially) East Desert communities as desirable and relative bargains, and were willing and able to pay much higher rents and pay much higher sales prices. The historic lack of housing production across the state (lowest in nearly 20 years) meant that these households were competing for a relatively small supply (that largely consisted of existing housing stock).

The COVID Pandemic exacerbated and/or distorted the normal housing market across the County, state, and entire nation, making it extremely difficult to clearly distinguish the influence of short-term rental (STR) activity in unincorporated Mountain and East Desert communities. Inferring the degree of influence from the data available involved an evaluation of multiple factors, as summarized below. Based on this evaluation, there is not enough evidence to conclude that STR activity has had a substantial and distinct impact on the availability of long-term, rental or ownership housing options in most unincorporated Mountain and East Desert communities. However, the factors, in aggregate, support a conclusion that STR activity is distinctly and negatively affecting the long-term ownership and rental housing market in the Joshua Tree community.

1) COMMUNITY HISTORY | Resort/Destination vs Permanent Settlement

The potential impact of STR activity on the housing market is greater in communities that do not have a long history of seasonal housing. The Mountain region developed in the early 1900s as a place for seasonal recreation and has maintained its nature as a predominantly 2nd home/resort area. Parts of the East Desert region also originated as unique short-term destinations, but most grew slowly as small, remote year-round residential communities.

- The only incorporated community in the Mountain region, the City of Big Bear Lake, is overwhelmingly a seasonal community, with roughly 70% of all homes owned as vacation/2nd homes in 2010 (74% in 2022). The unincorporated communities contain somewhat higher rates of year-round occupants, though Crestline and Wrightwood are the only areas (large enough to be reported in the Census) where year-round occupants represent a clear majority (over 55%).
- Many of the communities were originally settled by cattle and sheep ranchers, with homesteading continuing through the mid-1900s, and small year-round settlements emerging at various spots along the Twentynine Palms Highway. Pioneertown has different roots, originating as a motion picture set for Old West films in the 1940s. While the Joshua Tree area was established as a National Monument in 1936 and as a National Park in 1994, the 1980 Community Plan stated, "Joshua Tree evolved from a rural retirement area to a community which is attracting an increasing number of new residents."

2) STR PRESENCE | Number of STRs

The potential impact of STR activity is greater in communities where the number of STRs is high, especially compared to the total number of housing units. The communities of Big Bear City, Joshua Tree, and Homestead Valley all contain a high number of STRs that also represent 15% or more of the total housing stock. In these communities, STRs represent big enough portion of the housing stock that, if the STRs are not taking place in

units that are already vacation/2nd homes, STR activity could meaningfully decrease the overall supply of available ownership and rental housing units.

- Over 3,800 STRs are located in one of three communities: Big Bear City (1,400 + 428, including Sugarloaf) and Lake Arrowhead (951) in the Mountain region, and Joshua Tree (1,082) in the East Desert region. Three other communities represent much of the remaining balance of STRs: Crestline (278) in the Mountain region and Homestead Valley (295) in the East Desert region.
- These numbers of STRs represent the following approximate percentage of the total housing stock in each community (compared to latest available Census data): Big Bear City including Sugarloaf (15%), Lake Arrowhead (8%), Joshua Tree (29%), Crestline (4%), and Homestead Valley (15%).

3) SEASONAL HOMEOWNERSHIP | Rates of housing owned as vacation/2nd homes

With 99% of STR activity being "whole home" rentals, STR activity can only take place in housing that is owned as a vacation/2nd home (aka seasonal housing). The potential impact of STR activity would appear to be greater if a community's rates of vacation/2nd homeownership increased over time. Over the past 10 years Joshua Tree has transitioned from a year-round community to a one where over 1 in 5 homes are vacation/2nd homes. Rates of year-round occupancy in other communities in either region have remained largely consistent.

- In Joshua Tree, more than 1 in 5 homes were owned as vacation/2nd homes in 2022, compared to 1 in 20 as recently as 2012. The popularity of Joshua Tree National Park (attendance doubled between 2013 and 2017) initially spurred changes in Joshua Tree's housing market. Between 2000 and 2012, only 2% to 5% of all housing units were recorded as vacation/2nd homes. Between 2013 and 2017, the rate increased substantially, reaching 19% in 2017 and staying at 18% through 2019. The COVID Pandemic further increased the popularity of Joshua Tree as a destination and this rate increased slightly, reaching a historic high of 21% in 2022.
- Other unincorporated communities in the study area, in terms of year-round residency, are largely the same as they were before Airbnb and Vrbo became popular or have increased rates of year-round residency. This factor indicates that STR activity has not affected the supply of long-term housing in these communities.

4) OCCUPANCY TRENDS | Rates of year-round rental occupancy

The potential impact of STR activity could be inferred by a substantial decrease in the percentage of units that are occupied by rental households, as a reduction in rental households may indicate a pattern of property owners converting long-term rental properties into short-term rental properties. The rate of year-round rental occupancy is at a historic low in Joshua Tree, while rates in other communities are the same or higher as levels prior to the rise of Airbnb and Vrbo (2010/2011).

- In Joshua Tree, the percentage of year-round rental households stayed at or around 39% between 2015 and 2019. During the COVID Pandemic, this rate dropped to 37% in 2020 and 34% in 2021. However, this rate was still above the rate in 2010 (baseline comparison year that represents a time that was not influenced by STR activity). In 2022, the rate of year-round rental occupants dropped to 26%, which is an 8% drop from the previous year, 5% below 2010, and a historic low for Joshua Tree. While part of this decrease reflects an increase in ownership households, the rate of ownership households is 14% below levels from 2010.

5) NON-SEASONAL VACANCY RATES | Vacancy rates and housing affordability

The potential impact of STR activity is greater in communities where the supply of non-seasonal housing units for sale or rent is extremely low, as increased competition leads to higher sales prices and rents. The non-seasonal housing supply in Joshua Tree, Morongo Valley, and Big Bear City are among the lowest, while other communities are relatively balanced or appear to have excess available supply.

- A balanced vacancy rate is 4% to 6% for ownership housing and 5% to 8% for rental housing.
- The non-seasonal ownership vacancy rate in Joshua Tree hovered at or above the balanced range through 2017. Starting in 2018, the rate dropped to 1% and remained at or below 1% through 2022. This tight housing ownership market is driving up not only sales prices but also rents as the increase in home prices has made buying an obstacle to renters who would otherwise pursue buying. This leads to more renters pursuing the same number of homes, which enables landlords to demand higher rents.
- The non-seasonal rental vacancy rate in Morongo Valley historically stayed above the balanced range but began a persistent decline in 2018. Still, the non-seasonal rental vacancy rate did not fall below 5% until 2022, indicating that the Pandemic may have played the dominant role in driving supply below a balanced range.
- The non-seasonal rental vacancy rate in Big Bear City displayed a sustained decline in its non-seasonal rental vacancy rate from 15% in 2012 to 5% in 2015 to below 2% in 2017, with rates only falling more through 2022. Increases in rent, however, did not increase substantially until during the Pandemic.

6) HIGHLY ACTIVE STRs | Frequency of STR activity

The potential for STRs to be preferred over (and replace) long-term rentals is greater in communities with a higher number of highly active STRs (over 60 nights/year). Such highly active STRs earn, on average, more income compared to use as a long-term rental. Based on discrete County transient occupancy tax data, Joshua Tree, Big Bear City, and Lake Arrowhead have the largest number of highly active STRs: a minimum of 355, 291, and 208, respectively.

- The 355 highly active STRs in Joshua Tree also represent over 9% of the total housing stock. While the number of highly active STRs are also high in Big Bear City and Lake Arrowhead, the 291 and 208 units represent only 2% of those communities' total housing stock.
- Data from AirDNA and AllTheRooms indicates that STR activity continues to grow in Joshua Tree and is viewed more favorably as a market for STR investment compared to other places in the unincorporated county. For example, AirDNA assigns a market score benchmarked against other every other market using five metrics: investability, rental demand, revenue growth, seasonality, and regulation. The STR market in Joshua Tree is rated by AirDNA as 97/100 or "Great", while AirDNA ratings in for Lake Arrowhead and Big Bear City markets are substantially lower.

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Appendix

San Bernardino County Short-term Rental Data & Housing, by Granicus (*under separate cover)*

List of Figures

Background & Purpose

2021–2029 HOUSING ELEMENT

As required by all jurisdictions in Southern California, the County initiated an update to its Housing Element in 2021 to address existing housing needs and plan for future housing growth. The County adopted the updated Housing Element in September 2022 and received state certification (by the Department of Housing and Community Development or HCD) in November 2022. As of October 31, 2023, the County is one of 14 (of the 25) jurisdictions in the county to have received state certification.

Once the County confirmed its compliance with state law through certification, County staff could initiate the dozens of implementation programs to be completed through 2029. In response to community concerns, the County designed a program (Program 4) to conduct a public planning process and study the impacts of short-term rental activity on renter households and the availability of long-term rental housing in Mountain and Desert unincorporated communities. Program 4 is shown in its entirety below.

Program 4. Short-term Rentals

The proliferation of short-term, whole-home rentals can reduce the amount of available rental housing (particularly that which is affordable) for people who work in a seasonal and permanent basis in the Mountain and Desert regions (and drive up the cost of housing in the Valley region). Short-term rentals may also have a negative impact on local hotel/motel businesses. The County permits private homes, including ADUs, to serve as short-term rentals in the Mountain and Desert regions (maximum stay of 30 days). In the Valley region, private homes or ADUs must be rented for a term longer than 30 days.

To increase the availability of long-term housing options, the County will conduct a public planning process and a study to determine if the County should establish a limit on the number of private homes or ADUs that can be developed and used as short-term rentals in the Mountain and Desert regions. The study should also evaluate the potential effectiveness of various incentives to encourage long-term rentals, particularly for local employees and lower income residents, as well as where and how many property owners are changing from long- to short-term rental patterns, where and how many property owners are developing new housing units explicitly for use as a seasonal home (by the property owner) and that is being made available to others as a short-term rental, the number of hosted vs. unhosted short-term rentals, and the degree of displacement that is occurring. Based on the outcomes of the study, establish and implement strategies to mitigate impacts on the loss of housing stock and affordability such as incentives to encourage long-term rentals and/or limiting the number of total and/or new short-term rentals that can be permitted in the Mountain and Desert regions.

Objective: Conduct a public planning process and study to determine the current and projected impact of short-term rentals on the housing supply throughout the unincorporated county and on the motel/hotel businesses in the Mountain and Desert regions. Establish and implement strategies based on the study's findings. Update and resubmit 2018 through 2021 annual progress reports (APRs) and ensure that future reports account for units (ADUs, site-built homes, or manufactured homes) that apply for a short-term rental permit (unhosted only) and communicate this information to HCD to remove such units from being counted as long-term housing units (at any level of affordability).

Responsibility: Community Development and Housing, Land Use Services

Funding Source: General Fund

Timeframe: Initiate study in 2022 and complete public outreach and engagement in 2023, with a target completion date no later than 2023. Establish and begin implementation of recommended solutions by 2024 if the study's conclusions support the establishment of incentives and/or a limitation (by region and/or for specific unincorporated communities). By March 2023, bring forward an interim cap for consideration by the Board of Supervisors on the total number of short-term rental permits on an annual basis and/or a percentage of total housing units within each community planning area in the Mountain and Desert regions. Update 2018-2021 APRs in 2022 and adjust future APRs annually to remove units used for short-term rentals.

PROGRAM 4 INITIATION

Consistent with the stated timeframe in the Housing Element, the County initiated Program 4 in November 2022 and contracted with Granicus and PlaceWorks to provide research, analysis, and outreach services. The County and Granicus initiated a data analysis in late 2022/early 2023 in an attempt to identify any obvious evidence that could support an interim cap on STR permitting. By February 2023, after reviewing County records, market trends, and Census data, the County and Granicus concluded that there was insufficient evidence and confirmed a revised schedule with HCD. County staff presented its interim findings and outline of future activities to the Board of Supervisors on March 28, 2023, which included further analysis and community outreach.

Community Outreach

The County held four public meetings in August and September 2023 in the communities of Big Bear, Crestline, Joshua Tree, and Twin Peaks. At each meeting, the County shared its findings to date, requested feedback and additional information from the community, and engaged in an extended discussion of questions and answers submitted by attendees. In total, approximately 300 people attended the four meetings: Big Bear (50) Crestline (60), Joshua Tree (130), and Twin Peaks (60). Additionally, the County received nearly 200 questions/comments submitted by email during the same time period. The largest group of meeting attendees and email commenters represented local residents, followed by STR owners (some of whom were also local residents), as well as some additional members from local media outlets and service providers. The following represents a synopsis of the community's input provided at the meetings and through email submissions.

Management and operations. The vast majority of comments and questions concerned concerns about the compatibility of STRs with long-term residential neighborhoods, with residents expressing ongoing problems related to excessive noise, trash debris, and vehicle parking. Additionally, a number of residents indicated that many of the homes on their block have turned into active STRs, an experience that is particularly new in the East Desert region. The majority of residents communicated that they understood the role and benefits of STRs for the local economy, both for local businesses benefitting from the additional tourism and for property owners benefitting from the income. These residents welcomed STRs that acted as good neighbors and observed the County's regulations. However, these same residents also indicated that the STRs were essentially acting as disaggregated hotels, but without onsite management, parking facilities, and cleaning staff that hotels provide that ensure tourists' impacts on nearby residents are minimized and addressed in a timely manner.

Fees and taxes. STR owners expressed dissatisfaction with the increased permit fees, with many asking how the fees were spent. County staff informed attendees that the STR permit fees went directly to pay for the administrative costs of the STR permit program and for increased code enforcement. Some attendees and email correspondents indicated that they had seen improvements from the increased code enforcement investment (particularly in the Lake Arrowhead area), while others stated that they had yet to see any improvements. Both STR owners and residents wanted to know if the transit-occupancy tax (TOT) generated by STRs were going to be used to fund improvements in the communities within which such funds were collected.

Housing affordability. Community input on the impact of STRs on housing affordability, particularly for long-term rental housing, varied by region. In the Mountain Region, the input was mixed. Many agreed with the opinion that STRs were pushing up prices and preventing homes from being rented to long-term tenants, with some citing anecdotal knowledge of neighbors or local workers being pushed out of their rental housing so that the owner (existing or new) could operate the house as an STR.

A number of others, including but not exclusively STR owners, stated that there was a long history of second-homeownership and STRs in the region and that the recent increase in STR activity was simply the high point of another cycle. Many attendees also commented that homes owned as second homes are less likely to ever be available for long-term renters since the property owners would lose their ability to use the home on a seasonal or periodic basis. Another common statement referenced STR income as a necessary supplement to pay for the rising costs of insurance premiums (a hardship for all existing homeowners).

In the East Desert region, the attendees noted their local communities have historically been occupied by long-term renters and year-round residents, with housing prices and rents that were relatively affordable. A number of meeting attendees and email commenters, including videos from the Morongo Basin Conservation Association (MBCA), relayed several stories of individuals and employers who cited the rise in STR activity as a reason for a shortage of affordable housing.

At meetings in and comments from both regions, people cited recent legislation that made it difficult to evict long-term tenants that failed to pay rent and/or damaged property, increasing the risk of long-term rentals (especially compared to STR options). Meeting attendees from both regions suggested additional potential sources of information to evaluate whether and the degree to which STRs were displacing long-term rental households. This included school districts, Big Bear Homeless Coalition, and Big Bear Workforce Housing Coalition. For example, County staff followed up on information cited in MBCA's videos on the role of STRs in local displacement (Affordable Rentals citing discussions with 51 households in 2021 and the Morongo Unified School District citing calls 3-4 times per week about an eviction). Unfortunately, attempts to corroborate these statements and clarify the role of STR activity as a direct factor were unsuccessful, despite attempts to contact or successful communications with these entities. All school districts were contacted, but no district offered data substantiating cause of homeless children as a result of STR activity.

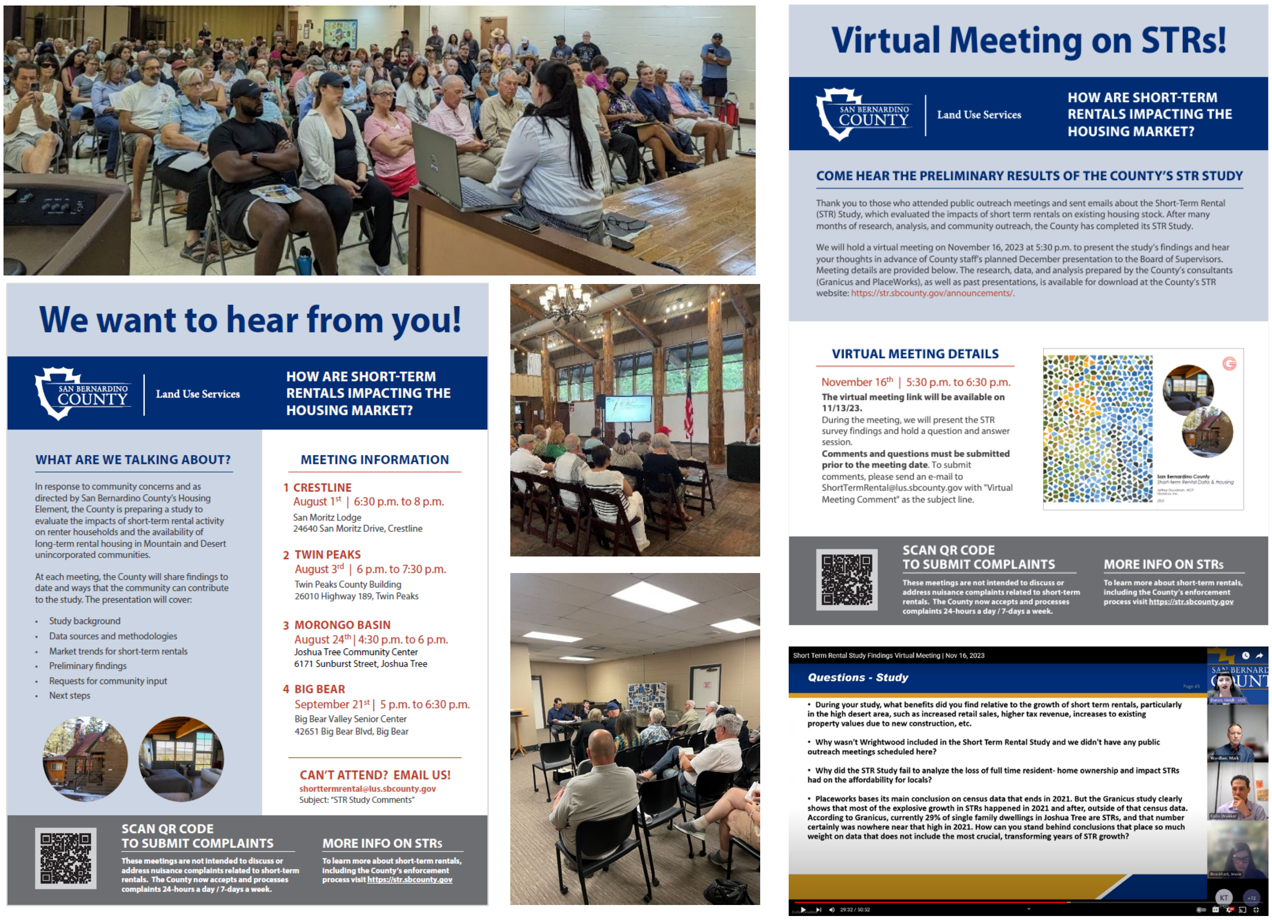
Additionally, residents and STR owners from both regions urged the County to build more affordable housing, although all understood the infrastructure limitations when the matter was discussed in more detail.

The County released its draft report on November 9, 2023 and reviewed preliminary results at a virtual outreach meeting on November 16, 2023. County staff also provided answers to questions submitted in advance of the meeting, which generally requested more clarification on the study's preliminary findings and methodology. This meeting was attended by roughly 80 residents and property owners (excluding County and consultant staff). A full recording of the meeting was posted online a few days later and generated over 270 views. The County continued to take comments and questions from the public, including an extensive comment letter (dated December 14, 2023) from the Morongo Basin Conservation Association (MBCA), which requested additional information at the community level, requests for a moratorium and cap on STR activity, and documented additional articles and other information to support refinement of the Study's analysis, methodology, and findings.

While the initial plan was to present the November 2023 draft report to the County Board of Supervisors in December 2023, County staff opted to postpone its presentation to allow time to review key US Census ACS datasets for year 2022 that were released on December 7, 2023, and to consider additional public input received during the November virtual outreach meeting and MBCA's December comment letter. The 2022 ACS datasets revealed distinctly different patterns compared to prior years for the community of Joshua Tree, leading to additional analysis on all communities and conclusions that varied from the November 2023 draft report.

While the County received public comments both during outreach meetings and in email correspondence citing that displacement is happening, direct communication with property managers, schools, service providers, and other sources cited by the public yielded no information or confirmations that STR are directly responsible for displacing long-term renters, serving as a primary cause of an increase in monthly rents, or creating a lack of long-term housing options throughout the unincorporated Mountain and East Desert communities.

Figure 1. Outreach Materials and Meeting Images (2023)



Economic Trends

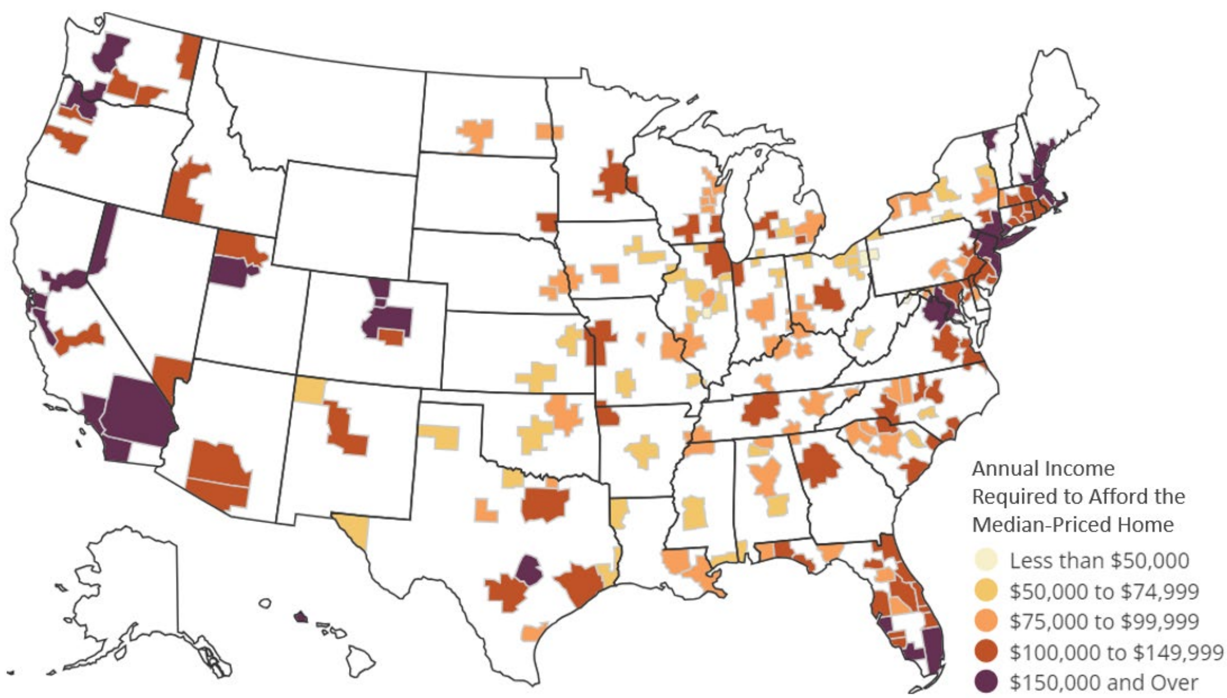
NATIONAL AND REGIONAL HOUSING TRENDS

Income and Housing Costs

The issue of high housing costs was historically limited to a relatively small portion of the country, notably areas along the western and eastern coasts. Over the past decades, outward migration, rising rates of remote work, and corporate expansion into lower cost states and regions increased housing demand in other parts of the country. In 2023, according to the Harvard Joint Center for Housing Studies, the average household had to earn an annual income of at least $100,000 to afford the median home price in multiple metropolitan areas across nearly every state in the country.

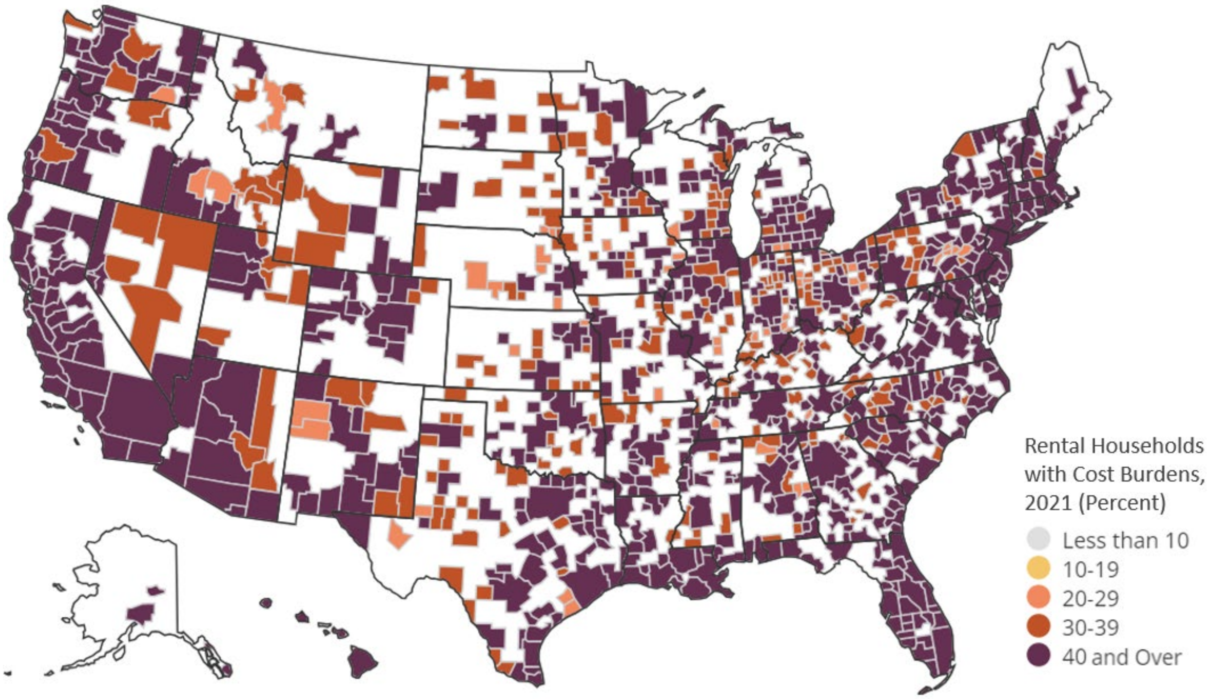
Additionally, the cost of rental housing, once the fallback for those seeking more affordable housing options, also began to rise due largely to a combination of a lack of multifamily housing production and rising home sales prices. In 2021, over a third of rental households spent over 30% of their income for housing in most counties throughout the nation. When measuring the supply of rental housing stock in 2021 vs 2011 by monthly cost (adjusted for inflation), it becomes clear that rents have increased substantially, with the majority of units now renting at or above $1,400 per month, and units renting at or above $2,000 per month representing the largest portion of rental stock. See Figures 2 through 4 for additional information.

Figure 2. Annual Income Required to Afford the Median-Priced Home, 2021



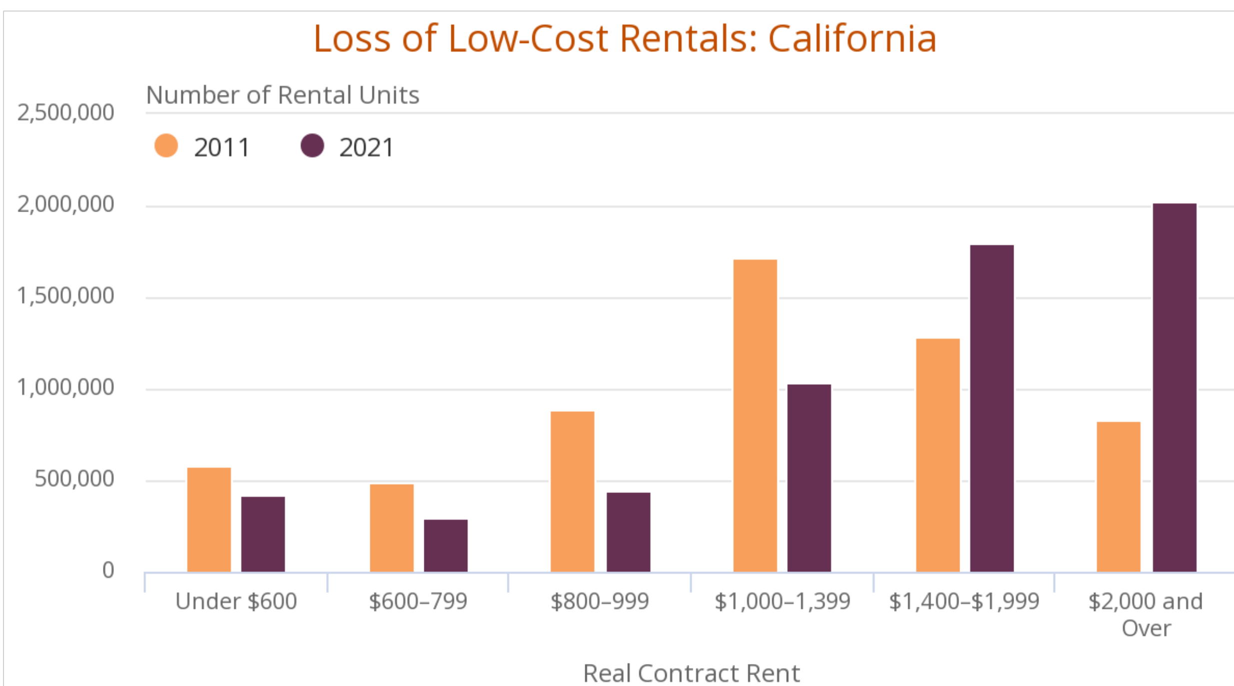
Source: Source: Harvard Joint Center for Housing Studies, “State of the Nation’s Housing 2023”; as of 9/28/23 prices and interest rates.

Figure 3. Rental Households with Cost Burdens, 2021



Source: Harvard Joint Center for Housing Studies, "State of the Nation's Housing 2023"; assuming cost-burdened households pay more than 30% of income for housing.

Figure 4. Low Cost Rentals, California, 2011 vs 2021



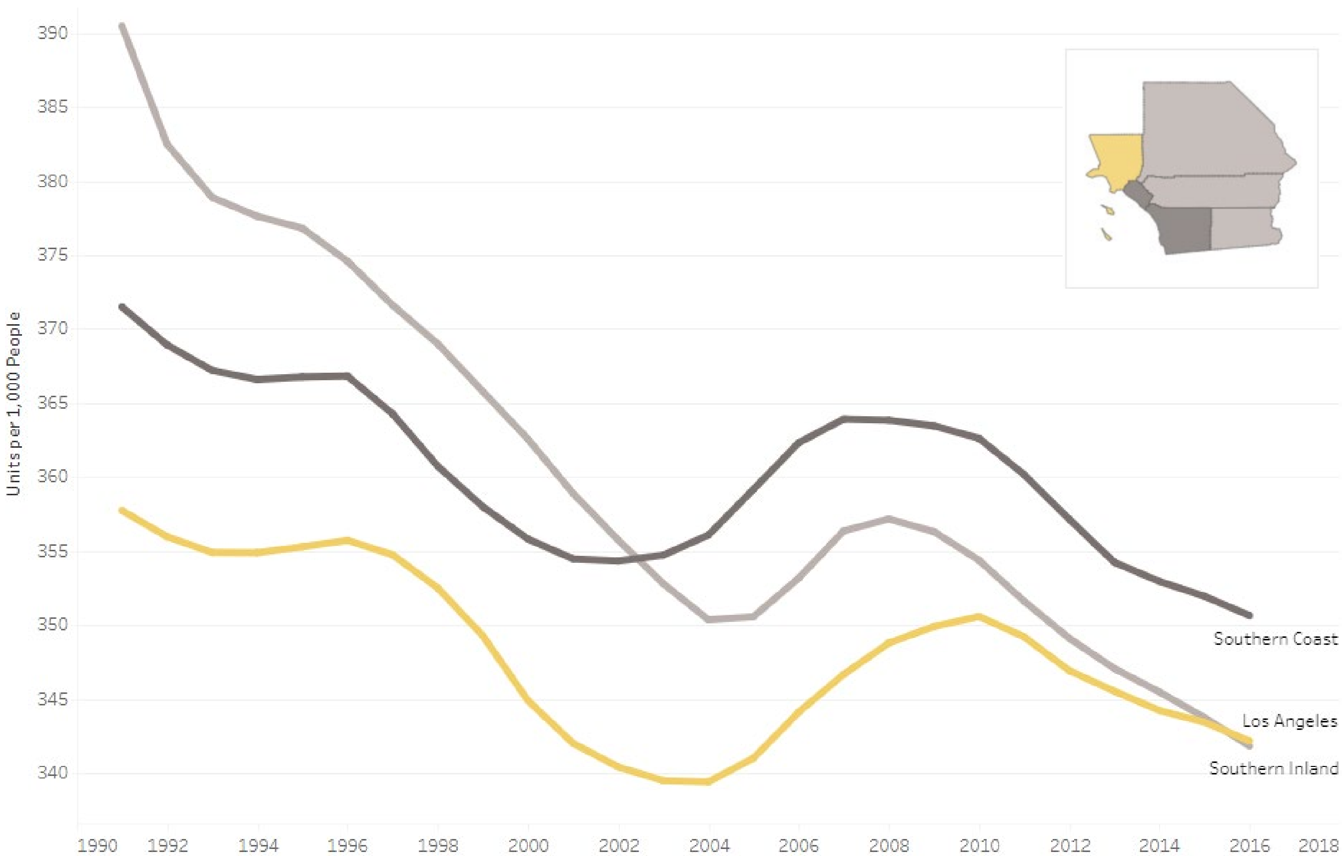
Source: Harvard Joint Center for Housing Studies, "State of the Nation's Housing 2023". Includes both vacant and occupied rental units but excludes those with no cash rent. Contract rents exclude utility costs paid separately. Rents are adjusted for inflation using the CPI-U for All Items Less Shelter.

Housing Construction Trends

While the construction of new homes was already in a substantial downward trend across the United States since the 30-year peak in 2011, construction activity dropped even more sharply during the COVID-19 Pandemic. California's supply of housing units per capita has been on the decline for most of the last 25 years, both statewide and in all the heavily populated regions. More people are competing for fewer homes, driving up housing prices. The effects of increased housing demand can be exacerbated in areas with a high percentage of second homes that do not contribute to the long-term housing supply, often sitting vacant most of the year.

Figure 5 illustrates the total number of housing units (occupied or vacant) compared to the total number of people in California by region on an annual basis. Even with a trend of decreasing household sizes over the past decade throughout California (and San Bernardino County), this figure shows that new housing construction is not keeping pace with population growth.

Figure 5. Total Housing Units per 1,000 People, California, 1991-2016



Source: California State Association of Counties, as charted by Geoff Neill. "Southern Inland" represents San Bernardino, Riverside, and Imperial counties.

Additional contributing factors include the rising rates and costs of natural disasters, which are driving up insurance premiums throughout much of America. The Mountain region of San Bernardino County is particularly susceptible to wildfires and has seen rising rates, reducing housing affordability for existing and new residents. This issue was echoed during the community outreach meetings held in the Mountain communities. Figure 6 compares statewide rates to cities and communities that are more prone to natural disasters, which adds to the total cost of long-term housing and reduces affordability for both owners and renters.

The level of wildfire susceptibility and associated risks to people and property is one of the reasons the County developed and adopted Policy HZ-1.2 (listed below) in the Hazards Element of the Policy Plan, along with other policies in its Land Use Element, that would discourage new development in the Mountain region without proper design to enhance safety and resiliency during time of disaster.

Policy HZ-1.2 New development in environmental hazard areas. We require all new development to be located outside of the environmental hazard areas listed below. For any lot or parcel that does not have sufficient buildable area outside of such hazard areas, we require adequate mitigation, including designs that allow occupants to shelter in place and to have sufficient time to evacuate during times of extreme weather and natural disasters.

- Flood: 100-year flood zone, dam/basin inundation area
- Geologic: Alquist Priolo earthquake fault zone; County-identified fault zone; rockfall/debris-flow hazard area, medium or high liquefaction area (low to high and localized), existing and County-identified landslide area, moderate to high landslide susceptibility area)
- Fire: high or very high fire hazard severity zone

Figure 6. Insurance Risks and Premiums across the United States, 2023

State	Average annual premium	City at high risk of disaster loss	Average annual premium	Potential natural disaster
Texas	$1,967	Deer Park	$2,166	Fires, tornadoes, flooding and hurricanes
Mississippi	$1,900	Diamondhead	$2,161	Hurricanes and flooding
Oklahoma	$3,659	Oklahoma City	$4,123	Tornados, wildfires, ice storms and flooding
California	$1,225	Lake Arrowhead	$1,428	Earthquakes and wildfires
Florida	$1,981	Miami	$3,050	Hurricanes and flooding

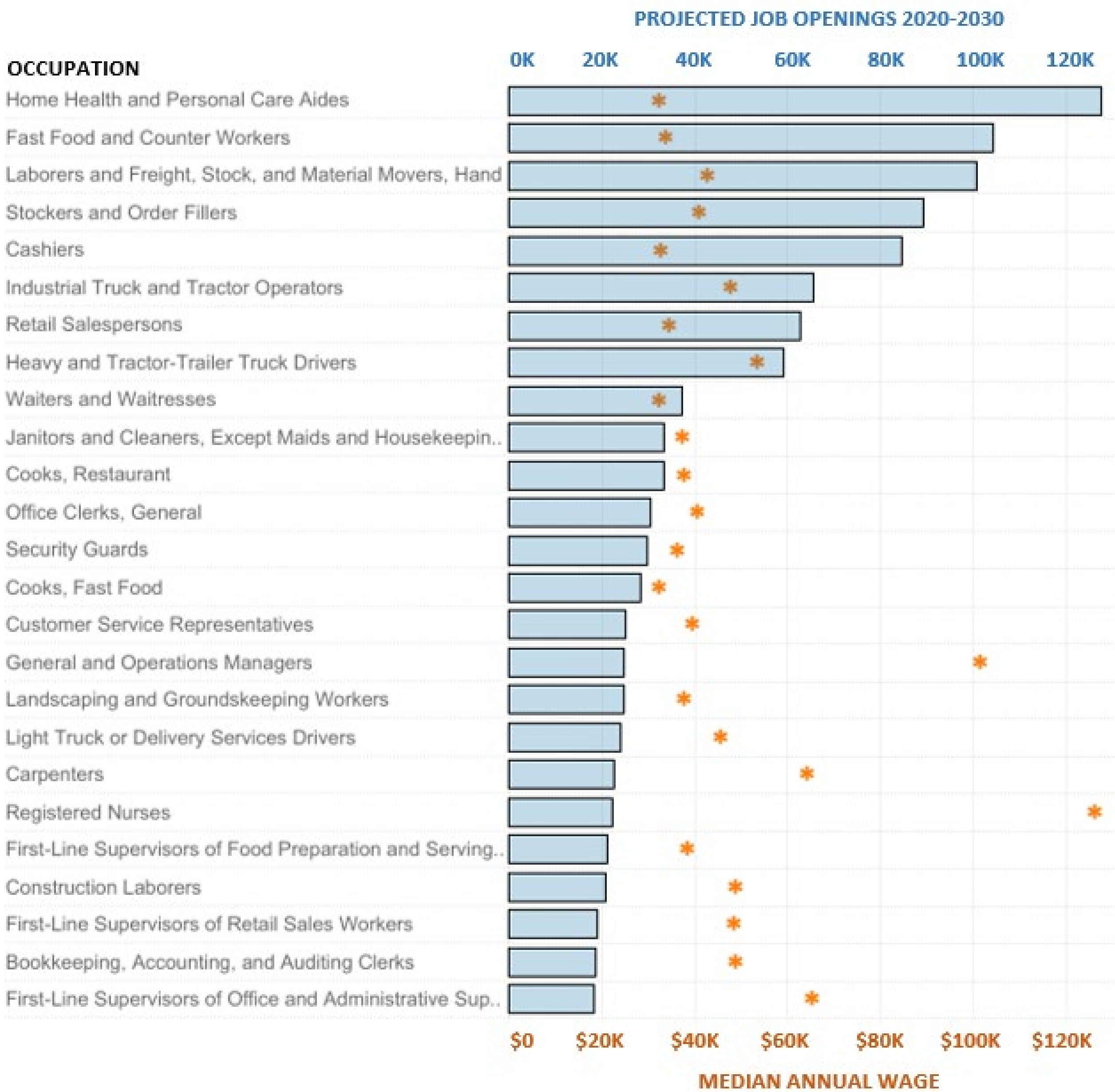
Source: Bankrate and NOAA National Centers for Environmental Information, 2023. Notes: Premiums shown are for $250,000 in dwelling coverage. The erroneous identification of Lake Arrowhead as a "city" is noted but not corrected. Additionally, the rates shown above are averages and may not represent the lower or higher rates experienced by individuals in each unincorporated community.

Housing Affordability by Occupation

An adequate supply of affordable housing for the local workforce is critical to the County's economic success and its residents' prosperity. Of the top 25 fastest growing occupations in San Bernardino County, as projected through 2030, only Registered Nurses and Managers have a median annual wage that is adequate to afford the median home sales price (as of 2023) either as a single- or dual-income household. When looking at the median rents in San Bernardino County, just over half (14/25) of the fastest growing occupations need dual incomes (totaling at least $76,800) to afford the median rent for a 2-bedroom unit ($1,920 being the 50th percentile rent in San Bernardino County as of 2023 according to the U.S. Department of Housing and Urban Development or HUD). Furthermore, the top two occupations (Home Health and Personal Care Aides and Fast Food/Counter Workers) need dual incomes (totaling at least $61,320) to afford the median rent for a 1-bedroom unit ($1,533 being the 50th percentile rent in San Bernardino County as of 2023 according to HUD). See Figures 7 for additional information.

There are a number of occupations that were commonly cited during outreach activities as "backbone" jobs critical to the basic functions of the community and raising a family. Some, such as primary and secondary school teachers and Sheriff deputies, are not in the top 25 occupations in terms of job growth and are therefore not shown in Figure 7. The median wage for both of these occupations, as of 2023 for the San Bernardino County area, was roughly $100,000—a wage that is adequate to afford the median home sales price and 2-bedroom (or larger) rental units. More localized salaries for teachers (e.g., Morongo Unified School District 2022-2023 Teacher's Salary and Big Bear Unified School District 2023-2024 Teacher's Salary) indicate a median wage closer to $90,000—still enough to afford the median home sales and rental costs.

Figure 7. Projected Job Openings and Median Wages, San Bernardino County, 2020-2030



Source: *Occupation and wages:* California EDD, Top 25 Occupations Ranked by 10-Year Total Projected Job Openings (2020-2030), Median Annual Wage Q1 2023. *Home price and affordability:* Harvard Joint Center for Housing Studies, as of 9/28/23 prices and interest rates. *Median rent:* US HUD, Office of Policy Development and Research, 2023 50th Percentile Rent: $1,920 2-bd, $1,533 1-bd; Rent affordability: Harvard Joint Center for Housing Studies.

SHORT-TERM RENTAL TRENDS

A Brief Timeline of Short-term Rentals in San Bernardino County

Mountain Resort before 1990s. The Mountain region's resort history started in the late 1800s, with hotels, camps, and collections of cottages and cabins sprouting up around the various lakes. Through the 1990s, tourist accommodations remained largely under the operation of hotel and management companies.

STR Companies Emerge in 1995 & 2008. Buoyed by the widespread adoption of the internet and other digital technologies, two companies emerged that greatly facilitated the ability of individual homeowners to rent out their property directly to visitors. First, Vrbo (vacation rentals by owner) launched its website in 1995 in Aurora, Colorado, and allowed users to browse and book vacation rental properties managed by individual owners. While Booking.com was founded shortly after in 1996 in the Netherlands, the site started as a travel fare aggregator, though it later become the first hotel booking site to advertise vacation rentals.

As online lodging grew as a business, Airbnb grew as a startup in San Francisco in 2008, and became the first company to allow guests to book a single room in a host's home and pay using a credit card over the internet. As of August 2023, Vrbo has 2 million properties (whole home only) in 190 countries and Airbnb has 7 million places (a combination of whole home and private rooms) to rent across 191 countries.

County Activities between 2017 and 2020. The County established a formal short-term rental permit system in the Mountain region in 2017, followed by an expansion into the Desert region in 2019. Also in 2019, the County began working with T-Mobile to roll out a countywide 5G network, which expanded into rural Mountain and Desert communities in 2020. The presence of reliable broadband infrastructure facilitated remote work and enhanced the desirability of long- and short-term stays.

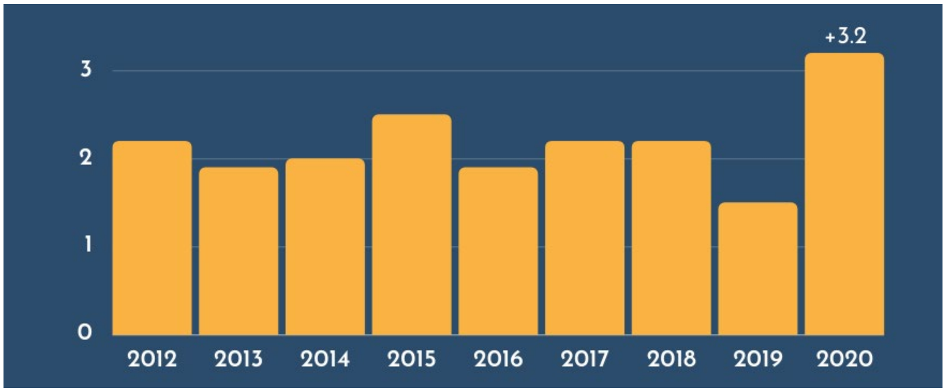
Influential Events and Trends

COVID-19, 2020 to 2022. The COVID-19 Pandemic started in early 2020, growing from an international concern in January 2020 to a global pandemic in the span of three months. By March, countries began to seal borders, schools closed for the year, shelter-in-place orders were issued, long-planned events were cancelled, and evictions were halted. Throughout 2020, Southern California residents look to the Mountain and Desert region communities as safe and desirable options for remote tourism reachable by car. Some of these residents, already required to work remotely, begin to see these communities as options for long-term stays or even permanent relocations.

By 2021, a vaccine was developed and travel restrictions began to ease, with statewide tourism restrictions ending in June 2021 and national tourism restrictions ending in November 2021. By February 2022, the Governor of California had ended the vast majority of COVD-19 related executive orders. Throughout late 2021 and much of 2022, people around the state and country travel extensively and surge into destinations located in and around the county's Mountain and Desert regions.

Baby Boomer Retirement Patterns, 2020 to 2030. By 2030, all members of the Baby Boomer Generation will be aged 65 or older. While the pace of retirement stayed relatively consistent between 2012 and 2019, with some decline even as the cost of living forced some to remain in the workforce, the pace of retirement accelerated with the onset of the Pandemic. Concerns about proximity to other people during the Pandemic, particularly for those of retirement age, increased the appeal of the remote and rural setting found in Mountain and Desert region communities. Additionally, Baby Boomer homeowners often purchased their homes many decades in the past and, with housing prices rising ever higher, were flush with home equity. See Figure 8 for more details.

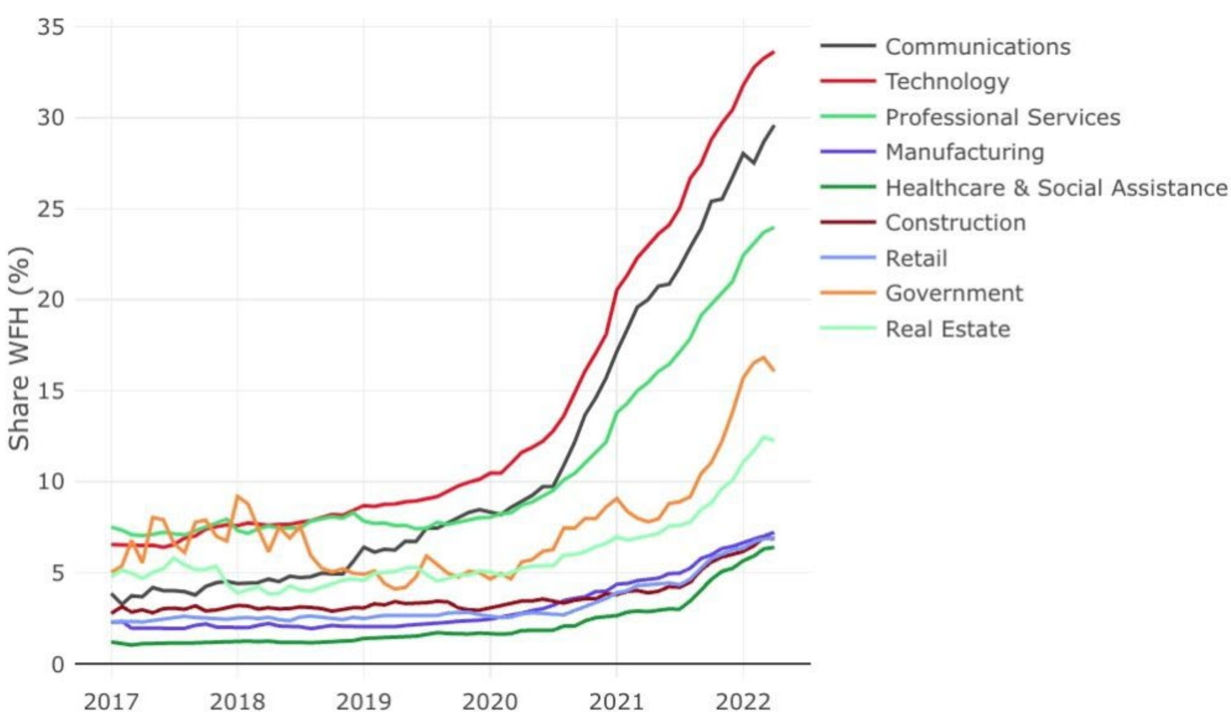
Figure 8. Annual Increase in the Retired Baby Boomer Population (millions)



Source: Pew Research Center, 2021.

Remote Work Patterns, 2018 to 2022. Rates of working remotely surged during COVID due to stay-at-home orders and quick improvements in remote meeting and computer network technology. The US Census reported that the number of people working remotely tripled during COVID, rising from roughly 6% in 2019 to 18% in 2021. Research by payroll companies, such as Gusto, found that the communications, technology, and professional services industries are experiencing the highest rates or remote work, but that all industries are seeing increased rates, even those that are strongly dependent on in-person work. While some companies have pushed for workers to come back to the office, rates of remote work are projected to remain high by multiple demographic and occupational research entities. This "new normal" means many workers are no longer restricted by proximity to their work when choosing a home to rent or buy. See Figure 9 for more details.

Figure 9. Percentage of Workers Working Remotely by Industry, United States, 2017-2022



Source: Gusto, payroll research data, 2017-2022.

Short-term Rental Statistics in Unincorporated San Bernardino County

53% of STRs were first listed in 2020 or later. Based on analysis by Granicus of permitted and unpermitted short-term rentals, over half (53%) of currently active STRs were first listed on any one of over 60 internet platforms in the year 2020 or later. See Figure 10 for more details.

The number of STRs peaked across the entire unincorporated county in July 2022. Following the end of domestic and international travel restrictions, the number of unique short-term rentals in unincorporated San Bernardino County peaked at 7,749 units in July 2022. A secondary, though lower, spike occurred in the winter of 2022, followed by a dramatic drop in the early part of 2023. While a similar seasonal surge took place in 2023, Granicus reported 6,395 STRs in September 2023, which is nearly 1,400 below the 2022 peak and may indicate a market correction in multiple markets of the unincorporated county. Additional datasets reported by STR research entities AlltheRooms and AirDNA indicate that February 2024 listings are relatively consistent with the September 2023 figure, although occupancy rates are lower both overall and in many of the most popular communities. For example, AirDNA reports occupancy rates were down 3% in both Lake Arrowhead and Joshua Tree markets when comparing February 2023 and February 2024. AllTheRooms reports a 4% drop in Lake Arrowhead and an 11% drop in Joshua Tree for the same time period.

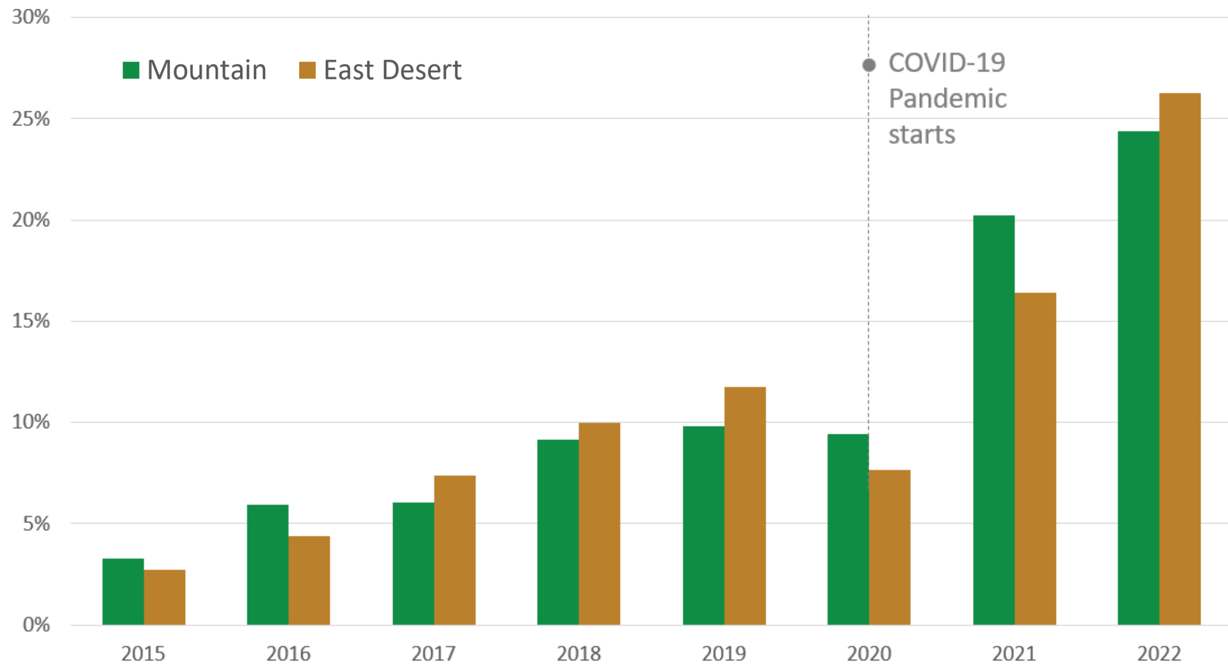
Most STRs are in Big Bear City, Lake Arrowhead, and Joshua Tree. Over 3,400 STRs are located in one of three communities: Big Bear City (1,400) and Lake Arrowhead (951) in the Mountain region, and Joshua Tree (1,082) in the East Desert region. Three other communities represent much of the remaining balance of STRs: Sugarloaf (428) and Crestline (278) in the Mountain region and Homestead Valley (295) in the East Desert region. See Figure 12 for more details (note that not all communities are shown; those that are not shown do not contain a substantial number of STRs). Additional County data and datasets reported by STR research entities AlltheRooms and AirDNA (as of February 2024) indicate that the number of STR listings has dropped in some communities but increased slightly in Big Bear City, Lake Arrowhead, and Joshua Tree.

Very few STRs are owned by people who also live in the same area. Overall, roughly 13% of STR owners live within the same zip code or community planning area as the STR. Roughly 15% of STR owners live within the same region and could be considered local owners. Another 5% of STR owners live somewhere else in San Bernardino County. Over 93% of STR owners live somewhere in California and roughly 40% of STR owners live in Los Angeles or Orange County. Only a handful of properties are associated with international owners.

Only 8% of STR owners in Big Bear City and 7% of STR owners in Lake Arrowhead live locally (somewhere in the Mountain region). In other Mountain region communities, the percentage of local owners can be much higher, but is only above 20% in places where the total number of STRs is relatively low. In the East Desert region, rates of local ownership are higher, though still only 22% in Joshua Tree and 25% in Landers. See Figure 13 for more details.

LLCs were active in Joshua Tree but are not prominent elsewhere. While under 10% of all STRs are owned by limited liability corporations (LLCs), sales to LLCs grew during the first two pandemic years. LLCs were especially active in Joshua Tree during 2020 and 2021, representing 30% to 40% of all STR sales in those years. LLCs are commonly associated with a form of corporate activity that can amass a number of STRs to operate as a disaggregated hotel. However, individuals that only own one STR may still establish ownership through an LLC for matters related to privacy, asset protection, tax advantages, and other reasons. See Figure 14 for more details.

Figure 10. First Year of Listing as a Short-term Rental by Region, Unincorporated San Bernardino County

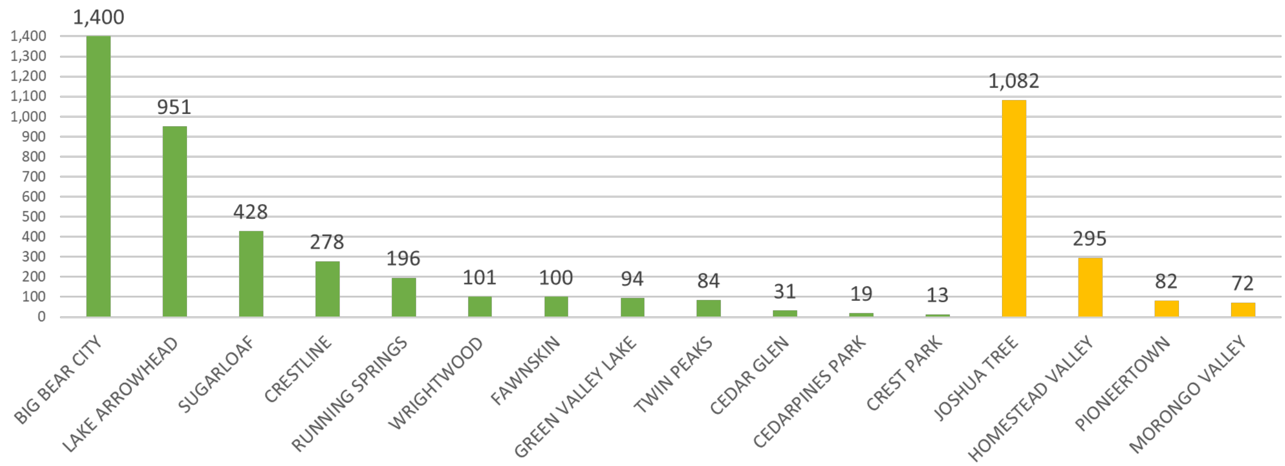


Source: Granicus, using County STR permit database and over 60 internet platforms. Note: Units that first listed prior to 2015 and those in the North Desert are not shown on the chart.

Figure 11. Units Listed as Short-term Rentals, Unincorporated San Bernardino County, 2021-2023

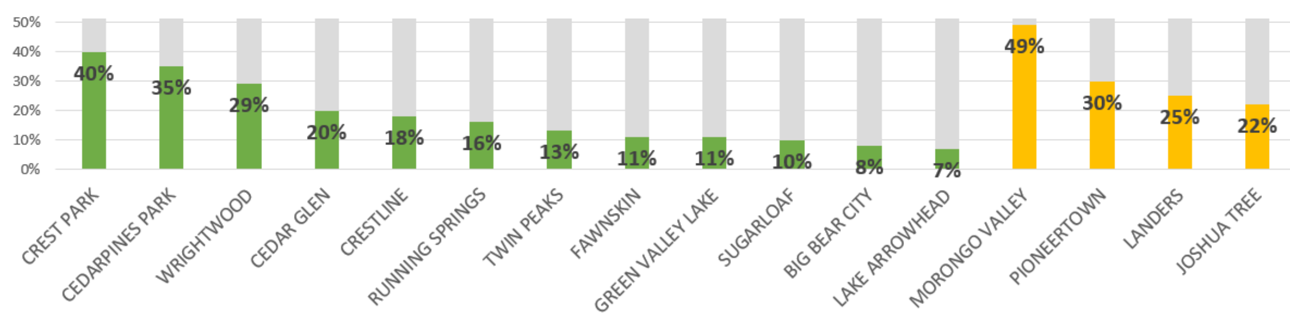
Source: Granicus, using County STR permit database and over 60 internet platforms. Figures represent unique STR units.

Figure 12. Number of Short-term Rentals by Community, Unincorporated San Bernardino County, 2023



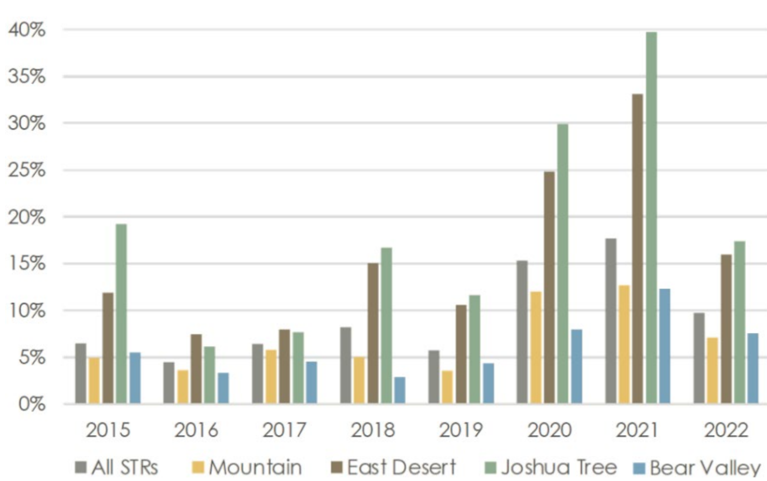
Source: Granicus, using County STR permit database and over 60 internet platforms. Note: not every unincorporated community shown.

Figure 13. Percentage of Short-term Rental Owners that Live in the Same Region by Community, Unincorporated San Bernardino County, 2023



Source: Granicus, using County STR permit database and over 60 internet platforms. Note: not every unincorporated community shown.

Figure 14. Percentage of Short-term Rental Sales to LLCs by Region and Select Communities, Unincorporated San Bernardino County, 2015-2022



Source: Granicus, using County STR permit and Assessor databases and over 60 internet platforms.

STR Market Evaluation

As STRs grew in popularity, other companies emerged to provide analytics and tools to serve individual and larger investors evaluate markets both broadly (e.g., throughout California) and specific to individual submarkets or geographies (e.g., Joshua Tree). The largest of these companies is AirDNA, with AllTheRooms a commonly used alternative. Both provide a wide range of datasets, including trends on revenue, occupancy, and supply, to help investors and property owners understand how certain markets are performing. AirDNA offers a market score for each geographic area benchmarked against other every other market area using five metrics (details below), with values assigned on a scale of 0 to 100 (with 100 being the best).

- Investability: cost of homes compared to the average short-term rental income of full-time rental properties
- Rental demand: frequency of rental bookings throughout the year
- Revenue growth: change in year-over-year revenue per property
- Seasonality: percentage difference between the minimum and maximum monthly average revenue in the past year (difference in demand between peak and low seasons)
- Regulation: amount or complexity of regulations

Looking at both AirDNA and AllTheRooms metrics, STR investment value in the Mountain region appears to be on a downward trend, while STR investment value in the East Desert region remains extremely high. Data from AirDNA and AllTheRooms indicates that STR activity continues to grow in Joshua Tree and is viewed more favorably as a market for STR investment compared to other places in the unincorporated county. For example, The STR market in Joshua Tree is rated by AirDNA as 97/100 or “Great”, while AirDNA ratings for Lake Arrowhead and Big Bear City markets are substantially lower.

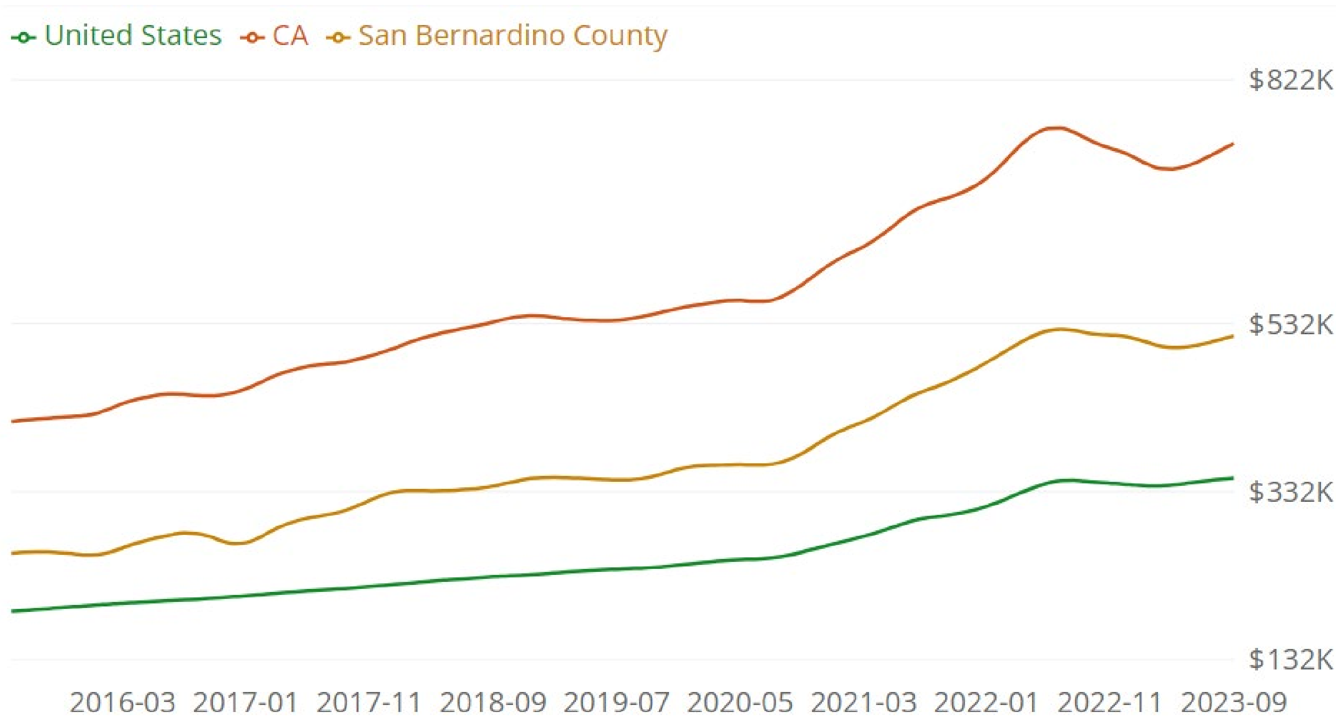
Housing Cost & Supply

CHANGES IN HOUSING VALUES

Home Values by Community

The change in home values by community was evaluated to identify patterns that could indicate whether short-term rental activity was driving up housing costs in specific communities. Home values have been steadily increasing over the past seven years across the country, with prices in California rising faster and to higher values compared to the national median. See Figure 15 for more details.

Figure 15. Increase in Median Home Value, US, CA, and San Bernardino County, 2016 to 2023



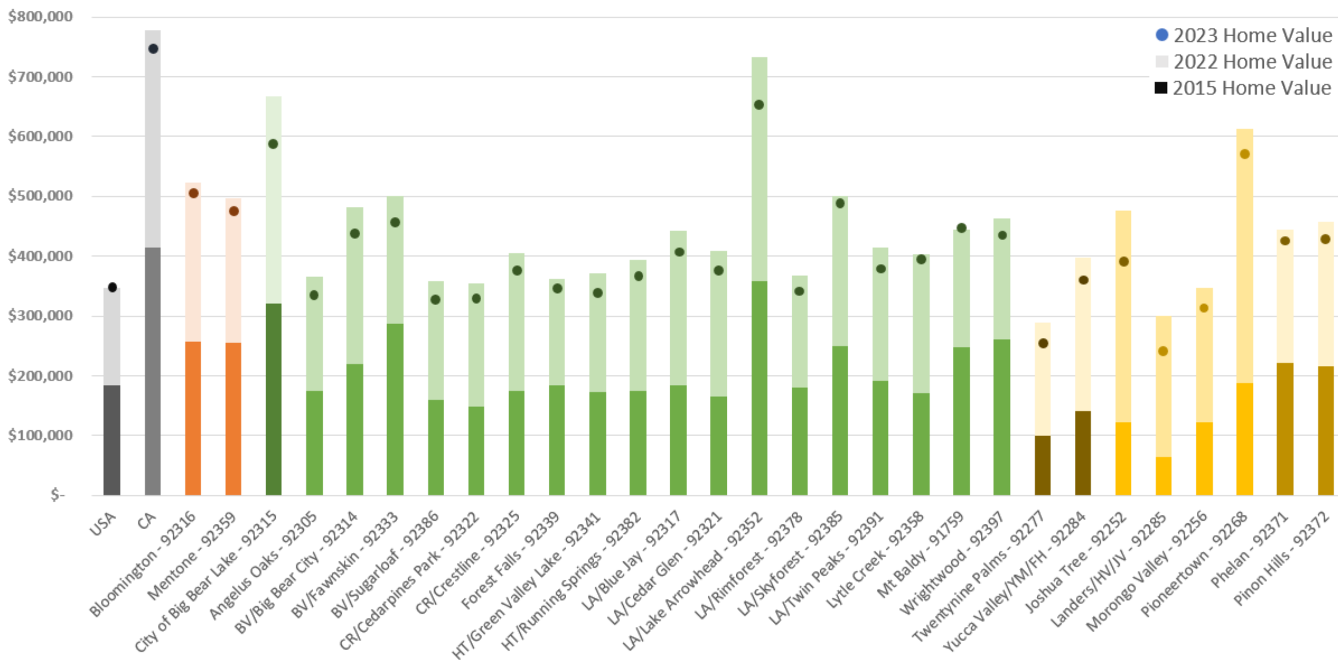
Source: Zillow Home Value Index, comparing median home values between March 2016 and September 2023.

The rate of increase in the median home value between 2015 and 2023 for unincorporated Mountain and East Desert communities was compared against the rates for the United States, California, unincorporated Valley region communities (where STRs are not permitted), unincorporated North Desert communities (where STRs are not prevalent), and incorporated cities in the Mountain and East Desert regions.

The results indicate that the unincorporated East Desert communities experienced the greatest rate of increase in home value between 2015 and 2022 (avg. +266%), with the two East Desert incorporated jurisdictions demonstrating a similar rate of increase (avg.+185%). The communities of Big Bear City and Lake Arrowhead saw comparatively modest rates of increased home values (avg. +113%), that were only slightly higher than the Valley communities of Bloomington and Mentone, and roughly the same as the North Desert communities of Phelan and Pinon Hills.

However, the dramatic rise in home values in the East Desert region was influenced by their relatively low home values in 2015 (avg $124,000). By 2022, home values were $300,000 or more in all unincorporated areas, and many areas were valued closer to $400,000. Home values dropped from their 2022 peak (avg -8%), with steeper declines in places with the greatest number of STRs (avg -14%), as of September 2023. See Figure 16 for more details.

Figure 16. Home Values by Community, US, CA, and San Bernardino County, 2015, 2022, and 2023



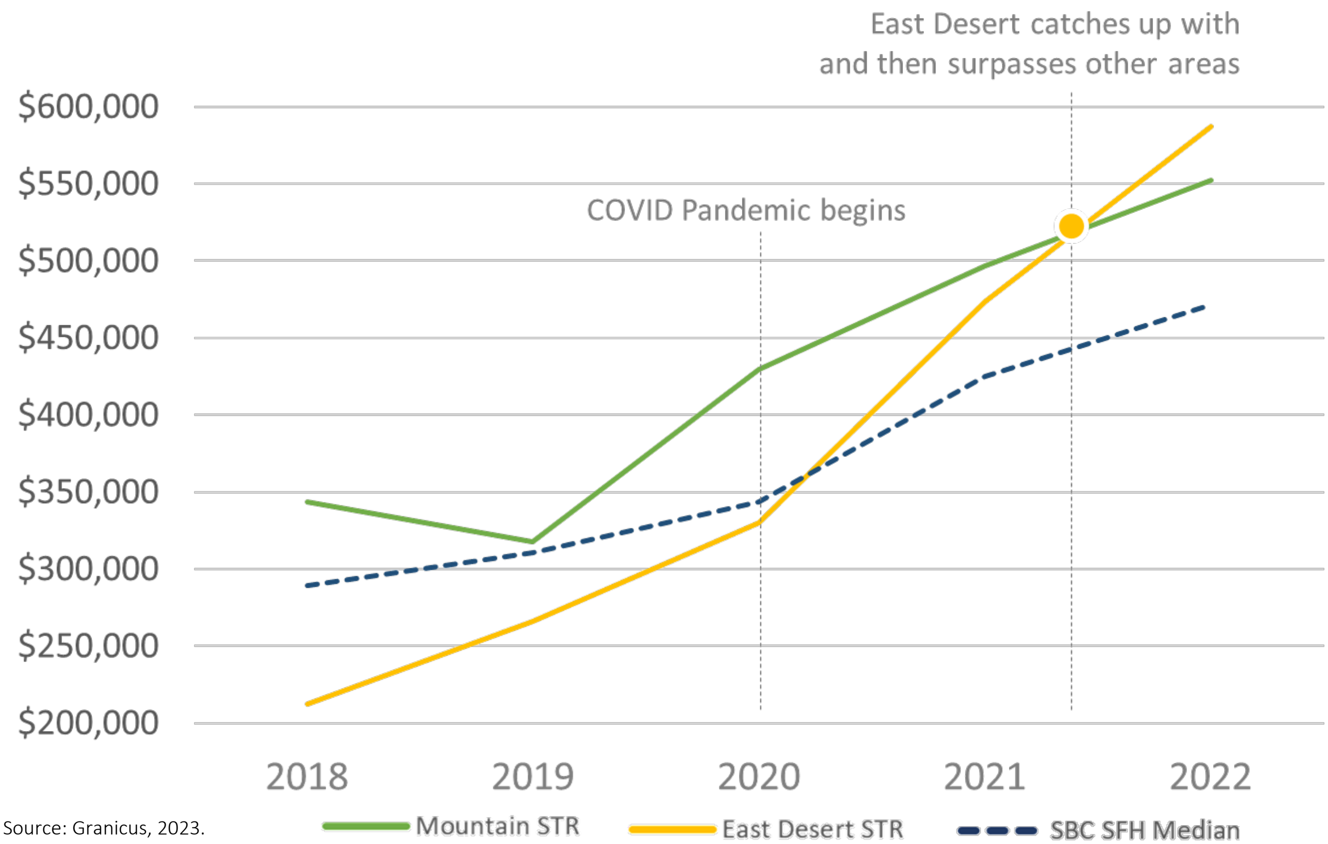
Source: Zillow Home Value Index, comparing median home values in June 2015, July 2022, and September 2023.

Short-term Rentals Sales Prices

The sales prices of short-term rentals were compared to the sales prices of non-STR single-family homes. In tracking sales prices between 2018 and 2022, the data indicates that STRs were typically sold at higher values compared to other single-family homes (SFHs). While it may be presumed that STR properties sell for higher prices based on their potential to generate income, the fact is that any property in the unincorporated Mountain and East Desert region can function as a STR, and any theoretical value associated with income potential is already incorporated into the market prices of all housing units. Certainly, a property with an existing track record of generating income as a STR may be easier to sell (and at a higher price), but the differences in sales prices are at least partially the result of STR properties often being in better condition, larger in size, and better located. See Figure 17 for more details.

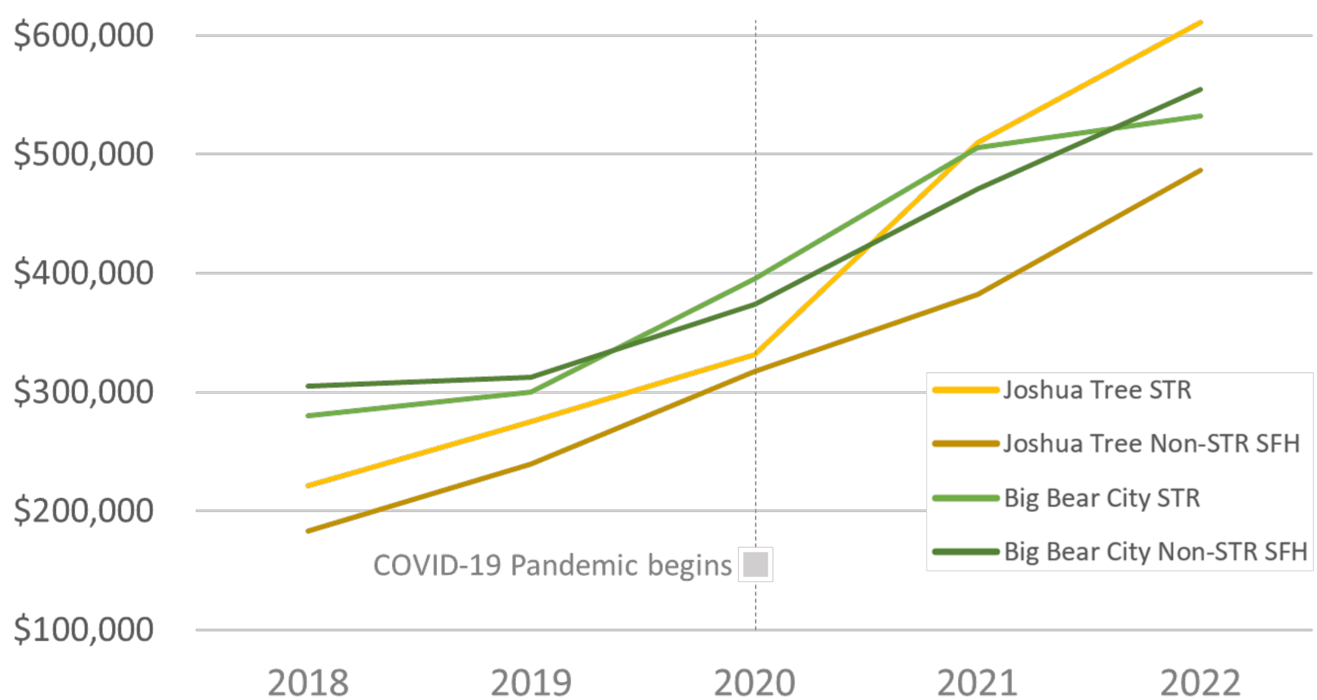
Additional insight can be obtained by comparing sales prices of STR and non-STR SFHs in Big Bear City and Joshua Tree. STR prices were similar to other SFHs in Big Bear, where STRs already have a long history. Big Bear City's longer history with STR activity is likely a big reason for the relatively minimal sales price differential between properties used as STRs and those that are not. STR prices in Joshua Tree were similar to other SFHs, even after STR permits were allowed in 2019, with the sales price differential actually narrowing between 2019 and 2020. The sales price differential only diverged once the Pandemic hit. See Figure 18 for more details.

Figure 17. Sales Prices of Short-term Rentals, Unincorporated San Bernardino County, 2018-2022



Source: Granicus, 2023.

Figure 18. Sales Prices of Short-term Rentals, Big Bear City and Joshua Tree, 2018-2022



Source: Granicus, 2023.

Short-term and Long-term Rental Values

Although the cost of long-term rental housing is steadily increasing, so too is the nightly price for a short-term rental in the unincorporated Mountain and East Desert regions. Throughout these regions, as of 2023, STR owners needed only have their property booked for an average of between six and nine nights per month (72 to 108 nights per year) to generate the same income as the median monthly rent from a long-term tenant. This can also be portrayed as the ratio between the two income options (LTR/STR Price Ratio). A lower ratio means that it takes fewer nights of STR activity to equal a long-term contract. See Figure 19 for more details. Data using average daily rents for STRs and median rents for long-term rents as of May 2024 indicates that the initial break-even number of nights is between 66 and 76 for the three biggest STR markets (Big Bear City, Lake Arrowhead, and Joshua Tree).

Additional consideration is given to the potential value associated with an STR-operator being able to use their own property (which would not be possible with a long-term renter), and the benefit that STR operation bestows by avoiding risks and lost revenue associated with evicting poor or even non-paying tenants. Based on the initial break-even numbers and this additional consideration, 60 nights is considered a reasonable threshold when evaluating a potential property investor's decision to rent as a STR or long-term rental.

STR activity is often seasonal and few properties book up consistently each month and throughout the year. Based on Granicus's analysis of an early 2023 sample of over 2,000 STRs throughout the entirety of the unincorporated San Bernardino County, only about 35% booked more than 60 nights per year and only 22% booked more than 90 nights per year. Furthermore, only 8% generated income of $25,000 or more per year and just under half (44%) generated less than $5,000 per year.

However, an examination of the County's transit occupancy tax data for fiscal year 2022/2023 (July 1, 2022 to June 30, 2023) indicates the East Desert region may contain a larger number and proportion of STRs that rent more than 60 nights per year compared to the Mountain region. For example, approximately 355 STRs reported more than 60 nights of rentals in Joshua Tree compared to 214 in Big Bear City and 208 in Lake Arrowhead during the referenced timeframe. In Joshua Tree, these 355 units represent roughly 9% of the entire housing market in Joshua Tree, while the 214 and 208 units in Big Bear City and Lake Arrowhead represent less than 2% of their respective housing markets. The number of nights rented may be larger given that Airbnb and Vrbo data was not available by community.

Figure 19. Comparison of Long-term and Short-term Rents, Unincorporated Communities, 2024

Community	Long-term Rent (LTR)		Avg Daily Rate for STR	# STR nights to equal 12-month LTR revenue
	Median Rent	12-month Revenue		
Big Bear City	$2,095	$25,140	$381	66
Lake Arrowhead	$2,500	$30,000	$427	70
Crestline	$1,950	$23,400	$257	91
Running Springs	$2,000	$24,000	$273	88
Homestead Valley	$2,200	$26,400	$257	103
Morongo Valley	$1,745	$20,940	$309	68
Joshua Tree	$2,000	$24,000	$315	76

Source: Granicus methodology (2023) applied to May 2024 data with median long-term rent from Zillow and average daily rate from AirDNA.

CHANGES IN OCCUPANCY

Occupancy Rates in Unincorporated Communities

The US Census offers the most complete and authoritative datasets to determine whether short-term rental activity was displacing long-term renters. The percentage of housing units in 2010[1] and 2022[2] were compared based on the amount occupied by a property owner, occupied by a long-term renter, or unoccupied and vacant for use as a vacation/2nd home. The term "vacant/2nd home" may also be known as "seasonal home" and represent homes that are used periodically by the property owner and/or as short-term rentals, but are neither occupied by an owner as a primary residence nor made available for long-term rental occupancy.

Communities with Increased Year-round Occupancy Trends

The housing market in the Mountain region, in terms of occupancy, is relatively similar between 2010 and 2022. Based on the latest available data, in Big Bear City, the occupancy patterns were almost exactly the same when comparing 2010 and 2022. In Lake Arrowhead, the percentage of vacation/2nd homes is lower in 2022 (-7%) compared to 2010 while the percentages of owner- and renter-occupied units are up (+5% and+2%, respectively), indicating that vacation/2nd homes were converted into year-round units. In Crestline, the percentage of vacation/2nd homes is much lower in 2022 (-9%) compared to 2010 and the percentage of owner-occupied units is up (+8%), indicating that a portion of vacation/2nd homes were converted into year-round owner-occupied units. In Running Springs, comparing 2022 and 2010, the percentages of vacation/2nd homes and renter-occupied units are nearly the same (-1% and -2%, respectively), while the percentage of owner-occupied units is up (+6% and higher than any value since before 2010). Additionally, in the East Desert region, the Morongo Valley community saw increases in rates of year-round occupancy and decreases in rates of vacation/2nd homes. See Figure 20 for more details.

Communities with Dynamic Occupancy Trends

While occupancy patterns in Morongo Valley are similar to unincorporated Mountain communities (decreased seasonal housing and increased year-round occupancy when comparing 2010 and 2022), occupancy patterns in the Homestead Valley and Joshua Tree communities are more dynamic (see more details in Figure 21). Between 2010 and 2017, attendance at Joshua Tree National Park doubled (see Figure 22) and, influenced by a combination of a lack of nearby hotel accommodations and a decent supply of low cost housing (median home values in Joshua Tree hovered around $110,000 in 2015), rates of vacation/2nd homes and long-term rental occupancy increased substantially. Rates of vacation/2nd homes increased from 5% to 19% in Joshua Tree and from 23% to 33% in Homestead Valley between 2010 and 2017. The majority of these increases appears to have come from the long-term ownership housing stock, with rates of long-term ownership occupancy decreasing from 61% to 38% in Joshua Tree and from 53% to 48% in Homestead Valley between 2010 and 2017.

For unknown reasons, the rate of year-round rental occupants in Joshua Tree rose from 31% in 2010 to a historical high of 45% in 2014. In 2015, this rate began to dip but stabilized at 39% through 2019. During the COVID Pandemic, this rate dropped to 37% in 2020 and 34% in 2021. However, this rate was still above the rate in 2010 (baseline comparison year that represents a time that was not influenced by STR activity). For 2022, the rate of year-round rental occupants dropped to 26%, which is an 8% drop from the previous year, 5% below 2010, and a historic low for Joshua Tree. Rates

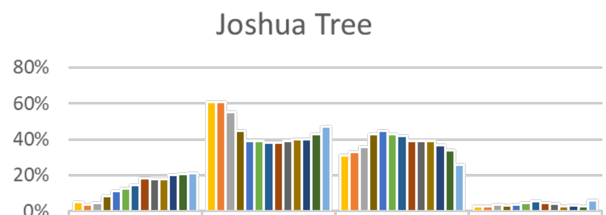
[1] 2010 is used as a base reference as this year represents a time when Airbnb's service was still relatively unused based on its lack of presence on Google Trend Index (submitted searches) and the minimal number of listings in the United States.
[2] US Census American Community Survey, 2022 5-year data released December 7, 2023 is the latest available data, reflects a time that was post-Pandemic, and includes data that incorporates the peak of the STR market.

of year-round owner occupants rose from 40% to 47% between 2020 and 2022, reflecting the surging demand to live in Joshua Tree during the COVID Pandemic.

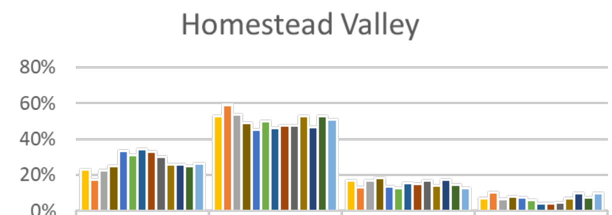
Figure 20. Unincorporated Communities and Year-round Occupancy Trends, 2010 vs 2022

Source: US Census 2010 & 2022 5-Year American Community Survey; figures rounded and results subject to margin of error. Data available for census-designated places. Not shown is the "Other" vacant category, which typically represents 3% to 6% and includes the following categorical reasons for vacancy: foreclosure, personal/family reasons, legals proceedings, preparing to rent/sell, held for storage of furniture, needs or is currently being repaired/renovated, intended for year-round occupancy but vacant for 6+ months (extended absence), specific use housing, abandoned or possibly condemned, and unknown.

Figure 21. Unincorporated Communities with Dynamic Occupancy Trends, 2010 to 2022



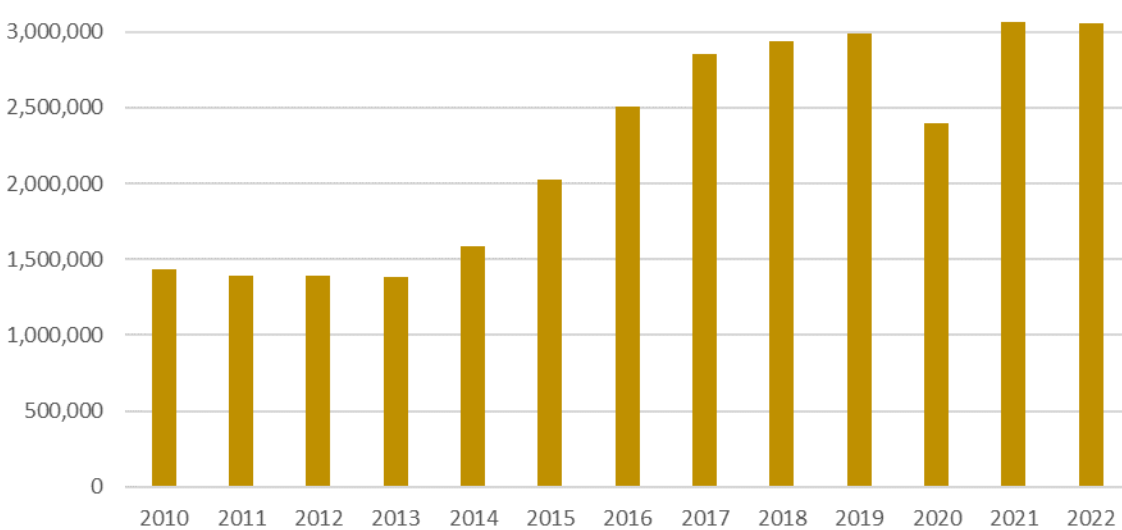
Joshua Tree	Vacation/2nd	Owner	Renter	Other
2010	5%	61%	31%	3%
2011	4%	61%	33%	3%
2012	5%	55%	36%	4%
2013	8%	45%	43%	3%
2014	11%	39%	45%	4%
2015	13%	39%	43%	5%
2016	15%	38%	42%	6%
2017	19%	38%	39%	5%
2018	18%	39%	39%	4%
2019	18%	40%	39%	3%
2020	20%	40%	37%	3%
2021	21%	43%	34%	3%
2022	21%	47%	26%	6%



Homestead Valley	Vacation/2nd	Owner	Renter	Other
2010	23%	53%	17%	7%
2011	17%	59%	13%	10%
2012	22%	54%	17%	7%
2013	25%	49%	18%	8%
2014	34%	45%	13%	7%
2015	31%	50%	13%	6%
2016	35%	46%	15%	4%
2017	33%	48%	15%	4%
2018	30%	48%	17%	5%
2019	26%	53%	14%	7%
2020	26%	47%	17%	10%
2021	25%	53%	15%	8%
2022	26%	51%	13%	10%

Source: US Census 2010 & 2011 through 2022 5-Year American Community Survey; figures rounded and results subject to margin of error. Data available for census-designated places. "Other" represents "Vacant for other reasons" and includes the following categorical reasons for vacancy: foreclosure, personal/family reasons, legals proceedings, preparing to rent/sell, held for storage of furniture, needs or is currently being repaired/renovated, intended for year-round occupancy but vacant for 6+ months (extended absence), specific use housing, abandoned or possibly condemned, and unknown.

Figure 22. Joshua Tree National Park, Annual Attendance, 2010 to 2022



Source: National Park Service, as of 2022. In 2020, the Park was closed for approximately 2 months due to the COVID Pandemic.

While some of the drop in year-round rental occupancy in Joshua Tree may have come from the increase in ownership occupancy, the data indicates that the long-term trend of rising rates of vacation/2nd homes (coinciding with the increased numbers of STRs) is likely contributing pressures that reduce the supply of long-term housing. While the rates of vacation/2nd homes only increased from 18% to 21% between 2019 and 2022, the overall year-round occupancy rate for Joshua Tree is down from 92% in 2010 and 79% in 2019 to 73% in 2022. Prior to 2010, only 2% to 5% of all housing units were recorded as vacation/2nd homes in the US Census.

In Homestead Valley, the overall year-round occupancy rate is 64% in 2022, which is slightly lower compared to 2019 (67%) and a bit lower than in 2010 (70%). However, the rate of vacation/2nd homes in Homestead Valley 2022 (26%) is essentially unchanged from 2019, is substantially lower than rates between 2014 and 2017 (high of 35%), and is only marginally higher than rates in 2010 (23%).

CHANGES IN VACANCY

Non-seasonal Vacancy Rates in Unincorporated Communities

US Census data was used to evaluate the long-term trends of housing supply and demand based on the vacancy rate of ownership and rental housing after excluding vacation/2nd (aka seasonal) homes. For example, to determine the non-seasonal ownership vacancy rate, the number of non-seasonal vacant homes for sale was compared to the overall supply of units available for long-term ownership occupancy (occupied ownership units plus non-seasonal vacant homes for sale). Housing units that were vacant because they were vacation/2nd homes were excluded from the equation. While vacation/2nd homes are part of the housing market and technically available for purchase or conversion to long-term rental housing, they are being removed from the equation in this section of the analysis to understand what the vacancy rate would be if vacation/2nd homes were not available to the housing market.

A balanced vacancy rate for a housing market is typically around 4% to 6% for ownership and 5% to 8% for rental units[3]. Rental tenants tend to move more frequently and so a higher vacancy rate helps the market operate more efficiently. Vacancy rates within these ranges can indicate that there are enough available properties to meet demand but not so many that there is an oversupply of units. Vacancy rates that are higher than the top end of the range can indicate that there is more supply than demand, which may lower housing prices as prospective buyers/renters have multiple options from which to choose. Vacancy rates that are below the low end of the range can indicate and result in the opposite.

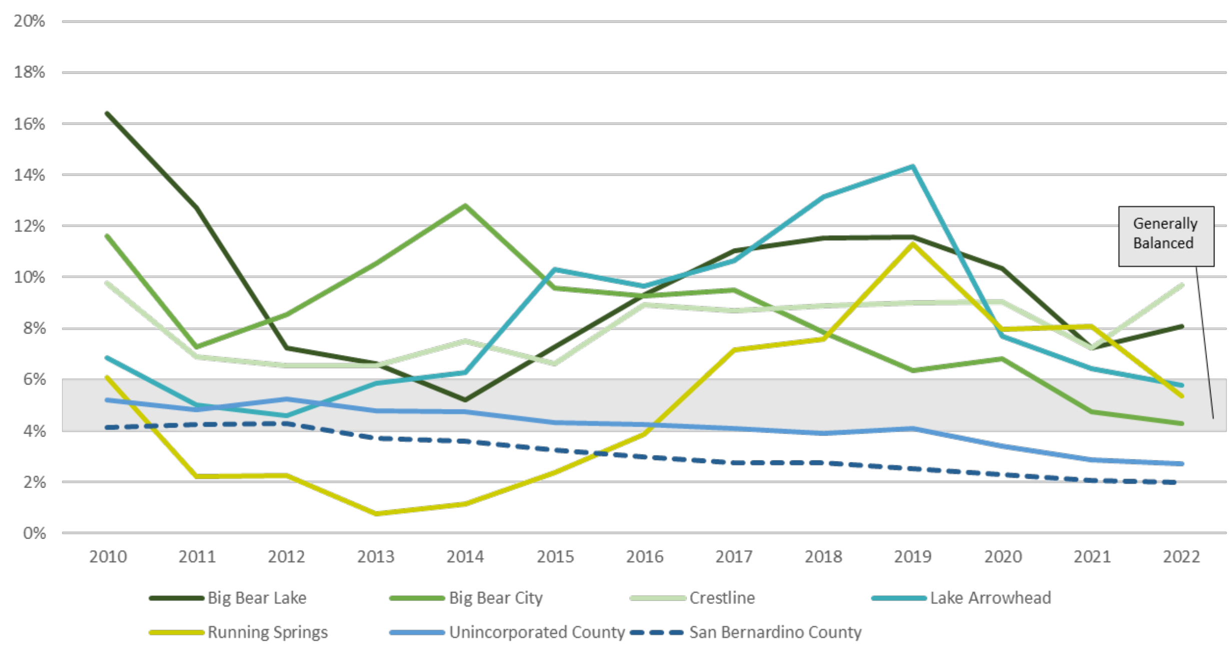
These ranges are general indicators and are most applicable to incorporated cities and towns that are near job markets and have an abundance of public services and amenities. In areas that lack infrastructure for new development and are far from job markets and amenities, a vacancy rate closer to the lower end of the range may simply indicate both low demand and supply. This would only be the case, however, if housing prices and/or rents remained relatively stable. A vacancy rate closer to or even above the higher end of the range, if accompanied by high prices/rents, can also reflect a market where property owners are willing to let units sit unsold or vacant in pursuit of prices/rents that are not affordable to much of the market. Accordingly, trends in vacancy rates are best evaluated as an indicator of housing conditions in a comparison between communities within a region and between regions within the county.

Regional and Community Comparison

The long-term trend of non-seasonal ownership and rental vacancy rates for various incorporated and unincorporated communities in San Bernardino County are illustrated in Figures 23 through 26. Comparing rates in the Mountain and East Desert regions, the Mountain region communities generally display much higher non-seasonal vacancy rates—for both ownership and rental, and over the past 12 years and as of the latest available data. It should be noted again that while this is the best available data, the Census data is subject to margins of error and the refinement of these datasets can lead to distortions. Accordingly, it is the overall trend that should be considered.

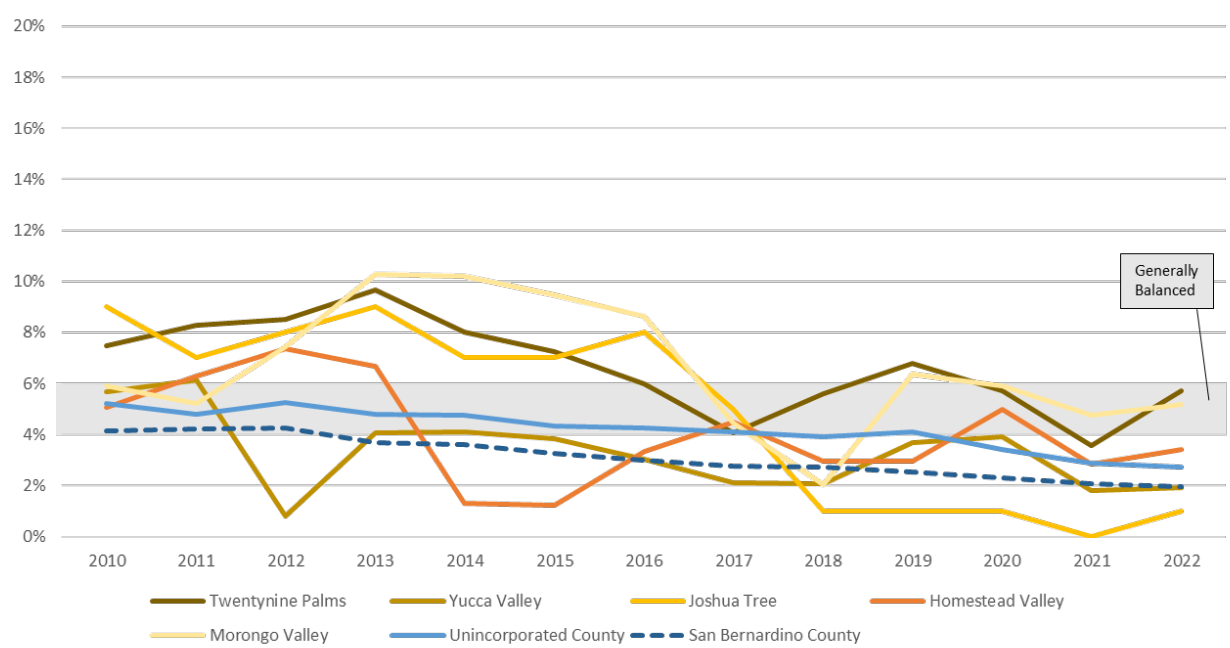
[3] Source: PlaceWorks and general industry standard, although there are entities that cite an upper threshold for a balanced rental vacancy rate as high as 10% and a lower threshold for a balanced ownership rate as low as 2%.

Figure 23. Non-Seasonal Ownership Vacancy Rate Trends, Mountain Region and Countywide, 2010 to 2022



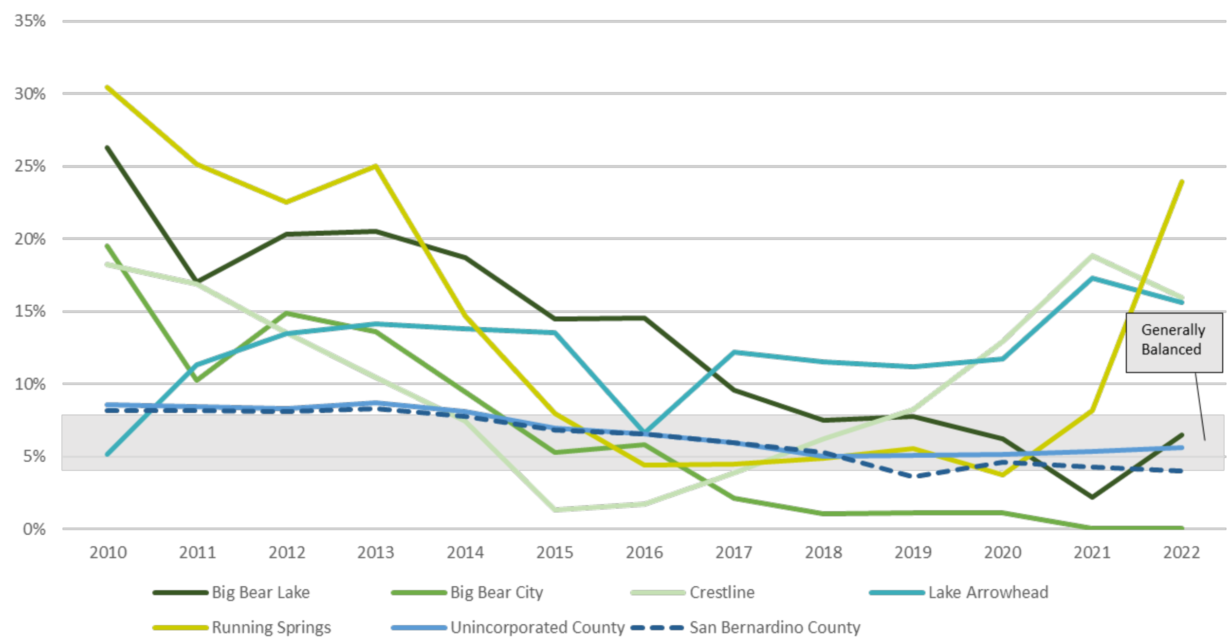
Source: US Census 2010 & 2011 through 2022 5-Year American Community Survey; figures rounded and results subject to margin of error. Data available for census-designated places. A range of 4% to 6% is shaded in grey as a reference marker for what is typically considered a balanced ownership vacancy rate.

Figure 24. Non-Seasonal Ownership Vacancy Rate Trends, East Desert Region and Countywide, 2010 to 2022



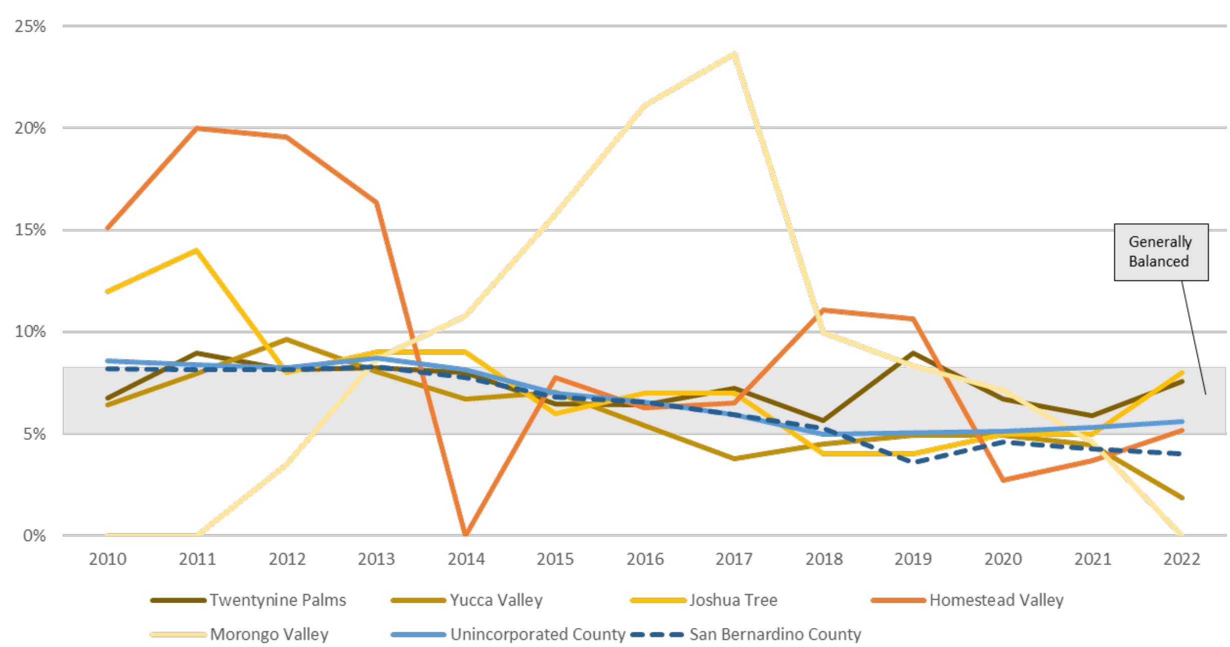
Source: US Census 2010 & 2011 through 2022 5-Year American Community Survey; figures rounded and results subject to margin of error. Data available for census-designated places. A range of 4% to 6% is shaded in grey as a reference marker for what is typically considered a balanced ownership vacancy rate.

Figure 25. Non-Seasonal Rental Vacancy Rate Trends, Mountain Region and Countywide, 2010 to 2022



Source: US Census 2010 & 2011 through 2022 5-Year American Community Survey; figures rounded and results subject to margin of error. Data available for census-designated places. A range of 5% to 8% is shaded in grey as a reference marker for what is typically considered a balanced rental vacancy rate.

Figure 26. Non-Seasonal Rental Vacancy Rate Trends, East Desert Region and Countywide, 2010 to 2022



Source: US Census 2010 & 2011 through 2022 5-Year American Community Survey; figures rounded and results subject to margin of error. Data available for census-designated places. A range of 5% to 8% is shaded in grey as a reference marker for what is typically considered a balanced rental vacancy rate.

Within the Mountain region, the only community in which the vacancy rate is currently (2022) below what is considered balanced is Big Bear City, which exhibits a rental vacancy rate below 1% (a trend that can be seen going back to 2012). Within the East Desert region, non-seasonal vacancy rates were lower across incorporated and unincorporated communities, but were often within or slightly above what would be considered balanced between 2010 and 2017. The communities of Joshua Tree and Morongo Valley stand out from the other areas, with Joshua Tree's non-seasonal ownership vacancy rate dipping substantially out of the balanced range in 2018 and staying at or around 1% through 2022. Morong Valley's non-seasonal rental vacancy rate steadily dropped between 2018 and 2022, after exhibiting rates that were within or above a balanced range for half of a decade.

Joshua Tree. While housing markets throughout the county, state, and across the nation exhibit low vacancy rates, Joshua Tree's ownership housing market is among the tightest. After removing homes that are vacant because they are owned as vacation/2nd homes, the ownership vacancy rate in Joshua Tree hovered at or above the balanced range through 2017. Starting in 2018, this rate dropped to 1% and remained at or below 1% through 2022. Housing values in Joshua Tree began to rise from roughly $120,000 at the beginning of 2017 to $175,000 by the beginning of 2018, and $209,000 by the beginning of 2020. Then, with the surge in demand created during the Pandemic, housing values spiked, reaching $266,000 at the beginning of 2021 and $400,000 by the beginning of 2022. Home values peaked in July 2022 at $465,000 and have subsequently cooled a bit to $385,000 by the beginning of 2024 (due in part to increased interest rates and relaxed demand post-COVID).

A tight housing ownership market is driving up rents in Joshua Tree. Although the non-seasonal rental vacancy rate remains what is generally considered balanced (5% in 2021 and 8% in 2022), the increase in home prices during the Pandemic and rises in interest rates in 2022 has made buying an obstacle to renters who would otherwise pursue buying. This leads to more renters pursuing the same number of homes, which enables landlords to demand higher rents, and the increased rents may be simply preventing residents from being able to afford renting a home in Joshua Tree (which can result in a rise in non-seasonal rental vacancy rates). The average monthly rent for a 2-bedroom home in Joshua Tree (as reported by Zumper) was roughly $750 prior to 2018, rising to roughly $1,000 through 2019, reaching $1,250 in 2020, and $1,800 during 2021, and settling at an average of approximately $2,000 in 2022 and 2023. The average monthly rent for a 3-bedroom home in Joshua tree was roughly $1,100 prior to 2018, rising to roughly $1,500 through 2019, reaching $3,000 during 2021, and settling down a bit to an average of approximately $2,500 in 2022 and 2023.

Morongo Valley. It appears that the COVID Pandemic was the primary driver of a tight rental market (non-seasonal rental vacancy rate below 1% in 2022) and a surge in rental costs in Morongo Valley. Prior to 2021, the median monthly rent was between roughly $800 and $900 (US Census). In 2021, median monthly rent rose above $1,000 and in 2022, median monthly rent was reported to be in excess of $1,300. Zillow reported a peak average monthly rent of over $2,700 in January 2023, although the latest reported average has fallen to $1,700 (which is still double the median rent reported in 2020). The pattern of increases in home values for Morongo Valley was similar to Joshua Tree, with home values below $130,000 before 2017, reaching $205,000 by the beginning of 2020. Then, with the surge in demand created during the Pandemic, housing values spiked, reaching $247,000 at the beginning of 2021 and $328,000 by the beginning of 2022. Home values peaked in July 2022 at $355,000 and have subsequently cooled a bit to $326,000 by the beginning of 2024 (due in part to increased interest rates and relaxed demand post-COVID). These high housing prices are likely contributing to rents staying above pre-Pandemic levels.

Big Bear City. The Pandemic also appears to be the primary driver of increases in rents and housing costs in Big Bear City, despite a sustained decline in its non-seasonal rental vacancy rate: from 15% in 2012 to 5% in 2015 to below 2% in 2017, with rates only falling more through 2022. This trend was also seen in the adjacent City of Big Bear Lake (in contrast with trends in Crestline and Lake Arrowhead). The Big Bear subregion contains the greatest levels of public services, amenities, and economic activity in the Mountain region, and is likely a popular destination for those seeking relief from the comparatively high rent levels in the Valley region. However, according to the Census, median rent prices rose gradually between 2015 ($1,011) and 2020 ($1,119). In 2021 and 2022, the Census reported median rent prices of $1,269 and $1,384, respectively. Zillow reported a peak average monthly rent of $2,300 in February 2023, although the latest reported average has fallen to $2,000 (which is still nearly double the median rent reported in 2020). Housing values in Big Bear City began to rise from roughly $190,000 at the beginning of 2017 to $244,000 by the beginning of 2018, where they stayed relatively stabled through until the beginning of 2020 ($261,000). Then, with the surge in demand created during the Pandemic, housing values spiked, reaching $298,000 at the beginning of 2021 and $401,000 by the beginning of 2022. Home values peaked in July 2022 at $452,000 and have subsequently cooled a bit to $419,000 by the beginning of 2024 (due in part to increased interest rates and relaxed demand post-COVID).

"Other" Occupancy Category

Looking further into the data, some years categorize a meaningful percentage of the housing stock as "Other." This "Other" category is as shown in a fourth column in Figures 20 and 21 and represents housing units that are vacant and are unavailable for year-round or seasonal occupancy based primarily on a temporary condition. Unfortunately, a more detailed breakdown of the number and reason for this category of vacancy is unavailable for most places in California (this data table is only tabulated for a handful of large cities in each state). However, the categorical breakdown is known and includes: foreclosure, personal/family reasons, legals proceedings, preparing to rent/sell, held for storage of furniture, needs or is currently being repaired/renovated, intended for year-round occupancy but vacant for 6+ months (extended absence), specific use housing, abandoned or possibly condemned, and unknown.

The percentage of housing units categorized as "Other" appears to fluctuate between 3% and 6% in Joshua Tree and between 5% and 10% in Homestead Valley. Looking at different years, there does not appear to be a correlation between the "Other" and "Vacation/2nd home" categories. In other words, the "Other" category does not appear to represent units that are in the process of transitioning from year-round occupancy to seasonal occupancy. While such housing could be included in the "Other" category (e.g., a home being renovated for subsequent use as an STR), the data trends appear to instead indicate that these "Other" units are more likely to correspond to homes that become occupied on a permanent basis in the following year.

NEW CONSTRUCTION

Relationship and Timing of STR Permit to New Construction

Finally, County permitting data (finalized building permits) was reviewed to identify the amount and proportion of new housing units built expressly for the purposes of STR activity. This replaces previous analysis based on year-built data.

As it was not feasible to interview all of these applicants to determine their intent behind the new construction (long-term occupancy, purely vacation/2nd home, or STR), the County looked at the elapsed time between when an applicant received a final building permit (when the County deems the unit suitable for occupancy) and when the applicant received an STR permit. According to the County, obtaining a new STR permit takes roughly 50 to 60 days (including all application and appeal timelines). An STR permit application can also be filed prior to the building permit being finalized, and so a new housing unit may receive an STR permit as soon as one day after being issued a final building permit. To identify housing units that were built expressly for the purposes of STR activity, the County identified six months as an appropriate threshold. This threshold would mean that an applicant building a new housing unit would have applied for an STR permit no later than four months after the new unit is deemed suitable for occupancy. Such a timeline would seem to logically identify those who built a unit for the purposes of STR activity from the onset. Those who received an

STR permit after six months are presumed to have built the unit for other purposes, and decided later that STR activity was a desirable option. This time period (more than six months later) includes units that may have been built by one owner for some non-STR purpose, which were then sold to another owner who later obtained an STR permit. Obviously, these are assumptions and there are likely some who always intended to use the new unit for STR permit but were simply delayed in applying. And there are likely some who built the unit only with the intent for use as a vacation/2nd home but decided to apply for an STR permit within a few months of occupancy. The six-month threshold was deemed suitable for the purposes of this analysis.

Within the unincorporated Mountain and East Desert communities, a total of 986 housing units were built between December 2019 and May 2024. Of these, 606 (61%) were never associated with an active STR permit, and the balance of 380 obtained an STR permit at some point after their building permit was finalized. Of these, 239 (24%) obtained an STR permit within six months. These figures, however, are heavily influenced by STR activity in Joshua Tree, where a total of 315 units were built and 133 (42%) obtained an STR permit within six months. When looking at all unincorporated Mountain and East Desert communities except Joshua Tree, a total of 671 units were built and only 106 (16%) obtained an STR permit within six months. Moreover, in Joshua Tree, only 37% of the 315 units are not associated with an STR permit, while in all other unincorporated Mountain and East Desert communities, 73% of the 671 units are not associated with an STR permit. These figures indicate that new construction activity in Joshua Tree is driven largely by interest in STR activity, but that is not the case in other parts of the unincorporated county. See Figure 27 for more details.

Figure 27. Relationship and Timing of STR Permit to New Construction, Unincorporated Study Area, 2019-2024

Source: County of San Bernardino, 12/19 to 5/24. Note on legend: The "Non-STR" category references a new unit that has never been associated with an active STR permit. The "STR permit" categories reference a new unit that obtained an STR permit in less than six months from receiving a final building permit ("< 6 mo") or a new unit that obtained an STR permit more than six months after receiving a final building permit ("> 6 mo later"). "Other Study Area" includes unincorporated Mountain and East Desert communities, except Joshua Tree.

External Studies and Articles on Short-term Rentals

The following is a list of studies, articles, and other documents that were reviewed in addition to those sources already cited in this report's tables and charts. These additional sources were reviewed and considered to understand the potential impacts of STR activity on the long-term housing market (supply and affordability) in San Bernardino County—particularly which factors, conditions, and contexts exert the greatest influence.

It should be noted that the various unincorporated communities and regional context of San Bernardino County are relatively unique compared to other locations in California and especially elsewhere in other parts of America. As such, all of the following sources of analysis and information were evaluated to obtain a broader understanding of the STR context, and some were evaluated specifically for their potential applicability to San Bernardino County.

Moreover, the following is not intended to be an exhaustive list of every article or study completed in the last five years, or even a listing of every source that may have been reviewed, including those articles, studies, and other documents cited or provided in comment letters (e.g., comment letters submitted by the Morongo Basin Conservation Association). The following also excludes those sources already listed in Appendices 2 and 3 of Granicus report on Short-term Rental Data & Housing.

The materials reviewed in the preparation of this technical memorandum were gathered from the full spectrum of viewpoints and perspectives to ensure a complete set of information was considered. It should be noted that each study, article, or document was reviewed with the understanding that each author (and where applicable publisher or funding source) has certain interests and may, even if unintentionally, present information or analysis in a manner that favors their desired conclusion(s). Additionally, data that was cited in any of the materials listed below was reviewed and compared with other comparable datasets to glean insight on whether the data and conclusions were applicable to and valid for the County study area.

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