PLACEWORKS

TECHNICAL MEMORANDUM

Date: November 2023

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

From: Colin Drukker, Principal

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

Overall Conclusions

The County could not find clear and empirical data that indicates that short-term rentals (STRs) have a substantial impact on the availability of long-term, rental housing options in the unincorporated Mountain and East Desert communities.

Despite an exhaustive review of data sources, including direct communication with property managers, schools, and service providers, the study could not clearly identify data or trends that pointed to STRs displacing long-term renters or serving as a primary cause of an increase in monthly rents. While some residents cited incidences of displacement, the County could not confirm any substantial or widespread pattern of such activity throughout the unincorporated Mountain and East Desert communities.

Some data indicates that the STR model may offer greater financial return (compared to long-term rentals) and studies conducted elsewhere (though often in highly urban areas) conclude that STRs may increase rents by up to 3%. However, other data indicates that the local STR market is rapidly cooling and that nearly two-thirds (65%) of STR property owners book fewer than 60 nights per year, with just under half (44%) of STR property owners earning less than $5,000 per year. Finally, US Census data show that, in the unincorporated communities that contain the vast majority of STRs, the rates of rental occupied households are roughly the same or higher in 2021 compared to 2010 and the rates of vacation/2nd homes (aka seasonal homes) are actually lower compared to levels reported in 2010.

Larger events and economic trends play the largest role in the ongoing increase in housing costs, with the COVID Pandemic exacerbating a pre-existing shortage of housing construction. The Pandemic also increased opportunities for remote work and expanded the housing market for working (non-retiree) households into the unincorporated Mountain and East Desert communities, creating a surge of housing demand into areas with little ability to quickly build new housing.

Summary Findings

- **The COVID Pandemic changed the housing landscape, expanding the conventional housing market into rural areas.** 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.

- **Retirees & remote workers competed in a housing market where the rate of new construction was at its lowest in nearly 20 years.** 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. Additionally, the historic lack of housing production across the state meant that these households were competing for a relatively small supply (that largely consisted of existing housing stock).

- **The number of STRs grew in response to the Pandemic and the STR market is now showing a downward trend.** The unincorporated Mountain communities have a long history and high rate of second home ownership. Homes in the East Desert communities are primarily occupied year-round. Joshua Tree was the primary community that saw a dramatic change, going from 5% second homes in 2010 to 21% second homes in 2021. Property owners leveraged the market demand created by the Pandemic to use existing or build new second homes as STRs. STR activity surged after the easing of travel restrictions in 2021 and peaked in late 2022. The latest 2023 figures for STR activity appear to indicate a downward trend and possible market correction.

- **STR activity makes sense functionally and financially for second homes compared to long-term rentals.** Property owners leveraged the market demand created by the Pandemic to use existing or build new second homes as STRs. Many cited the increased home insurance rates as a reason they opted and needed to continue to use their property for STR in order to afford their existing primary residence. They also cited increased restrictions on evicting tenants who did not pay and/or did property damage as a reason they avoided long-term rentals.

  Most second homes generate little to no income and are rented fewer than 60 nights per year. However, STR activity enables property owners to generate some income while retaining the ability to use their vacation home whenever they like.

- **Existing residents are likely not being replaced by STR activity, but by buyers and tenants willing to pay higher sales prices and rents.** If STR activity were displacing a substantial number of renters, there would be a corresponding change in the rates of vacant homes and rental occupancy. However, US Census data indicates relatively little change from comparing conditions in 2021 and 2010, with most communities adding year-round residents.

  In Joshua Tree, where rate of vacant homes rose by 16% during that time period, the rate of rental occupancy increased by 3% and the rate of owner-occupancy dropped by 18%. Existing homeowners likely sold (at high Pandemic level prices) to buyers looking to own a vacation property that could also be used as a STR. At the same time, the community added more year-round renter households.

- ***The above findings are based on the best data that is available during the time of the study.***

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under separate cover

San Bernardino County Short-term Rental Data & Housing, by Granicus

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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 a video 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. 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.

Figure 1. Outreach Materials and Meeting Images

Economic Trends

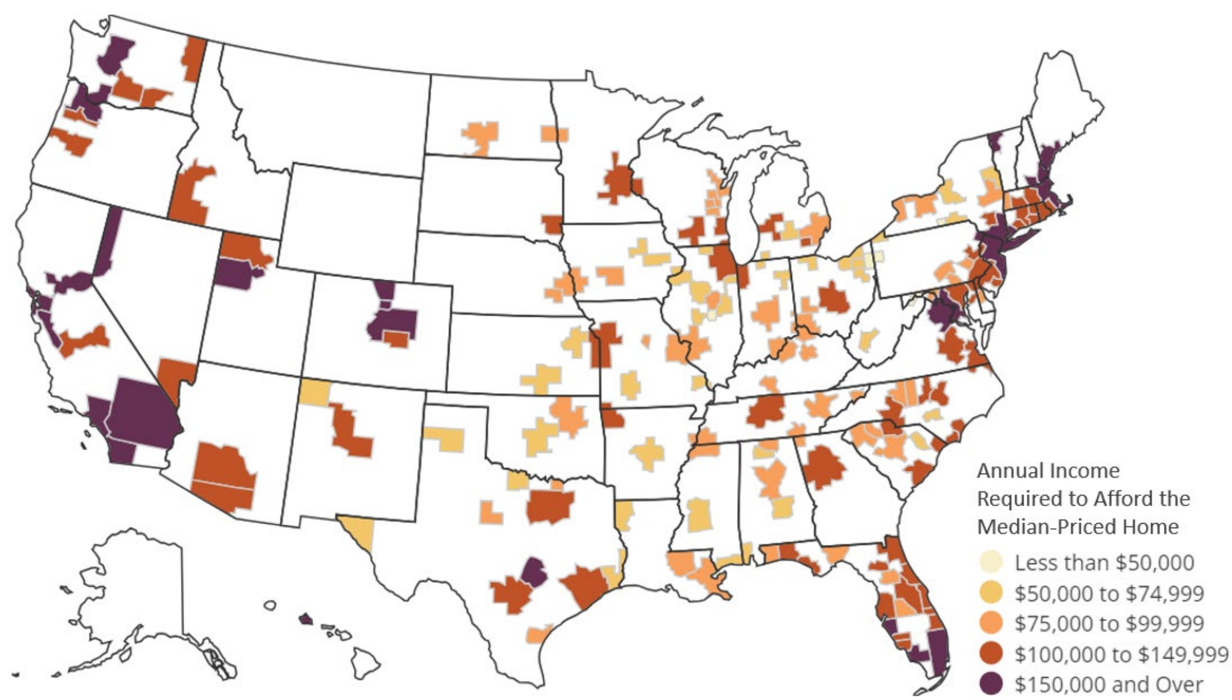
NATIONAL AND REGIONAL HOUSING TRENDS

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.

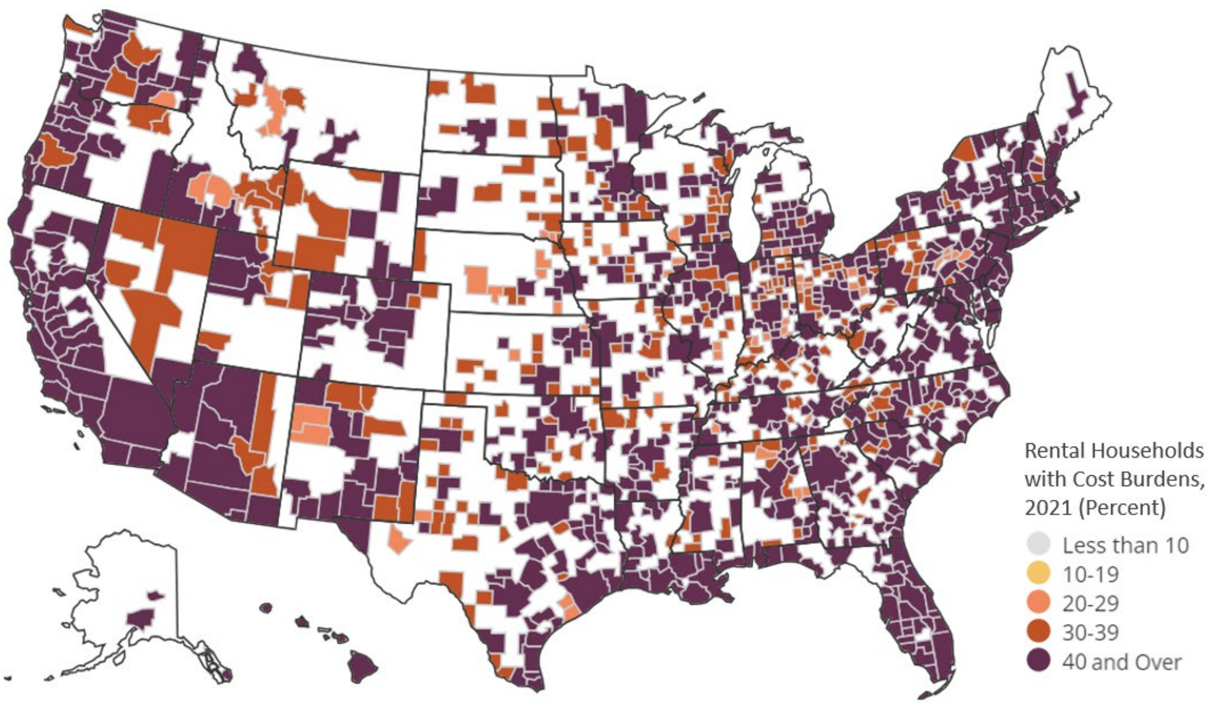
Figure 2. Annual Income Required to Afford the Median-Priced Home, 2021



Source:

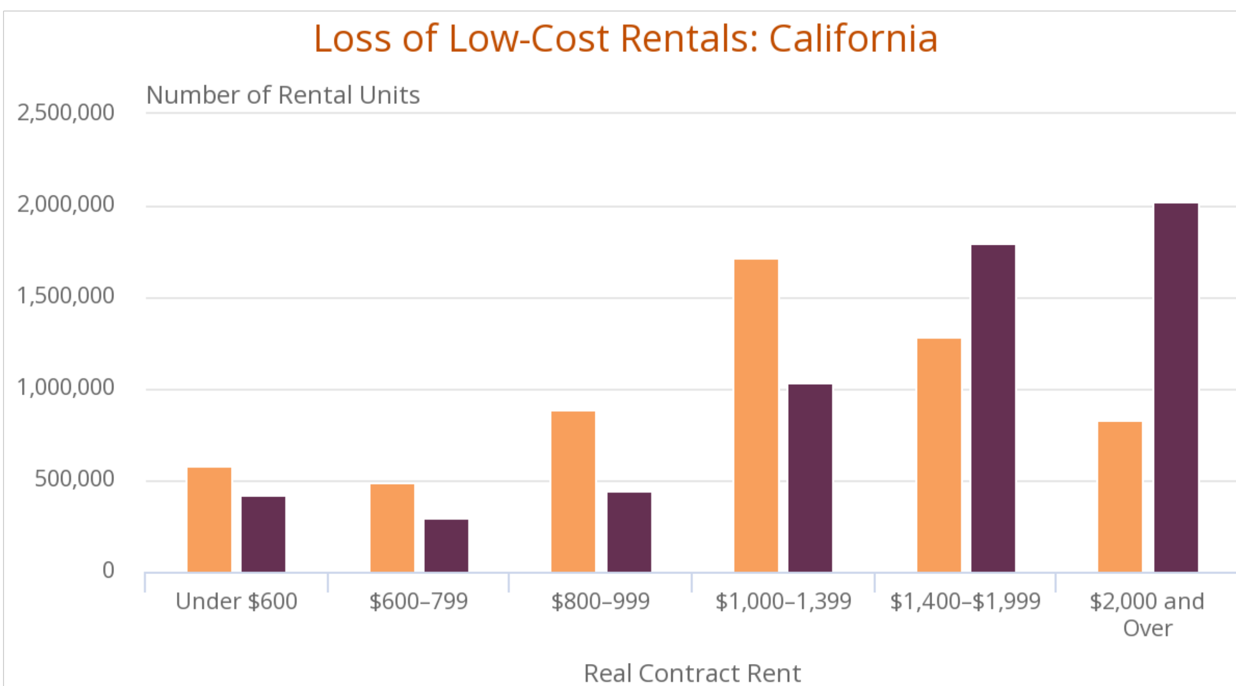
Source: Harvard Joint Center for Housing Studies, “State of the Nation’s Housing 2023”; as of 9/28/23 prices and interest rates.

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



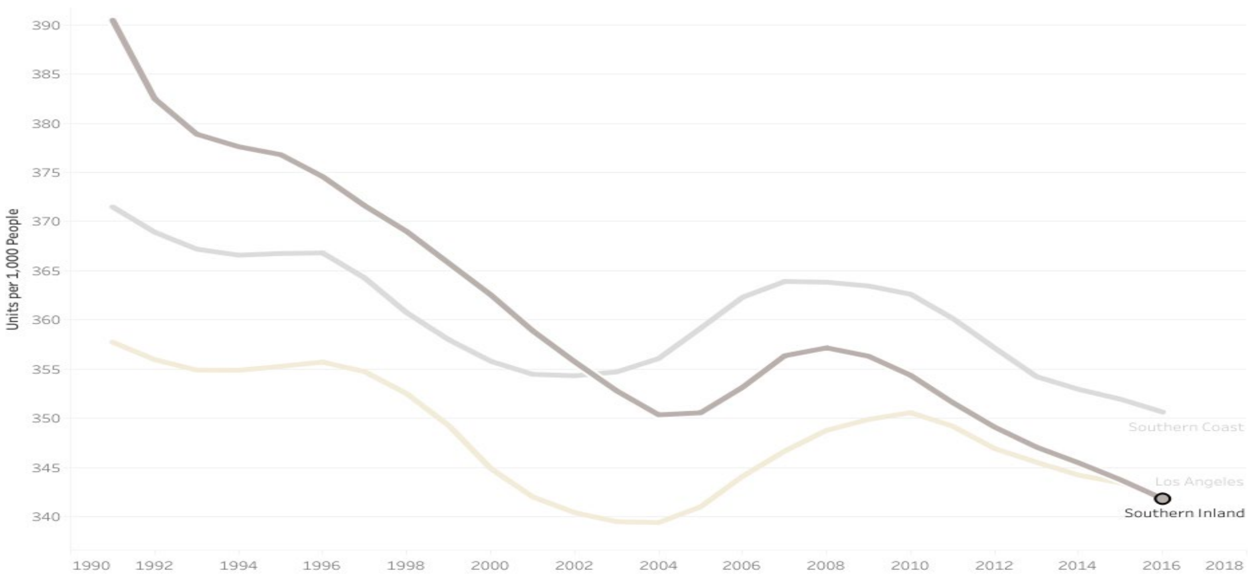
Source: Harvard Joint Center for Housing Studies. Includes both vacant and occupied rental units but excludes those with no cash rent. Contract rents exclude utility costs paid separately. Rents are adjusted for inflation using the CPI-U for All Items Less Shelter.

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

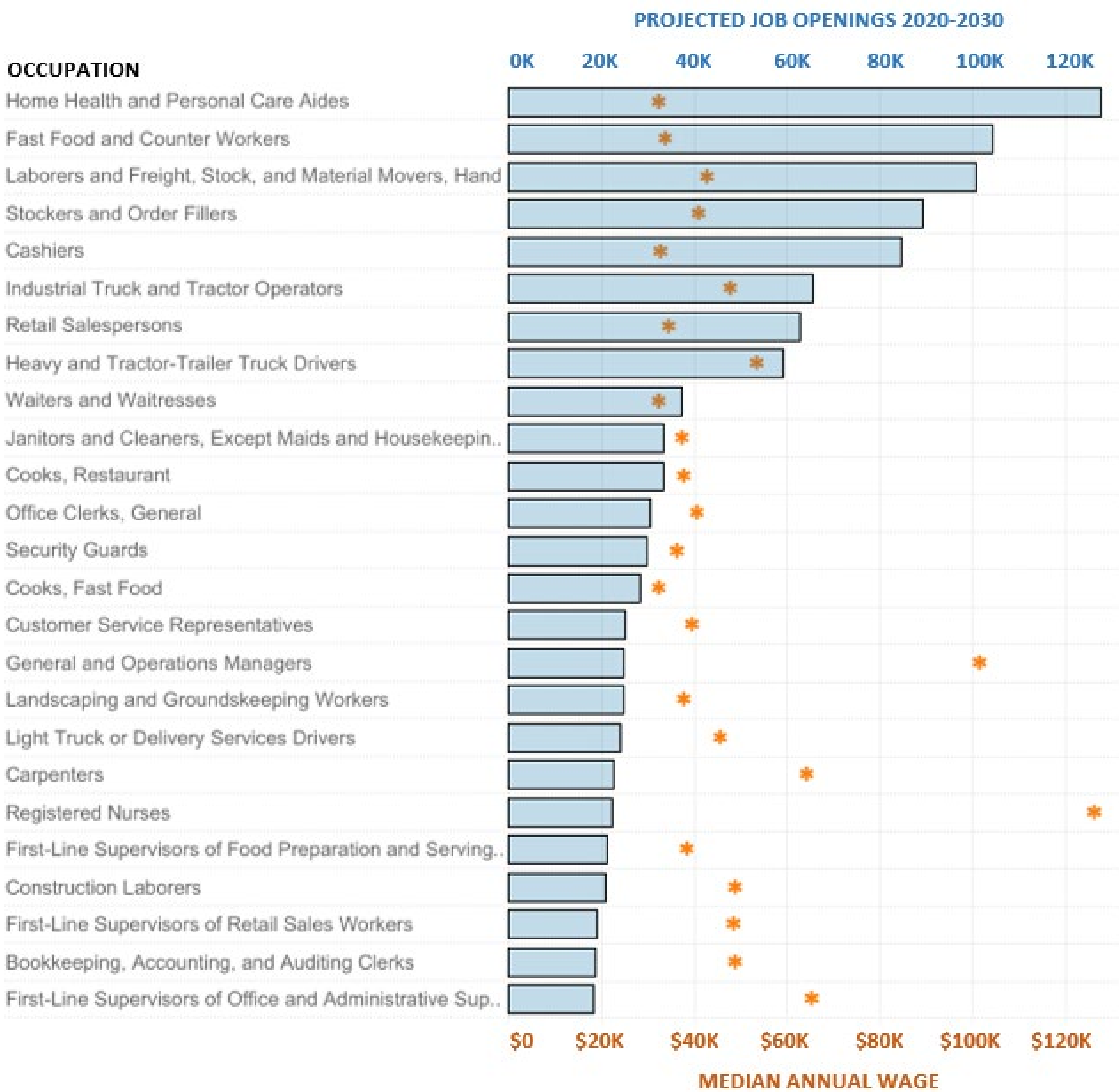
Source: Bankrate and NOAA National Centers for Environmental Information, 2023. Notes: Premiums shown are for $250,000 in dwelling coverage. The erroneous identification of Lake Arrowhead as a "city" is noted but not corrected. Additionally, the rates shown above are averages and may not represent the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

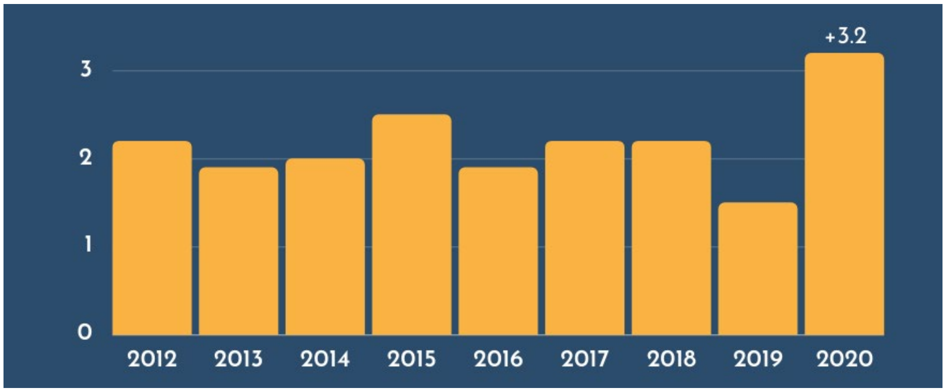
Influential Events and Trends

- **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.

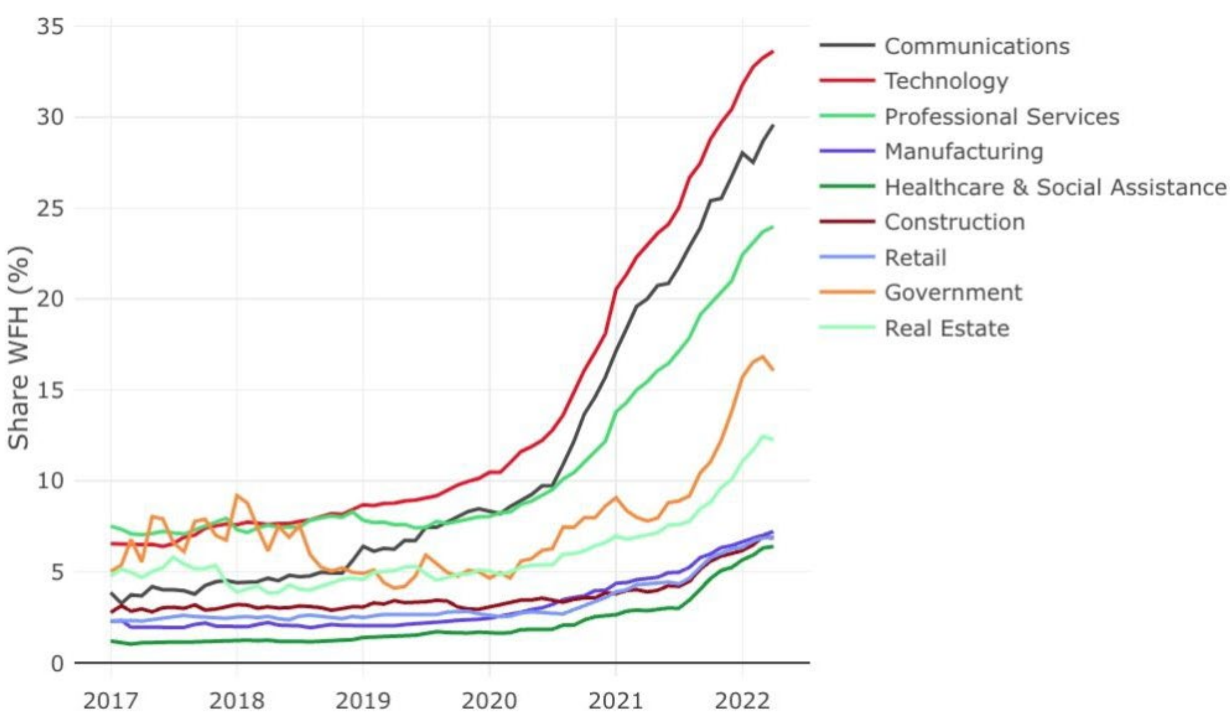
Figure 8. Annual Increase in the Retired Baby Boomer Population (millions)



Source: Pew Research Center, 2021.

- **Remote Work Patterns, 2018 to 2023.** 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 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 has taken place in 2023, the latest figure of 6,395 STRs in September 2023 is nearly 1,400 below the 2022 peak and may indicate a market correction.

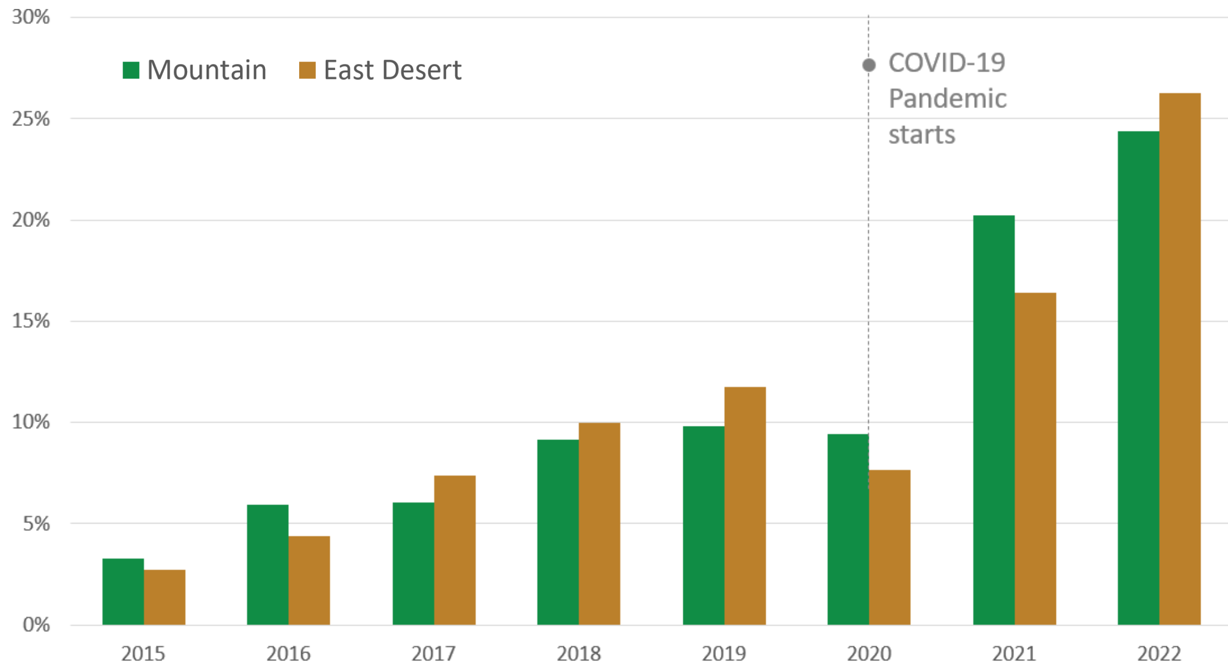
- **Most STRs are in Big Bear City, Lake Arrowhead, and Joshua Tree.** Over 3,400 STRs are located in one of three communities: Big Bear City (1,400) and Lake Arrowhead (951) in the Mountain region, and Joshua Tree (1,082) in the East Desert region. Three other communities represent much of the remaining balance of STRs: Sugarloaf (428) and Crestline (278) in the Mountain region and Landers (357) 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).

- **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

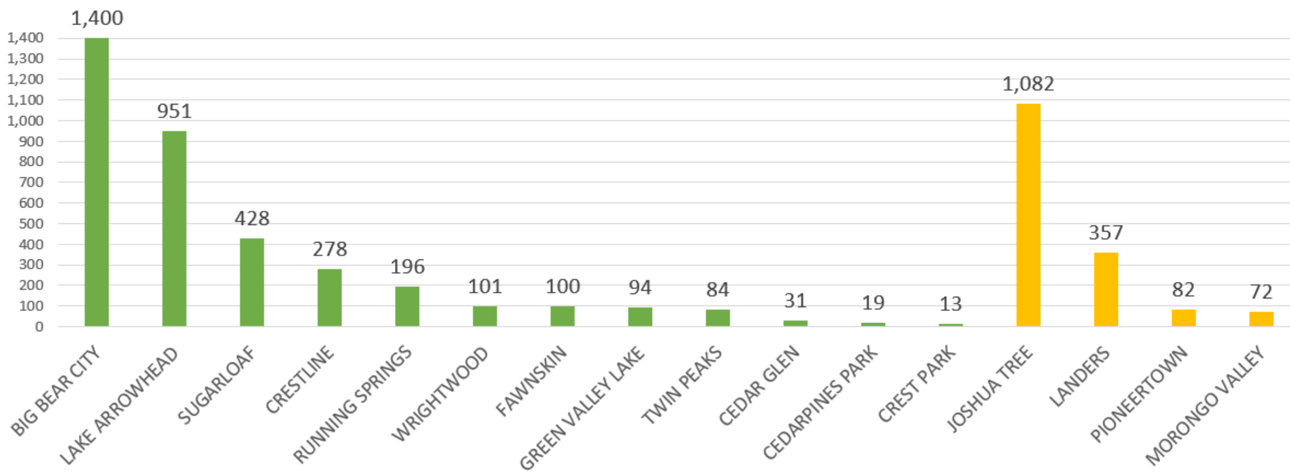


Source: Granicus, using County STR permit database and over 60 internet platforms. Note: Units that first listed prior to 2015 and those in the North Desert are not shown on the chart.

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

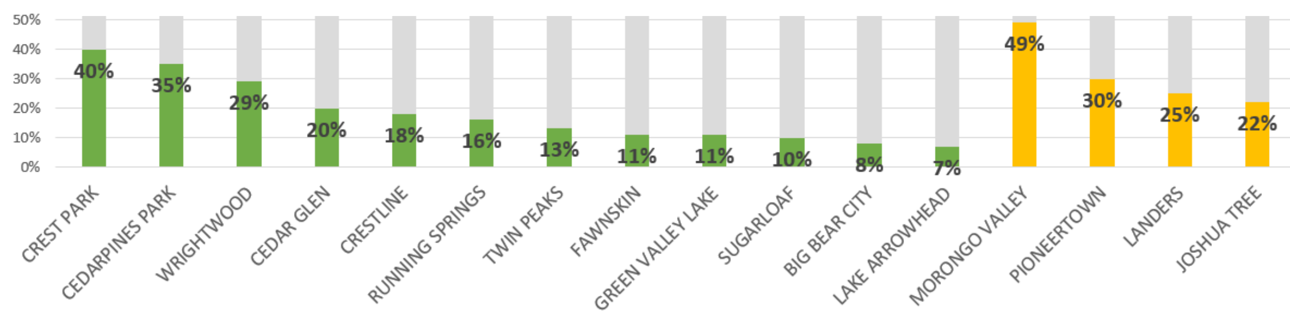
Source: Granicus, using County STR permit database and over 60 internet platforms. Figures represent unique STR units.

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



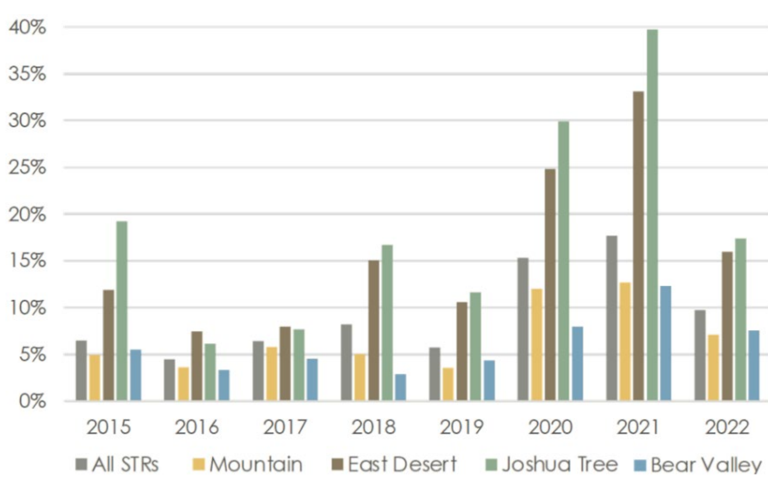
Source: Granicus, using County STR permit database and over 60 internet platforms. Note: not every unincorporated community shown.

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.

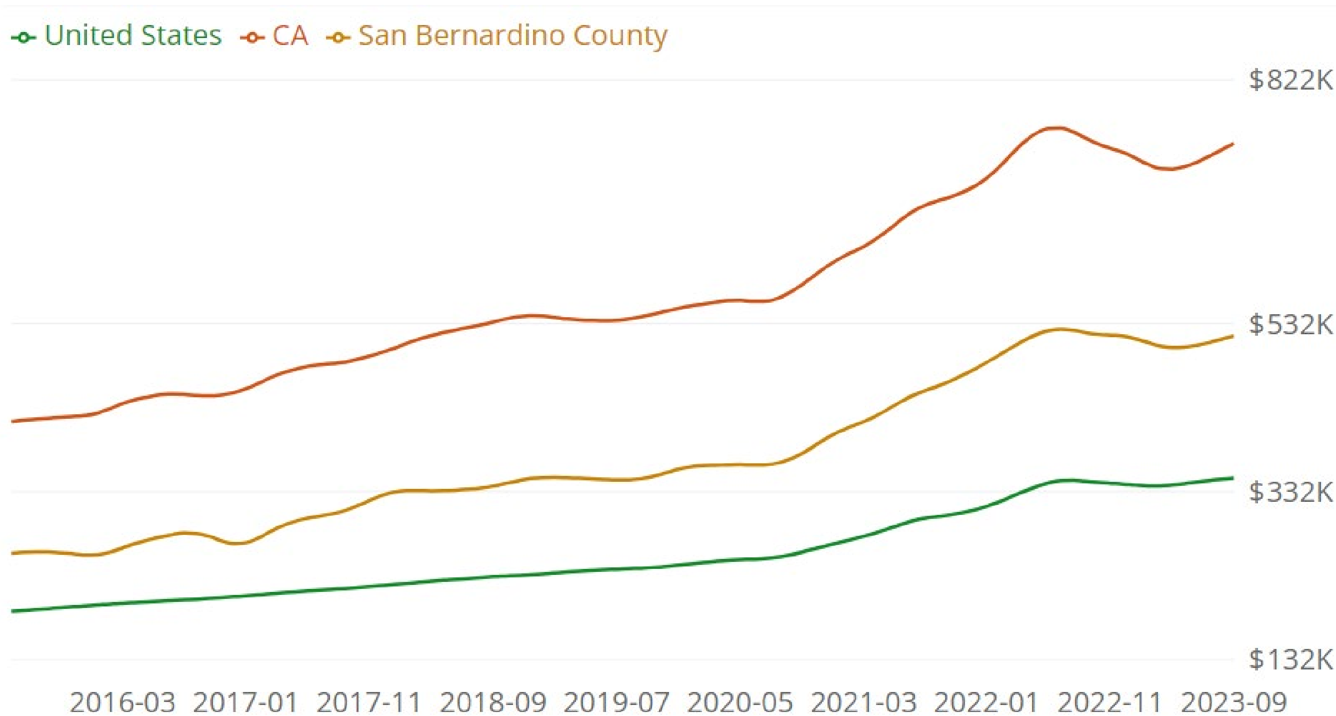
Housing Cost & Supply

CHANGES IN HOUSING VALUES

Home Values by Community

The County evaluated the change in home values by community 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



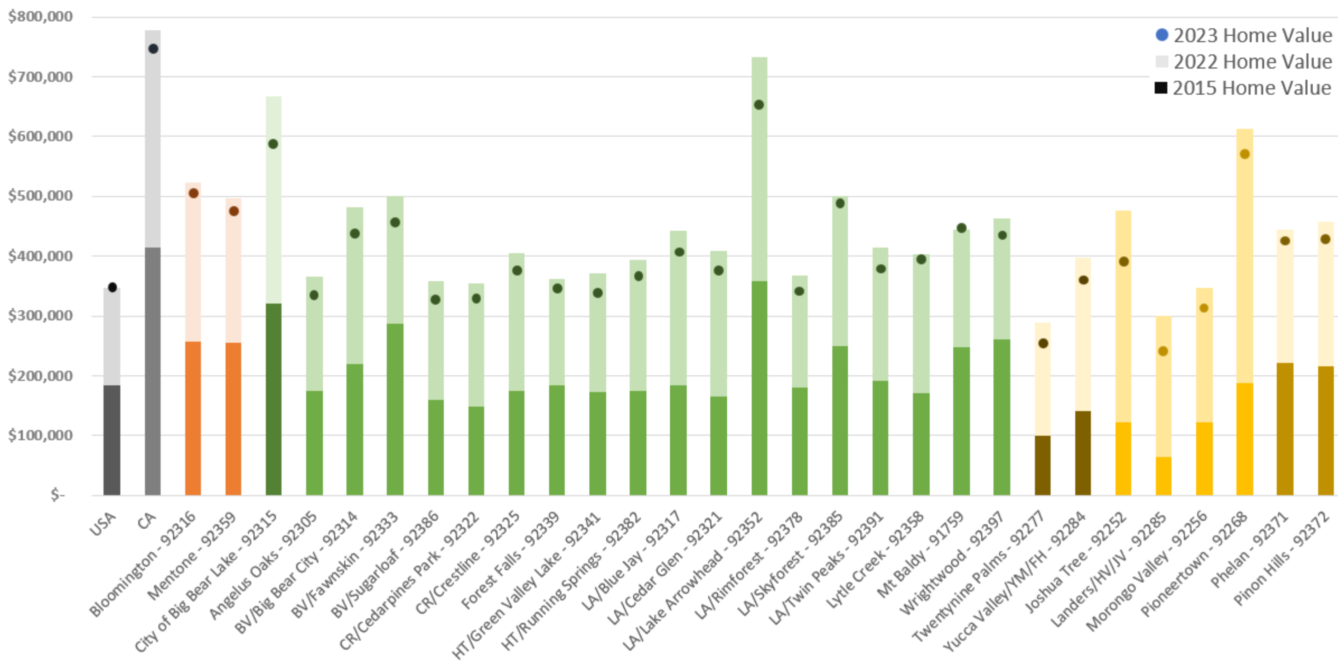
Source: Zillow Home Value Index, comparing median home values between March 2016 and September 2023.

The County also compared the rate of increase in the median home value between 2015 and 2023 for unincorporated Mountain and East Desert communities 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



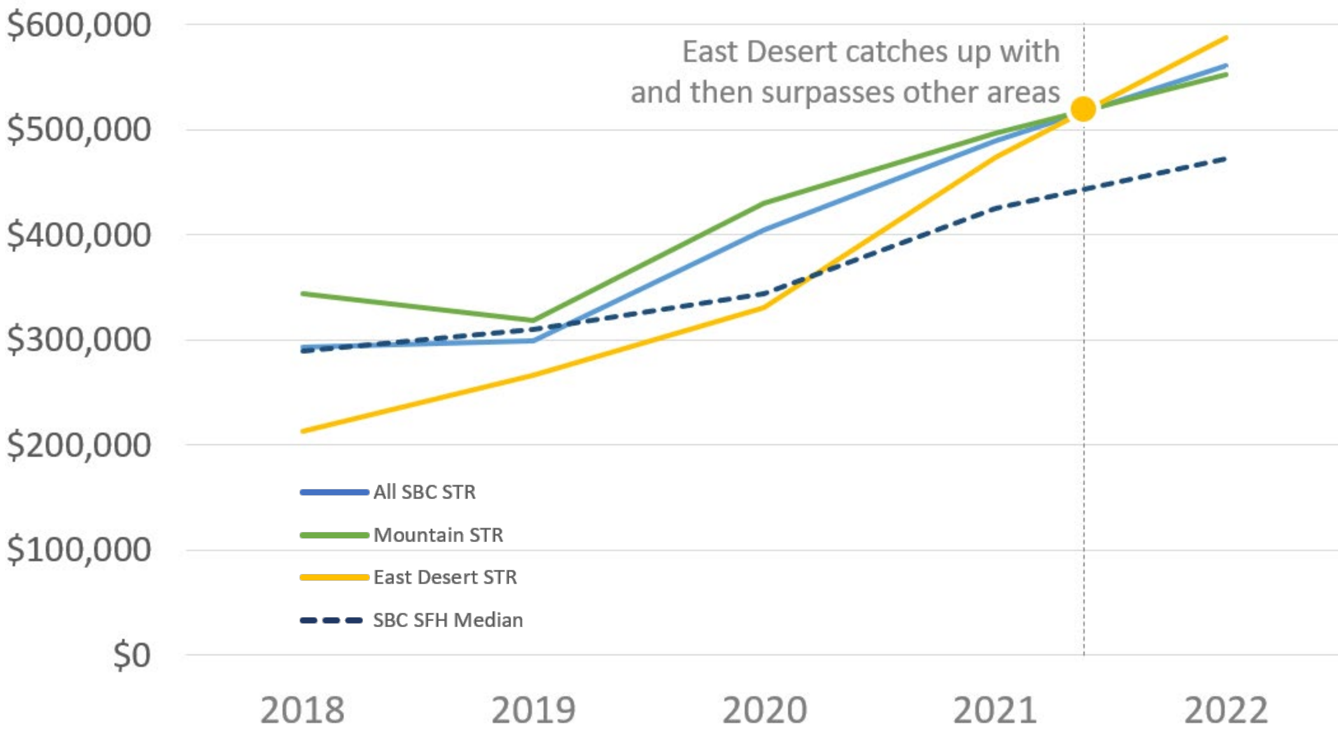
Source: Zillow Home Value Index, comparing median home values in June 2015, July 2022, and September 2023.

Short-term Rentals Sales Prices

The County also compared the sales prices of short-term rentals 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.

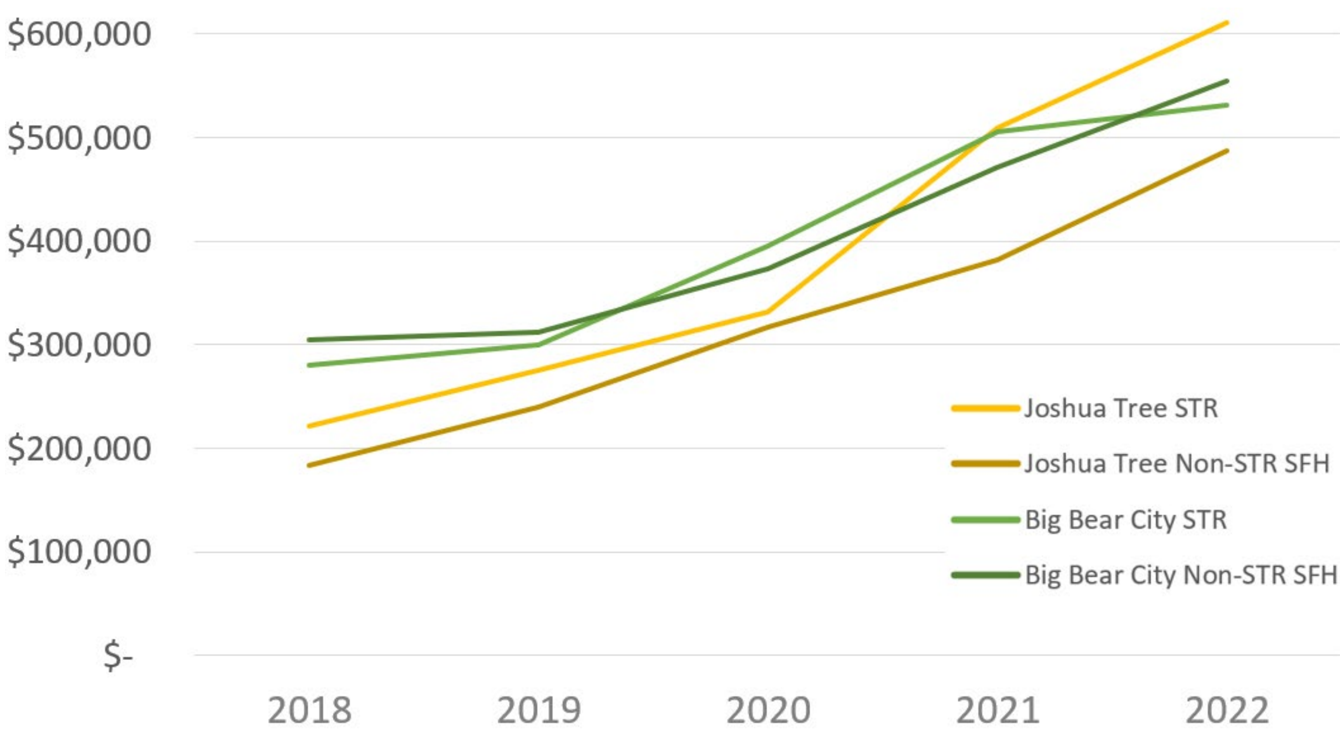
Additional insight can be obtained by comparing sales prices of STR and non-STR SFHs in Big Bear City and Joshua Tree. STR prices were similar to other SFHs in Big Bear, where STRs already have a long history. Big Bear City's longer history with STR activity is likely a big reason for the relatively 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, STR owners need 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.

However, STR activity is often seasonal and few properties book up consistently each month and throughout the year. Based on Granicus's analysis of a sample of over 2,000 STRs in unincorporated San Bernardino County, only about 35% book more than 60 nights per year and only 22% book more than 90 nights per year. Furthermore, only 8% generate income of $25,000 or more per year and just under half (44%) generate less than $5,000 per year. See Figure 19 for more details.

Figure 19. Comparison of Long-term and Short-term Rents, Unincorporated Communities, 2023

ZIP Code	Community	Zillow Median Rent (6/23)	Avg. STR Nightly Price (6/23)	LTR/STR Price Ratio
92252	Joshua Tree	$1,847	$258	7.1
92284	Yucca Valley*	$1,532	$274	5.6
92314	Big Bear City	$2,138	$253	8.5
92315	Big Bear Lake	$2,183	$297	7.4
92325	Crestline	$1,998	$217	9.2
92352	Lake Arrowhead	$3,031	$353	8.6

Source: Granicus, 2023. Note that while Yucca Valley is associated with the zip code in the table above, the nightly price is for STRs in the unincorporated portion of the zip code.

CHANGES IN OCCUPANCY

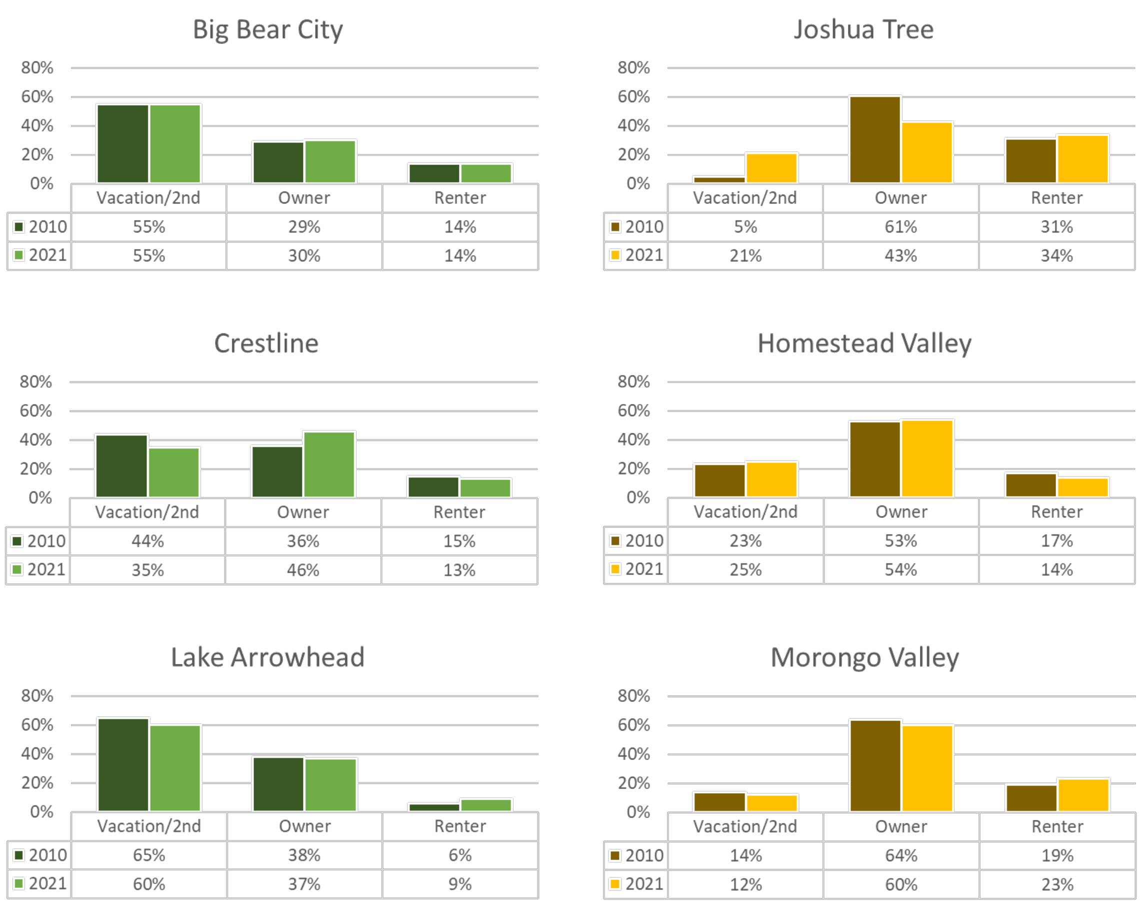
Occupancy Rates in Unincorporated Communities

The County looked to the US Census as the most complete and authoritative datasets to determine whether short-term rental activity was displacing long-term renters. The County compared the percentage of housing units in 2010 and 2021 that were occupied by a property owner, occupied by a long-term renter, or unoccupied and vacant for use as a vacation/2nd home (vacancy rates for other reasons were evaluated but are not cited in this memo). 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.

The housing market in the Mountain region, in terms of occupancy, is relatively similar between 2010 and 2021. As examples, in Big Bear City, the occupancy patterns were almost exactly the same when comparing 2010 and 2021. In Lake Arrowhead, the percentage of vacation/2nd homes is slightly lower in 2021 (-5%) compared to 2010 and the percentage of renter-occupied units is slightly up (+3%), indicating that a portion of vacation/2nd homes were converted into year-round renter-occupied units. In Crestline, the percentage of vacation/2nd homes is much lower in 2021 (-9%) compared to 2010 and the percentage of owner-occupied units is up (+10%), indicating that a portion of vacation/2nd homes were converted into year-round owner-occupied units.

The housing market in the East Desert region, in terms of occupancy, is relatively similar between 2010 and 2021, with the exception of Joshua Tree. In Homestead Valley and Morongo Valley, the occupancy patterns were similar in 2010 and 2021, with all values small enough to be with the margin of error. In Joshua Tree, the percentage of vacation/2nd homes is much higher in 2021 (+16%) compared to 2010. However, the percentage of owner-occupied units is substantially lower (-18%) while the percentage of renter-occupied units is slightly higher (+3%), indicating that a portion of year-round owner-occupied homes were sold and then used as vacation/2nd homes. See Figure 20 for more details.

Figure 20. Percentage of All Homes by Occupancy, Select Unincorporated Communities, 2010 vs 2021

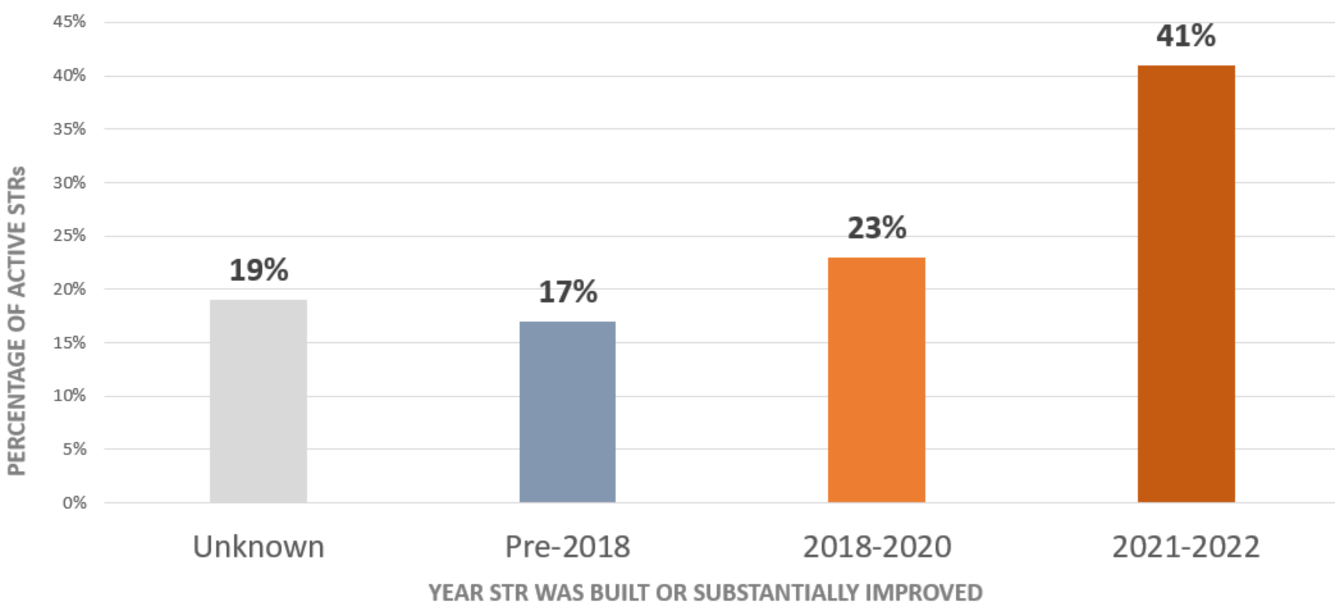


Source: US Census 2010 & 2021 5-Year American Community Survey; figures rounded and results subject to margin of error. Data available for census-designated places.

Year STR Built or Substantially Improved

Finally, the County reviewed Assessor data to identify the year active STRs were built and/or substantially improved. The data indicates that roughly two-thirds (64%) of active STRs were built or substantially improved in 2018 or later. These units were constructed either shortly after STR permits were formalized or during the pandemic and were most likely purpose-built as vacation homes or STRs, with no intention to be used as a long-term rental. See Figure 21 for more details.

Figure 21. Year Short-term Rentals were Built or Substantially Improved, Unincorporated San Bernardino County



Source: Granicus, aligning active STRs and County Assessor property data.

APPENDIX

San Bernardino County Short-term Rental Data &
Housing, by Granicus

San Bernardino County

Short-term Rental Data & Housing

Jeffrey Goodman, AICP
Granicus, Inc.

2023

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Thanks
Thank you to the San Bernardino County's Land Use Services Department for their support of this report.

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Executive Summary

1. What is the current short-term rental market?

Though the pandemic boom has largely ended, there are still 6,395 unique short-term rental units (STRs) in unincorporated areas of San Bernardino County, largely concentrated around Big Bear Lake, Lake Arrowhead, and Joshua Tree.

Unincorporated San Bernardino County saw a 16% increase in the number of active STR units from early 2021 to the beginning of 2023, though growth has slowed this year.

2. Do short-term rentals affect the supply of housing?

Drawn by the larger financial returns from a hot pandemic-era short-term rental market homeowners converted housing units from other residential uses – long-term renting, primary residency, second homes, etc. – into tourist accommodations, or sold their home to someone who turned to STR uses.

Though many units made this switch, it is unknown how many of these units were ever or would likely be available to long-term occupancy.

Still, the absorption of units into the short-term rental market fundamentally limits choices for long-term housing.

3. Do short-term rentals affect the cost of housing?

The short-term and long-term housing markets, while vying for the same spaces, do not follow the same economic models, The difference in income potential from STRs (tied to tourism dollars) and long-term units (tied to local incomes) puts price pressure on all long-term housing units, whether by justifying a switch to a higher value use, or by setting new sale 'comps,' or by reducing supply.

These pressures manifest differently in local real estate markets. In the Mountain areas, with their long vacation home history, the consistency between short-term and non-short-term prices since STR legalization implies that any price premium for short-term renting may be already built into the cost of housing. But in the East Desert, short-term rental prices diverged from other home sales, beginning to form a separate, higher-priced STR market tied exclusively to tourism income.

4. Are renters being priced out of the market by short-term rentals?

STRs are just one factor of many broader housing forces. From news reports and public comments, there are stories of renters' leases not being renewed, houses sold, even evictions, so that property can be used as short-term rentals.

Executive Summary

Other trends, many created or influenced by the COVID pandemic, likely play an equal or even larger role in transforming the study area's housing market. Significant trends include the rise of remote work, retirees moving inland, the cost of construction, borrowing and insurance rates, investments in broadband infrastructure, and rural gentrification.

The lack of consistent, neighborhood-level long-term rental data makes it difficult to analyze short-term rentals' specific contributions to rent rates. But academic studies from across the nation consistently find a direct relationship between an increase in STR units and a rise in long-term rent and housing prices.

Conclusion

While a relatively small slice of all units in the county, STRs play a role in setting the pace, price, and pressure of the real estate market at community or neighborhood scales. The data indicates that while the potential higher income from catering to the tourist trade can create substantial incentives for existing units to become short-term rentals, this is but one of the many larger market forces creating real challenges for both the availability and affordability of housing.

Other Findings and Notable Statistics

- Three quarters of current short-term rentals have been either bought, built, or expanded since 2018.
- Regardless of when the unit began as a short-term rental use, a majority of currently-available STRs – 3,891 units - have sold since 2019.
- Since 2015, around 9% of current STRs are units that had a primary resident homeowner but now are non-primary-resident short-term rentals.
- The difference between median short-term rental unit sale price and median home price in the County has widened to nearly $100k.
- The vast majority of STR listings – 98.8% – are for entire homes rentals; only 1% 'homeshare,' or hosted stays of individual bedrooms.
- The average nightly rate for a short-term rental is just under $300.
- Fewer than 1 in 10 STRs in single-family homes are owned by an LLC.
- Just 13% of short-term rental units are owned by someone in the same ZIP code.

Introduction

Study Objective

Based on community input, news reports, and research from other communities, there is a concern that short-term rentals (STRs) may have some effect on the long-term housing market of unincorporated San Bernardino County both in terms of availability and affordability. This study seeks to, with the best data available, understand what those effects may be. The main research questions are:

1. What is the current short-term rental market, its characteristics, scope, and scale?

2. Do short-term rentals affect the supply of long-term housing options?

3. Do short-term rentals affect the cost of housing?

4. Are renters being priced out of the market by short-term rentals?

Definitions + Limits

In this study, we define a short-term rental as the rental of a residential dwelling unit for less than 30 days. (This does not include commercial operators like hotels, inns, bed & breakfasts, and private fractional ownerships like timeshares.) These rentals are usually facilitated by an Internet-based platform like Airbnb or VRBO which provides advertising, payment, and other customer services.

There are any number of different types of users and uses within the broad category of ‘short-term rentals,’ and thus many different facets to understanding the impacts of this issue. This report focuses on housing. Further study is needed about:

- Overall economic impacts of tourism, or potential changes in the tourist industry.
- Economic impacts on other lodging providers.
- Environmental impacts of tourism
- Potential budgetary impacts of fee, fine, or tax collection.

Study & Data

Short-term Rental Data
In-depth data on short-term rentals was gathered by Granicus from March – June 2023, supplemented by data collected from 2015 through October 2023.

Granicus collects data points from every rental listing on sixty major Internet platforms weekly. Listing data and photos are used to match advertisements to specific addresses through both automated and human-verified means. The list is then de-duplicated and collated to San Bernardino County records. In this study, Granicus was able to conclusively identify the physical addresses of approximately 90% of all collected listings. When this identification is not necessary, as with descriptions of listing characteristics, then the more general data is used.

Data on short-term rentals transacted privately, fractional ownership or timeshares, and commercial lodging (licensed hotels, bed & breakfasts, etc.) either could not be collected or were excluded from this study.

Geographies:
This study focused on unincorporated San Bernardino County, the County's Mountain and East Desert Community Planning Areas, with additional data on the Joshua Tree, Bear Valley, and Big Bear City communities.

Income & Usage Modeling
Through a number of publicly-available data points – changing booking calendars, reviews, minimum night stays, similar jurisdictions' patterns, and economic modeling – Granicus data can estimate both the usage and income from the short-term rental of the hosts in San Bernardino County's short-term rental market.

Extrapolations were made from a sample of 2,100 listings with complete data about the number of nights rented and, combined with the listing's nightly rate, the yearly STR income.

Housing and Sales Data
Data on house addressing, parcel information, ownership information, base year, valuation, exemption status, sale dates, and sale prices were sourced from the San Bernardino County Assessor's property data files. Sale prices are true to their year and have not been adjusted to 2023 dollars. Select data was accessed in bulk via ParcelQuest, a third-party data collection service.

Median sale prices for San Bernardino County are based on California Association of Realtors monthly median sale prices.

Median long-term rents are from the Zillow Observed Rent Index (ZORI,) "a smoothed measure

Data

of the typical observed market rate rent across a given region…that is weighted to the rental housing stock to ensure representativeness across the entire market, not just those homes currently listed for-rent.” For more information on ZORI: https://www.zillow.com/research/data/.

Additional data comes from both the decennial Census and the 5-year American Community Survey counts of housing units, population, and various rental characteristics. Inconsistencies in data-gathering and estimation, problems associated with the pandemic, and the transient nature of housing and tourism limit some ability of using Census data.

Other Data Sources Consulted

As part of this study, several other data sources were investigated as potentially useful but, ultimately, were of limited utility at this time.

San Bernardino County Sheriff’s data: Due to ongoing IT issues and privacy concerns, it is not possible at this time to access data on formal eviction proceedings and to match units that had evictions to short-term rental data.

Utility data: To gauge changes in occupancy and the environmental and infrastructural effects of housing uses, we hoped to access small-area data from power and water utilities. State laws regarding the release of this information prevented this analysis.

Long-term leases: There is no objective, consistent, public database of long-term leases, their terms, and their start and end dates.

Property management companies: Attempts to gather large data sets about the long-term rental market history were not successful in creating a source that was comprehensive or consistent.

School district registration data: Efforts to identify shifts in population and changes to housing status are ongoing, though these data points often do not point to a specific cause.

Abbreviations:

SBC – San Bernardino County
STR – Short-term Rental
SFH – Single-family Home – County Use Code 510
HE – Homeowner’s Exemption
LLC – Limited-liability Corporation

Background Conditions

What is the current short-term rental market?

Short-term renting, as a use of residential property, existed in San Bernardino County well before the first Internet-based platforms launched in the mid-1990s. But in the last fifteen years, driven by the reach and ease of the online market, the short-term rental industry has exploded in popularity, bringing a host of changes to neighborhoods across the county.

The County government, like many across California, has had to adjust to this new reality. San Bernardino County legalized short-term renting in its Mountain Community Planning Area – including popular destinations like Lake Arrowhead and Big Bear – in 2007. In 2019, STR legalization came to the East Desert area centered on Joshua Tree. (STRs are not permitted in the Valley area.)

While their popularity is undeniable, short-term rentals, like any issue that intersects with people's homes and people's money, are divisive. To supporters, tourism dollars can expand local economies, help homeowners afford their mortgages, and better meet lodging demands. To detractors, STRs bring local problems – noise, trash, parking issues – while, on a larger scale, eroding opportunities for long-term renters and residents.

Though we group them all as 'short-term rentals,' there is a huge variety of users and uses that fall under that term, each with its own positive and negative impacts.

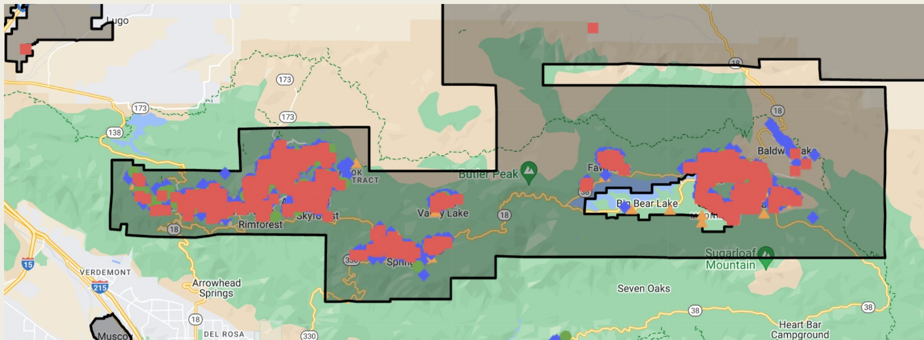
To understand those impacts, we must first define the scope and scale of the current short-term rental market in unincorporated San Bernardino County. Based on Granicus data from June 2023, there are:

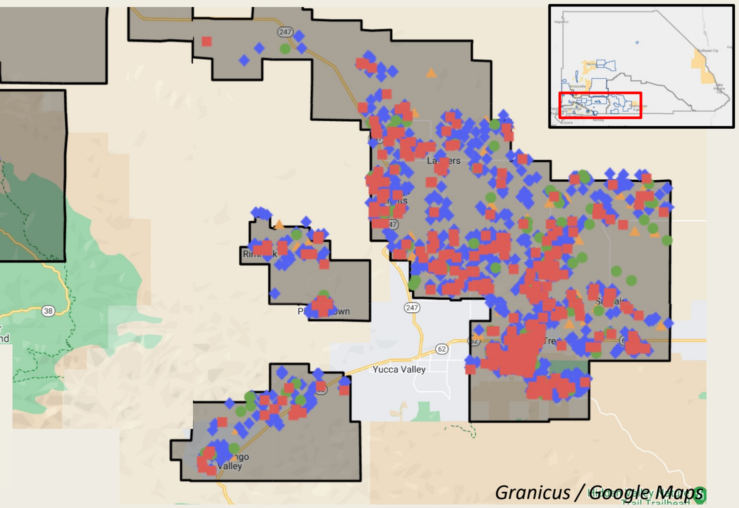
- 10,921 active short-term rental listings representing 6,395 unique rental units in unincorporated areas
- Mountain and East Desert areas have the majority of STRs:
  10,321 listings / 6,044 units

(A listing is the digital advertisement whereas the unit is the physical space. A unit may have multiple listings.)

Background Conditions

Map of short-term rental units





As of June 2023. While the colored shapes indicate different listing platforms, because of overlapping and shape density, the map can only give a general view at this scale.

Community Plan Area	Planning Area	Active STR Units
Bear Valley	MT	1,987
Lake Arrowhead	MT	1,181
Joshua Tree	ED	1,053
Hilltop	MT	371
Crest Forest	MT	298
Homestead Valley	ED	297
Wrightwood	MT	101
Pioneertown	ED	82
Morongo Valley	ED	72
Other / Unclear		49

These numbers, which are constantly shifting as units come and go from the online platforms, correspond to specific addressed parcels in the county. (See data notes in the Introduction for limitations, exclusions and estimations.)

As of June 2023, the Bear Valley Community Plan Area – the neighborhoods around Big Bear Lake, not including the incorporated City of Big Bear Lake – had the greatest number of active short-term rental units, followed by Lake Arrowhead, Joshua Tree, and the Hilltop neighborhood centered on Running Springs. Only Lucerne Valley had any noticeable concentration in the North Desert.

Current STR Market

Because the number of short-term rentals represents a very small percentage of the total housing units across the entire unincorporated county, the effects of their operation may seem minor. But looking closer at the County's community planning neighborhoods, some areas have much denser concentrations of short-term rentals.

In both Big Bear City and Joshua Tree, the number of short-term rentals are more than 20% of the number of all single-family homes in the neighborhoods. (Big Bear City has long been a "transient" community, whereas Joshua Tree has reticently become a popular tourist destination.) The large percentages of STRs in these neighborhoods, like the others listed at right, mean that shifts in the vacation rental industry have significant influence on the broader housing market.

Additionally, the general short-term rental marketplace has evolved greatly from its casual homesharing origins; more money is involved, units are more professionally managed, guest expectations are higher. Though they are often prominently featured in advertisements and political messaging, the 'homesharer' is a minor part of the STR marketplace both in terms of listings and income. Today, the vast majority of listings – 98.8% – in unincorporated San Bernardino County are for entire homes, which is consistent with data from other large counties. (This does not mean these 'whole-home' rentals do or do not have a full-time resident - merely that the host is not present for the STR activity.)

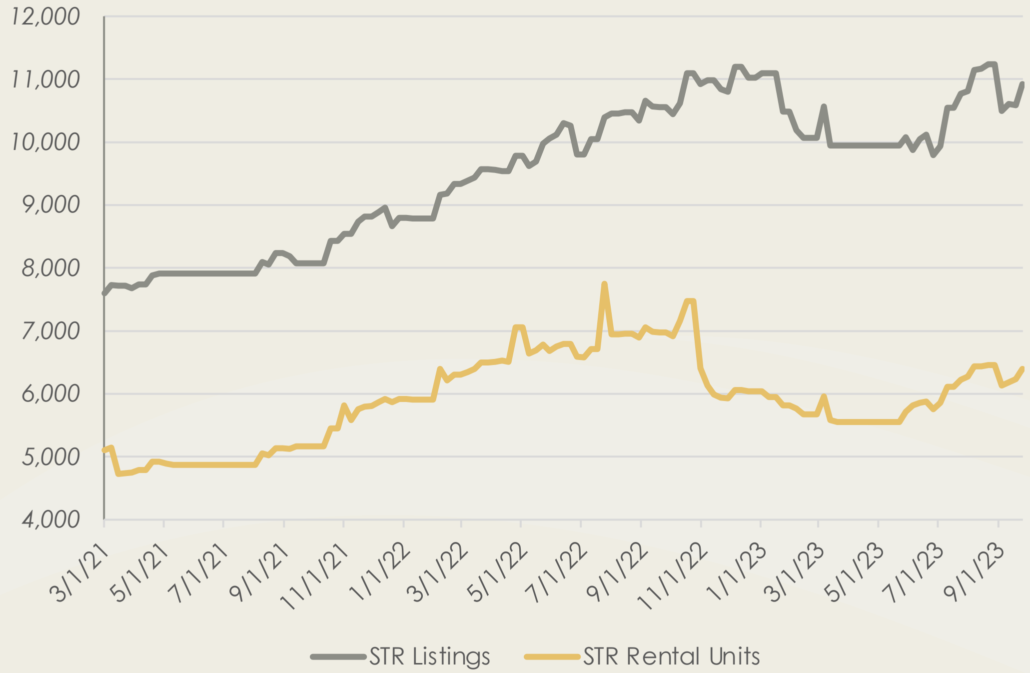
	Active STR (June '23)	**All Single-Family Homes**	**% STR / SFH**
Big Bear City	1,400	6,742	**21%**
Joshua Tree	1,082	3,764	**29%**
Lake Arrowhead	951	7,575	**13%**
Sugarloaf	428	3,132	**14%**
Crestline	278	3,053	**9%**

About 93% of short-term rentals are in single-family homes, individual houses on individual lots, though un-addressed ADUs, granny flats, in-law suites with separate entrances, and similar units, may have been included in this data.

Current STR Market

Additionally, unincorporated San Bernardino County saw a 20% growth in the number of STR units since early 2021 when weekly tracking began. Recent reports indicate that the local STR industry growth may be slowing as tourists return to pre-pandemic travel patterns, so while listings are up, the number of units is relatively flat.

1. STR Listings & Units: 3/21 – 9/23



Income & Income Potential
Though the average nightly rate for a short-term rental is just under $300, there is a considerable range of prices. A majority of listings are in the $100 - $300 range, but the county average is dragged upwards by the 1,093 listings priced for more than $500 per night.

This is not to say that the impacts of each unit are equal. Through economic modeling of known booking data, we estimate only about a quarter of all listings have over 90 nights of usage per year. Large numbers of listings have little to no activity.

Depending on local rents, a short-term rental may still be more profitable than long-term renting with only a few bookings per year. Still, it is important to remember that just because a unit is used as a short-term rental does not mean it is booked to its maximum limit or generates its maximum potential profit.

Do STRs affect the supply of housing?

What had been a steady rise as part of the so-called 'sharing economy,' the STR market in San Bernardino County hit an inflection point with the pandemic, rapidly expanding in its scale and scope.

Every unit that made up the growth in new short-term rentals was either purpose-built or converted from some other use, whether it was long-term renting, homeowner occupation, private vacation home.

Not all of these units would have or could have been previously available for full-time residents. Still, the choice of short-term renting has a kind of opportunity cost to the entire housing market, removing a potential home from a geographically-limited supply.

Even expanding that supply – often the panacea for tight housing – ran into the realities of the pandemic-era shifts. Especially in the East Desert, new housing units were instead often absorbed directly into short-term renting.

Findings

- Roughly half of all current short-term rentals have become active since the start of the pandemic.
- An active short-term rental unit is three times more likely to have sold, been built, or upgraded in the last five years than other, non-STR homes.
- Regardless of when the unit began short-term rental use, a majority of currently-available STRs – 3,891 units - have sold since 2019.
- Taken together, at least 2,700 units – whether newly-built or converted – had a different use in 2019.
- These units include over 1,200 houses which were bought and immediately flipped to short-term rental use and another 1,500 units which have been converted from other residential uses or were newly constructed.
- Since 2015, around 600 units that at some point had a primary resident homeowner are now unhosted STRs.

First Activity

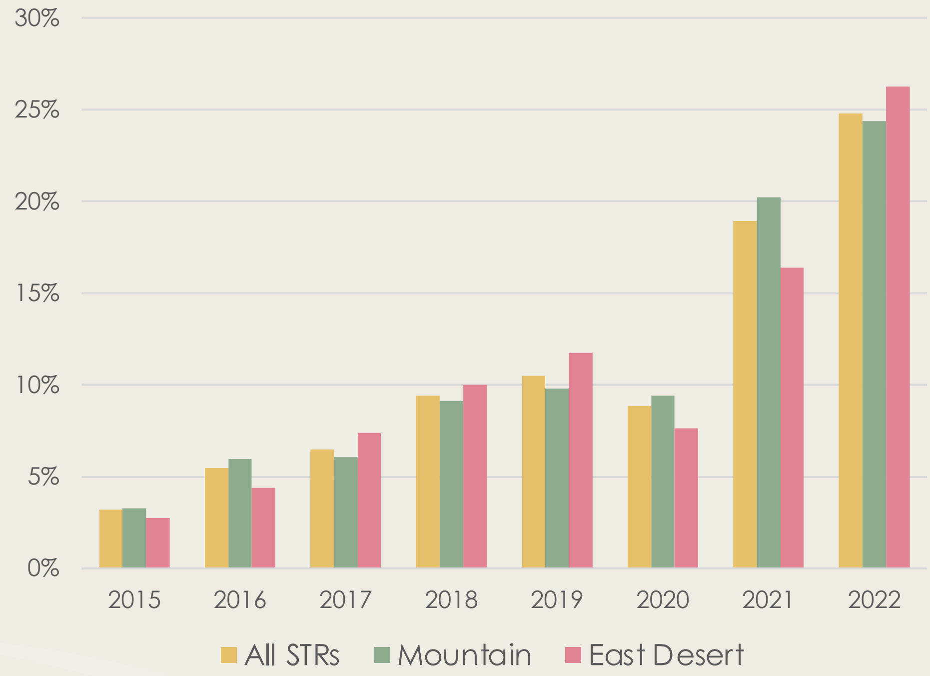
Based on local anecdotes and press coverage, we first wanted to understand if the trajectory of the short-term rental market in the county had changed in the last few years or was it merely the perception of change that drove complaints.

Lacking data on the number of short-term rentals before 2021, Granicus used its datapoint **Year of First STR Activity** to examine changes.

Year of First STR Activity is based on the earliest verified date showing a unit engaged in short-term renting on an Internet platform. This could be the creation of a listing or a dated review, comment, or edit.

Roughly half of all current short-term rentals have become active since the start of the pandemic. This trend may shift as the pandemic boom ebbs, but the physical reality for housing has been a shift from one type of use, price, and profits to another.

2. Current STRs by Year of First STR Activity (%)



Base Year

Any shift to short-term rental activity is not just seen online but on the ground in tangible changes to neighborhoods. Using the Assessor's data, we compared the **Assessment Base Year** of current short-term rentals to all other single-family homes.

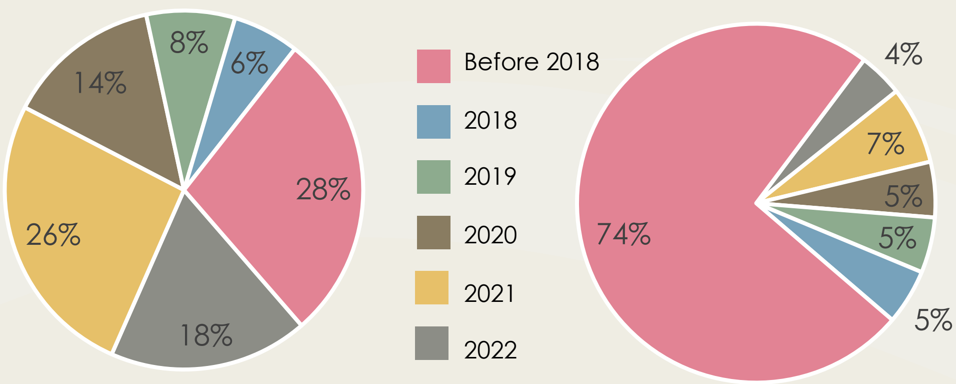
Assessment Base Year updates upon a change in ownership or after major improvements alter the square footage of the unit, such as new construction.

Across the county and its regions, 72% of short-term rental homes have a recent Base Year, compared to 26% of all non-STR single-family homes.

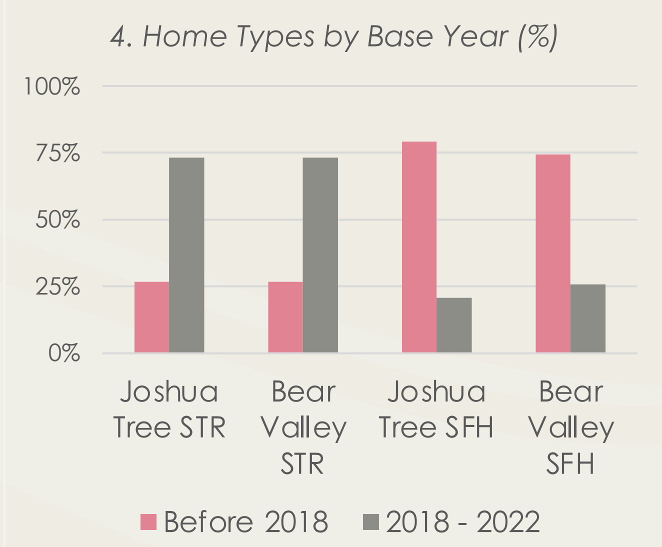
This means that not only have many short-term rental units started as STRs in recent years – a change of use that would still keep the same Base Year – but that nearly three-quarters of the market comes from either an ownership change or construction.

Within communities like Joshua Tree and Bear Valley, an active short-term rental unit is three times more likely to have sold, been built, or upgraded in the last five years than other, non-STR homes.

3. Assessment Base Year (%)



Short-term Rentals *Single-Family Homes*

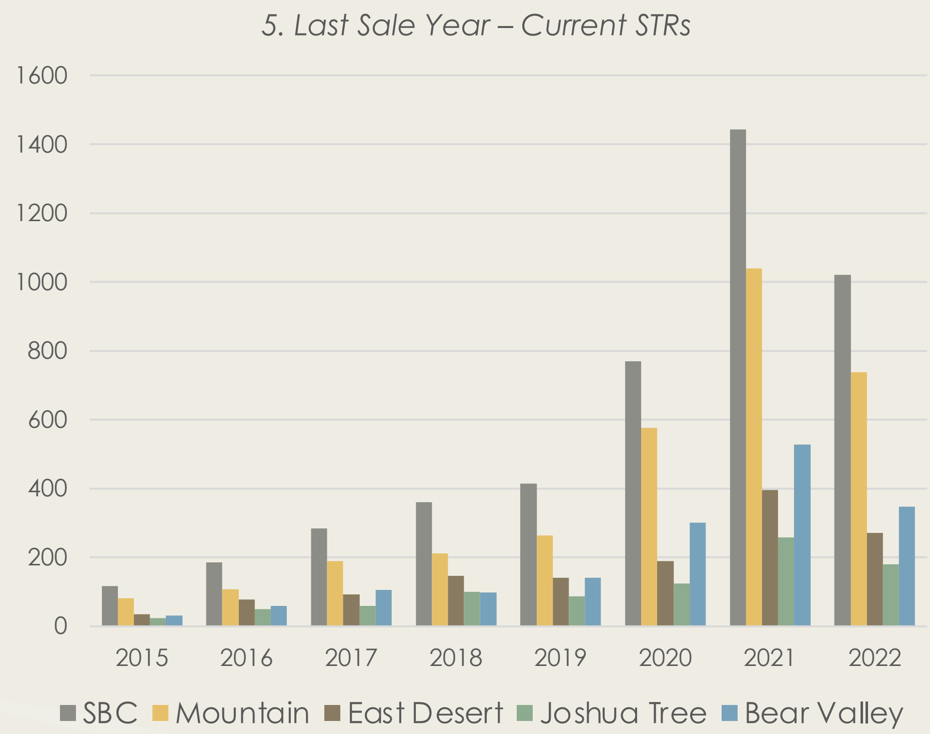


Last Sale Year

Digging deeper into Base Year, we wanted to see how much home sales specifically are driving the shifts in the housing data. Here, in this graph, are the **years of last sale** for current (2023) short-term rental units.

Regardless of when the unit began short-term rental use, a majority of currently-available STRs – 3,891 units - have sold since 2019. (Not shown on this graph are 659 active short-term rentals sold in the first half of 2023.)

That the number of sales tripled from 2019 to 2021 speaks to the sudden surge of short-term rental investment occurring in the pandemic. Still, because there are so many ways a property can become a short-term rental, this activity does not necessarily mean there is a reduction of supply for long-term housing.



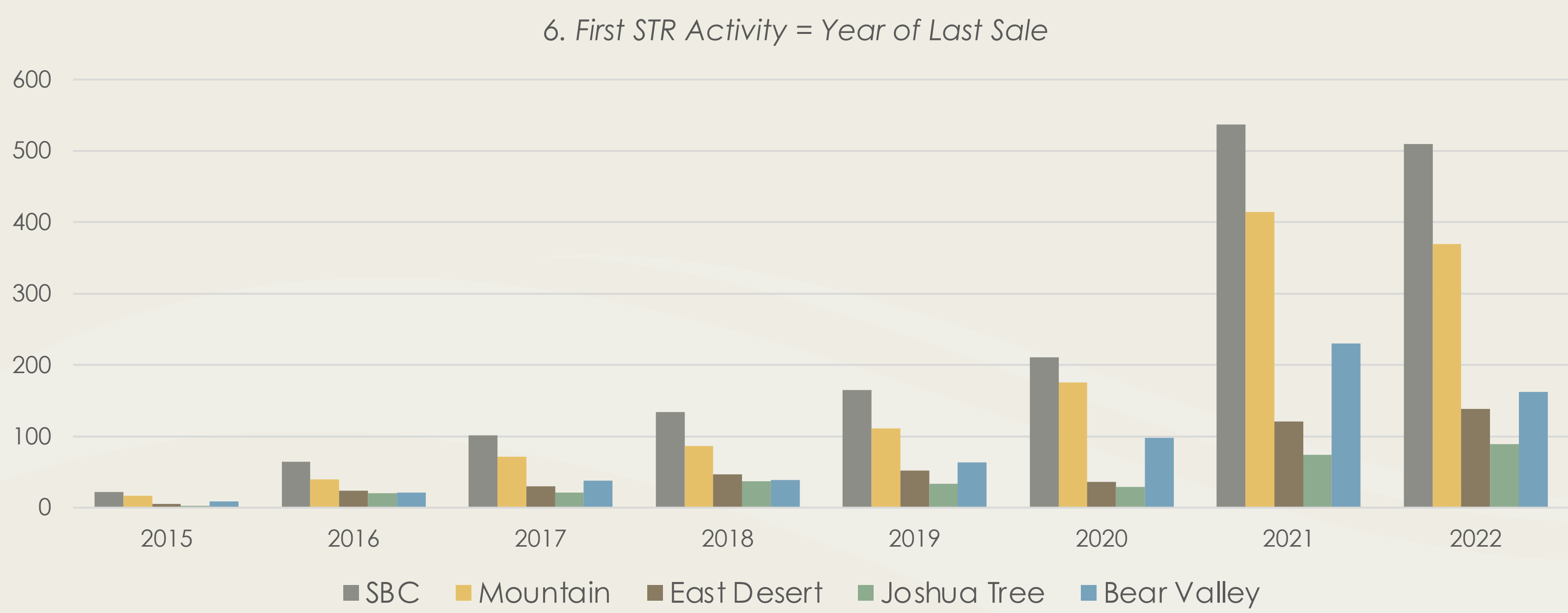
‘Flips’

With the increased number of short-term rental units being sold, we wanted to understand how many homes are bought and immediately put into the tourism market for the first time.

Knowing the number of current short-term rentals that sold in a given year and matching Year of First STR Activity to the Assessor’s sales data, this chart shows the number of active STR units that debuted the same year as their last sale.

Since the start of the pandemic, over 1,200 housing units were bought and immediately flipped to short-term renting use.

These homes, it can be assumed, were bought specifically to be short-term rentals, taking a unit that had previously been in some other use out of the potential for long-term availability. (Not all units were actually available; many units, especially in the Mountain areas, were second homes.)



Year of First STR Activity by Type

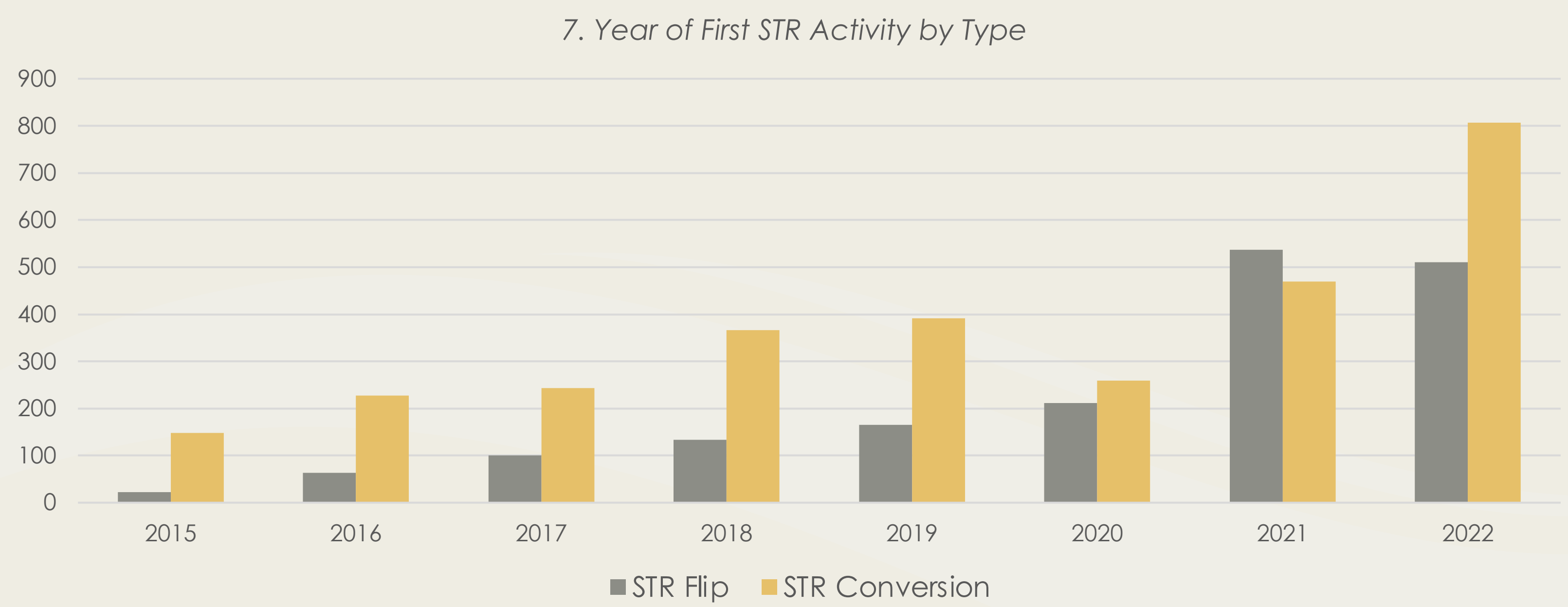
This graph shows the number of current short-term rentals by their year of first STR activity for all of unincorporated San Bernardino County.

In grey are the number of 'flips' from the previous page - properties where the year of first STR activity matches the year of their last sale.

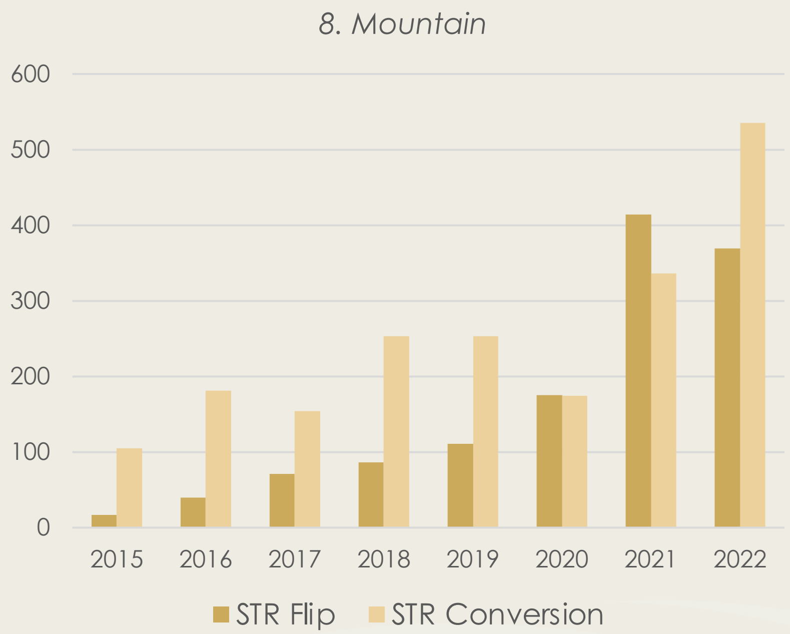
All the other units – shown here in yellow – debuted as short-term rentals but had not been sold that year, meaning that they either were new construction or were converted, by the owner, from another use.

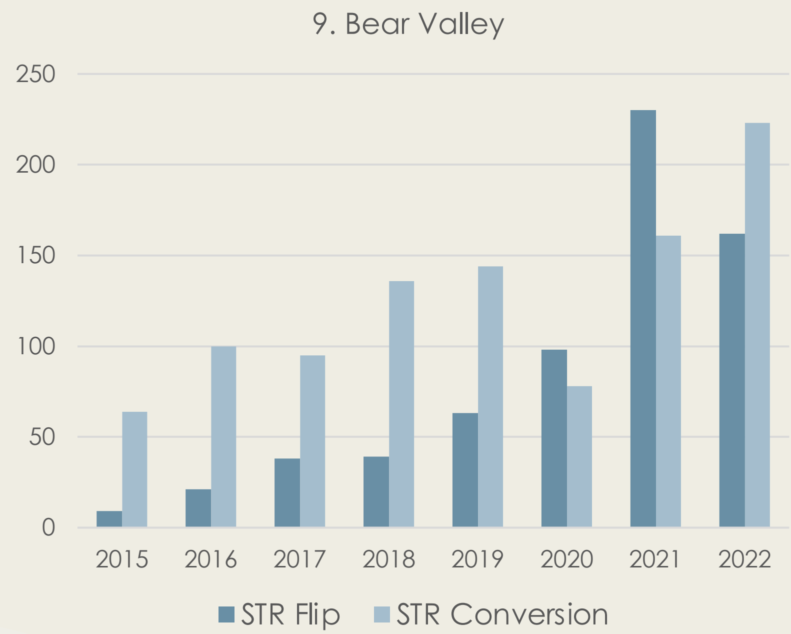
Since the end of 2019, over 1,500 units have been converted from other existing residential uses or were newly constructed.

Taken together, at least 2,700 units – whether newly-built or converted – had a different use in 2019.



Year of First STR Activity by Type



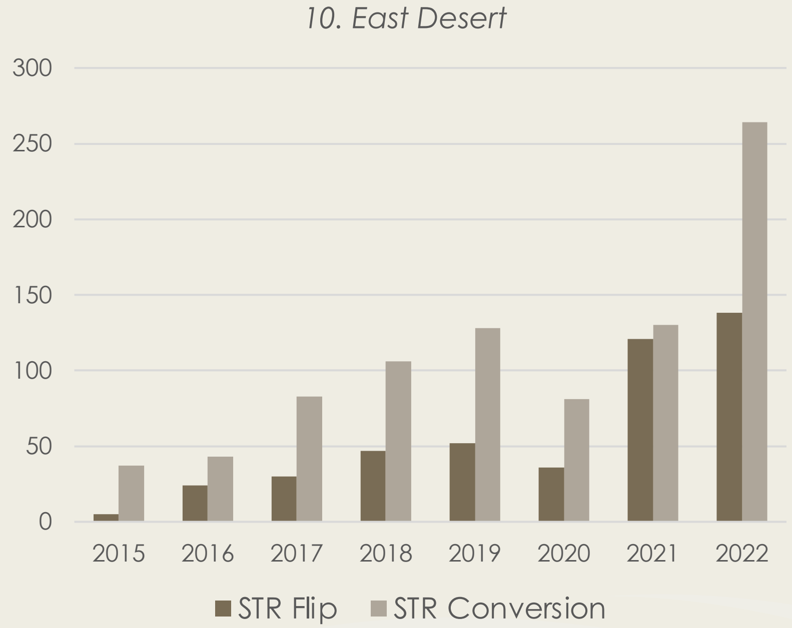


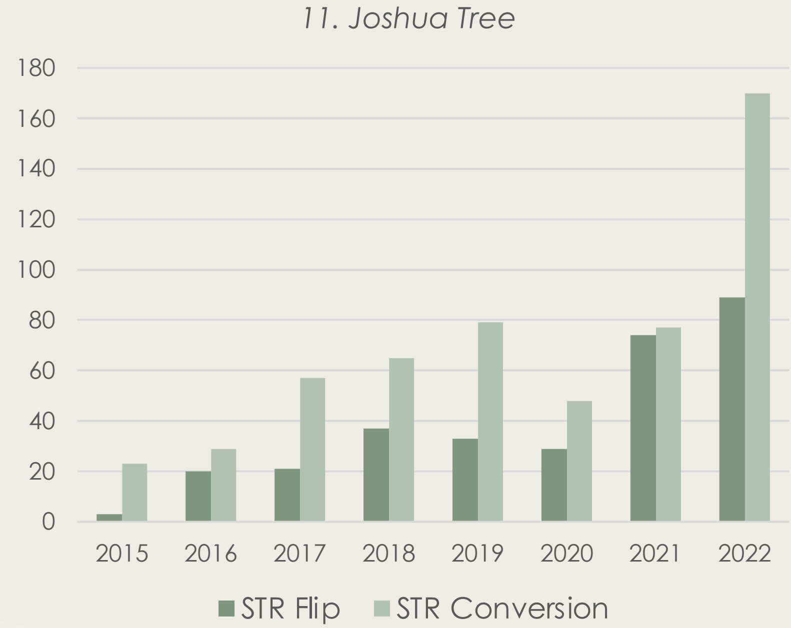
In the Mountain areas, until 2020 most new short-term rentals came from conversions of units, likely traditional second homes being listed on Internet platforms.

Starting in the pandemic, newly-listed short-term rentals in Mountain areas were, for the first time, more likely to be recent sales. Not only were more 'flips' occurring, this shift coincided with a jump in total number of sales.

The mature second home industry in the Mountain areas offer more opportunities for units to move between various kinds of uses – vacation homes, short-term rentals, private seasonal retreats, etc. – rather than a starker choice between long- and short-term occupation. This makes it difficult to know how many of these units had long-term residents before short-term renting.

Year of First STR Activity by Type





The East Desert has, both in raw number and proportion, fewer house sales go directly into short-term renting than the Mountain areas. Instead, new short-term rentals are much more likely to be some sort of change - either new construction or long-term rentals and second homes transitioned to the tourist trade.

In areas like the East Desert with relatively few long-term rentals, these shifts indicate that many newly constructed homes are being 'absorbed' directly into short-term renting. Because of the potential higher returns from short-term rental activity, the economic incentives push housing units towards prioritizing STR use.

STRs & Homeownership

One way to see how short-term rentals have moved from long-term use is through changes in the number of homeowner's exemptions. A small tax benefit, A **Homeowner's Exemption** is only given by the Assessor to homeowners for their principal residence.

Majorities of current short-term rental homes in both the Mountain (81.6%) and East Desert (63.8%) areas have not had a homeowner's exemption in any year since 2015. These properties may or may not have ever been long-term rentals; more likely, many were second homes and short-term rentals.

Still, in 2018, almost 17% of units that are now operating as short-term rentals claimed a homeowner's exemption; today, only 4.4% do. Since 2015, around 600 units that at some point had a primary resident homeowner are now unhosted STRs.

The drop is especially apparent in the East Desert, where as recently as 2018 over a quarter of current STR units had primary residents.

There are several explanations for this change. Some homeowners may have converted partial-home STRs to whole-home rentals. Some owners may have moved and started short-term renting their former home.

Current (2023) Short-term Rental Units with Homeowner's Exemption in a given year

	2018	2019	2020	2021	2022
All SBC STR	840	679	676	465	221
% of STRs	16.8%	13.6%	13.5%	9.3%	4.4%
Mountain	440	374	375	259	121
% of STRs	12.4%	10.6%	10.6%	7.3%	3.4%
East Desert	389	296	292	198	92
% of STRs	27.3%	20.7%	20.5%	13.9%	6.4%

Homeowner's Exemption

This chart shows the number of current short-term rental units that removed their homeowner's exemption the first tax year after listing as a STR, using both the Assessor's data and Year of First Activity.

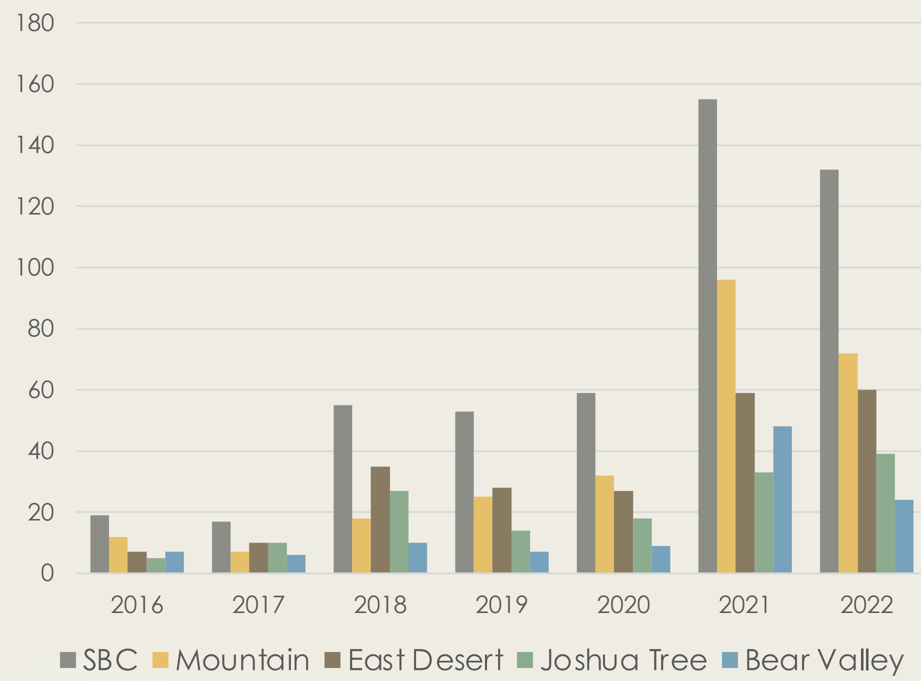
(To account for mid-year changes, this chart counts units that had an exemption the year before first STR activity but lacked an exemption the year after its STR debut.)

The pace of change, which had ticked upward in 2018 and 2019 after STR legalization, accelerated rapidly during the pandemic.

While the overall numbers are small – roughly 5% of all short-term rentals in the county – STR units that lost homeowners' exemptions are the best data points we have about specific homeowners making a choice to switch from long-term housing to the tourist market.

Even in the absence of long-term lease records, the trends are consistent with other data points.

12. Loss of Exemption Year after First STR Activity



Ownership Characteristics

Local vs. Non-Local

Whenever the short-term renting industry becomes more active in a neighborhood, one of the main concerns is 'commercialization,' that new, deep-pocketed owners will come to dominate the landscape and disrupt the mom-and-pop hosts.

Considering how few true homesharers there are in the market, it is not surprising that relatively few short-term rentals are owned by a person or entity in their same ZIP code. This percentage is especially low in the Mountain areas, where second homes have been a major part of the real estate market for years.

In the East Desert, where short-term renting at scale is a more recent phenomenon, the different between out-of-ZIP ownership of STRs and all other homes is much more pronounced, speaking to the large-scale turnover of houses in the last few years.

And, though LLC-owned units did increase during the pandemic, they are still a small proportion of short-term rental owners.

Findings

- Only 13% of all current short-term rentals in the county are owned by people or entities in the same ZIP code as the STR.

- 201 entities (individuals and LLCs) own multiple STRs in the study area, collectively owning 446 single-family STRs.

- 560 – fewer than one in ten - single-family STRs are owned by an LLC. However, LLCs are more prevalent in the Joshua Tree area where between 17% and 40% of all STR sales in the past 3 years have involved LLCs.

Local Ownership

A common local concern is that property is being bought up by 'outsiders,' owners who are not invested in a community, just looking for profit, at the expense of everyone else in a neighborhood;

Using the Assessor rolls, it is possible to compare the listed owner address to the address of the short-term rental unit, in this case by ZIP code.

Only 13% of all current short-term rentals in the county are owned by people or entities in the same ZIP code.

This number dips to under 10% in the Mountain areas. In Bear Valley, where a single-family home is three times more likely to be owned locally, only 22% of all non-STR homes have a ZIP code match. Long a destination, Bear Valley is, and has been, owned from afar.

Joshua Tree, with its more recent development, is different. While two-thirds of all single-family homes are owned locally, either as primary residences or rental property, less than 20% of STRs are owned by Joshua Tree residents. The money behind short-term rentals, unlike the neighborhood's long-term housing, is coming from elsewhere.

	# STR / Owner ZIP Code Match	% of STRs in area
All SBC STRs	736	13%
Mountain	346	9%
East Desert	344	21%
Joshua Tree	195	19%
Bear Valley	143	7%
	# Non-STR / Owner ZIP Code Match	**% of all other SFH**
Non-STR Joshua Tree SFH	1,825	66%
Non-STR Bear Valley SFH	2,456	22%

STRs & LLCs

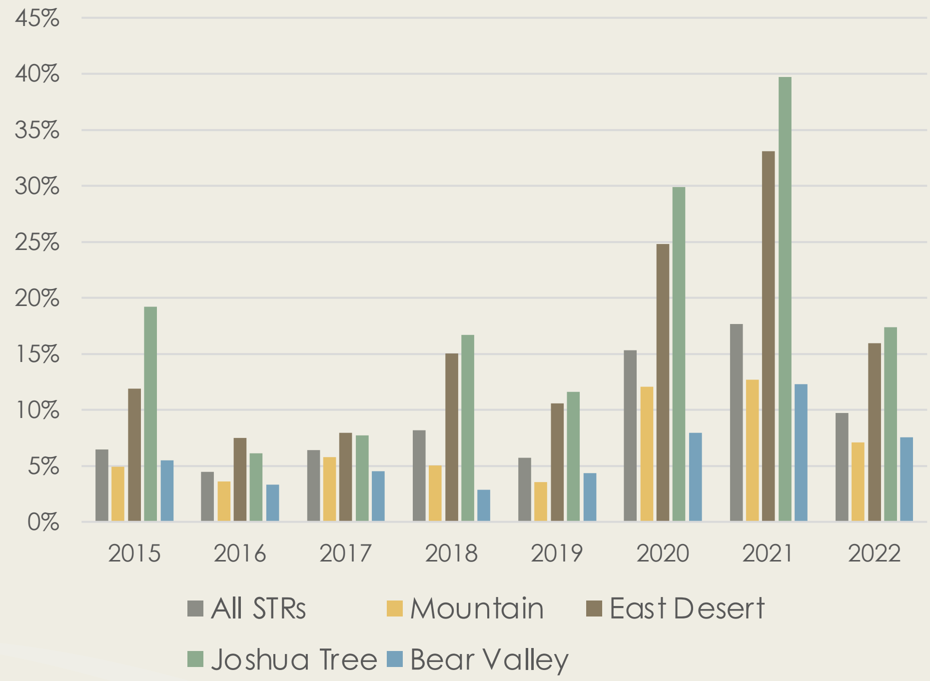
The perception that 'outside' money fuels the rise of short-term rentals in an area is often paired with a concern about limited-liability corporations (LLCs) entering the housing market.

As the short-term rental industry has matured, LLCs and and investment vehicles like REITs (real estate investment trusts) have become more common homeowners, bringing with them a different view of real estate than the typical individual buyer.

Here is the percentage of sales in a given year of current STRs that were bought by an LLC, according to the Assessor's records. The East Desert, and especially Joshua Tree, have seen more activity by LLCs, notably in 2020 and 2021.

Because there are many reasons why an LLC is formed - ease of transfer, privacy, tax benefits, etc. - it is difficult to say that LLC purchases have a positive, negative, or neutral effect on housing relative to other short-term rentals sales.

13. Percentage of STR Sales to LLCs 2015-2022



Do STRs affect the cost of housing?

Housing – whether short- or long-term – have become more expensive, with the median single-family home price in San Bernardino County rising $150k in just the last five years. In that time, with some exceptions in the East Desert, current short-term rentals have consistently sold at higher prices than homes with other uses.

One theory for this gap would be that buyers, knowing that the potential income from tourism is higher than average long-term rents, are paying a premium for desirable property. (Higher prices for STRs can also become the new comparables for all property being sold.)

This seems to have occurred in Joshua Tree in 2020, with short-term rental prices accelerating away from other home sales even as the number of STRs expanded. As the popularity of tourism in the neighborhood increased, so too did the potential returns, thus justifying higher prices. Noticeably, non-STR home purchases and prices in the area continued at roughly the same rate.

In Big Bear City, perhaps because of its longer history of vacation rentals, the increased demand during the pandemic did not seem to divide the market to the same degree as in Joshua Tree. Though there is some small premium per square foot, the actual sales price of both STRs and non-STR houses is essentially the same. Whatever premium homebuyers are paying based on potential STR income is just part of the value of all homes in Big Bear City.

Findings

- In 2022 the median STR sells for about $90k more than the median San Bernardino County house.
- While the upward price movement is significant – every area nearly doubling in five years - the relatively uniformity of current prices across the county could indicate the limit of returns from the tourism market.
- 'Flippers' do not seem to be paying more, in general, for property that is immediately short-term rented than other STR units.
- Three-quarters of all single-family homes sold in Joshua Tree in 2021 are active short-term rentals today.

Sale Price

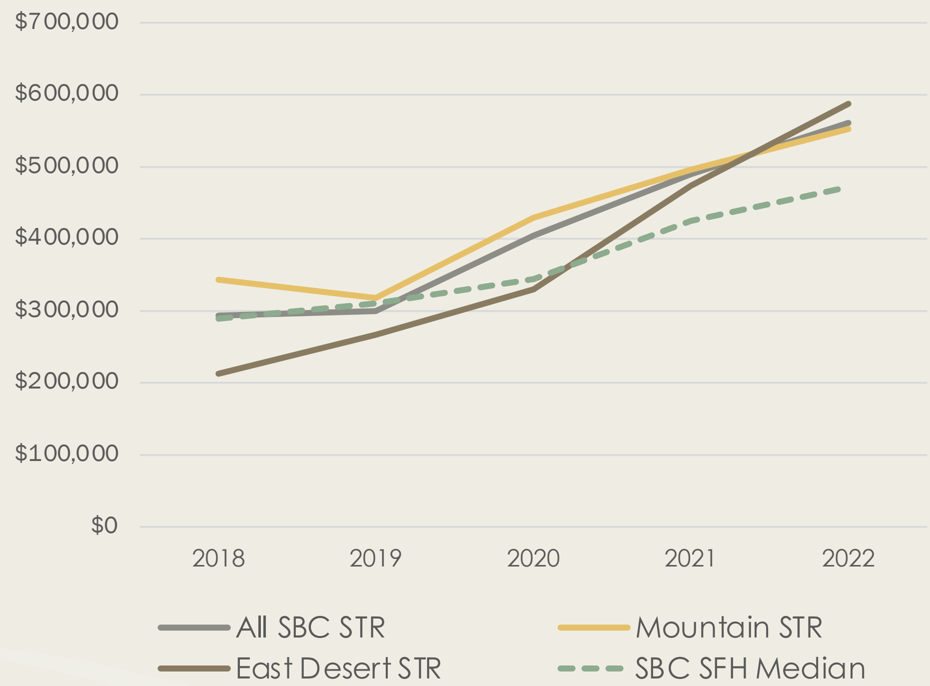
One of the biggest concerns with the effect of the short-term rental industry on the housing market is that STR buyers, knowing that tourism is often more lucrative than long-term renting, will pay a price premium to acquire property, thus outbidding other homebuyers.

Until 2018, the median sale prices of current short-term rentals and all other San Bernardino County single-family homes were nearly identical. Since then, the prices have diverged so that in 2022 the median STR sells for about $90k more than the median San Bernardino County house.

The East Desert has seen the greatest jumps in price – over $300k in five years. (The lower prices in 2018 may also reflect empty lots that have had short-term rentals built on them since their last sale.)

Some of this difference can be attributed to the qualities, sizes, and locations of short-term rental units and, for investment properties, some can be pegged to income potentialities.

14. Last Sale Price by Year



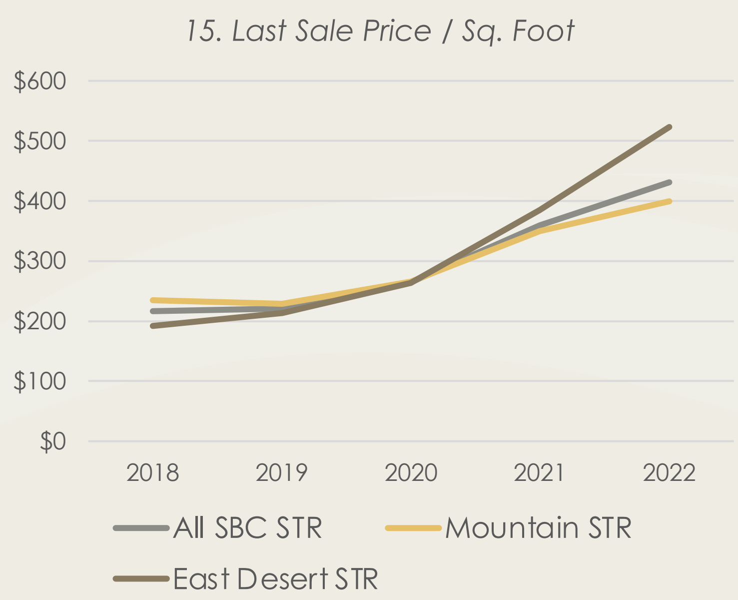
While the upward price movement is significant – every area nearly doubling in five years - the relatively uniformity of current prices across the county could indicate the limit of returns from the tourism market.

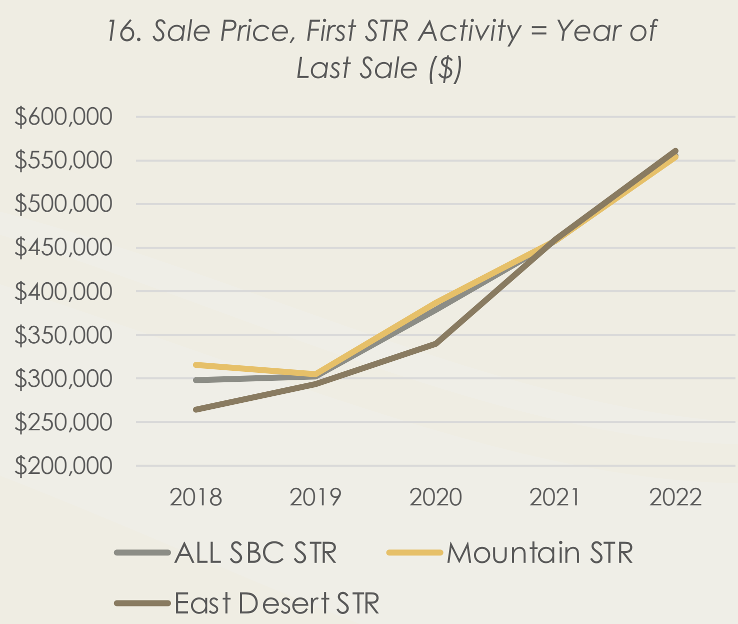
Sale Price

Sale price often does not capture the nuances of differing home sizes and styles on the housing market. Looking at sale price per square foot, a smoother curve emerges, one that better follows the general upward trend of home prices.

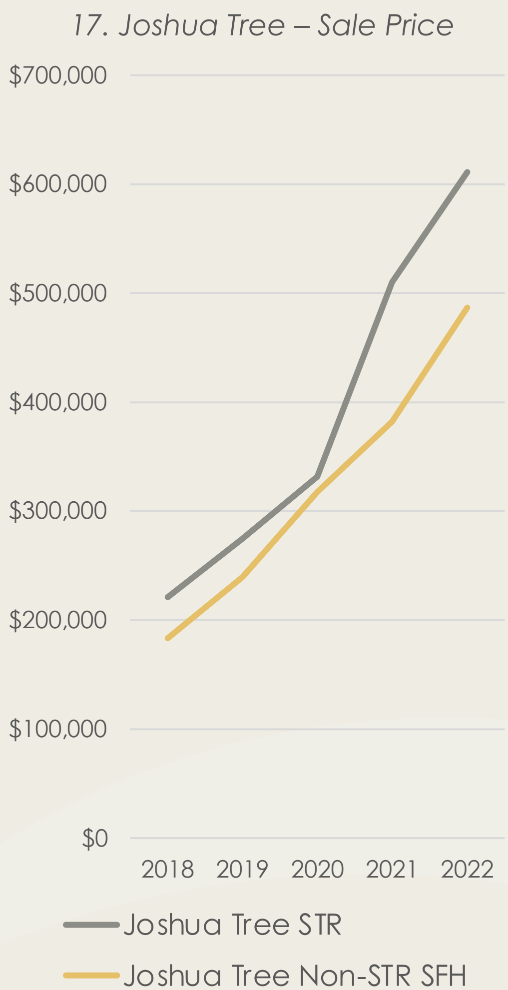
Similarly, despite the increase in the number of houses that have their first STR activity in the same year they sell, this chart of sale prices is almost identical to the chart of all STR sale prices. That the prices for this particular use case converge so strongly points to the current maximums of the tourism industry.

'Flippers' do not seem to be paying more, in general, for property that is immediately short-term rented than for other STR units.





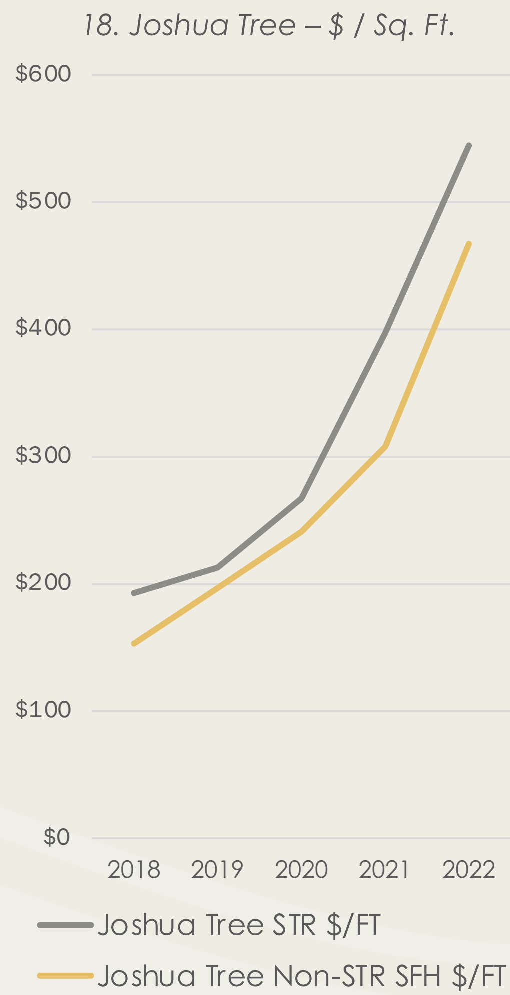
Sale Price



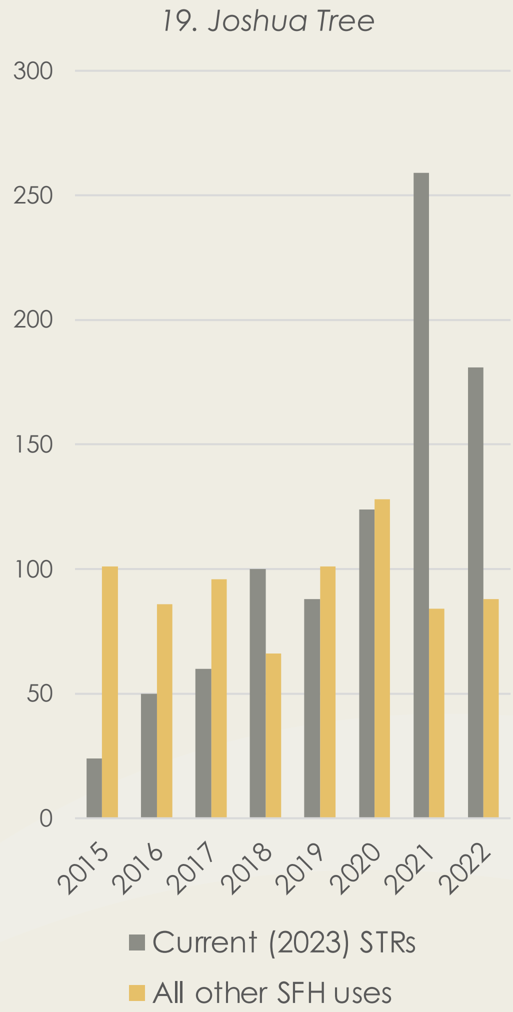
Within Joshua Tree, the sale price of units that are now short-term rentals and all other single-family homes were growing at nearly identical rates, consistently separated by about $30k or $40 / sq. ft. Since 2020 the gap has widened significantly to $124k and $90 / sq. ft.

That this divergence begins at a time when Joshua Tree becomes a popular destination is likely not a coincidence. The increased demand creates a new income potential, one STR buyers are willing to pay a premium to access. Non-STR homes, which are not purchased to access the tourism economy, do not respond to changes in the short-term economy.

It is also possible STR buyers could be purchasing homes with greater amenities, or in better condition, or in more scenic locations and paying accordingly. Perhaps, because STR buyers are less likely to be local, they may even simply be overpaying.



Sales By Type

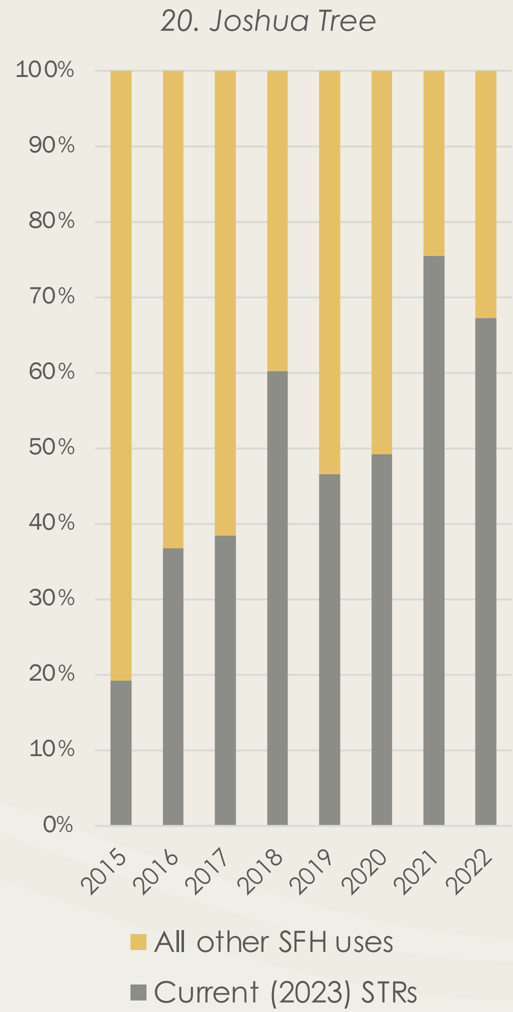


These graphs show the last sales of single-family homes in Joshua Tree by year, divided by the current (2023) STR status of the home.

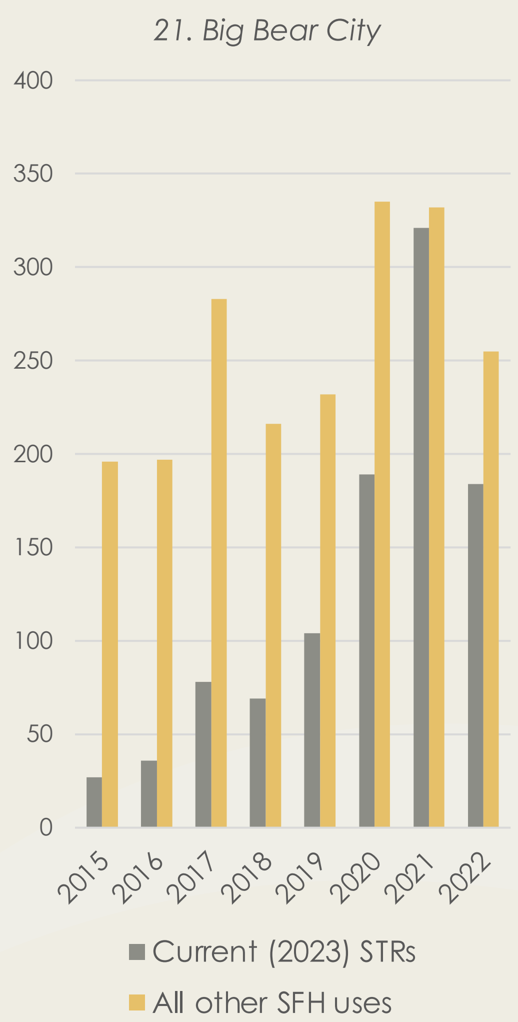
In Joshua Tree, single-family homes that are currently short-term rentals have been the majority of sales in three of the past five years: 2018 (just before STR legalization,) 2021, and 2022.

Three-quarters of all single-family homes sold in Joshua Tree in 2021 are active short-term rentals today.

While the number of units sold in a given year that have stayed out of the short-term rental market (in yellow, left) has been fairly consistent, the huge jump in sales that are now STRs speaks to a sudden influx of investment focusing on immediate short-term rental returns.



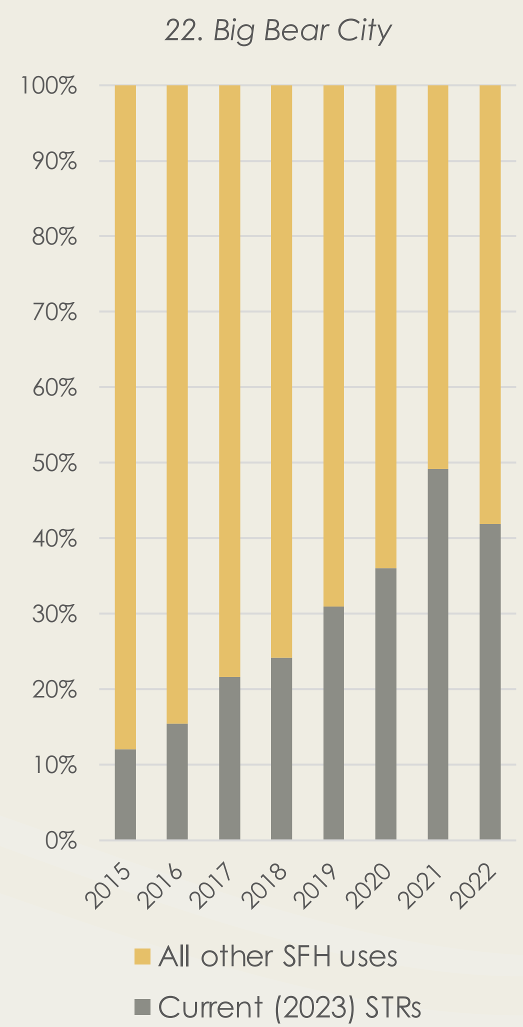
Sales By Type



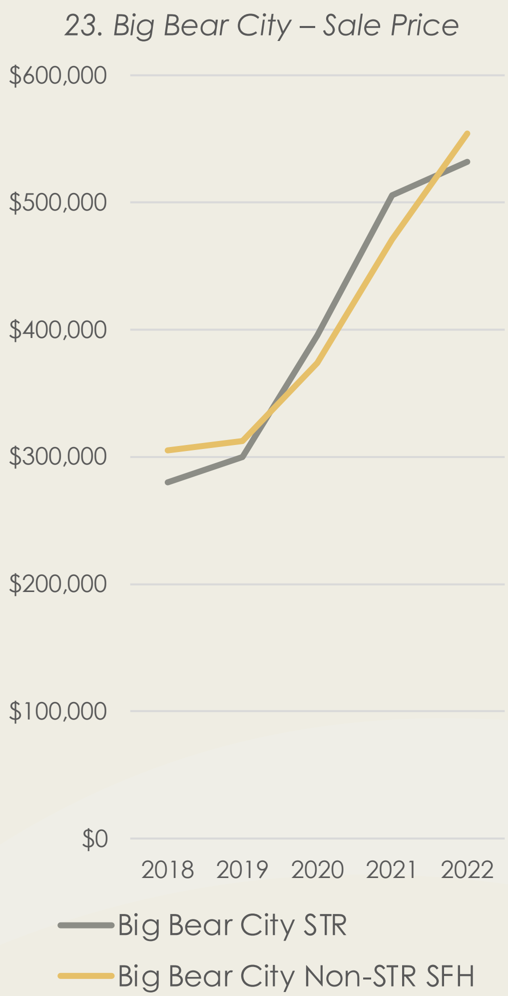
These are the same graphs as before but showing single-family home sales in Big Bear City by year, divided by the current (2023) STR status of the home.

Like Joshua Tree, the number of overall sales is up since the pandemic, with a small bump in non-STR unit sales during the same period. And while there has been a sharp increase in units sold that have become STRs, in no year have they been a majority of sales.

This, again, may speak to Big Bear City's longer history as a vacation area and more diverse housing environment.



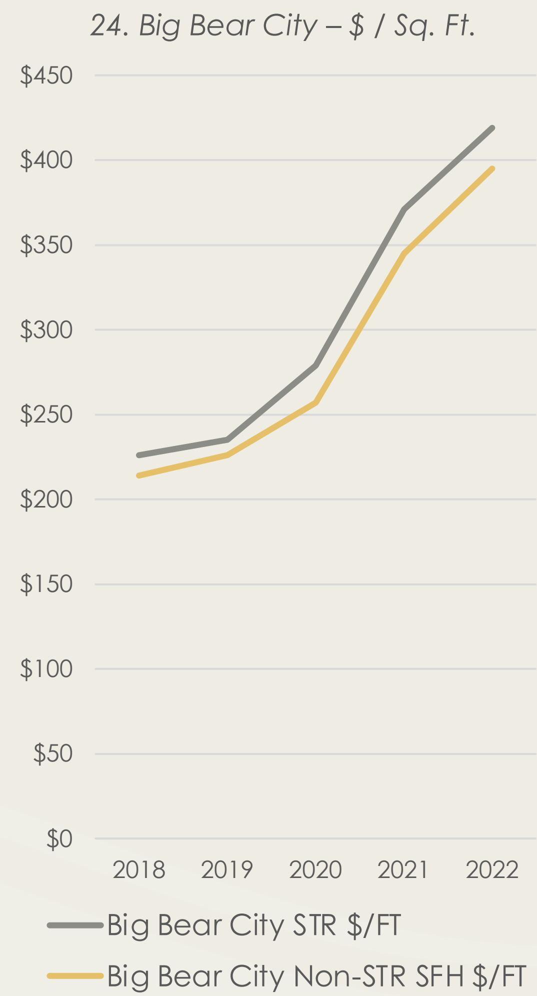
Sale Price



Within Big Bear City, the sale price of units that are now short-term rentals and all other single-family homes are nearly identical.

That their sales price averages, both in real dollars and by the square foot, are so similar indicate that any potential premium for short-term renting has already been 'baked-in' to the value of property in Big Bear City.

Looking at the per square foot pricing, there does not appear to be any major price incentive for buyers focused on the short-term rental industry. Because residential property in the Mountains could be converted to a vacation home, there is no split market and no price divergence.



Are renters being priced out by STRs?

It is difficult to find reliable, consistent, comprehensive long-term rental rates for most communities in unincorporated San Bernardino County, over time and at a meaningful scale. Additionally, the cyberattack on the Sheriff's Office made eviction data inaccessible. Absent all this information, we looked for other ways to describe how the rental market behaves.

Nearly all academic research has indicated, through various models and in various locations, a small but noticeable effect of short-term rentals on both housing prices and long-term rents. Other studies – often produced by authors with financial assistance by interested parties like STR platforms, trade groups, neighborhood organizations, etc. – can be skewed or incomplete.

Much of this research has focused on urban areas with relatively small percentages of short-term rental units, not rural or exurban areas where a third of all housing units are active STRs.

Findings

- Academic research largely agrees the short-term rental growth raises both housing prices and long-term rents
- Some high prices allow homeowners to potential generate the equivalent income of a long-term rental contract through 7 to 9 nights of short-term rental.
- Demographic and societal shifts are leading to more full-time residents in study areas, including those moving from more expensive areas willing and able to pay higher prices.
- High interest rates and insurance increases add costs to both new and existing housing, reducing affordability.
- These trends will put more housing pressure on renters seeking affordable units.

Rent Factors

The most-cited academic paper claims, "about one-fifth of the average annual increase" in rents is attributable to STR growth. That is a significant amount, especially for renters that are already cost-burdened, but that also means 80% of rent increases are caused by other factors.

Owner-Occupiers

Despite all the talk about short-term rentals, more owners are living year-round in both the Mountain and East Desert communities. Between 2015 and 2021, both Crestline and Joshua Tree saw 7% increases in owner-occupied units according to the Census. Only Lake Arrowhead saw a decrease, down 1%.

The growth in owner-occupations, perhaps driven by retirees moving from higher-cost cities, exerts similar pressure on long-term rentals as a whole-home STR by removing existing supply and absorbing new construction.

Remote Workers

Another new group, especially for the East Desert, are remote workers, white-collar professionals who bring big-city incomes to wherever they choose to live. Remote work, though fallen from the lockdown highs of 2020, brought tremendous changes to rural communities across the country, upsetting the real estate dynamics of small towns that had previously been based on local incomes.

'Rural gentrification' has continued on past the pandemic across the West. Even if remote workers are not in short-term rentals, the long-term rental market will adjust prices upwards to meet the price point of new arrivals. This puts increased pressure on long-term units to price out existing residents to chase higher returns.

Cost Factors

On the supply side, several costs associated with housing have become important determinates in unit pricing. First, rising interest rates make borrowing and construction more expensive, causing homeowners to seek higher rents and/or sales prices.

Second, changes in the insurance market has left many homeowners paying significantly more to protect their investments. This cost is passed on to tenants, whether short- or long-term. More worryingly, a collapse of the insurance industry – as has happened in Florida and Louisiana in the face of repeated natural disasters – may make property essentially uninsurable, increasing the precarity of some existing residents, even those that own their home outright.

Rent Factors

Outside of those other factors, the income potential of short-term rentals far eclipses the long-term rents in all neighborhoods of San Bernardino County.

Zillow, the popular real estate website, has monthly updates to its median rent index that can be examined at the ZIP code level.

The lower the ratio of long-term rents to short-term nightly prices, the more pressure a property-owner (or potential buyer) may feel to flip to an STR use. (There are other trade-offs in time, money, and effort that may dissuade them.) Public input from outreach meetings indicates that some property owners find it hard to secure reliable long-term tenants, and changes in state law have made it more difficult to evict problematic and destructive long-term tenants.

In communities with relatively few long-term rental units, the concern is that short-term rental use will absorb new units before they can be used for long-term use. Given high costs of land acquisition and building materials, owners will cater to the highest possible returns.

These trends – demographic, social, economic – disfavor long-term renters' situations, potentially leading to displacement.

Price Ratios

ZIP Code	Community	Zillow Median Rent (6/23)	Avg. STR Nightly Price (6/23)	LTR/STR Price Ratio
92252	Joshua Tree	$1,847	$258	7.1
92284	Yucca Valley*	$1,532	$274	5.6
92314	Big Bear City	$2,138	$253	8.5
92315	Big Bear Lake	$2,183	$297	7.4
92325	Crestline	$1,998	$217	9.2
92352	Lake Arrowhead	$3,031	$353	8.6

**The Zillow median rent is for incorporated Yucca Valley, the short-term nightly price is for STRs assigned by the Assessor to Yucca Valley but are physically in unincorporated San Bernardino County.*

Conclusion

Short-term rentals are part of a larger story about housing affordability and availability in San Bernardino County, and the shifting interplay between how homes are used.

While a relatively small slice of all units, at neighborhood scales, STRs play a role in setting the pace, price, and pressure of the real estate market. The expansion of the short-term rental industry at the beginning of the pandemic came at the expense of long-term housing opportunities. Whether through direct sale 'flip' or a homeowner making a choice to change the use of their unit, thousands of homes became unavailable to residents.

At the same time, larger demographic, social, and economic forces have further scrambled the rental market, especially in the East Desert. This constriction of long-term units, coupled with the potential higher income from the tourist trade, puts immense pressure on existing units to become short-term rentals. All of these changes create real challenges for the affordability of housing.

Housing is one of the most difficult issues for governments to regulate because so many of the biggest factors – interest rates, global flows of capital, investment patterns – lay beyond community control. Short-term renting and its definitions, its scope, its restrictions are one of the few elements of the broader housing market that can be shaped on a local level for local goals.

Appendix 1: Other Jurisdictions

	POPULATION	STR LISTINGS	LISTINGS PER 1K RESIDENTS	AVG. NIGHTLY PRICE
SAN BERNARDINO CO. (UC)	311,659	11,949	38.3	$295
Riverside Co. (UC)	385,953	4,360	11.3	$267
Placer Co. (UC)	120,095	7,488	62.4	$375
El Dorado Co. (UC)	153,200	2,785	18.2	$319
Palm Springs	45,019	8,658	192.3	$412
Washoe Co., NV (UC)	419,948	1,697	4.0	$278

San Bernardino County is the not first jurisdiction to try to understand the issues surrounding short-term rentals. In the last few years, many communities in California, faced with the some of the same concerns about tourism dollars, housing availability, enforcement, and neighborhood cohesion, have updated their codes and procedures in order to find new balances between competing forces. Here are summaries of some recent changes to peer locations.

Riverside County

Riverside County's Short Term Rental Ordinance, passed in 2016, is a largely hands-off permitting regime, requiring only the most basic operational standards like quiet hours, a local contact person, a 10% TOT, and a low fee. (The ordinance did not even have a maximum occupancy limit, something defined in nearly every other STR ordinance in the country.) While the incorporated areas of the county, led by Palm Springs, Palm Desert, and the Coachella Valley, have continually tightened their rules as the issue has evolved, Riverside County only initiated a possible amendment process in February 2020, just weeks before the pandemic upended the national housing and tourism markets.

Other Jurisdictions

That process led to a Planning Commission recommendation in May 2022 to study STR density control measures and potential caps in two areas, Idyllwild and Temecula Valley Wine Country.

Pressure to change course had been building in these areas for years. Besides resident complaints about noise, trash, and parking issues, the Planning Department noted that 12% of residences were used as STRs, with no signs of growth plateauing, threatening 'the fabric of the community.' This is especially acute in the Wine Country Winery Zones, Equestrian Zones, and Residential Zones, planned communities built around protections for specific uses that may only be compatible with better-controlled short-term rental markets.

Under an urgency ordinance in September 2022 the County created a temporary moratorium in these areas both to allow for a series of public workshops and for the Planning Department to develop the Planning Commission's proposals. The moratorium was again extended another year in August 2023.

Coachella Valley

After being among the earliest regulators of the short-term rental industry, the cities of the Coachella Valley have spent the last three years trying to strike a new balance between full-time residents and tourists. Despite similar development patterns, housing markets, and economies, the range of policy choices made by these cities reflects both the real and perceived pressures on local governments to act on the short-term rental issue.

Palm Springs, unlike most communities in the nation, has tried to define its short-term rental market by controlling the number and length of individual short-term rental unit reservations. Under new rules passed in 2022, a short-term rental can have a maximum of 26 contract stays per year – down from 36 – with the host maintaining an online contract summary tool to record activity. (Homesharing has fewer restrictions.) The ordinance amendments also create a 'Junior' Vacation Rental Registration with a lower fee but a contract stay limit of 6.

Many of Palm Spring's requirements have caveats: a city-wide density cap of 20% of housing units does not apply to Homesharing or 'Junior' rentals; LLCs can get a certificate but only if the number of owners does not exceed four people; a house with more than four bedrooms can obtain an Estate Home permit for the use of a fifth or sixth bedroom regardless how many other bedrooms may exist; friends and family can use a vacation rental without adding to the number of contracted stays

Other Jurisdictions

but only if these people were identified on the vacation rental application as official 'friends and family.' There may not be a city in America with a more complicated set of rules.

Rather than parallel Palm Springs' nuance, several cities in the valley attempted to move beyond short-term rentals entirely. Both Rancho Mirage and Cathedral City passed total short-term rental bans in 2021 to take effect immediately (Rancho Mirage) or in a two-year phase out (Cathedral City) of any existing uses. (Technically, Cathedral City allows STR in certain HOAs based on their own internal covenants.) In November 2022, Measure A – which would have sunset all short-term rental permits in La Quinta by 2025 – barely failed on a 51%/49% vote, leaving an existing moratorium in place. Indian Wells, uniquely, has a ban eleven months of the year but allows short-term rentals only for the duration of their tennis tournament.

A few other cities have taken a more moderate approach, focusing on limiting the effects of short-term rentals on housing availability. While Palm Desert has a ban in single-family residential R1 and R2 zones and limitations in PR zones without HOA approvals, these restrictions do not apply to On-Site Owner STR Permits, allowing STRs as an accessory use. (In addition, property managers who operate more than three STRs in town have a separate business license.) Yucca Valley limits the number of STR permits to 10% of the town's single-family housing units, as updated yearly by the town's Director of Community Development.

Lake Tahoe Areas

Even before the pandemic, many communities throughout the Sierras had seen large changes in both long-term and short-term rental markets. The rise of Internet-based platforms had dramatically expanded the scope and scale of the industry, transforming what had often been a word-of-mouth system into a national, even international, investment opportunity. While some communities had long histories of accommodating tourists, many cities have had to rapidly adapt to new rental realities, new quality-of-life concerns, and new enforcement regimes.

Placer County, which extends west from Lake Tahoe, passed its own urgency ordinance moratorium in 2021 which led to new regulations in 2022. The biggest change was a county-wide cap of 3,900 permits for short-term rentals located above 5,000 ft. elevation. (Nearly all of the existing short-term rentals are in the mountains; this cap excludes only the small portion of the county in the Central Valley.) Unlike many other communities' caps, the County set the maximum number above the existing number of permitted STRs.

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South of Placer County, El Dorado County also has a cap: 900 STRs across the South Tahoe county neighborhoods. Since all these licenses have been issued, the County maintains a first-come, first-serve waitlist but its website warns new applicants, "it's uncertain whether you will ever be able to obtain a permit." Permits only become available if they are not renewed or if a property changes ownership. In theory this limits the ability for homeowners to sell to short-term rental investors, but it is unclear how the county accounts for properties owned by LLCs or other fractional arrangements. (Though the ownership of the LLC might change completely, the property ownership registered with the County would not.) Unless the County investigates corporate records, it will be difficult to know what type of secondary market exists around the STR cap.

Chula Vista

Chula Vista's STR ordinance, passed in late 2021, is a detailed and comprehensive set of rules covering everything from gamerooms to written rental agreements to platform data requests. By codifying a series of specific operational requirements, Chula Vista establishes a rigorous professional standard for short-term rental hosts and empowers its code enforcement to act aggressively to ensure those standards are met.

Definitionally, Chula Vista has a quasi-residency requirement, allowing both a Primary and Non-Primary STR permit for Chula Vista residents, while also defining the rental as either 'whole home' or 'partial home.' There are a variety of slight differences between whole home and partial home rentals and primary and non-primary residences.

The ordinance also establishes a framework for addressing nuisance issues through a number of operational standards. Most of these are common elements – local contact person, quiet hours, parking directions – found in other contemporary ordinances.

Following best practices, Chula Vista divides enforcement into two main categories, major and minor violations, that allows for greater nuance in process and penalties. Most issues around licensing and operation are major violations, with escalating fines and possible license loss as punishments for repeated bad behavior. Minor violations, uniquely, include failure to remit transient occupancy tax.

Appendix 2: Literature Review

Because of how contentious this issue has been, there have been a number of studies trying to determine the effects of short-term renting on local real estate and lodging markets. Unfortunately, many of these efforts were sponsored by STR platforms themselves, pro- or anti-STR trade organizations, or hotel groups that may have, whether directly or implicitly, influenced their findings. The following academic papers, while using a variety of methodologies, are some of the best contemporary (and neutral) research on STRs and the rental market.

"The Sharing Economy and Housing Affordability: Evidence from Airbnb"
Kyle Barron, Edward Kung, Davide Proserpio
National Bureau of Economic Research / Cal State Northridge / USC
2020

Using a dataset of Airbnb listings from across the country, the authors of this paper applied a "instrumental variables estimation strategy" to determine that Airbnb increases both house prices and long-term rents.

This model estimates that "every 1% increase in Airbnb listings leads to a 0.018% increase in rents and a 0.026% increase in house prices." While that does not seem like a large change, Barron et al. claim that, in aggregate "the growth in home-sharing through Airbnb contributes to about one-fifth of the average annual increase in U.S. rents and about one-seventh of the average annual increase in U.S. housing prices."

Uniquely, the authors found that the total supply of housing is unaffected by the growth of Airbnbs, though short-term renting does increase the reallocation of units from the long- to the short-term market.

Literature Review

"Is Home Sharing Driving up Rents? Evidence from Airbnb in Boston"
Mark Merante and Keren Mertens Horn
University of Massachusetts – Boston
2016

Studying Boston's Airbnb market before major regulation, Merante and Horn concluded, "home sharing is increasing rents by decreasing the supply of units available to potential residents [and] that a one standard deviation increase in Airbnb listings relative to the total number of housing units in a Census tract is associated with an increase in asking rents of 0.4%. For those Census tracts in the highest decile of Airbnb listings relative to total housing units, this increase in asking rents ranges from 1.3% to 3.1%, which equates at the citywide mean monthly asking rent to an increase of as much as $93."

It is important to note that no Census tract in Boston has more than 5% of its housing units being used as short-term rentals. Like many of these papers, researchers have focused on urban areas, making it unclear how their model would translate to rural destinations.

"The Battle for Homes: *How Does Home Sharing Disrupt Local Residential Markets?*"
Wei Chen, et al.
University of Arizona
2022

This paper looks at cities that moved from a general regulation of short-term rentals to a stricter, primary residency-only system, and the effects on housing following that switch. First proposed by Airbnb in response to a wave of regulatory pushback in 2016, "one host-one home" became a popular system for limiting short-term rental activity to the primary residences of hosts. Both San Francisco and Portland, Or. – two early-adopters of STRs – moved to primary residency before the pandemic.

According to the authors of this paper, primary residency requirements caused a drop in both long-term rents and home values of about 3%, which they attribute to increased unit supply made available through the new regulatory framework.

More specifically, their model suggests that if "the density of affected Airbnb properties is 1% higher in a market, the policy may further decrease rents and home values by about 0.03% - 0.06%, which is similar across each policy-affected city." This is about three times the rate found in Barron, et al.

Literature Review

"Airbnb and its potential impact on the London housing market"
Zahratu Shabrina, Elsa Arcaute, Michael Batty
University College London UK
Urban Studies
2020

Unlike many other papers, this research focuses on the effects of short-term rental properties in London that are not conforming to the local regulations or are acting as an illegal distributed hotel.

The findings, based on 2018 Airbnb data, show how lack of enforcement can cause housing troubles to deepen. The authors estimate that more than 2% of all properties in London – a city of 9 million people – are being illegally rented on Airbnb. Additionally, the model indicates that a "100% increase in the density of possible Airbnb misuse can be associated with up to an 8% increase in unit rental price per-bedroom per-week, an equivalent to up to an average of £90 price increase per year."

The inability of London's government to rein in illegal activity has, according to the authors, led to increased "polarization" in the housing market that will require new policies.

"How Airbnb Short-Term Rentals Exacerbate Los Angeles's Affordable Housing Crisis"
Dayne Lee
Harvard Law & Policy Review
2016

In a large study of pre-regulation Los Angeles, the author looks at the various ways property owners make choices about whether to long- or short-term rent. Using a simple demand model, Lee estimates that "each 1% decrease in long-term housing supply would lead to a 0.2% rent increase." In high-demand tourism neighborhoods, this translates to an extra $67 a month for a one-bedroom apartment.

Lee also found that competition between long- and short-term renters drove up prices in desirable areas. In neighborhoods with a high density of STR listings, "rents were 20% higher and increased 33% faster than rents citywide."

The author is also especially concerned about "hotelization," where the difference between long-term and short-term rates diverge so much that there is an "overpowering incentive" to focus on STR activity. This focus ultimately leads to "displacement, gentrification, and segregation."

Appendix 3: Notes

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