BETTER NEIGHBORS LA

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September 16, 2021

Los Angeles City Council
c/o Office of the City Clerk
City Hall, Room 395
Los Angeles, CA 90012

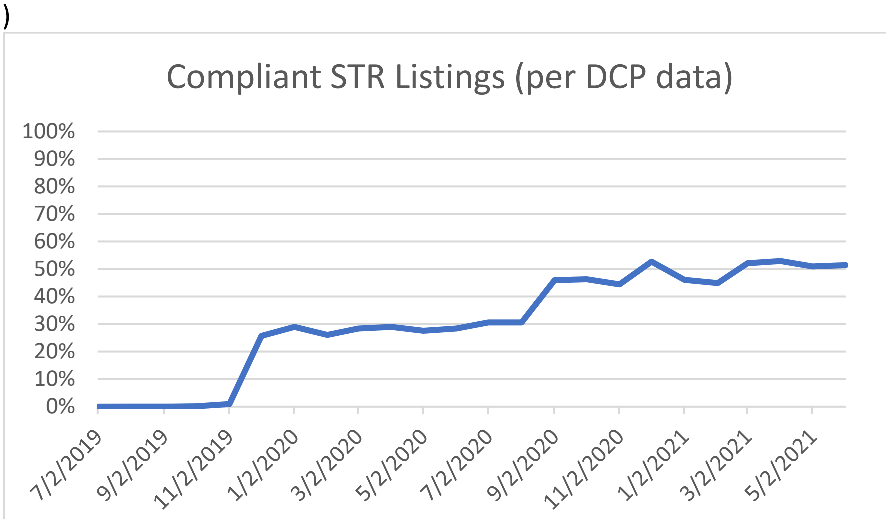
Dear Los Angeles City Council,

Better Neighbors L.A. writes to you in strong opposition to the proposed vacation rental policy as it would only serve to allow further circumvention of the Home Sharing Ordinance.

I.

When Department of City Planning (DCP) staff prepared a report in 2019 for the City Planning Commission (CPC) about vacation rentals (VR), staff concluded that without proper regulation, "Vacation Rentals can negatively impact housing availability and affordability" for Angelenos.[i] Indeed, the scientific literature is clear that even the best-regulated short-term rentals (STR) do affect housing availability and affordability for nearby residents. This is not surprising: no one would dispute that participation in the STR market shifts the financial incentives for property owners. Indeed, the city's experience after two years of the HSO suggests *the incentives are strong enough for people to lie and cheat* extensively:

- Every month, DCP contractor Granicus (formerly Host Compliance) provides a report summarizing the level of HSO compliance in L.A.'s STR market. Granicus has never found compliance to reach even 53%. At last count, Granicus confirmed 1,518 noncompliant listings actively listed.[ii] (Of course, noncompliance alone does not indicate an intent to evade.)



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- During initial implementation of the HSO — in early 2020 — approximately 1,600 listings operating as STRs each month claimed to be exempt from the HSO. DCP staff has acknowledged these exemptions are overwhelmingly inappropriate and are used to evade the HSO. (In August, 438 listings claimed to be exempt; a BNLA analysis indicates nearly half may actually be exempt.) DCP has made good progress on curbing the problem. The salient fact remains: hundreds, perhaps thousands, of hosts have demonstrated an effort to evade the HSO.

- In the most recent data taken from Airbnb, 333 STR listings in L.A. display a registration number that comports with the DCP format, but which does not appear in the DCP list of approved registration numbers.[iii] While some of these are potentially innocent clerical errors, we believe in many cases this demonstrates an attempt to cheat.

- DCP records indicate that, from the start of the HSO through the summer of 2021, there were over 11,000 attempted registrations — 4,107 of which were denied.[iv] We are unaware of any similar licensing process that garners a 37% denial rate; we believe it to indicate attempts at evasion.

These data points suggest widespread evasion of the HSO as a baseline condition, which DCP staff and leadership have referred to enforcement against in terms of "whack-a-mole."[v]

A VR policy would only strengthen the incentives for property owners to evade compliance. The relevant questions are thus <u>how much</u> a VR ordinance will cost, in housing and in dollars, and <u>whom</u> it will benefit.

II.

To estimate the impact of a VR policy on residential housing, we turn to the latest generation of academic research. The earliest studies on the relation between STRs and residential housing relied on mere *associations* between STR listings and rent increases, but associational inferences are imprecise. (STRs and rent might both increase, e.g., from the same underlying factors without any necessary causal connection.) Years of additional time-series data now allow researchers to control for these variables and to establish a clear causal connection.

Looking exclusively at one city over time (Boston), economists at the University of Massachusetts Boston concluded that (for the median area in their study) an increase of 12 Airbnb listings in a census tract led to a 0.4% increase in asking rents in that census tract.[vi] More recently, and using national data over several years, researchers found that (again, for the median area in their study) a one percent increase in Airbnb listings in a zip code leads to an increase in rents of 0.018%, and an increase in house purchase prices of 0.026%.[vii]

As of early August 2021, Airbnb advertised 3,788 STR listings in Los Angeles.[viii] The VR policy proposes to authorize up to 14,750 new vacation rentals for the STR market. To put these numbers in context, we can look at the recent history of the STR market, before and after the implementation of the HSO.[ix] Los Angeles, before the HSO, averaged approximately 28,000 STRs each month. Some portion of the 24,000 (presumably noncompliant) STR listings that have left the market in the past two years are doubtless noncompliant by dint of being a so-called VR. (Others are noncompliant based on, e.g., affordable or RSO status, or because the host does not actually live there. It is impossible to break out precise reasons across the entire market.)

While it does not seem unreasonable to conclude that all 14,750 proposed listings would be quickly added to the STR market, we make the more conservative assumption that half of these authorizations would lead to new STR listings. The 7,375 listings would thus represent a 194% increase over the city's current 3,788 listings; according to Barron, et al., this increase would be expected to lead to a 3.5% increase in rent for a typical Angeleno renter.[x] Given the average rent of a one-bedroom apartment in L.A. (asking price $2,639), this VR policy would cost a typical new renter $92 a month.[xi]

As damaging as this increase in overall STR listings would be, the hyperlocal impact could be greater. Research increasingly shows that the more locally-concentrated the STR activity, the greater the effect.

III.

Advocates for a VR policy have stated they are using this moment to push for the policy because (as one leader explained on social media) **"City needs the $$"** from STR fees.[xii] More robust HSO enforcement provides much more in revenue than permitting a VR exception to the HSO.

Using historical data from the Office of Finance, we can estimate the amount of marginal revenue the city might bring in by legalizing this new class of STR. During the six-month period of September 2019 through February 2020 (post-HSO, pre-COVID), the city recorded an average $4.5 million in home-based TOT revenue each month.[xiii] For the preceding six-month period (pre-HSO), the city recorded an average $6.3 million in home-based TOT revenue each month.[xiv] If we assume that the marginal difference is mainly attributable to the implementation of the HSO, and we assume that VR-eligible properties compose half of the lost market, then regaining that revenue would bring the city $923,767 in additional monthly TOT.[xv]

As we have pointed out before, far more revenue would be available to the city through robust HSO enforcement.[xvi] We estimated that for the month of May 2021 alone, DCP could have issued fines of approximately $62.7 million for noncompliant STRs.

More recently, a BNLA analysis of scraped data from the Airbnb website in August (as well as records provided by DCP) finds 1,851 noncompliant listings on that one platform alone.[xvii] Assuming these noncompliant listings were advertised for the full month of August, DCP might have assessed $28,690,500 in fines against noncompliant hosts.[xviii] If each noncompliant listing was booked only one time during the month, DCP might have assessed $1,851,000 in fines against Airbnb. DCP data indicates that for every noncompliant listing on Airbnb, there are two noncompliant listings on other platforms.[xix] This suggests that for the month of August 2021 alone, DCP could have issued fines of approximately $91.6 million for noncompliant STRs.[xx]

IV.

We struggle to understand any good faith problem this ordinance proposes to solve. On its face, the VR policy only makes sense if we assume — counter to all evidence — that these vacation homes both have been sitting fallow, and (absent this policy) would sit fallow. Looking at the historical Airbnb data (and being familiar with the logic of mortgages), it makes more sense to believe (a) many of these proposed listings were previously engaged in illegal STR activity, and (b) for these property owners, participating in the STR market was and is a relevant incentivizing factor.

When this Council set a short-term rental policy for the city, the Home Sharing Ordinance represented the compromise policy, with the goal of protecting residential housing and also protecting true, non-commercial home sharing. The HSO represents a balance of interests, and it features bright lines — around primary residence, or annual occupancy — to prevent the balance of property owner incentives tipping decisively. The VR policy would remove the primary residence requirement of the HSO, fundamentally undermining the policy. By definition, it only benefits those wealthy enough to afford a second home. And by definition, it comes at the expense of those renting (or trying to buy their first).

Sincerely,

/s/ Randy Renick
Better Neighbors LA

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[i] Department of City Planning Recommendation Report, case file CPC-2019-7045-CA, December 12, 2019.

[ii] Granicus monthly reports provided by Department of City Planning. On June 2, 2021, Granicus identified 2,231 compliant listings across several platforms, 1,518 noncompliant listings, and 585 of unknown compliance. (Requests are pending for more recent data, but DCP claims "unusual circumstances" prevent them from releasing these monthly reports, per August 30, 2021 letter.)

[iii] Airbnb scrape data from Inside Airbnb, dated August 7, 2021. DCP registration data current as of June 16, 2021.

[iv] 11 DCP registration lists from September 2019 through June 2021, deduplicated, shows 6,958 aggregate registrants over time. DCP list of 4,107 denials current through May 2021.

[v] Bob Duenas, March 18, 2021.

[vi] Mark Merante and Keren Mertens Horn, "Is Home Sharing Driving up Rents? Evidence from Airbnb in Boston," working paper 2016-03.

[vii] Kyle Barron, Edward Kung, and Davide Proserpio, "The Effect of Home-Sharing on House Prices and Rents: Evidence from Airbnb," *Marketing Science*, October 2, 2020.

[viii] Data from Inside Airbnb, August 7, 2021 scrape, criteria: city of L.A. and minimum nights < 29.

[ix] Unfortunately for our purposes, this period overlaps with the COVID-19 pandemic, which also affected the STR market. However, the six-month period from September 2019 through February 2020 marks a period after the HSO had begun, but before any significant U.S. awareness of COVID was disrupting travel.
[x] 0.018% * 194% = 3.492%
[xi] Data from Apartment List, accessed August 30, 2021.
[xii] Heather Carson, Homeshare Alliance Los Angeles Facebook group, August 13, 2021.
[xiii] $26,786,620.33 across six months.
[xiv] $37,871,824.96 across six months.
[xv] This is an imprecise example to illustrate orders of magnitude. This analysis fails to account, e.g., for seasonal effects in home-based TOT revenue, or for long-term market trends.
[xvi] BNLA letter to Council, July 22, 2021.
[xvii] Inside Airbnb scrape as of August 7, 2021. Noncompliance stems from: no registration number (18), fake or expired registration number (333), duplicate registration number (420), improper exemptions (328), non-residential structures (5), violation of the 120-day cap without an Extended Home Sharing Registration (600), and covert STR activity (147). This is a conservative analysis, and the true number of noncompliant listings is likely higher after examining additional factors such as RSO status and primary residence.
[xviii] Assumes minimum $500 fine assessed daily.
[xix] In May 2021, DCP contractor Granicus identified 1,950 noncompliant listings on 17 platforms: 640 of these were on Airbnb and 1,310 were on other platforms.
[xx] $30,541,500 in fines on Airbnb and its hosts suggests S61,083,000 in fines across 16 other platforms and their hosts.