



@better_LA
betterneighborsla.org

October 26, 2022

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

Dear Members of the Los Angeles City Council,

This council passed the Los Angeles Home Sharing Ordinance (“HSO”) in 2018 to protect Los Angeles’ limited housing stock. Better Neighbors Los Angeles (“BNLA”) has found that the HSO’s primary residence requirement – a key element of the HSO for preserving long-term housing – is being circumvented by hosts who are fraudulently claiming STR properties are their primary residence in order to register the property with the City. Our analysis confirms that the Department of City Planning (“Planning”) should modify its standards for primary residence verification to ensure that the unit is not wrongfully removed from the long-term housing market.

Planning’s Current Primary Residence Verification Process:

The Home Sharing Ordinance requires that all short-term rentals be registered with the City. In order to register, the applicant must prove that the property is the applicant’s primary residence. The Ordinance defines a primary residence as where “the Host resides for more than six months of the calendar year.” To verify a primary residence, Planning simply requires two of the following documents showing the address of the property the applicant seeks to register as a short-term rental:

1. California voter's registration card or voter registration status,
2. California vehicle registration certificate,
3. Health insurance bill,
4. Vehicle insurance bill,
5. Paycheck or pay stub issued in the last six months,
6. Property tax bill indicating homeowner's exemption,
7. Current rental or lease agreement, including the property manager's or landlord's contact information and signature.

This verification process is not fool proof, as both BNLA and Planning have received numerous complaints on their respective hotlines about properties with active HSO registrations but where the host does not live at the property. These complaints suggest that the documents currently accepted by Planning may not accurately indicate whether a property truly serves a someone’s primary residence.

BNLA’s Examination of the Tax Roll:

To gain insight into how many hosts falsely claim that their STR property is their primary residence, BNLA examined homeowner tax exemption data. In California, individuals who own a property and use it as their primary place of residence are eligible to receive a homeowner’s tax exemption which reduces the homeowner’s property tax by \$7000. Individuals are eligible to receive this exemption for only their singular principal residence. Because tax fraud has larger consequences than falsifying an application for a home-sharing license, whether the short-term rental property has been designated as the Host’s primary property serves as an excellent proxy to determine whether a property truly serves as a primary residence.ⁱ

The 2021 LA County Assessor tax roll includes 3604 properties with current City home-sharing licenses. But of the 3604 short term rentals, only 1503(41.7%) claim the homeowners tax exemption; thus, 2101 (58.3%) registered hosts *did not claim* the exemption at their STR property. After accounting for tenant-operated STRs,ⁱⁱ there remains 1541 HSO registrants that did not claim a homeowner’s tax exemption for their property. Accordingly, the data shows that 42.8% of registrants did not claim the homeowner’s tax exemption.

| Breakdown of Homeowner’s exemption amongst HSO registrants: | | |
|---|-----------------------|------------------|
| | Number of Registrants | % of Registrants |
| HSO registrants that claimed tax exemption: | 1503 | 41.7% |
| HSO registrants that did not claim the tax exemption: | 1541 | 42.8% |
| Tenant HSO Registrants (no homeowner’s exemption): | 560 | 15.5% |
| Total: | 3604 | 100% |

Out of the hosts that did not claim the homeowner’s exemption at their STR property, BNLA identified 68 who owned a separate property in Los Angeles County **at which they did claim the homeowner’s exemption**. Therefore, these individuals either falsified their taxes or home-sharing applications.ⁱⁱⁱ These 68 hosts do not necessarily represent all the hosts fraudulently claiming to use their primary residence for several reasons.^{iv}

Accordingly, BNLA developed a statistical model to better predict the number of hosts engaged in this tactic. Using the official tax roll and the 2021 American Community Survey, BNLA approximated that the homeowner’s tax exemption claim rate amongst those eligible in Los Angeles County is about 60%.^v Yet, the claim rate amongst HSO registrants eligible for the exemption is 49%, which suggests 11% or 334 registrants are falsely claiming that their STR property is their primary residence. This figure may even be larger, maybe even up to 1541 registrants, since there is reason to believe that the homeowner’s tax exemption claim rate would be higher than average amongst those engaged in home-sharing.^{vi}

Several of the 68 HSO registrants that BNLA identified claimed the tax exemption at a different property, have already been reported to Planning's 24/7 Complaint line. The problems reported by hotline callers exemplify some of the issues that arise when STRs are allowed at properties without a primary resident: trustworthy neighbors are supplanted by tourists who have little regard for the community in which the STR is located, and housing is removed from the long-term rental market.

To fully capture this evasion tactic and the problems that arise from it, BNLA draws from two example properties that were reported on the Complaint line:

The first property is located on Dixie Canyon Place in Sherman Oaks, and it has been reported on the City's 24/7 Complaint line **five** times. The property has been registered as a home-share since it was approved by the City in 2020. Yet, in 2021 the host claimed the owner's homeowner's tax exemption at a separate property in the City of Los Angeles, which is evidence that the registered property is not the registrant's primary residence. Callers to Planning's Complaint line reported overflowing trash that was attracting animals, parking problems, and loud noise. One complaint advised the City that the host didn't live at the property: "owner owns 3 homes...there are people coming and going all the time...the property was bought for rental purposes." This practice is exactly what the primary residence requirement was intended to prevent—the wholesale conversion of housing into STRs.

The second property is located on Courtney Avenue in Hollywood, and it has been reported on the 24/7 Complaint line **four** times. The property has been registered for home-sharing since 2019, yet the host claims a homeowner's exemption at a separate property in West Hollywood. Once again, the host does not use the short-term rental property as their primary residence. The complaints made about this STR include loud noise late at night, parties, and parking problems. One complaint specified the property is an "Air B and B, [and] the owner does not live in it." The property is managed by "Hollywood Hills Sanctuary" on Airbnb, which appears to be a luxury STR management company which are typically utilized by absentee STR operators, further suggesting the owner does not live at the home.

Recommendations:

Both the results of BNLA's examination of the tax roll and the complaints associated with these properties indicate that many HSO registrants are fraudulently claiming their STR property is their primary residence. If unaddressed, other hosts will inevitably follow suit, diminishing one of the most important guardrails of the HSO for protecting housing and community character.

To address this issue, BNLA recommends the following:

- ➔ **For homeowners:** Rather than allowing registrants to pick which verification documents to submit, Planning should use the tax roll to verify that the registrant claimed the homeowner's tax exemption at the STR property, in addition to requiring the owner to

submit a state-issued ID with an address that matches the location of the home-sharing property. This practice is similar to the City of Philadelphia’s primary residence verification process.^{vii}

- ➔ **For tenants:** Planning should limit the documents used to verify primary residence to a tenant’s state-issued ID with an address that matches the location of the home-sharing unit and an affidavit signed under penalty of perjury from the landlord verifying that the property is the tenant’s primary residence with the landlord’s contact information and signature. These documents would more accurately reflect applicant’s true primary residence than the other documents currently accepted by Planning to verify primary residence, such as insurance bills or paystubs issued in the last six months.
- ➔ **Fines/license revocation:** Planning should immediately fine and revoke the home-sharing licenses of those hosts who fraudulently claimed their STR property was their primary residence, including the 68 hosts that have already been identified by BNLA.

Thank you for your time and consideration of BNLA’s recommendations.

Sincerely,
/s/
Randy Renick

ⁱIf a Homeowner’s Tax Exemption was incorrectly allowed because erroneous information was knowingly provided by the claimant, the claimant must repay the value of the assessment plus an additional penalty (California Revenue and Taxation Code Sections 504 and 531.1).

ⁱⁱ Because the HSO authorizes tenants to operate STRs if permitted to do so by their landlord, tenant-operated STRs must be accounted for. CPRA data from Planning indicates that about 560 of the active home-sharing licenses in June 2022 were issued to tenants, who are, by law, not eligible to receive a homeowners’ tax exemption for the property. For the sake of simplicity, we assumed all tenant operated STRs are the host’s primary residence and, therefore, in compliance with the HSO.

ⁱⁱⁱ Some of these HSO registrants may have the same name as another individual, and therefore not be the owner of the separate property. However, some of the properties identified with the homeowner’s exemption were located in the same duplex as the property registered for home-sharing – which suggests the HSO registrant owned both properties.

^{iv} This figure does not necessarily represent all HSO registrants that are fraudulently claiming their property is their primary residence for several reasons. First, BNLA only examined the tax roll for LA County and several HSO registrants may primarily reside outside of LA County. Secondly, HSO registrants may primarily reside in a property that they do not own. Finally, HSO registrants may own other properties that are a part of an LLC or trust, and therefore have a different owner name.

^v To calculate the LA County claim rate, BNLA divided the total number of household exemptions on the 2021 Tax Roll by the number of owner-occupied households reported on the 2021 Census American Community Survey (American Community Survey 2502 DEMOGRAPHIC CHARACTERISTICS FOR OCCUPIED HOUSING UNITS).

^{vi} One of the purported benefits of home-sharing is that it allows folks to supplement their income to better afford their mortgage. Therefore, it is likely those engaged in home-sharing to gain these economic benefits would have also taken advantage of the homeowner’s exemption if they were eligible.

^{vii} Philadelphia’s ordinance defines primary resident as “either (i) a natural person who is the owner of the dwelling unit, and [that unit] is entitled to a homestead exclusion pursuant to Code § 19-1301.1 for such dwelling unit; or (ii) a renter (a) who is a natural person and lives in the dwelling unit as the renter’s primary domicile for more than half of the year and (b) who is authorized in writing by the owner to provide limited lodging.” City of Philadelphia Zoning Code § 14-604 (13)(a).