



Legislation Text

File #: 20-1127, **Version:** 1

Recommendation to direct staff to work with the City Attorney to amend Title 5 of the Long Municipal Code to allow un-hosted short-term rentals. (Citywide)

On May 19, 2020, the City Council considered an Ordinance to regulate short-term rentals (STRs) that allowed both hosted and un-hosted STRs. During discussion of the proposed Ordinance, concerns were expressed about the impact of COVID-19 on the tourism industry and the health and well-being of guests. As a result, the City Council directed the City Attorney to return with a revised Ordinance that allowed only hosted STRs. The City Council also requested staff to return within six months with the additional following information to aid them in determining if they wanted to allow un-hosted STRs:

- Cleaning and sanitizing protocols;
- Economic impact of COVID-19 on the City's tourism industry;
- Transient occupancy taxes (TOT) paid to the City over the last three fiscal years (STRs);
- Number of registered STRs in the City since adoption of the Ordinance; and,
- Rental housing vacancy at the time of the report.

Cleaning and Sanitizing Protocols as Recommended by the Health Department

As a means of slowing the spread of COVID-19, the City, in alignment with the efforts in the region, including Los Angeles County Public Health, the City of Los Angeles, and Pasadena Public Health, as well as the statewide order issued by Governor Newsom, issued Health Orders (Orders) restricting community activities. The Orders issued by the Health Department include protocols for hotels, lodging and STRs. Protocols specific to STRs are attached (Attachment A). These protocols include rules and/or guidelines regarding social distancing, cleaning and sanitizing. Hosting Platforms, Airbnb and VRBO, provided staff with the cleaning guidelines they share with STR operators that use their platforms (Attachments B and C). Both platforms' guidelines refer operators to the requirements of their local jurisdictions and include recommendations to minimize interactions between operators and guests, encourage the use of personal protective equipment, and recommendations to clean and sanitize appropriately.

The Order provides cleaning protocols, including measures to communicate them to the occupants. The Order and State requirements also require a hosted STR to have a separate exterior entrance and exit and do not allow the use of shared facilities. Arguably, an un-hosted STR is consistent with the current Order in that it would not require a separate

entrance and exit and would not share facilities; however, un-hosted facilities are not allowed by current STR regulations, but are allowed by the State health orders while hosted STRs generally are not.

Economic Impact of COVID-19 on the Tourism Industry

Staff contacted the Long Beach Convention Center and Visitors Bureau for information regarding COVID-19's impact on the City's tourism industry. Hotel room occupancy has been hard hit as a result of COVID-19. Occupancy has declined 45 percent from January to June 2020 compared to the same period the previous year; however, occupancy is not as low as it has been during the earliest months of the pandemic. The increased occupancy has been driven by pleasure travelers, not corporate travelers, which is expected to continue until the first or second quarter of 2021. For example, Apple and Google currently have a moratorium on corporate travel until June 1, 2021. In addition, the average room rate has decreased 13.3 percent, from \$180.93 to \$156.85, while revenue per available room, a combination of occupancy and rate, has declined by 52.3 percent with lower occupancies being the largest factor. The current revenue per available room is \$67.57 compared to \$141.73 last year.

Transient Occupancy Tax (TOT) Paid to the City During the Last Three Years

The table below presents the TOT paid to the City over the last three fiscal years. TOT generated by hotels in Fiscal Year 2018 (FY 18) and FY 19 was in the \$29 million to the \$30 million range per fiscal year. TOT remittance from hotels declined significantly in FY 20 from the prior two years to \$19.0 million (as of September). Final FY 20 revenue amounts are currently pending final adjustments and collections for the remainder of the fiscal year. Operators have a month to report and remit TOT revenues to the City for the preceding month's activity. As such, revenues for September activity will be collected by the City throughout October and finalized in November, which will change the FY 20 revenue collection figures shown in the table below but is not be expected to increase to FY 18 or FY 19 amounts.

Transient Occupancy Tax - All Funds			
	FY 2018	FY 2019	FY 2020 (YTD as of 9/30/2020)
Hotels/Motels/B&E Revenue	\$30,612,435	\$29,182,453	\$19,017,883
STR TOT Collected (April 1, 2019)	-	1,375,107	2,169,810
TOTAL	\$30,612,435	\$30,557,560	\$21,187,693
<i>*Preliminary final FY 20 information pending year-end adjustments and collections</i>			

The City did not start collecting TOT from STRs until it entered into a voluntary collection agreement with Airbnb in early 2019. The first remittance was for April 2019; thus, the annual

total only includes TOT revenues generated during the third and fourth quarters of FY 19. During that six-month period, approximately \$1.4 million was collected as compared to approximately \$2.2 million during all of FY 20.

The FY 21 adopted budget estimates TOT collection at \$20.6 million; approximately \$500,000 less than FY 20 collections. TOT, an extremely volatile revenue source heavily dependent on conventions and tourisms, has been deeply impacted throughout FY 20 by significant reductions in occupancy due to travel and social distancing restrictions in response to the pandemic. In addition to being volatile, TOT revenue has demonstrated slow recovery in past economic downturns, not returning to previous levels for many years. While current projections anticipate some recovery beginning in FY 21, they do not anticipate returning to pre-pandemic levels for several years. How long TOT revenue will take to recover is dependent on many factors still currently unknown.

Number of STRs Registered in the City Since Adoption of the Ordinance

As directed by City Council action, registration of STRs commenced 120 days from the effective date of the Ordinance, which was October 24, 2020. Since then, 21 applications have been submitted for review generating a total of \$5,250 in revenue. Fourteen applications have been approved and registered; the remaining seven are pending.

Rental Housing Vacancy

Data on real-time vacancy rates for rental housing is limited. Costar, a provider of commercial real estate data, has vacancy rate data for multi-family developments in the City. For the first quarter of 2019, the rental vacancy rate was 4.1 percent, which increased to 6.0 percent during the second quarter of 2020. Between the first quarter of 2019 and the second quarter of 2020, Costar reports that approximately 1,000 rental units were added to the market. This increase in available units appears to have contributed to the increased vacancy rates. For example, if 136 new units had not been added to the market during the second quarter of 2020, the vacancy rate would have only increased from 5.4 percent to 5.6 percent instead of 6.0 percent. For the fourth quarter of 2020 to date, Costar data indicates the vacancy rate has remained level. These vacancies create an opportunity for landlords to utilize such units as STRs until the long-term rental market rebounds.

Multi-Family Rental Vacancy Rate by Quarter			
Quarter	Inventory Buildings	Inventory of Units	Percent Vacant
2020 4 th	1,637	32,001	6.0%

2020 3 rd	1,637	32,001	6.1%
2020 2 nd	1,637	32,001	6.0%
2020 1 st	1,636	31,865	5.4%
2019 4 th	1,634	31,590	4.8%
2019 3 rd	1,634	31,590	5.0%
2019 2 nd	1,631	31,315	4.8%
2019 1 st	1,629	30,999	4.1%

*As of October 12, 2020

Source: Costar

Former Draft Ordinance Provisions Specific to Un-hosted STRs

If the City Council requests staff to return with an Ordinance to allow un-hosted STRs, the revisions would include the provisions outlined in the May 19, 2020 City Council letter (Attachment D). The following highlights the key provisions relating to un-hosted and non-primary STRs:

- Up to two STRs would be allowed per host, or three if one STR is a primary residence.
- The limit on the number of non-primary residence STR registrations would be 1,000 housing units. This limit would be subject to annual adjustments based on current vacancy rates.
- Residents within census block groups would be provided the opportunity to petition for the prohibition of un-hosted STRs within a census block group. The threshold for the opt-out petition would be a simple majority of property owners. The petition process would be conducted by the City via U.S. mail. The opt-out petition process would be available on an annual basis following the initial 180-day opt-out period for those who did not request a petition during that time.

If the City Council chooses to allow un-hosted STRs, staff will submit the revised Ordinance and Resolution to the Coastal Commission as an update to the provisions included in the current Local Coastal Program Amendment (LCPA) Request No. 3-20 (LCP-5-LOB-20-0058-3) (hosted STRs only), which has been submitted to the Coastal Commission for review and consideration.

This matter was reviewed by Deputy City Attorney Monica J. Kilaita on October 12, 2020 and by Budget Analysis Officer Julissa José-Murray on October 14, 2020.

City Council action is requested on November 17, 2020, to coincide with the request to return with this information within six months of the May 19, 2020 City Council meeting.

This recommendation has no fiscal impact, impact on local jobs, or impact on staffing beyond the normal budgeted scope of duties and is consistent with existing City Council priorities.

Approve recommendation.

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OSCAR W. ORCI
DIRECTOR OF DEVELOPMENT SERVICES

APPROVED:

THOMAS B. MODICA
CITY MANAGER