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August 31, 2021

The Honorable City Council
City of Los Angeles
City Hall, Room 395
Los Angeles, California 90012

Dear Honorable Members:

REPORT ON VACATION RENTALS ORDINANCE, CF 18-1246

On November 12, 2020, the Planning and Land Use Management Committee approved, as amended, the Vacation Rentals ordinance, which would allow short-term rentals in non-primary residences. City Planning would like to provide additional information regarding the program's implementation for the City Council's consideration.

System Development

The Vacation Rentals ordinance was developed to utilize the regulatory framework put in place by the Home-Sharing ordinance, for which its implementation was facilitated by a system developed and administered for the City by its consultant, Host Compliance (now a division of Granicus). While the implementation of the Vacation Rentals ordinance would benefit from a system already in place, there are significant differences between the two programs that will require additional system development, including the following new features:

- **Vacation Rentals registrations and renewals.** Develop new modules to integrate the management of Vacation Rentals registration, renewals, and enforcement into the current online Home-Sharing system.
- **Search Capability.** Develop new search capability to track specialized, boutique hosting platforms and websites that may list or advertise Vacation Rentals. The 90-day cap on the number of calendar days a Vacation Rental may be rented is lower than the 120 days allowed for regular Home-Sharing and considerably lower than the 365 days allowed for extended Home-Sharing. As such, it may create more of an incentive for hosts to move their listings to lesser-known platforms and websites once the cap has been reached, in an attempt to circumvent the restriction. Additional engineering design will be required to capture and monitor these specialized, boutique platforms and websites when they grow to more significant levels of usage. It is anticipated that the need to capture and monitor new platforms and websites will dramatically increase the engineering and programming needed from Host Compliance and result in additional costs to the City. The additional costs associated with the aforementioned new programming could be demonstrably lessened if the Vacation Rentals were limited to listing only on hosting platforms that use the City's Application Programming Interface (API), the new short-term rental compliance system that was launched in August, which has been an effective tool.

- **Separation Measurement.** Develop the capability to automatically measure the minimum 250-foot spacing required per block face for all possible street configurations in the City. This tool could entail months for development and then may be only 75 percent accurate. Using a 250-foot radius instead of a block face would be less complicated to develop and could result in greater accuracy, perhaps 90 percent.
- **Building registration capacity.** Develop a building permit interface to determine if a building in which a registration is being sought has five or more units and if it has reached its five percent or ten-unit-per-building limit. This tool could take months for development.
- **Community Plan Caps.** Develop a system to track the number of registrations in each of the 35 community plans to ensure that the predetermined caps are not exceeded.
- **Waiting list management.** Develop a waiting list feature to keep track of prospective applicants not allowed to register at the time of their application due to the concentration maximums, such as the community plan cap, the cap for buildings of five or more units, and/or the required minimum separation between units for smaller buildings, having been reached. An additional feature to keep track of openings as they become available to applicants on the waiting list would also be required.

While in concept it may appear that registering, managing, and enforcing the Vacation Rental ordinance is similar to the existing Home-Sharing ordinance, the qualifying criteria, physical spacing requirements, and community plan caps make implementing the ordinance significantly different. In preliminary discussions with Host Compliance, it is evident that implementing the Vacation Rental ordinance will require a contract amendment and additional funding. However, the exact cost cannot be determined until the City adopts the ordinance and the contract is revised to reflect the additional scope of work; for reference, the cost to develop the current Home-Sharing system was approximately \$1.2 million.

Resources

The development and implementation of the Vacation Rentals ordinance work program will require additional City Planning staffing, as the existing Home-Sharing unit does not have the capacity to absorb the additional responsibilities inherent in implementing a new work program. These would include working with Host Compliance to develop the new system requirements, drafting the contract amendments, and implementing the workflows needed to start and manage the new program. In fact, the current budget allocated an additional three, much needed positions for the day-to-day Home-Sharing work program; the funding for these begins in January 2022. With respect to the Vacation Rentals program, additional positions would have to be allocated and staff hired to be either directly assigned to the Vacation Rentals program or assigned elsewhere in the Department to backfill existing City Planning staff rotated into Vacation Rentals from another work program.

The number of additional staff required for the Vacation Rentals program depends on the projected number of applications. It is anticipated that at least one additional City Planner and two additional City Planning Associates would be required, based on an estimated filing of approximately 32 applications per week, which is comparable to the average Extended Home-Sharing registration demand between January and mid-August of this year. If the demand for registering Vacation Rentals exceeds that level, City Planning will require proportionately more staff resources. For example, if the rate of applications begins to approach the capacity limit in the proposed ordinance, that could potentially translate into approximately 50 to 75 applications per week, which would require proportional levels of staffing to avoid a long-term backlog and a lack of enforcement. These staffing estimates assume that funds have been allocated to build out the existing Home-Sharing system to accommodate registering, managing, and enforcing a Vacation Rentals program. Finally, it is important that sufficient resources be allocated to the Vacation Rentals program, without relying on the Home-Sharing unit, to minimize any potential

negative impacts these programs might have on the housing stock, particularly at a time when the Housing Element is being updated.

Fees

Aside from the start-up costs to implement the Vacation Rentals program as outlined above, application fees are intended to cover the day-to-day staff time incurred in its administration. The fee of \$850 was included in the ordinance to align with the current application fee for extended Home-Sharing, recognizing that the level of review for a Vacation Rental application will be comparable to an extended Home-Sharing application due to the additional verification required. In addition to the tasks already being performed for review of regular Home-Sharing applications, staff will also be required to review documents that establish ownership of the unit and whether it is a second home, assess whether the community plan cap has been reached and check waiting lists, and conduct or review the required 250-foot separation between Vacation Rental units within buildings of up to four dwelling units having the same street frontage or assess whether the concentration for Vacation Rental units within buildings with five units or more is in compliance with the five percent or 10 units-per-building limit.

As such, the review of Vacation Rental applications will be on par with the time to review administrative Extended Home Sharing applications, the fee for which is currently set at \$850. However, in a report to the Mayor and City Council, dated November 5, 2020, the City Administrative Officer recommended that the fees for administrative Extended Home Sharing applications be increased to \$982. It is recommended that the fee for Vacation Rentals mirror any increase in fees for administrative Extended Home-Sharing applications.

Cost/Benefit Considerations

While the City is seeking sources of new revenue, consideration should be given to the cost of acquiring the additional revenue to be able to effectively evaluate the benefit-to-cost ratio. The Vacation Rentals ordinance, as currently proposed, allows one percent of the existing housing stock in each of the 35 community plans to be used as Vacation Rentals, not to exceed a maximum of 14,740 Vacation Rentals citywide.

However, an assumption that the City could directly benefit from the potential additional Transient Occupancy Tax (TOT) revenue generated by this number of Vacation Rental units may be overly positive. First, it cannot be assumed that the Vacation Rental ordinance will induce a greater number of visitors to Los Angeles seeking lodging. Studies estimate that no more than four percent of visitors make travel plans based on the availability of a short-term rental in general; of those, it is difficult to imagine that the prospective visitor would discriminate between a Home-Share unit and a Vacation Rental. If Vacation Rentals were not available, it can be assumed that these visitors would find lodging in the options currently available, such as a hotel/motel or a Home-Share unit. Second, if the ordinance were approved, it is unlikely that the actual number of Vacation Rentals rented out would approach the maximum number allowed citywide.

Currently, there are approximately 3,400 Home-Sharing registrations in the City, of which approximately 2,400 are registered for regular Home-Sharing, having an allowance of 120 calendar days, and the remainder are registered for extended Home-Sharing, having an allotment of 365 calendar days. The assumption that the availability and demand to short-term rent a second home is over four times that of the entire current Home-Sharing program is improbable. The distribution of Vacation Rental units is unlikely to be proportionate to the housing stock in each community plan. It is far more likely that Vacation Rental units would be concentrated in areas that might typically host visitors, such as the Bel Air, Brentwood, Hollywood, Venice, West Los Angeles, Westwood, and Wilshire Community Plan areas. Together, these most popular destination neighborhoods have the potential for an estimated, approximately 3,500 Vacation Rentals. Also, it is unlikely that the maximum number of housing units allowed in each of these community plan areas would be second homes not owned by a Limited Liability Company (LLC) and, thus, qualify as Vacation Rentals.

Additional research to estimate the number of second homes and the likelihood of their being offered for short-term rental would assist in more accurately determining the program's potential TOT revenue. A more realistic estimated revenue stream could then be compared to the anticipated cost of developing and managing the program's implementation, as described above. If the costs of offering the program are not offset by the program's revenue, then the City would be in the position of subsidizing this program for those owning second homes.

The Department appreciates the opportunity to provide the City Council with information regarding the technology and staffing resources needed to successfully launch a citywide Vacation Rental program. In addition, if the ordinance is adopted, it is anticipated to take approximately six months for system development and would necessitate the Department's ability to acquire new staff positions and to hire and train additional staff.

Please contact Senior City Planner Phyllis Nathanson at 213-202-5427 for more information regarding this report.

Sincerely,

A handwritten signature in black ink, appearing to read 'Vincent P. Bertoni', with a stylized, circular flourish at the end.

VINCENT P. BERTONI, AICP
Director of Planning