



County of Santa Cruz Board of Supervisors

Agenda Item Submittal

From: Justin Cummings, Third District Supervisor, Manu Koenig, First District Supervisor
(831) 454-2200

Subject: Establish a Subcommittee to Review Hosted Rental and Vacation Rental Ordinances

Meeting Date: September 24, 2024

Recommended Actions:

1. Establish a temporary ad-hoc subcommittee to prepare revisions to the Hosted Rental and Vacation Rental ordinances and appoint Supervisors Koenig and Cummings to the subcommittee;
2. Direct County Counsel and relevant CDI staff to work with the subcommittee to prepare revisions to the Hosted Rental and Vacation Rental ordinances and return to the Board with a revised ordinance on or before the first meeting in March, 2025; and
3. Direct the Chair to send letters to vacation rental hosting platforms requesting that they take down any unpermitted listings.

Executive Summary:

Un-hosted vacation rentals, where the owner does not live onsite, frequently reduce long term housing stock. This exacerbates Santa Cruz County's housing affordability crises. Existing laws relating to un-hosted rentals need to be reviewed and updated to address this issue.

Discussion:

Santa Cruz County is in the midst of a severe housing crisis, particularly for low-income residents, and is now ranked as the most unaffordable housing market in the U.S. according to the June 2024 "Out of Reach" report. A worker would need to earn \$77.96 per hour to afford a two-bedroom rental at fair market rate, far surpassing the housing wage in the San Francisco metropolitan area. This affordability gap has exacerbated homelessness, with 6,632 low-income renter households unable to secure affordable housing, and over half of extremely low-income households spending more than half their income on rent, according to the 2024 Santa Cruz County Housing Needs Report.

Additionally, there are 9,856 applicants on the waiting list for the federally subsidized Section 8 housing voucher program. These factors highlight the dire need for affordable housing solutions and increased housing stock in Santa Cruz County. In the context of a housing emergency, it is crucial to avoid any activities that would further reduce the already limited housing stock.

Adding to these challenges is the rapid growth of short-term rentals (STRs), particularly un-hosted vacation rentals, which have further strained the housing market. Hosted rentals, where the owner remains on-site typically minimize disruptions to the neighborhood and maintain neighborhood cohesion. In contrast, un-hosted rentals, referred to as "vacation rentals" in the county code, involve renting out an entire property without the owner present. These rentals remove homes from the long-term rental market, and disrupt neighborhood stability - leading to increased noise, traffic, and a loss of community continuity. With over 70 unpermitted vacation rentals operating in unincorporated Santa Cruz County alone, local regulations are being bypassed, further reducing the housing stock.

The broader impact of STRs on housing costs is well-documented. National research shows that a 10% increase in Airbnb listings leads to a 0.42% rise in rents and a 0.76% increase in house prices. Moreover, a 2019 Harvard Business Review article titled "Research: When Airbnb Listings in a City Increase, So Do Rent Prices" notes that the rise of STR platforms like Airbnb significantly contributes to rising housing costs. Airbnb's average annual growth is approximately 44%. The authors highlight that the growth of STRs accounts for approximately 20% of the average annual increase in U.S. rents and 14% of the annual increase in housing prices.

This reduction in housing supply, driven largely by absentee landlords withdrawing properties from the long-term rental market, leads to increased competition and higher costs for local renters, exacerbating housing affordability issues. The findings suggest that while Airbnb contributes to rising housing costs, its impact could be managed through targeted regulations on absentee landlords while expanding the opportunities for owner-occupiers to share their extra space.

In Santa Cruz County, the situation is particularly concerning, with 665 out of 841 short-term rentals classified as un-hosted. This issue is most pronounced in the 1st and 2nd Districts, where un-hosted rentals are heavily concentrated. In the 1st District, only 58 of the 342 rentals are hosted, leaving 284 properties as un-hosted short-term rentals. The problem extends beyond designated areas, with only 132 hosted short-term rentals in the county. These numbers illustrate the significant diversion of housing stock from long-term residential use to short-term vacation rentals, exacerbating the housing shortage and limiting affordable housing options for residents.

Re-evaluation of County Code

To address this ongoing loss of housing and preserve neighborhood quality of life an update to local ordinances is needed. An ad hoc subcommittee is recommended to draft policies that address issues including but not limited to the following: regulatory compliance, STR noise violations, cooperation of hosting platforms, ordinance consolidation, saturation of un-hosted rentals, tenant protections, and cost recovery efforts. The ad hoc committee, consisting of Supervisors Cummings and Koenig would return to the Board with proposed policies to consider on or before the first meeting in March 2025.

Financial Impact:

None

Strategic Initiatives

2.A. Attainable Housing – Affordable Housing

2.C. Attainable Housing – Local Inventory

Submitted by:

Justin Cummings, Third District Supervisor, Manu Koenig, First District Supervisor