Addressing Vacation Rentals in Eureka City Code
Submitted by the Eureka Planning Commission to the Eureka City Council for their March 19, 2024 Regular Meeting

Background/summary

For the past two years, Eureka's Planning Commission meetings have generally been non-controversial. One exception has been vacation rental use applications, which have generated some heated debate. (These applications come to the Planning Commission only if there is no proprietor on site, and only if a neighbor requests a hearing.[1]) Of greater concern: they have caused disharmony in Eureka neighborhoods and, for that reason, we wanted to bring this item to the City Council.

To be clear, there are advantages and drawbacks to vacation rentals. Items on the good side of vacation rentals include providing choice for tourists that can be more economical or work better logistically, and their contributions to transient occupancy tax (TOT) funds. The potential downsides include loss of housing stock for residents, conflict with neighbors and unwanted changes of neighborhood character. We should also note that vacation rentals vary greatly in degree of benefit/harm from a proprietor on site renting a room or two in an occupied historical home to help pay for maintenance of the property, to expressions that resemble a boutique hotel and may not be staffed on site, and have unresponsive, out-of-area ownership.

To study the issue, Planning Commission Chair Meredith Maier appointed Commissioners Steven Lazar and Michael Kraft to a subcommittee. Together with Development Services Director Cristin Kenyon, this group found and reviewed statistics, reviewed code and gathered ideas. The Planning Commission took those up at its November meeting and is now providing this input to the City Council.

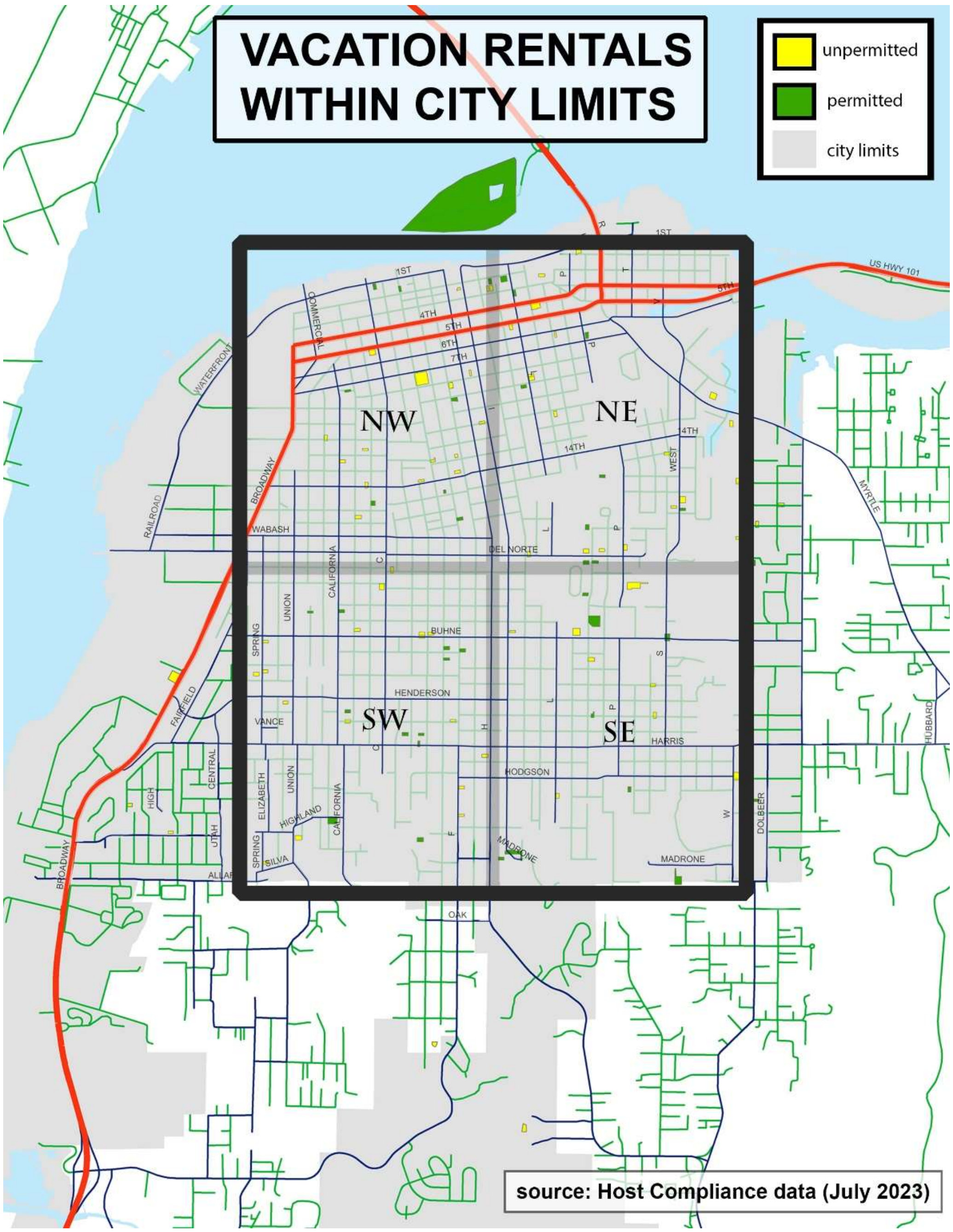
Our ask of the Council is to make this item a priority for city staff in 2024. The current vacation rental compliance drive should be completed and the universe of rentals still operating at the end of the drive should be analyzed to inform future regulatory changes. Staff time should also be allocated to reviewing regulatory models from other cities and potentially recommending amendments to the city code for 2025.

Current situation

As of late 2023, Eureka had approximately 142 units being advertised in Eureka that were wholly or in part dedicated to short term, or vacation, rental, with 98 separate properties mapped by Host Compliance. This estimate includes both permitted and unpermitted short-term rentals. There is some clustering of these units now, and more can be envisioned in the future (for example, in neighborhoods near the waterfront or the increasingly popular zoo). The map on the following page shows this.

As indicated in the legend, green signifies permitted vacation rentals and yellow shows those that were in operation last July and were flagged by Host Compliance as unpermitted at that time. This map is for visual representation only; it includes data that is dated and not entirely accurate (e.g., it includes hotels that list on sites like Airbnb). When viewing the map, it's useful to think of two primary issues:

1. The overall percentage of properties in the city used for vacation rentals
2. The density of those properties on blocks and in neighborhoods



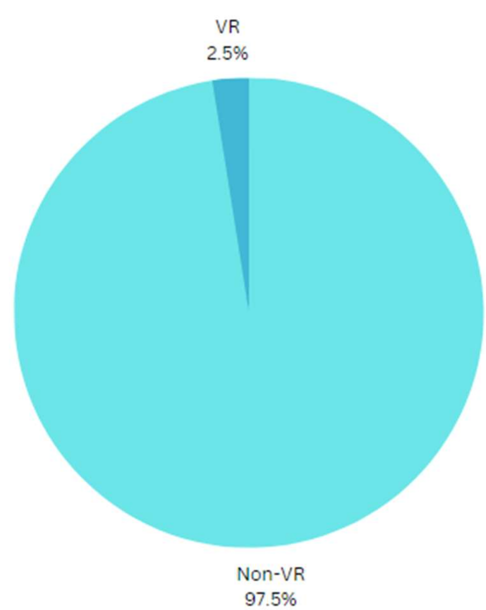
We spent some time searching for local statistics and national research on vacation rentals. We were especially interested in the interaction of short-term rentals and housing stock pressure.

Some of the highlights we found include:

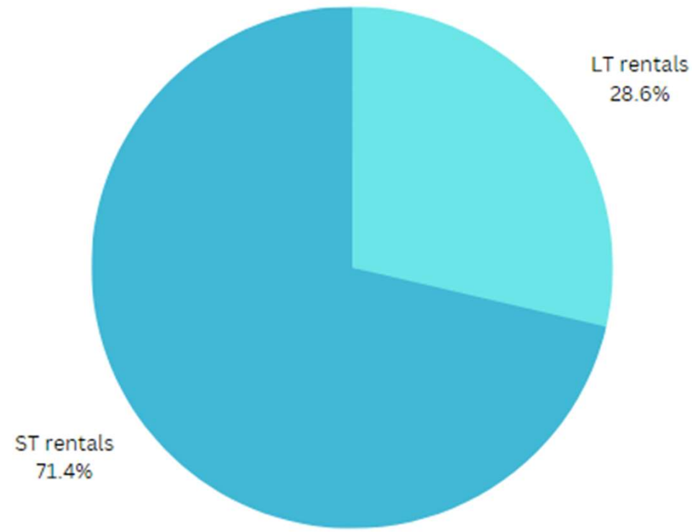
- The traditional yardstick is that housing cost should be 1/3 or less of total income
- Median household income in Eureka is $43,200 per year (US Census)
- The Average rent in August 2023 for a 3 bedroom/2 bath rental house in Eureka is $2200 (Rentor)
- Yearly family income to afford the average 3/2 rental home in Eureka would be about $79,000 per year
- Average rent in August for a 2/1 rental unit in Eureka is $1373 (Rentor)
- Yearly family income to afford the average 2/1 rental unit would be approximately $49,400 per year
- Countywide vacancy rates of Humboldt rental units were 1% (Rentor)
- July time-on-market for rental units was about 3 weeks (Rentor)

All of the above show a tight rental market, with little availability, and real affordability issues.

Eureka has an estimated 5,685 units of rental housing overall (Census). The portion of rental housing used for vacation rentals is approximately 2.5%. Viewed that way, vacation rentals do not seem like a high percentage.



However, it is widely accepted that there is a significant local housing shortage. The statistics provided above bear that out. It's also the lived experience of most people seeking rental housing now. Planning Commissioner Craig Benson had posed the question "what percentage of rental housing on the market now is vacation rental?" The chart below seeks to answer that question and shows the Eureka properties being marketed for rent in July 2023.



The chart above captures the reality of someone seeking rental housing in Eureka; there are more vacation rentals active on the market than homes available for long term rental. (This is not entirely an apples-to-apples comparison, in that vacation rentals are generally more continuously marketed, while long term rentals are generally only marketed when there's a vacancy.)

We couldn't find a way to secure any <u>local</u> statistics on the effects of short-term rentals on rents and property values. However, a paper by researchers at USC, UCLA and the National Bureau of Economic Research concluded that each 10% increase in Airbnb listings was associated with an increase in rents of .42%, along with a .76% increase in housing values.[2] This might seem negligible at first glance. Still, if one extrapolates from local data, a doubling of vacation rentals to 284 units in town--a 100% increase, which one could easily envision over time--would result in a 4.2% increase in rent, an increase of $92 a month for an average 3/2 unit and a $58 a month increase for a 2/1 unit, adding to affordability problems.

<u>Where might we be headed?</u>

While this mix may change with additional information and input, there are a few key items the Planning Commission believes are likely needed changes to the code:

- Planning Commissioners support changing permitting of short-term rentals to be a license that is renewable rather than an approval that runs with the land (currently, these approvals are use permits that run with the land in perpetuity), has a term of a year or two, with a use it or lose it component.

- Clear objective standards for approving or denying vacation rental applications would be an improvement. (Example: approve short term rental applications that are not within a certain distance of existing short-term rental properties and deny or require a use permit for those within such a distance.)
- We found ourselves talking about several different profiles of people who would have vacation rentals. Permitting could be tailored to enable a local person living in their house an easier path than an out-of-area corporation seeking a quasi-hotel.
- Criteria could also be designed to limit the number of vacation rentals one entity or person would be allowed to have permitted.
- The city's existing code allows for a cap on short-term rentals and members of the Planning Commission believe that some type of cap structure is likely to be a good idea, but don't see implementing one prior to 2025 at the earliest.
    - A cap is envisioned in current code for inland residential zones
    - Once the coastal zone code is updated, the cap could be extended to the coastal zone
    - Staff workload is a consideration, and implementing a cap immediately, or implementing one that is close to the number of current rentals would potentially cause a rush to city hall and a bump in workload
    - Compliance work underway by the Finance Department needs to be completed to fully understand the current situation

<u>Recommended steps/timeline</u>

City staff complete compliance drive	June 30, 2024
City Planning staff conduct research and provide report to Planning Commission on potential regulatory changes	July 31, 2024
Planning Commission provides recommendations to City Council	August 31, 2024
City Council updates code, for implementation in 2025	September 30, 2024

<u>Footnotes:</u>

[1] In the City's inland residential districts, anyone wanting to use their property for a vacation rental without a proprietor onsite requires a Minor Use Permit. City staff sends out a notice of intent to approve the Minor Use Permit to neighbors within 300 feet of the subject property, giving the neighbors a 15-day period to request a hearing with the Planning Commission before the approval becomes final. The Planning Commission only acts on Minor Use Permits when there has been a request for a hearing, typically by an unhappy neighbor.

[2] *The Effect of Home-Sharing on House Prices and Rents: Evidence from Airbnb*
March 4, 2020
Kyle Barron, National Bureau of Economic Research

Edward Kung, California State University, Northridge - David Nazarian College of Business and Economics
Davide Proserpio, Marshall School of Business, University of Southern California

Sources:

City of Eureka staff

US Census

Rentor (Rentor is a property management firm. The local operation is owned by Darus Trutna. They manage approximately 5% of Humboldt County rental properties, with a higher concentration in Eureka. While not a perfect reflection of the overall Eureka rental market, we found the company's Rental Market Report to be on target and the best proxy we could find.)

Public Comment
(received by Planning Commission ahead of their February 14, 2024 meeting)

Hello,

Thank you for bringing STRs under consideration once again for STRs within the Eureka city limits. After reading through the initial report provided in the Planning Commission Staff Report, I thought it would be helpful to share some hard stats and facts for Eureka and the other surrounding cities in the county to gain a more accurate insight into the number of STRs in the city compared to the report.

As of March 2023, there were **277 total listings within the city.** In 2024 that number has grown 4% to **285 short term rentals, 81% of these rentals are private homes, meaning the entire house is rented on a short term basis.** (Source Airdna.co) Furthermore, there are **403 active listings for Eureka.** This means 285 homes are available at the time this letter is being written with another 118 homes that are actively booked. (Staff report lists a total of 240 STRs within city limits).

I'm going to take a quick second here to tell a little anecdote. Last week my guy and I were walking around the neighborhood when we decided to stop into the Palm Lounge located at the Eureka Inn. One guest was at the bar, and we got to chatting. He told us when he checked in he asked if there was anyone else staying at the hotel. To his surprise, the front staff informed him the entire hotel was empty. An entire hotel of over 100+ rooms that was sitting empty save for this one guy! I wonder how many rooms would be filled at the Eureka Inn alone if the 188 Airbnbs being booked right now stayed in a hotel? Or if there weren't 400+ other choices competing with actual hotels in the area.

In the past year, I have been listening and taking part in the county wide discussion on STRs and have heard personal stories of people advocating for looser regulations on STRs. As vacation rental owners, some use the extra income to pay for medical bills, or ensure their children have a source of income when they're gone, and many people who advocate for STRs because the cannabis economy has dried up and left them without the means to support their life (or lifestyle, hard to say).

The fact of the matter is, the average STR rental earns an annual revenue of $40.1k (airdna.co 2024 stats for Eureka - see below). This would translate to an average monthly income of $3,341. When we consider the area median income for Eureka $43,200 per year (US Census) there is absolutely no way that renters can compete with the overwhelming economic incentive STR owners have to convert their housing stock.

As we begin to dissect the issue of STRs in our community, there are a number of factors at play that make this a difficult, sometimes personal, and sorted topic to parse out. On one hand, STRs take away housing that would potentially be sold to first time homebuyers or might be available as a long term rental for local community members. Yes, there are people that make a living off of managing, or owning STRs, some of which do so to pay off debts left by our very broken medical system, some as a way to reach "FIRE" (Financial Independence, Retire Early). But overall, whatever the motivation is, at the core of this issue is one indisputable fact: Short Term Rentals further commodify housing and change the basic zoning and use of a property from residential to commercial without any public comment due process, and in most cases, oversight. STRs do not represent small business owners or entrepreneurs and it is not the responsibility of the city to protect the speculative investment interests of short term rental owners.

It is folly to think policy and permitting alone can combat the hydra our community is facing in STRs. Only when we ban STRs outright will we see an effective change in the rental market. As exemplified by countless cities around the country and the world, policy has led to unreasonable staff burden for people trying to follow regulations and an even higher number of people who continue forward oblivious or indifferent of local ordinances. A cat and mouse style policy is ineffective and ultimately a waste of city resources.

In lieu of the current economic state of our county, and the dire state of our housing availability, it's more important than ever to be able to support our local communities and businesses. By funneling people towards staying in hotels and licensed commercial hotels and motels, the county is still able to collect TOT tax and protect the housing stock for the rest of the community.

If a more moderate approach is taken, as is the case in many policy issues, I would support investigating how to create an ordinance which considers the following factors:

- <u>Only</u> allows for "Home-share" STR and would eliminate short-term rentals defined as entire homes without a caretaker or resident.
- Implement a high permit fee for STR owners to do the following:
    - Curb demand
    - Support the implementation and regulation of the permitting program for city staff
    - Contribute to the Housing Trust Fund (TOT funds currently support this funding already)
    - Most importantly, fund a resource to incentivize STR owners to convert their rentals into long-term rentals or sell them outright.

A strong policy will incentivize people towards the outcome we want to see (more housing availability) and de-incentivize the outcome we want to reduce (housing stock being converted into STRs.) I think it's important to stress this point, people who give up their STRs should be rewarded. We need to find a way to make the right choice for our community attractive.

If we look at the STR numbers another way, when compared to RHNA allocations alone, the number of STR in the county represent a significant portion of our current housing stock that is being lost to commercial ventures which would otherwise help the city to reach its state mandated housing goals. Based on the current RHNA allocations, **3,390 new** homes are needed county wide, **952 in Eureka**. The current number of STRs in the county are equivalent to **26%** of the county's RHNA needs and **42.3% in Eureka**. (See table 1.2)

The vast majority of STRs are entire homes, an average of 81% (based on data in table 1.2 below) many of these homes would fall in the moderate to above moderate income RHNA category. This is significant because 60% of our RHNA allocations are designated for these two income categories. When moderate and above moderate housing is in short supply, it places more significant downward pressure on low income and very low income households. If more people with means are taking up space in lower income homes due to a lack of available housing, this creates even more competition for an already scarce resource in lower income housing stock. Coupled with the attrition of STRs in our community, we cannot simply build more housing without addressing the evaporation of housing stock from STR conversions. STR restrictions are necessary to ensure the health of our communities and neighborhoods.

In conclusion, thank you for taking another look at this issue in our community. Eliminating STRs is a low hanging fruit that can help the city to recapture much needed housing for our current community members, create new opportunities for home ownership and strengthen the characters of our neighborhoods. Following this letter is a collection of different data points to consider in relation to STRs in our area, and RHNA allocations for the county.

Please reach out if you have any other questions or if you would like to discuss any of these points further. Raelina Krikston

RHNA Numbers:

Table 3.13-5: Regional Housing Need Allocation

Jurisdiction	Very Low Income	Low Income	Moderate Income	Above Moderate Income	Proposed Total RHNA Allocation
Arcata	142	95	111	262	610
Blue Lake	7	4-	5	7	23
Eureka	231	147	172	402	952
Ferndale	9	5	6	13	33
Fortuna	73	46	51	120	290
Rio Dell	12	8	9	22	51
Trinidad	4	4	3	7	18
Unincorporated Area	351	223	256	583	1,413
RHNA Targets	829	532	613	1,416	3,390

Source: Humboldt County 2019

Source: https://humboldtgov.org/DocumentCenter/View/86244/313-Population-and-Housing

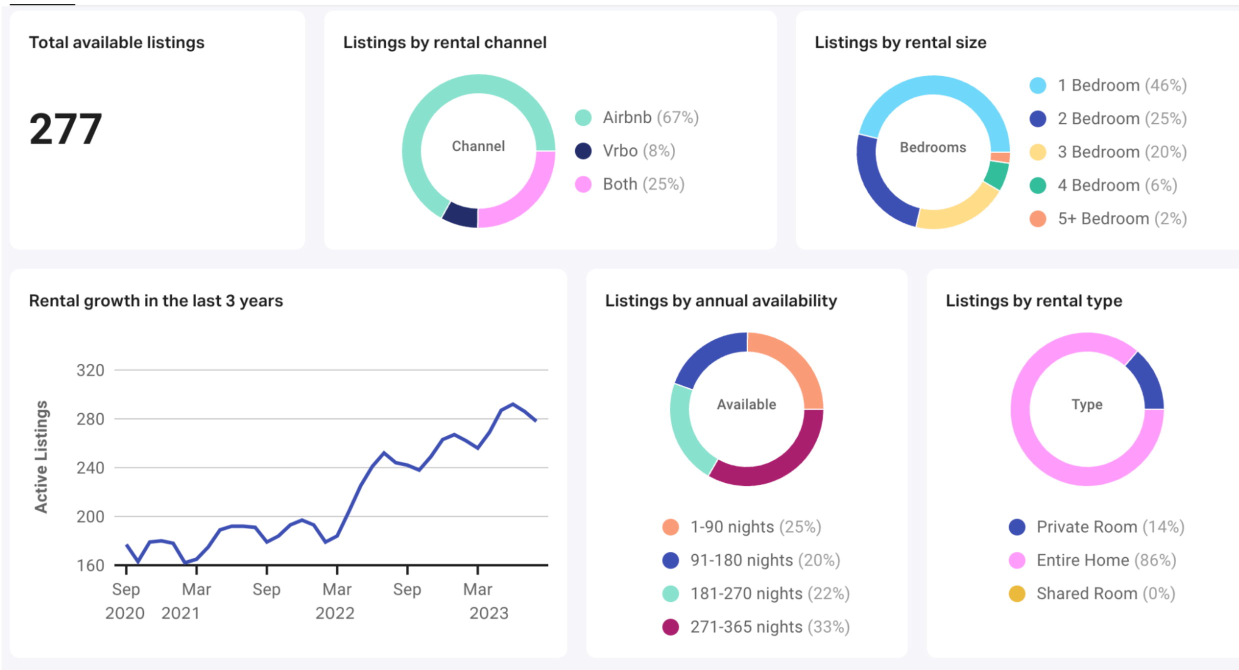
1.2 Short Term Rentals by Jurisdiction as compared to RHNA Allocation

Jurisdiction	Year	Total STRs	STR (Entire Homes %)	STRs (Entire Homes)	Total RHNA Allocation	Percentage of RHNA
Mckinleyville	2023	150	94%	144	UA	13%
Bayside	2023	23	100%	23	UA	13%
Orick	2023	35	77%	27	UA	13%
Loleta	2023	4	29%	1	UA	13%
Arcata	2023	231	93%	215	610	35.25%
Eureka	2023	277	86%	239	952	25.1%
Trinidad	2023	155	96%	149	18	827.78%
Fortuna	2023	36	92%	33	290	11.38%
Ferndale	2023	75	68%	51	33	154.54%
Total				**882***	**3,390**	**26.02%**

*Incomplete figures, not all Unincorporated Areas (UA) are accounted for

Short Term Rental Data sets from airdna.co

Eureka - Short Term Rental Figures (2023)



Eureka (2024)

Market Performance Details: Eureka

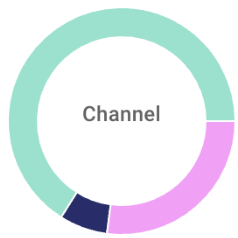
Listings | Occupancy | Revenue | Rates | RevPAR

Total Available Listings

285

+4% past year

Listings by Rental Channel



- Airbnb (66%)
- Vrbo (7%)
- Both (27%)

Revenue

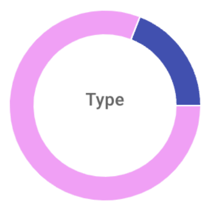
Average Revenue

$40.1K

per year

+0% past year

Listings by Rental Type



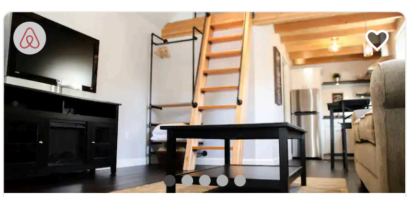
- Private Room (19%)
- Entire Home (81%)
- Shared Room (0%)

Market Overview: Eureka

Save | Share

Market Performance | 2 Submarkets | **403 Active STR Listings** | 50 For Sale Properties

Review Count



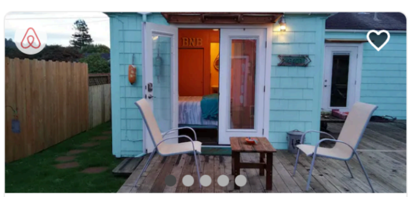
0 Bed | 1 Bath | 4 Guests ★5 (842)

★ Modern Studio Loft ★ Walk to Old T...

Eureka

Revenue Potential | Days Available

$27k	57%	$154.4
Revenue	Occupancy	Daily Rate



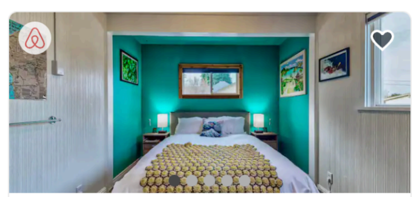
1 Bed | 1 Bath | 2 Guests ★5 (728)

Colorful corner has a private entrance ...

Eureka

Revenue Potential | Days Available

$9.3k	62%	$76
Revenue	Occupancy	Daily Rate



1 Bed | 1 Bath | 2 Guests ★5 (714)

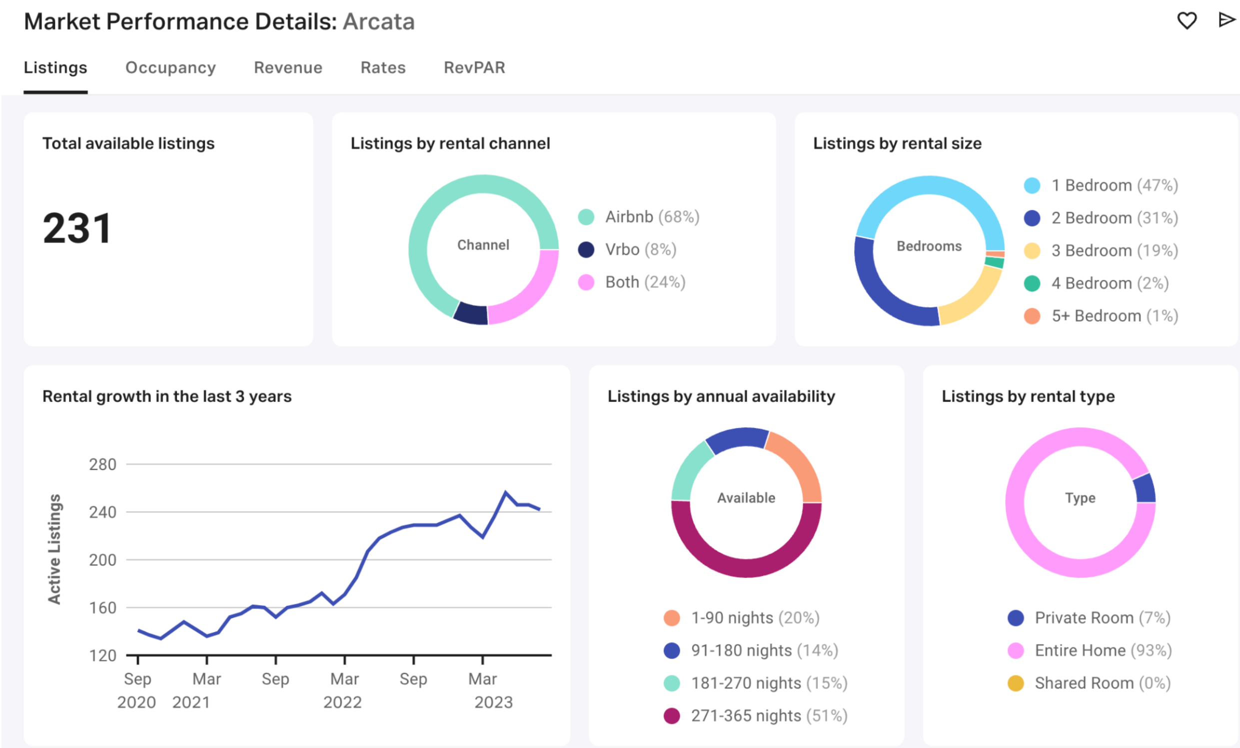
HIDDEN GEM! Rad Eureka Pit Stop!

Eureka

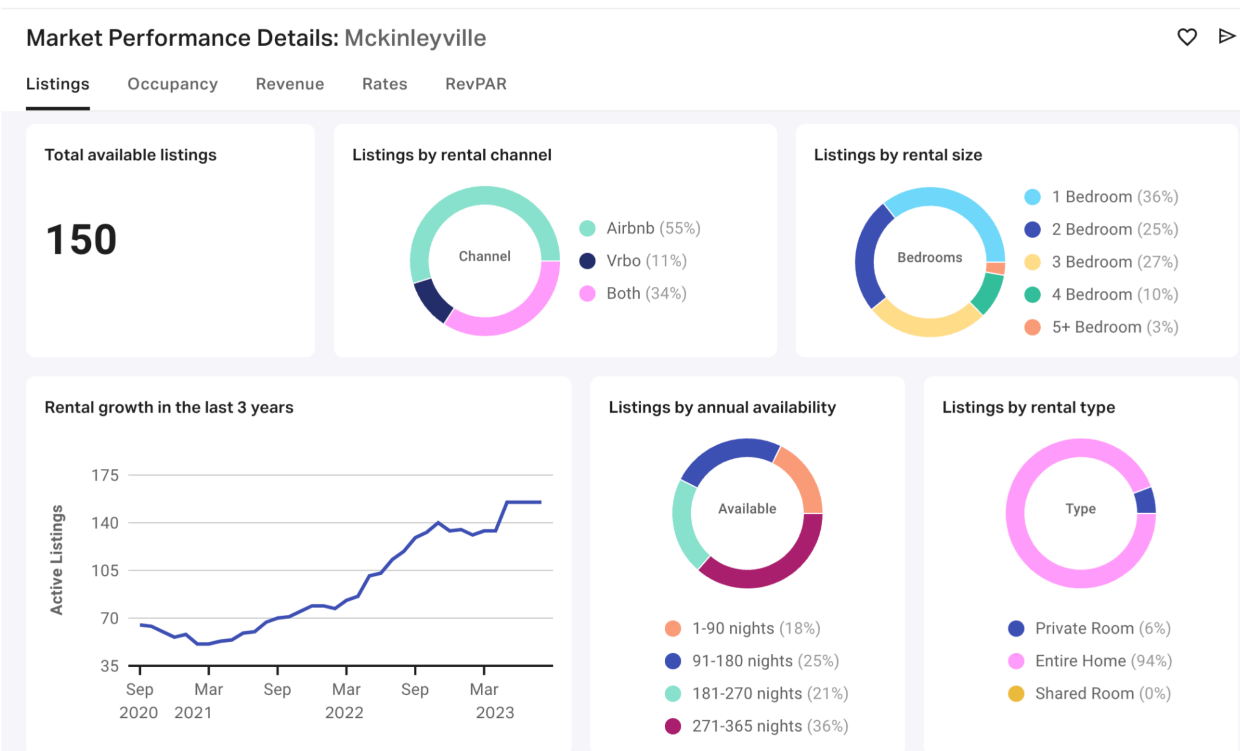
Revenue Potential | Days Available

$11.9k	64%	$60.7
Revenue	Occupancy	Daily Rate

Arcata



Mckinleyville



Trinidad

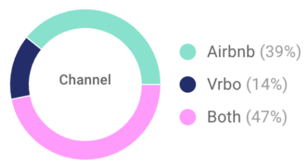
Market Performance Details: Trinidad

Listings | Occupancy | Revenue | Rates | RevPAR

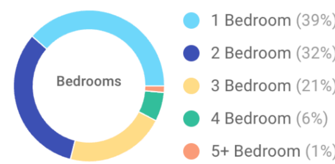
Total available listings

155

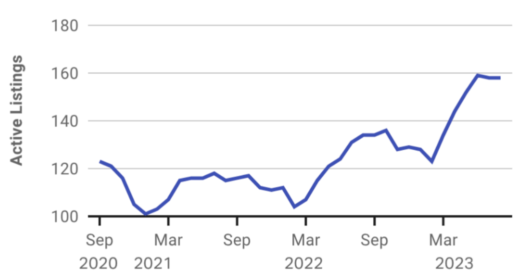
Listings by rental channel



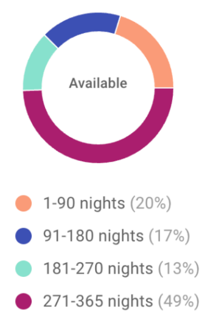
Listings by rental size



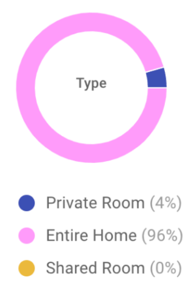
Rental growth in the last 3 years



Listings by annual availability



Listings by rental type



Fortuna

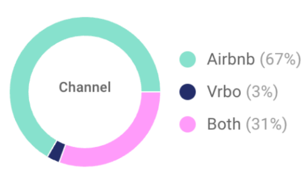
Market Performance Details: Fortuna

Listings | Occupancy | Revenue | Rates | RevPAR

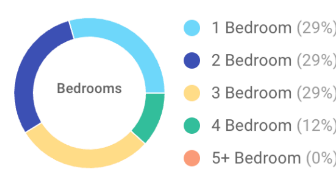
Total available listings

36

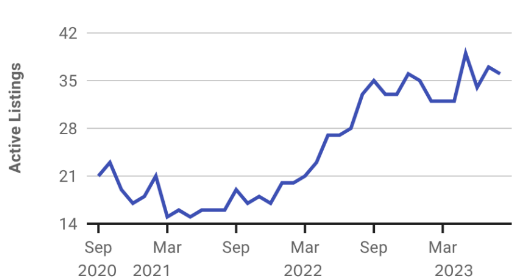
Listings by rental channel



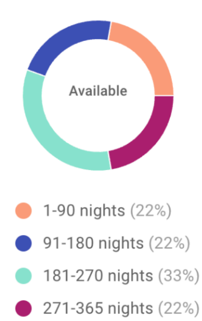
Listings by rental size



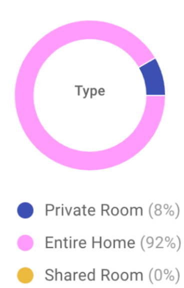
Rental growth in the last 3 years



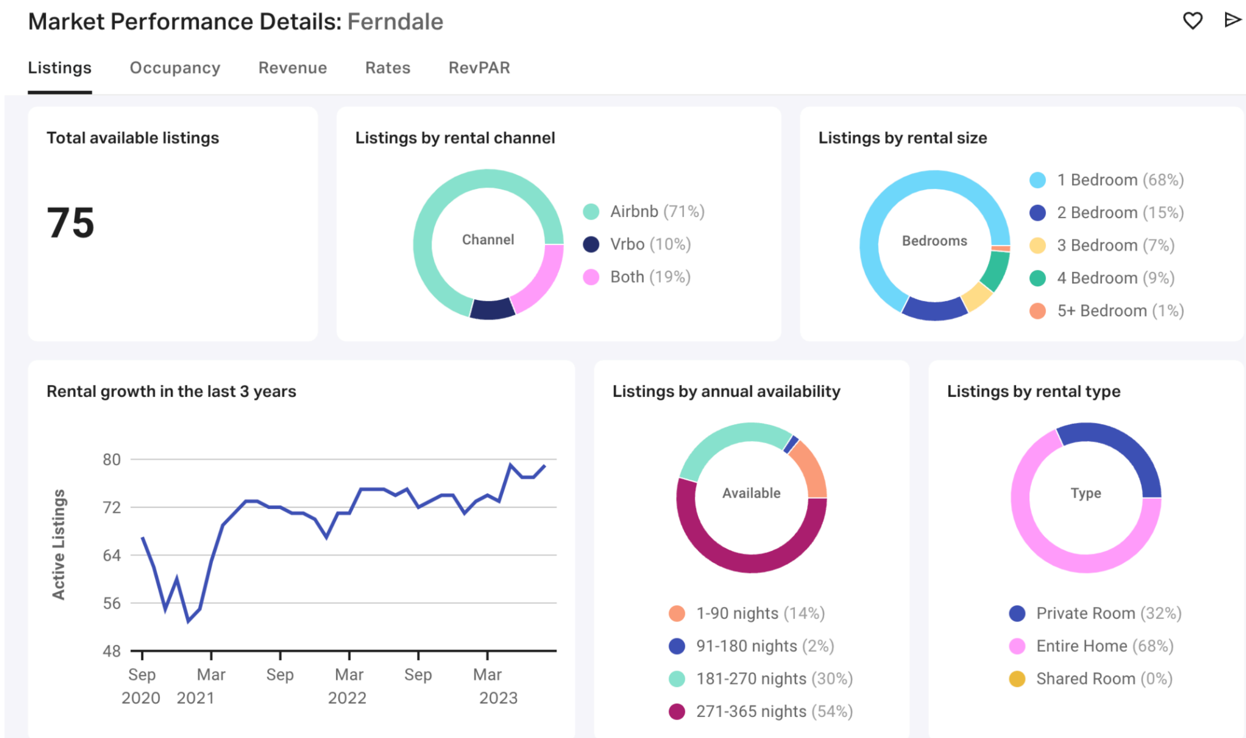
Listings by annual availability



Listings by rental type



Ferndale


Market Performance Details: Ferndale
Listings
Occupancy
Revenue
Rates
RevPAR
Total available listings
75
Listings by rental channel
Channel
Airbnb (71%)
Vrbo (10%)
Both (19%)
Listings by rental size
Bedrooms
1 Bedroom (68%)
2 Bedroom (15%)
3 Bedroom (7%)
4 Bedroom (9%)
5+ Bedroom (1%)
Rental growth in the last 3 years
Active Listings
80
72
64
56
48
Sep 2020
Mar 2021
Sep
Mar 2022
Sep
Mar 2023
Listings by annual availability
Available
1-90 nights (14%)
91-180 nights (2%)
181-270 nights (30%)
271-365 nights (54%)
Listings by rental type
Type
Private Room (32%)
Entire Home (68%)
Shared Room (0%)

Public Comment

(received by Planning Commission at their February 14, 2024 meeting)

Hello Planning Commissioners,

I'm glad to see a reevaluation of the STR ordinance is being brought for discussion.

As you know, this county is the 5th most rent burdened county in the entire United States. With 53% of renters paying more than 30% of their income for rent and utilities. This does not factor in the exorbitant costs of food, fuel, and other necessities that cost more here than other places.

While the draft letter states there are 240 listings, a closer look at available data actually shows 403 listings in Eureka and 81% are entire homes.

To put that another way, in Eureka 327 entire homes have been converted to hotels, without rezoning, without public process, without oversight or community input.

When homes are converted to hotels, it pushes the cost of housing higher, affordability further from reach, this squeezes our neighbors, friends and loved ones out of the community.

It's important that we limit short term rentals to true home shares at most. Otherwise it's impossible to effectively regulate what has shown to be a highly lucrative business venture carried out on behalf of massive corporations.

Jacob Adams Taylor