

The City of Temecula Short Term Rentals

California State University San Marcos

BA 680: Masters Project

Prepared By:

Jessica Bedell, Tony Grandprey, Chase Williams, Matt Zimbalist

Table of Contents

The City of Temecula Short Term Rentals	1
Executive Summary:	1
Introduction.....	1
Project Understanding.....	2
Project Objectives & Methodology	2
Conclusions.....	5
Referenced Sources.....	8

Executive Summary:

City of Temecula is seeking to understand the positive and negative impacts that Short Term Rentals (STR) have had and currently have within the City of Temecula. This analysis, requested by the City Community Development Department (client), will be used to inform and support the City Council's future decision(s) as it seeks to address citizens' concerns and future needs. This also includes the potential of future limited hosted STRs.

Within four Objectives the following has been achieved: identified economic sectors within the city, and quantified the possible STR impacts to these sectors, deconstructed the City Code Enforcement budget with an eye toward minimizing costs while aggressively enforcing current City policy against unpermitted STRs, and finally examined the occupancy rates of hotels and STRs in order to identify Transient Occupancy Tax (TOT) contribution of both hotel rooms and STRs in order to identify compatibilities and incompatibilities.

At this time, the client does not wish to receive a recommendation on course of action from this research.

Introduction

City of Temecula is confronting one of the most important commercial concepts of the 21st century to this point. The shared economy is one of the most contentious and unique property and contractual issues to confront the global economy in the last 50 years. The concept of monetizing the unused time for privately owned commodities: housing, transportation, etc., has created vast new revenue streams from previously non-profitable sections of activity. However, this has not come without considerable opposition from governments, municipalities, property owner associations, and other groups which seek to regulate the unfettered commercialization of private property. While this issue is bound for litigation,

legislation, or both, what is certain is that the City of Temecula is not alone or unique in either its dilemma or whatever approach it chooses to deal with this highly topical issue. Here, it is established: a) what is affected by STRs, b) how are those things affected by STRs, c) the potential cost of enforcing three scenarios, and d) how do STRs fit in with traditional temporary lodging.

Project Understanding

The City of Temecula is seeking to understand the positive and negative economic impacts that illegally operated STRs have had and currently have on the community. At present, short-term rentals are not permitted within the city limits of Temecula. This analysis as requested by the city's Community Development Department, will be used to inform and support the City Council's future decision(s) as it seeks to address citizen concerns and future needs. This also includes the potential of future limited hosted STRs.

Project Objectives & Methodology

Objective 1:

Using third party data collecting companies, this objective will identify the local tourist and non-tourist businesses that could be negatively or positively impacted by STRs. These businesses will be categorized into groups used for objective 2.

Methodology:

As the local relevant economic markets were defined, the availability of data that could be collected from the City was limited due to proprietary reasons. However, the City of Temecula receives a quarterly sales tax newsletter generated by Hinderliter de Llamas & Associates (HdL Companies). HdL Companies is a private auditing company which seeks to maximize the understanding of public agency revenues such as a city's sales tax. HdL identified

the City of Temecula's top 15 business types and total sales tax collected on a quarterly basis for the years 2015-2018.

Objective 2:

This Objective aims to quantify the negative/positive economic impact(s) STRs possibly have/had on the business types identified in objective 1. Note: this will be a macro analysis only.

Methodology

With the total quarterly sales tax data obtained by HdL Co for the top 15 business types for the years 2015-2018; only the business types that remained in the top 15 for each quarter were selected. These data points were converted into percent changes for two analyses; chronological change and changes to a certain quarter's performance.

In order to determine the possibility STRs negatively/positively impacted these business types, the occupancy rates of hosted and non-hosted STRs were obtained from AirDNA and converted to percent changes on quarterly basis. This conversation was overlaid on a graph with the business types for visual analysis. AirDNA is a tech company who uses an algorithm-based system to obtain data on STRs throughout the country.

Amounts were converted to percentages where necessary so that occupancy rates could be layered with quarterly sales trends and grouped into one category.

Objective 3:

Deploy various business analytics tools to present fiscal data regarding current conditions as well as potential conditions under the City STR policy. Due to real estate owners offering illegal accommodation through STR's, analysis will consider risk factors and potential first, second, and third, order effects of current City policy, and changes to policy.

Methodology

Objective 3 methodology is focused around a detailed study of the City of Temecula budgeted cost versus the potential recovery of funds through fines and fees, less the administrative costs required to affect the recovery, through an examination of the city's costs.

The City Fiscal Year line item budgets were analyzed for code enforcement costs to the City. Although Temecula has limited enforcement tools in its non-allowance of STRs, similar cities' code enforcement activities were used as examples to follow. Emails have been sent to each city to find the correct contact to gather more information and insight.

The collected AirDNA data will show the amount of STRs present in the City to extrapolate a total cost to the City to enforce code violations against non-permitted STRs.

This then will be calculated against a variety of fee structures and when coupled with administrative costs from a comparable code enforcement activity, give the City a comprehensive cost-benefit analysis for each of its potential Scenarios; 1) that the current situation of non-permitted but non-enforced STRs continues unchanged, 2) that the City aggressively enforce code violations against non-permitted STRs, and 3) that the City aggressively enforce code violations against non-permitted STRs, **but** with the addition of allowing up to 150 *hosted only* STRs to operate within the City limits.

Objective 4:

Assess the competitive environment between hotels and short-term rentals. Which industry provides economic growth - positive and negative - while also determining whether the two are compatible with each other. This will be done by using various analytical tools, along with collecting data from various hotels and short-term rentals within a certain radius.

Methodology

The methodology for this objective is to perform a comparison study between hotels within the city limits and hosted STRs (if permitted in the future). Utilizing data pulled from AirDNA, we will produce a side-by-side view of the city's hotel occupancy with STR occupancy. This comparison includes the Average Daily Rate (ADR), total nights available, total nights booked. Additionally, the estimated Transient Occupancy Tax (TOT) was obtained for each category and what the possible TOT is if the STR tenants stayed at a hotel instead.

Conclusions drawn from this objective should show how compatible hosted STRs are with the current hotel capacity within the city, and which category can be expected to produce maximum TOT revenue to the city.

Conclusions

Objectives 1&2

Information obtained from analyzing HdL Co. sales tax data – to include specific justifications called out – with the occupancy rates obtained from AirDNA; there is no definitive correlation in the macro level data. Additionally, HdL Co. did not specifically say STR affected the sales of any business type. If the client would like definitive answers for economic impact, it is recommended that a micro level analysis including the data on the spending habits of individuals who booked a STR compared with those who book hotels. Additionally, we recommend obtaining data on the spending habits of STR hosts.

Objective 3

Objective 3 studied the current budget of the City of Temecula Code Enforcement Department, and how that budget would be impacted by three different scenarios, including any revenue generated by each.

Scenario 1 examined the City Code Enforcement operating budget in its current state, breaking out the costs for each employee involved with the Code Enforcement Department, and how much each employee contributes to code enforcement, and how much salary that equates to from the Code Enforcement budget.

Scenario 2 was an examination of what costs (against revenue) would be incurred from an aggressive enforcement policy against the estimated 238 unpermitted Short-Term Rentals currently in operation in Temecula. The costs associated with enforcement far outweigh any revenue realized by fines and fees against unpermitted STRs, however the City would be responding to citizen calls for action against perceived “party houses” and rowdy short-term renters occupying STRs in otherwise quiet, family-oriented housing developments.

Scenario 3 took the concept of Scenario 2 further: positing an allowance of *hosted only* rentals (ie. STRs where the owner is on-site) of 150. These 150 hosted rentals would produce a revenue of Transient Occupancy Tax (similar but at a different rate as that produced by hotel rooms) which would, when combined with fees and fines against non-permitted STRs, produce a revenue which additionally offsets the increased cost of aggressive enforcement and, in the case of Scenario 3, the additional processing hours required to manage 150 hosted short term rentals.

The primary conclusion reached is a cost-benefit breakdown for the City to choose to enforce its existing policy of non-permitted for STRs within its boundaries.

Objective 4

The analysis conducted for this objective found that hosted STRs and hotels have a high probability of cohabitation. This was assessed because of the steady increase in total and booked properties/rooms for hotels and hosted STRs. This assessment was unable to analyze specific dates to determine if the properties shared surges in bookings and availabilities. If the client

would like this information, it is recommended that further analysis with a similar methodology with the exception to view occupancy rates for individual days spread out over a two-year period.

Referenced Sources

<https://www.hdlcompanies.com/about> visited website on 10/24/2019.

<https://www.hdlcompanies.com/about/strategic-partnerships> visited website of
10/24/2019.