November 21, 2017

SUBJECT
Zoning Ordinance Amendment to Regulate Short-term Rentals

RECOMMENDATION
1) Hold a public hearing and 2) Recommend that the City Council adopt the proposed amendment

BACKGROUND
Short-term rentals are defined as dwelling units that are rented for periods lasting less than 30 days. Common examples include renting a house or an apartment for a week or weekend for a short stay or for several weeks associated with business travel or longer vacations. Short-term rentals are most commonly offered and rented through online hosting platforms such as Airbnb, VRBO, and HomeAway.

The short-term rental industry has experienced tremendous growth in the last five years. In 2010, less than 100 people used Airbnb in San Mateo County for all of 2010. By 2012, the number of users had grown to over 1,000 people. By 2015, more than 10,000 people were using Airbnb every quarter. The graph below shows the growth of Airbnb short-term rentals in San Mateo from 2010 to 2015. Additional background on the growth of short-term rentals is available in a white paper called “Options for Regulating Short-Term Vacation Rentals” written by 21 Elements, a collaborative of cities and the County that addresses housing issues in San Mateo County.

While short-term rentals can provide income to residents and broader lodging options than the existing hotel market, there can be significant downsides to these uses. The popularity and profitability of short-term rentals has spurred an industry where dwellings are bought and used exclusively for short-term rentals, removing housing stock that would otherwise be available for longer lease terms. A rotating series of renters in residential neighborhoods can create traffic, noise, parking, and safety concerns for neighborhoods. Short-term rentals may introduce commercial uses into previously residential areas, as larger homes may be rented for “corporate retreats” and other types of commercial and business uses.
CURRENT REGULATIONS
Short-term rentals are a new type of use that has only gained popularity in the last several years. Cities throughout the country are evaluating the impacts of the use and adopting local regulations to fit local conditions. Redwood City has a permissive zoning code, which means that any use not called out specifically as permitted is considered prohibited. The current zoning ordinance does not permit short-term rentals and they are considered a prohibited use.

PROPOSED ORDINANCE AMENDMENTS AND ANALYSIS
Recognizing that short-term rental uses are widespread and currently operating throughout Redwood City, staff is proposing a Zoning Ordinance amendment to Article 31 (Special Uses) that would specifically allow limited short-term rentals with operating standards addressing parking, noise and other negative impacts. Concurrent with this Zoning Ordinance amendment, the City Council will also consider an amendment to the Transient Occupancy Tax (TOT) regulations (Municipal Code, Chapter 32, Article IV) and a resolution dedicating the resulting TOT money towards affordable housing projects. The Planning Commission is required to make a recommendation on the Zoning Ordinance amendment portion of the proposal.

There are several key considerations with the proposed Zoning Ordinance amendment. The purpose of the ordinance is to:

1. Allow limited short-term rental uses while preventing the loss of housing stock,
2. Preserve residential character and establish operating standards to reduce potential noise, parking, traffic, property maintenance and safety impacts on adjacent neighbors; and
3. Provide a registration mechanism for the City to track and enforce these requirements as needed and ensure appropriate collection of transient occupancy taxes.

Allow Limited Short-Term Rental Uses While Preventing Loss of Housing Stock
Short-term rentals have been a significant concern as they may reduce housing stock available for longer lease terms. The popularity of short-term rentals, and the substantial average rent that may be collected per night ($193/night average in 2015) has incentivized the use of dwellings as exclusively short-term rentals. In certain cases, one or two weeks of short-term rental revenue can equal the average monthly rent of a standard dwelling, motivating property owners to remove dwellings as a “residence” and shift them into permanent short-term rentals. This is a serious issue in a time when demand for housing already substantially exceeds supply.

Additional concerns include effects on residential character, and how a rotating series of guests may lead to a lack of neighborliness, with the associated noise, parking and
traffic impacts. These potential impacts are discussed in more depth in the following section. Despite these drawbacks, there are also benefits with permitting short-term rentals in the community.

Income from short-term rental can be important to homeowners and residents. Supplemental rental income can assist seniors with fixed incomes or residents who are trying to make ends meet. The short-term nature of the rental adds flexibility, allowing homeowners to adjust the rental schedule as needed. Related transient occupancy taxes can be important to fund critical City priorities. Currently, the City charges a transient occupancy tax of 12 percent of the nightly room rate, which currently brings in approximately $6.5 million dollars a year. Additional TOT associated with short-term rentals could bring in an additional $400,000 dollars per year, which staff is proposing to dedicate to affordable housing projects and programs.

For these reasons, the proposed Zoning Ordinance amendment and corresponding amendments to the TOT ordinance in the Municipal Code would allow short-term rentals on a limited basis. The operating restrictions include:

- **Primary Residence** – Short-term rentals would only be allowed in primary residences, where the homeowner usually lives and can provide evidence such as a driver’s license, income tax statement or property tax statement with homeowner’s exemption. This would ensure that short-term rentals are not displacing residents from existing housing stock. A homeowner cannot buy multiple properties and rent them on a short-term basis under the proposed requirements. Accessory dwelling units and apartments also fall under the primary residency requirement and may not be used for short term rentals by the resident of the main home.

- **Limited Number of Nights** – If the homeowner offers hosted rentals where they continue to live in the dwelling and rent a portion of the house, there is no limit on the number of nights. The proposed ordinance limits unhosted rentals (the homeowner or resident is not staying overnight) to 120 days per year.

There are different maximums that can be set for unhosted rentals. Some cities do not permit them at all, and other cities have higher limits such as 120 days. However, staff believes that 120 days a year is consistent with a long summer vacation or single season, ensuring that it can be used by a short-term renter approximately 33 percent of the year.

**Preserve Residential Character**

A large concern with short-term rentals is the impact on neighborhood character. Renters unfamiliar with the neighborhood may create noise, parking or traffic impacts for permanent residents. On-site hosts can intervene and address these concerns with noise, parking, and traffic, however, unhosted rentals do not have management on-site
to solve problems. Staff is proposing additional requirements to address potential impacts, particularly for unhosted rentals. The operating restrictions include:

- Prohibition on “Special Events” – Weddings, commercial functions, and similar events would be prohibited as a component of any short-term rental activity. These activities, when not associated with residency, are commercial in nature and inconsistent with the residential character of a residential district.

- On-Site Parking – On-site parking must be made available for the short-term renters, while hosts would be required to park on the street. This is intended to minimize conflicts in the use of shared on-street parking.

- Local Contact Person – For unhosted rentals, the host must designate a local contact person that can respond and take remedial action on complaints during the term of any stay.

There are several key considerations with the local contact person requirement. The City wishes to encourage hosts to find solutions to address potential issues. The designation of a local contact person emphasizes private solutions and neighborliness, as opposed to involvement by the Police Department or City code enforcement officers. However, it also requires divulging the contact person's personal information to adjacent neighbors, which could be perceived as a privacy concern. Staff recommends that hosts identify a local contact person to respond to complaints.

Provide a Registration Mechanism and Collect Transient Occupancy Taxes

Enforcement of short-term rental regulations is a key consideration. Tracking and identifying short-term rentals can be challenging, as well as enforcement of primary residency requirements and total number of rental days. Staff has investigated using a contracted software solution that will assist with identifying short-term rentals and ensuring they meet City standards.

The first step would be to require registration and a business license for all short-term rentals. The registration application would require information verifying the primary residence, confirming an identified local contact person, and acknowledging all the operating standards. A registration fee would be applied to recover costs associated with accepting, processing, and administering the registration program. The resolution setting the fee will be considered by the City Council in conjunction with this ordinance.

There are three benefits with this system. One, it will give the City better data about exactly how many short-term rentals are in the City. Second, it will create shared expectations between the City and the hosts about the rules and regulations for short-term rentals. Lastly, it will also ensure that correct amounts of Transient Occupancy Tax are being collected.

The current version of the ordinance would require that the individual property owners remit TOT in the absence of a Voluntary Collection Agreement (VCA) being signed by the hosting platform. Airbnb, the largest platform in Redwood City, has agreed to enter in a VCA. Details of the VCA, and whether this is the right instrument for collection of TOT (as opposed to a mandatory requirement), will be discussed with the City Council.
Staff expects to work with a software company, such as Host Compliance or Short-term Rental Helper, to manage the City’s short-term rental program and the Finance Department to streamline the registration process and ensure collection of TOT.

**Amnesty Period**
Short-term rentals are widespread and have been operating throughout the City for several years. Staff recognizes that many existing short-term rentals have lease agreements up to a year away, and that it will take time for residents to bring their short-term rentals into compliance with the proposed ordinance. However, a shorter time frame to compliance may reduce impacts on neighborhoods and housing stock, and increase the accuracy of TOT collection.

Staff recommends a one-year amnesty period for residents and property owners to bring their dwelling units into compliance with the new ordinance. Staff suggests that the new regulations take effect on January 1, 2019. However, the Planning Commission may recommend an alternative amnesty period.

**General Plan and Zoning Compliance**
This ordinance is consistent with the General Plan as it protects existing residential neighborhoods from encroachment of incompatible activities while protecting the existing supply of housing.

**Policy BE-2.5** Protect neighborhoods from the encroachment of incompatible activities or land uses that may have a negative impact on the residential living environment.

**Goal H-1** Protect the existing supply of affordable housing and continue to enhance the quality of our residential neighborhoods.

**Environmental Review**
The proposed amendment is not considered a project under CEQA Guidelines Section 15378 because the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment. Alternatively, the amendment is exempt from CEQA as it can be seen with certainty that there is no possibility for causing a significant effect on the environment (Section 15061(b)(3)). The action will not cause a direct or reasonably foreseeable indirect change in the environment, as the use of short-term rental would be limited to existing primary residences and no additional structures or construction is required to comply with the regulations. The amendment provides for regulations to limit traffic, parking and noise impacts through the prohibition on special events, restricts the occurrence of unhosted rentals, preserves residential character by providing a local contact person to respond to complaints, and requires use of on-site parking.

**Public Notification**
The public hearing notice was published in the Daily Journal on November 10, 2017. Notification of the proposed amendment was also posted online including on social media.
FUTURE STEPS
Staff will make final changes to the ordinance based on Planning Commission recommendation. Later in the fall, staff will bring the finalized Zoning Ordinance, related resolutions and Municipal Code ordinance amendment to the City Council for final consideration.

ALTERNATIVES
Key questions for the Planning Commission to consider include:

- Should the ordinance specify a different rental-day maximum other than 120 days for unhosted rentals?
- Should secondary residences, such as vacation homes or accessory dwelling units that are not primary residences be allowed for short-term rentals?

Based on the discussion of the key questions, the Planning Commission may consider alternatives to the staff recommendation:

1. Recommend changes to the proposed ordinance.
2. Do not recommend adoption of the ordinance and direct staff to prepare additional information.

Diana O’Dell
Principal Planner

Steven Turner
Planning Manager

ATTACHMENTS
1. Resolution Recommending Approval of Short-Term Rental Ordinance

RELATED RESOURCES
1. Options for Regulating Short-Term Vacation Rentals by 21 Elements