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TOT Amnesty for Homeowners of Short-Term Rentals in Los Angeles

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Gary Sperling <sperling_gary@yahoo.com> Wed, Jan 14, 2015 at 4:05 PM
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Cc: Raine Phillips <raine@la-stra.org>, LA-STRA <RobertCraig2015@yahoo.com>, Gary Sperling <sperling_gary@yahoo.com>

BY EMAIL:

Sharing Economy Work Group
Attn: Sharon Gil and Richard Williams
Los Angeles City Clerk Office
200 N. Spring Street, Room 360
Los Angeles, CA 90012

Re: TOT Amnesty for Homeowners of Short-Term Rentals in Los Angeles

Dear Members of the Sharing Economy Work Group,

I am writing to address potential first steps for the City of LA to most effectively collect transient occupancy tax (TOT) from a rapidly-growing segment of its economy, short term home rentals (“STRs”). According to an "Economic Impact Study" conducted by the Los Angeles Short-Term Rental Alliance, ("LA-STRA") attached below, STR's in the Los Angeles area could account for close to $30M in TOT revenue.

Until very recently, most STR owner-operators did not know they were required to register their businesses and/or collecting TOT. Now that the issue has emerged, most are prepared to comply.

The City of Los Angeles is now notifying STR owners of the obligation to pay the TOT. However, if the City announces that prior, unpaid TOT will be collected, <u>and audits of prior years</u> conducted (with added interest and penalties), many STR homeowners will, unfortunately, not comply. Registration and taxpaying will be evaded due to the onerous burden that prior-year TOT presents.

I have attended several meetings of STR owners, many of whom are single men and women having a hard time paying their rent and/or mortgages in these expensive times. Many are otherwise unemployed. Every meeting I've attended includes not only STR owners who explain that if it were not for their ability to rent that back bedroom or even their entire house, they would have lost their homes to foreclosure; that they could not pay for food and necessities. These individuals that also include some professional Property Managers cannot possibly face a tax bill representing more than 50% (3-4 times 14% plus interest and penalties) of what they have been collecting each year.

The City Finance Office wants STR homeowners to register and to start paying taxes. **The single largest deterrent to any STR homeowner is the fear of being prosecuted for prior years.**

Ideally, the City can have all its STRs registered and on a current, tax-paying basis. This will allow the City to better understand how large the industry is, how many participants there are, where they are located and what problems exist. Fair regulation begins with registration. The largest obstacle to registration is the threat of retroactive tax collection and <u>the highest degree of TOT compliance will occur if there is amnesty</u>. It is also likely that current TOT taxes will not be paid by many who are afraid that a single payment in 2015 will trigger an audit that they cannot afford.

What to do? How can the city encourage registration and maximize current tax payments? The City Council should direct the City Attorney to draft a regulation that provides that **any STR homeowner who registers and pays all current TOT taxes on or after a specific date will be exempt from any prior uncollected and unpaid TOT**. If this happens I predict that virtually every STR homeowner will comply. Sometimes the best solution to a long-lingering, previously-ignored problem is to start anew and grant amnesty to those who were unaware and not in compliance. A**mnesty from retroactive TOT taxes** would be the fastest way to get all the STR homeowners registered and on a current taxpaying basis.

Let’s create a governing community in which all the stakeholders can come safely to the table and participate. Let’s create an environment that will encourage every STR homeowner to register and collect and pay the TOT tax. Let’s remove the fear of tax-collector-induced bankruptcy and replace it a fresh, inclusive solution.

By implementing TOT amnesty, the City can ensure STR homeowners will understand and comply with their TOT obligations. The city coffers will swell. The City will have data on all the STR within its borders. It can then intelligently and fairly start regulating this growing, important new industry.

Yours truly,

Gary Sperling

Attachment: LA-STRA - Economic Impact Study

BCC:
L.A. Department of Planning
California Coastal Commission
Council District 11
City of L.A. Legislative Analyst
City of Finance
City Attorney
Mayor Eric Garcetti
City Councilman

LosAngeles-STRA Report Final 092414.pdf
1547K

The Local Economic Impact of Short Term Rentals in Los Angeles

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Overview

Short term rentals (STR) are an increasingly popular lodging choice for travellers in almost all communities in the United States. With the growth of web portals such as *HomeAway* and others, visitors are better able to select the accommodation style that fits their needs. Communities are increasingly focused on how best to appropriately incorporate STR properties into their existing regulatory and fiscal framework without undue constraints on property owners and managers. In an effort to inform this process, the local vacation rental advocacy group Los Angeles Short Term Rental Alliance joined *HomeAway* to commission an analysis of the economic impact of the operation of STRs in Los Angeles County.

Los Angeles is one of the world's leading tourist destinations with a wide variety of attractions from culture and entertainment to its coastline and natural scenery. The area is also a global center of economic activity as the Los Angeles County has an economy larger than all but 20 countries in the world. The many reasons why visitors travel to the Los Angeles area necessitate a range of diverse lodging options. STRs in Los Angeles reflect this; different properties cater to different market segments including business travelers, leisure visitors, families, and large groups. Throughout the Los Angeles area travellers can stay in STRs that include mountain getaways, beach bungalows, and trendy urban lofts with lodging options for both budget-minded travel and one-of-a-kind luxury accommodations.

For the purpose of this study, STRs are defined as residential properties that are rented out by an individual or property manager in Los Angeles County. Any properties self-identifying as a short term or vacation rentals, as well as properties listed on major short term and vacation rental websites, were included. These properties tend to be rented out for leisure travel and for less than a month at a time, though increasingly business travellers have adding to the demand for STRs in major metropolitan areas across the nation.

The report that follows provides an overview of trends in the Los Angeles area, specific characteristics of the local STR market, and a discussion of the methodology, findings, and conclusions of the economic impact analysis. The economic impacts of the STRs in Los Angeles County are estimated at the metropolitan statistical area level, specifically the Los Angeles-Long Beach-Anaheim MSA, as the indirect and induced effects of STR activity in Los Angeles County ripple out throughout the entire metropolitan region.

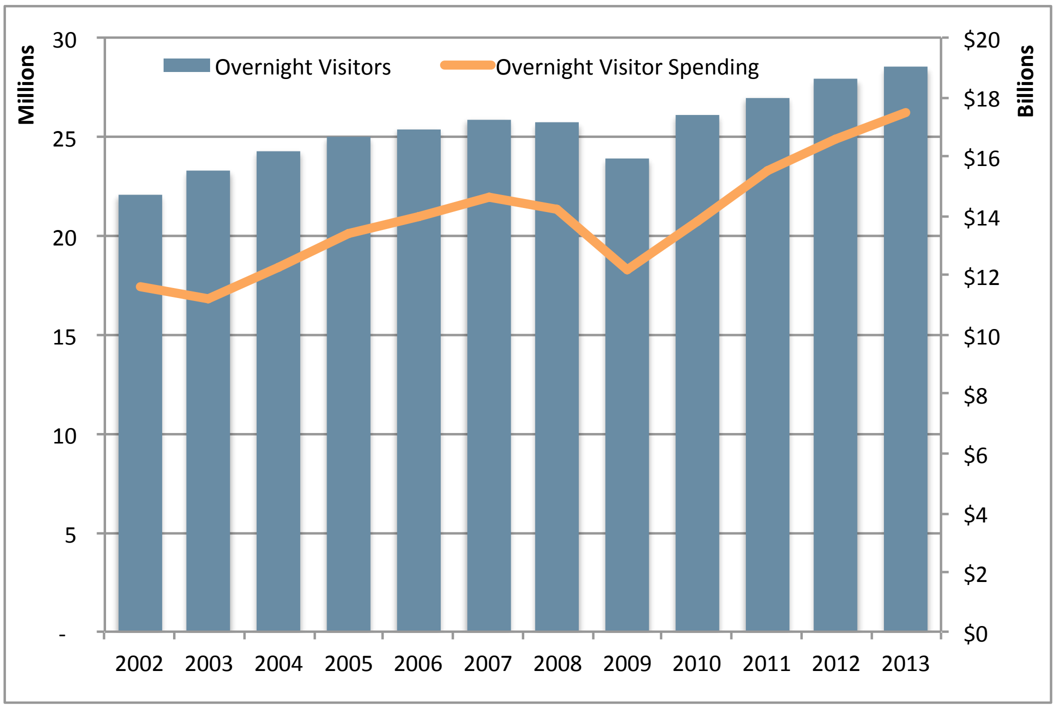
The overall impact of short term rentals in the Los Angeles area is impressive, accounting for $1.4 billion in total economic activity and more than 12,300 jobs in 2013.

Tourism and the Economy of Los Angeles

Overall Context

Tourism is an essential part of the Los Angeles and continues to expand rapidly as this sector and the overall area economy rebound from the global financial crisis and recession. In 2013, the third consecutive year of record-breaking growth, Los Angeles County saw its highest ever number of visitors and direct tourism spending in the area. More than 28.5 million overnight visitors spent $17.5 billion during their stay in Los Angeles, an increase of 5.4 percent over total overnight visitor spending the previous year. The Los Angeles Tourism and Convention Board expects the area will welcome 50 million annual visitors by 2020.

Figure 1: Overnight Visitors and Visitor Spending



Source: Los Angeles Tourism and Convention Board; Tourism Economics

The hotel industry has similarly seen unprecedented growth in demand for rooms. Occupancy rates have increased to records levels each of the past three years, with an occupancy rate of nearly 78 percent in 2013. Demand from the film industry, increased convention and meeting activity, success in capturing international tourism, and the overall resurgence of downtown Los Angeles have all contributed to the increased demand for hotel rooms. The *Los Angeles Daily News* reports that more than 2,000 new hotel rooms across 10 different properties are currently under construction in downtown Los Angeles and set for completion by the end of 2014. Across the Los Angeles area, an additional 25 hotels are in the planning stages, which will add nearly 5,000 additional rooms to the hotel market by 2017.

Table 1: Hotel Industry Indicators – County of Los Angeles

Year	Hotel Rooms	Rooms Sold	Average Daily Rate	Occupancy Rate
2008	97,555	26,499,887	$154	74.4%
2009	96,380	23,827,480	$137	67.7%
2010	95,354	24,894,983	$139	71.5%
2011	99,220	27,176,853	$147	75.0%
2012	98,404	27,408,285	$156	76.3%
2013	98,468	27,907,428	$163	77.6%

Source: PKF Consulting

At the same time, the US Census Bureau finds that an increasing number of housing units in Los Angeles County are designated for "seasonal, recreational, or occasional use" (referred to as "vacation rentals" in the table below). While still a small proportion of the overall housing market, more than 23,000 housing units in Los Angeles County were reported as vacation rentals in 2012. Even so, the housing market in the Los Angeles area is very healthy, with an overall occupancy rate greater than either the state or nation as a whole.

Table 2: Housing Industry Indicators

2000	Area Occupancy Rate	Vacation Rentals (VR)	VR as % of Vacant	VR as % of Total Housing
LA County	95.8%	13,565	9.9%	0.4%
California	94.2%	236,857	33.3%	1.9%
United States	91.0%	3,578,718	34.3%	3.1%
2012	**Area Occupancy Rate**	**Vacation Rentals (VR)**	**VR as % of Vacant**	**VR as % of Total Housing**
LA County	93.5%	23,369	10.5%	0.7%
California	91.2%	340,045	28.3%	2.5%
United States	87.5%	5,014,560	30.5%	3.8%

Source: US Census Bureau

Tourism supports 1 out of every 10 jobs in the Los Angeles area. More than 436,000 workers were employed in the Leisure and Hospitality industries in 2013. Employment in these sectors is growing rapidly with more than 21,000 tourism-related jobs added to the Los Angeles area economy between 2012 and 2013. Moreover, employment in the Leisure and Hospitality industries has grown by 42.4 percent since 1990, while total employment in Los Angeles County contracted by 1.1 percent over the same period.

Figure 2: Tourism-Related Employment in Los Angeles

Source: State of California, Employment Development Department

Short Term Rentals in Los Angeles

STRs are an essential element of the Los Angeles area lodging market. They contribute to the range of options necessary to meet the diversity of demand from the millions of visitors to Los Angeles each year. More than 15,000 properties are listed across the Los Angeles area on the major web-based vacation rental platforms. Allowing for those not listed on these sites, as well as some duplication, this is a substantial number of STR properties. While calculating the exact size of the vacation rental market is extremely challenging given its diverse and diffuse nature, STRs in Los Angeles County accounted for more than a million room-nights purchased by visitors in 2013. There is a high level of interest among property owners and visitors for participating in the STR market.

The legal status of STRs in the Los Angeles area is very complex. With 88 separate incorporated cities within Los Angeles County, there is no existing consensus in the region on where and how property owners may rent out all or a portion of their properties as STRs. In the City of Los Angeles, for example, STRs are permitted in commercial and higher-density residential zones but prohibited in agricultural, single-family, and lower-density multi-family residential zones. However, the City requires that all STR properties register and pay the applicable Transient Occupancy Tax, even in prohibited zones. The disparity in how STRs are treated in different municipalities, as well as the conflicting statutes within specific municipalities, creates a level of uncertainty that can contribute to conflict between STR owners, users, and neighbors.

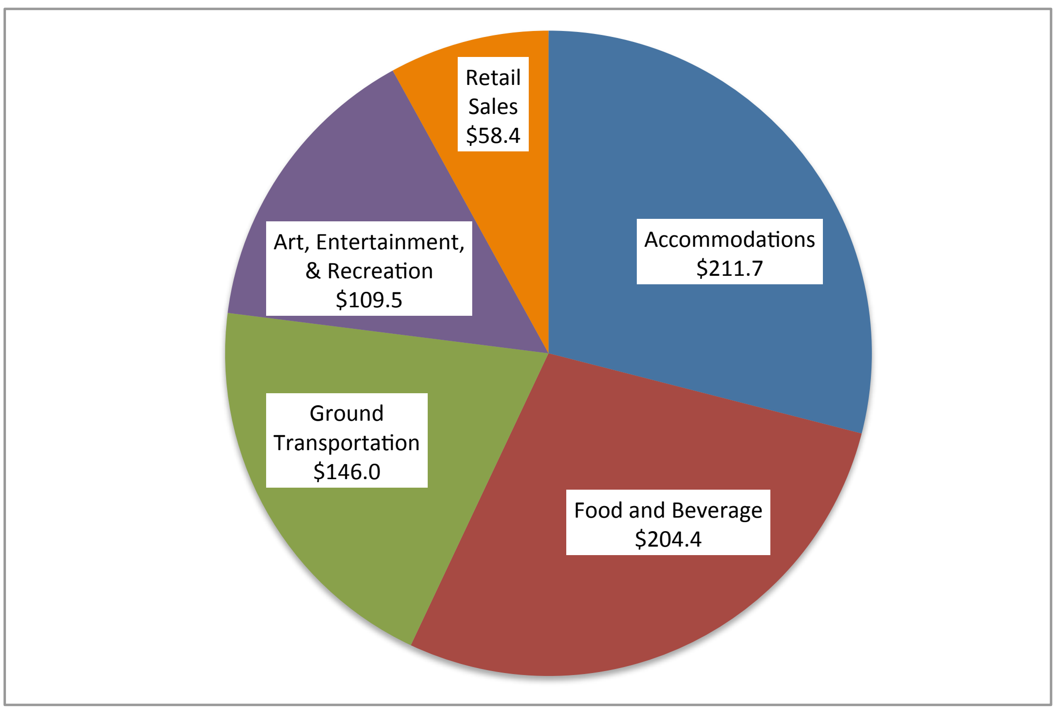
Economic Impact Calculations

The economic impact of STRs in Los Angeles in 2013 was calculated by first estimating the direct accommodations spending by visitors using STRs. Next, this figure was used as the basis of calculating total STR direct spending. Using these figures, specific multipliers provided by the US Bureau of Economic Analysis RIMS II industry model for the Los Angeles-Long Beach-Anaheim MSA were used to estimate the ripple effects of the induced and indirect impacts; the combination of these ripple effects and the direct spending forms the total economic impact.

Direct STR-Related Spending Estimates

Using a combination of data provided by STR property owners/managers and web-based vacation rental marketplaces it was possible to estimate the aggregate direct spending on lodging by short term rental users as $211.7 million in 2013. As a part of the study, survey data was collected from property owners and managers for nearly 300 local properties. *HomeAway* provided data for an additional 2,500 properties throughout the Los Angeles area. The estimated total lodging value was validated using local stakeholder information and publicly availably datasets including the California Travel and Tourism Commission's travel impact figures, produced by Dean Runyan.

Figure 3: 2013 Total Direct Short Term Rental Visitor Spending ($millions)



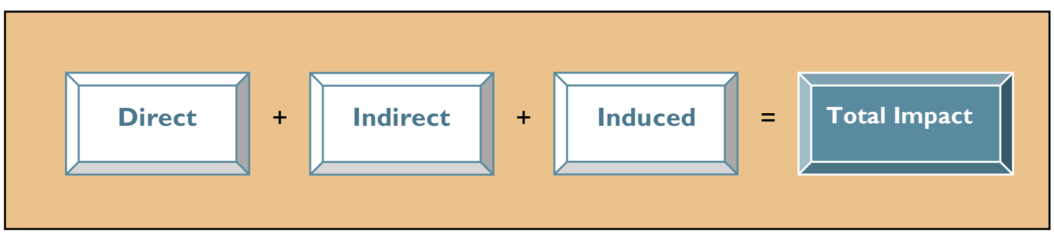
Source: Micronomics, Inc; TXP, Inc

The proportion of total local tourism spending attributable to lodging, using local tourism impact analysis conducted by Micronomics Inc, was applied to this aggregate direct short term rental spending figure to calculate the amount of total direct spending by short term renters. This ratio of direct spending in different industry categories (i.e. lodging, food and beverage, recreation, retail, and transportation) was validated using data from the US Bureau of Economic Analysis' Travel and Tourism Satellite Accounts dataset. Not surprisingly, visitors to the Los Angeles area spend proportionally more on transportation during their stay than the national average. For every $100 a traveler spent on lodging, they spent an additional $97 on food, $69 on local transportation, $52 on recreation activities, and $28 on retail shopping in the local economy. As a result, the total direct spending by STR visitors in the Los Angeles area for 2013 is estimated at $730.0 million.

Economic Impact Methodology

The economic impacts extend beyond the direct activity outlined above. In an input-output analysis of new economic activity, it is useful to distinguish three types of expenditure effects: direct, indirect, and induced. Direct effects are production changes associated with the immediate effects or final demand changes. The payments made by a visitor to a hotel operator or taxi driver are examples of a direct effect.

Figure 4: The Flow of Economic Impacts



Indirect effects are production changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand for an overnight stay will require the hotel operator to purchase additional cleaning supplies and services, for example, and the taxi driver will have to replace the gasoline consumed during the trip from the airport. These downstream purchases affect the economic status of other local merchants and workers.

Induced effects are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. Both the hotel operator and taxi driver experience increased income from the visitor's stay, for example, as do the cleaning supplies outlet and the gas station proprietor. Induced effects capture the way in which this increased income is spent in the local economy.

Once the ripple effects have been calculated, the results can be expressed in a number of ways. Four of the most common are "Activity," which is equivalent to sales; "Value-Added," which is sales minus the cost of good sold; "Earnings," which represents the compensation to employees and proprietors; and "Employment," which refers to permanent, full-time jobs that have been created in the local economy.

The interdependence between different sectors of the economy is reflected in the concept of a "multiplier." An output multiplier, for example, divides the total (direct, indirect and induced) effects of an initial spending injection by the value of that injection – i.e., the direct effect. Larger multipliers mean greater interdependence among different sectors of the economy. An output multiplier of 1.4, for example, means that for every $1,000 injected into the economy, another $400 in activity is produced in all sectors.

Economic Impact Results

The estimated $730.0 million total direct spending by visitors to Los Angeles staying in STR properties in 2013 created a total economic activity of $1.4 billion, value-added of $761.2 million, earnings of $390.7 million, and 12,314 jobs in the Los Angeles area economy. The majority of this activity is concentrated in the sectors with the highest direct tourism spending, such as Food Services and Arts, Entertainment, and Recreation. Even so, the spending patterns of STR users, and particularly the indirect and induced effects of their lodging spending, are different than those visitors staying in traditional hotel/motel accommodations. To capture this difference, the total impact of lodging spending by STR users was calculated through the Households sector of the economy, rather than the Accommodations sector. While the total impacts are estimated at the Los Angeles-Long Beach-Anaheim MSA level, the majority of these impacts will be centralized in Los Angeles County, where the evaluated STRs are located. The following table details the total industry-level impact of STRs in the Los Angeles area. Further benefits accrue to both local jurisdictions and the State of California from taxes assessed on direct spending by visitors, as well as realizing revenue associated with the ripple effects of that spending.

Table 3: Economic Impact of Short Term Rentals in Los Angeles

Industry	Activity	Value-Added	Earnings	Jobs
Ag., forestry, fishing, & hunting	$948,970	$332,140	$205,853	6
Mining	$5,678,446	$2,856,377	$1,081,087	16
Utilities	$28,625,324	$16,950,794	$4,871,866	45
Construction	$6,390,947	$3,184,888	$2,157,081	42
Manufacturing	$127,901,717	$37,997,376	$21,102,826	398
Wholesale trade	$48,990,084	$32,677,320	$14,533,797	225
Retail trade	$63,128,356	$60,384,976	$30,038,096	1,072
Transportation & warehousing	$179,890,625	$64,081,621	$54,084,664	1,587
Information	$55,823,541	$30,625,458	$12,276,032	171
Finance & insurance	$100,613,338	$59,203,257	$27,971,227	490
Real estate and rental & leasing	$140,357,835	$103,773,562	$11,746,062	708
Prof., scientific, & tech. services	$61,453,009	$41,038,505	$27,126,628	400
Management of companies	$27,055,144	$16,314,976	$9,829,864	108
Admin. & waste services	$33,527,812	$22,192,744	$14,187,093	510
Educational services	$9,386,768	$5,383,578	$3,620,684	111
Health care & social assistance	$66,665,092	$40,867,726	$30,210,802	623
Arts, entertainment, & recreation	$122,235,832	$76,896,445	$40,734,577	1,848
Accommodation	$9,164,126	$5,839,811	$2,635,215	82
Food services & drinking places	$261,482,921	$120,808,562	$72,114,894	3,632
Other services	$38,969,782	$19,772,135	$10,220,396	240
Total	**$1,388,289,668**	**$761,182,248**	**$390,748,744**	**12,314**

Source: TXP

Conclusions

Short term rentals and STR guest spending are an important part of the tourism sector in Los Angeles, ultimately creating thousands of jobs and millions of dollars of economic activity, wages, and tax revenue for the community each year. This appears to be largely net new spending as increases in vacation rental activity have coincided with growth in both hotel room revenue and the overall tourism sector in the Los Angeles area. Different types of lodging serve discrete segments of the visitor market and diversity within the accommodations market is essential to meeting customer demand. This is particularly true for major destinations that compete for travellers on a global scale. As such, STRs are an essential element of the Los Angeles area lodging portfolio.

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