

**REPORT OF THE
CHIEF LEGISLATIVE ANALYST**

DATE: January 3, 2023

TO: Honorable Members of the Los Angeles City Council

FROM: Sharon M. Tso 
Chief Legislative Analyst

Council File No: 19-0646
Assignment No: 20-10-0971

Corporate Housing and Intermediate Length Occupancy Rentals

SUMMARY

Motion (Bonin – Koretz, CF 19-0646) instructed the Chief Legislative Analyst (CLA), with the assistance of the City Administrative Officer (CAO), the Department of City Planning (DCP), and the Housing Department (LAHD), to report on the number of corporate housing units in the City of Los Angeles, inclusive of units subject to the Rent Stabilization Ordinance (RSO), and the impact corporate housing has on the rental housing supply in general. The Motion also requested that the report include recommendations, drawing from action taken by other jurisdictions, and the most expeditious process of implementing those recommendations to address the impacts of corporate housing on the City’s housing market. On February 9, 2021, the City Attorney transmitted a draft ordinance requiring an initial 12-month minimum lease in RSO buildings pursuant to the Motion’s instructions.

This report includes an overview of corporate housing, including background, description of average stays, and potential impacts of corporate housing on the housing stock. An overview of actions taken to regulate corporate housing by other jurisdictions is provided, as well as options for regulation within the City.

RECOMMENDATIONS

That the City Council:

1. Instruct the Department of City Planning, in collaboration with the Los Angeles Housing Department, to report on the feasibility of requiring corporate housing providers to register units being used as corporate housing.
2. Instruct the City Attorney, with the assistance of the Los Angeles Housing Department, to prepare and present an ordinance to prohibit the use of rental housing units subject to the Rent Stabilization Ordinance as corporate housing.

BACKGROUND

Corporate housing refers to intermediate length occupancy rentals of furnished multifamily rental housing units, condominiums, or single-family properties for use as temporary residence for a period of more than 30 days and less than a year. “Corporate housing” may also be referred to as

temporary housing, corporate rentals, intermediate length occupancy rentals, serviced apartments, or executive rentals. Corporate housing providers offer services similar to the short-term rental industry, albeit generally not tailored for leisure stays. Corporate housing is used to provide lodging for employment purposes for indefinite lengths of time but can serve additional needs such as providing accommodations for personal circumstances, medical care, military service, or other temporary needs. The corporate housing industry provides service for several occupational sectors including legal professions, performers, actors, and athletes. Corporate housing provides individuals with flexibility not provided by hotels, including the ability to travel with family and flexibility to adjust for indefinite stays. Compared to hotels, corporate housing provides more square footage than traditional hotel rooms, varying room counts, and amenities suited to longer extended stays such as kitchen and laundry facilities. Corporate housing rentals are also a more cost-effective alternative to hotels for those needing temporary residence for indefinite stays, especially for families. Furthermore, the intermediate length occupancies generated by corporate housing can serve to induce additional sources of tax revenue and economic development, as well as serving to attract skilled individuals from other jurisdictions to the City's workforce.

The corporate housing industry has been in operation for decades and is comprised of a number of corporate housing providers that serve to provide a catalogue of furnished rental units as well as assistance associated with such rentals. This includes assistance in finding a unit, leasing, furnishings and equipment, utilities, and compliance with local regulations. Corporate, intermediate length occupancy rentals are provided through several types of service providers, including, but not be limited to, corporate housing companies, property management companies, and individual landlords.

Historically the corporate housing industry has operated largely through corporate housing companies in a business-to-business model, as opposed to the peer-to-peer model widely used by the short-term rental industry. Recently there has been an increase in providers leveraging online platforms to serve customers and advertise their catalogue of units for rent. Corporate housing companies operate by master leasing residential rental units, furnishing and equipping them, and renting them individually to clients. Leases to corporate housing developers are typically limited to a small percentage of units per property, however there are cases in which entire rental housing properties are utilized for intermediate length occupancy rentals. There are currently over 61 corporate housing companies operating in Los Angeles County.

According to information provided by the Corporate Housing Providers Association (CHPA), the average length of stay for Los Angeles County for the last three years was 77 days and the average daily rental rate for corporate housing was \$202. In 2021, of the rentals tracked by the CHPA, there were 940 corporate housing rentals in Los Angeles County. It is important to note that these figures reflect transient occupancy rentals during the pandemic, which experienced a dramatic decrease following the onset of the pandemic.

The City of Los Angeles' RSO provides for limits on rental rate increases, as well as other rental housing protections, for tenants of residential rental units constructed prior to 1978. Currently, there are 652,466 residential rental units subject to the RSO. Since 2007, there have been 11,400 rental housing units subject to the RSO removed from the market through Ellis Act proceedings (excluding replacement units). Until 2019, there was a consistent increase each year in the number of rent controlled housing subject to the RSO being withdrawn from the market.

DISCUSSION

Corporate or intermediate length occupancy rentals are not currently defined or identified as a residential use by the State or the City. Accordingly, no governmental agency in the Los Angeles region or the State tracks the use of residential housing units as corporate housing. Further, there is no reliable catalog of units, public or private, currently being used as corporate housing. Corporate housing providers may be able to provide an estimate, however that data would not be suitable for use in analysis or regulatory purposes.

Although the corporate housing model provides a more affordable option for temporary occupancy than extended stay hotels, corporate housing units are often leased at higher rental rates than units for long-term tenants. Further, the absence of data on the impact of corporate housing on the housing stock has resulted in concerns that corporate housing may have a negative impact on the availability of housing by occupying units that would otherwise be available for long term occupancies. The Motion notes particular concern with corporate housing's impact on rent-controlled housing suggesting that the operation of corporate housing may have an more acute effect as Ellis Act removals of RSO units increase. Further, there are concerns that corporate housing rentals may provide a loophole allowing landlords to reset initial rental rates at a higher pace than would otherwise be possible due to the shorter term of corporate housing rentals.

In order to understand the complete impact that corporate housing may have on rent-controlled or housing at-large, the City should begin to track corporate housing moving forward. Establishing a definition for corporate housing, including length of stay, or establishing corporate housing as a residential or commercial use would be a useful first step in tracking corporate housing. This report includes a recommendation for the Department of City Planning (DCP) with the assistance of the Los Angeles Housing Department (LAHD) to report on the feasibility of requiring corporate housing providers to disclose or register corporate rentals with the City. The City may have a number of administrative tools, such as remittance of business tax, that can be leveraged to collect information on corporate housing in the City. Upon the availability of reliable data for the impact of corporate housing, the City can take additional action or establish regulations as needed.

Corporate Housing Regulation in Other Cities

There are few examples of corporate housing being regulated in other jurisdictions, generally limited to the local level. The subject of corporate housing was first addressed by Redwood City in 2015. After issuing cease and desist requests to several properties suspected of leasing a high percentage of their rental units as corporate housing, Redwood City found that the scope was not as severe as suspected and elected to take no further action. The cities of Santa Monica, West Hollywood, and San Francisco are notable jurisdictions that have taken robust action on the matter of corporate housing, as discussed below.

West Hollywood

On February 21, 2017 the West Hollywood City Council adopted Ordinance No. 17-999 defining and establishing corporate housing as a residential land use, and further requiring development permits include a condition that dwelling units are intended for long-term residency, defined as one year or more. On December 2, 2019, Ordinance No. 19-1091 was adopted to clarify the use of

dwelling units, as defined by the West Hollywood Municipal Code, is intended for long term use, requiring an initial one-year lease for any dwelling unit. On August 3, 2020, Ordinance 20-1112 was adopted allowing for corporate housing, upon approval of an administrative permit, in properties located in commercial zones within the Sunset Specific Plan.

San Francisco

In May 2020, the San Francisco Board of Supervisors adopted Ordinance No. 78-20 creating the Intermediate Length Occupancy Program which established regulatory and procedural requirements for new and existing corporate housing units. The ordinance established intermediate length occupancy, or corporate housing, as a residential use and requires providers to apply for a permit authorizing a unit's use as corporate housing. The ordinance additionally establishes limits on the amount of corporate housing units per property and Citywide. For properties with four to nine rental housing units, no more than 25 percent of units in the property are permitted to be used as corporate housing. Properties with more than ten rental housing units are limited to no more than 20 percent of units for use as corporate housing.

The ordinance further limits the total number of rental housing units that can be used as corporate housing citywide at 1,000 units. Corporate housing in properties with three or fewer rental housing units, rent-controlled, or affordable housing units is prohibited. The ordinance requires corporate housing providers to submit Annual Unit Usage Reports for units used as corporate housing, including the location of each unit, length of stay, and average vacancies. A two-year freeze and exemption period was provided to allow for existing corporate housing operators to apply for authorization to use their units as corporate housing without penalty and be included in the 1,000-unit limit. The exemption and freeze period expired on June 22, 2022.

Santa Monica

On September 8, 2020 the Santa Monica City Council adopted Ordinance 2650 adding Chapter 6.22 "Residential Leasing Requirements" to the Santa Monica Municipal Code requiring residential housing units to be leased only to tenants who are natural persons who will occupy the unit as their primary residence for an initial lease term of no less than one year. These rental housing units must also be unfurnished. The ordinance also includes exemptions from the initial one-year lease and primary residence requirements for certain uses including students, temporary relocation due to inhabitality of primary residence, and temporary absences ending by the end of the original lease term.

Other Cities

Despite the limited instances of corporate housing regulations in other cities, it is important to note that some cities do not distinguish intermediate length occupancies (or corporate housing) and short-term rentals, providing for regulation of transient rentals of up to one year. A notable example of this is New York, which defines a short-term rental as a lease of less than 90 days. As the national average for length of stay for corporate housing is 57 days, New York's short-term rental regulation likely applies to a large share of corporate housing rentals there.

Options for Regulation of Corporate Housing in the City

Motion (Bonin – Koretz) instructs the CLA to include recommendations drawing from actions taken by other cities as well as new ideas to address corporate housing. Cities that have taken action on corporate housing have targeted all residential rental units in their jurisdiction, including full prohibitions of the use in rent-controlled and affordable housing. On February 9, 2021, the City Attorney transmitted a draft ordinance requiring an initial 12-month minimum lease in RSO buildings pursuant to the Motion’s instructions. The draft ordinance as-is would not apply to market-rate rental housing, as is common in other jurisdictions.

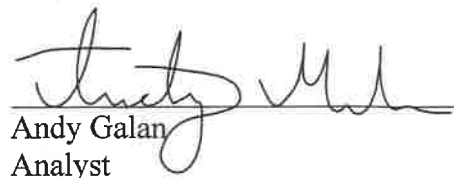
With recognition of the potential impact on RSO housing, the City Council may elect to adopt the draft ordinance as proposed by the City Attorney or take further action to protect rent-controlled units. This could include amending the draft ordinance to add more extensive requirements such as requiring that rent-controlled housing be leased to a natural person who intends to use the rental unit as their primary residence or requiring that units not be furnished. The Council may also elect to completely prohibit the use of rental units subject to the RSO as corporate housing. Any ordinance regulating corporate housing should include an exemption to allow intermediate term leases by organizations or individuals providing temporary or transitional housing for humanitarian purposes. Exemptions consistent to those adopted by the City of Santa Monica, and any others identified by LAHD, should also be included in an ordinance. It should be noted that due to the covenants attached to affordable housing units, the use of affordable housing as corporate housing is not possible and requires no action to limit or prohibit the use in affordable housing units.

As there is no reliable data available, a Citywide prohibition on corporate housing is not recommended at this time. As the corporate housing industry has operated in the City for decades, significant disruption to the corporate housing industry may have adverse impacts on tourism and economic development in the City. A prohibition would also risk the loss of corporate housing clients, many of which are highly-skilled professionals, to other jurisdictions and result in the loss of any tax revenues they may generate.

Any negative impact corporate housing may have to the City’s housing stock should be addressed following the collection of data, which is currently unavailable, and analysis that can evaluate the actual impact of corporate housing on the City’s housing stock. The City Council may also consider requiring authorization for the use of rental housing units as corporate housing by conditional use permits or establishing a percentage limit on the number of units that can be used as corporate housing within a property.

FISCAL IMPACT

There is no General Fund impact as a result of the recommendations in this report.


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