CHELAN COUNTY PLANNING COMMISSION MINUTES

Chelan County Planning Commission Chelan County Community Development	Date: August 28, 2024
Called to Order: 6:30 PM 400 Douglas St., Suite 201 Wenatchee, WA 98801	

CALL TO ORDER

Meeting was called to order at 6:30 PM

COMMISSIONER PRESENT/ABSENT

Vicki Malloy	**Present**	**James Wiggs**	**Present**
Doug Englund	**Present- zoom**	**Christopher Dye**	**Present**
Ryan Kelso	**Present**	**Jesse Redell**	**Present**
Cherie Warren	**Present**	**David Donovick**	**Present - zoom**
Mike Sines	**Present**		

STAFF PRESENT

Jessica Thompson, Permit Clerk
Kirsten Ryles, CD Assistant Director
Deanna Walter CD Director

PUBLIC PRESENT: Sean Lynn, Kate Redell

PUBLIC PRESENT VIA ZOOM: Ted Hanika, Sean's AI notetaker, Michelle-vortex, Jerri Barkley, Art Alley, Dave Bartholomew, Matthew Oaks, Jim Wright(x2), Chiwawa Communities Association, Peggy, Patthirlby, Krivil Skinnarland, Chase K. Lak, Marypat.barton@gmail.com, Samsung sm-s911u, Roger&Rita, Reilly, Danbe, Hans, Brian Patterson, Chris Wille, William May, Mike Cushman, Dan B, Cindy, Jerry Isenhart, Leesa, Mimi Reid, David Odom, Tom Martin, Lorie Witmer, Brittany, Katie Hanson, Sgg, Maureen, Robert C, Sean Reid, Jeff Judy, L A, Joni, Betsy Steele, Heather Tromp, William Cagle, Richard Nicklas, Jake, Brad, I media, Dorothy Johnston, KateQuinn, Kristine Peterson, Brad S, Jonathan Strahl, Andy Day-rc3, 12066180697, Stephanie, Homeowner, Jessica Sellers, Jesse NWPMC, Mike Kirk, Carissa Reid and Bobby.

Minutes:

Chairman Jesse Redell starts the meeting and takes roll.

He proceeds, asking the commissioners if they had read the minutes from the July 24, 2024, meeting.

Hearing no corrections, changes or additions, the minutes were approved.

PUBLIC COMMENT PERIOD FOR ITEMS NOT ON THE AGENDA

Public Testimony

- Sean Lynn – Attachment A of minutes
- Stellen Giffin

Old Business:

None

New Business

ZTA 24-328 - Proposed amendments to the Short-Term Rental provision in the Chelan County Code, specifically Section 11.88.290.

Community Development Director Deanna Walter presents the proposed changes from the August 28th 2024 agenda packet.

Continued discussion between commissioners and Mrs. Walter on the specific STR code change proposals for Title 11.

Public Testimony

- Marypat.barton@gmail.com
- Jesse Kensington

- Tom Martin
- Brian Patterson
- Lorie Witmer
- Nicole Wright
- Sean Reid
- David Odom
- Chiwawa Communities Association – Matthew Oaks
- Sean Lynn
- Jesse NWPMC Patrick Dugan
- Chase K. Lak
- Roger & Rita Thomas

Public Testimony - closed

Commissioner Warren asked for more details about the issue that was brought up and led to the modifications to the STR code.

Public Hearing Closed

Workshop for ZTA 24-328 - Proposed amendments to the Short-Term Rental provision in the Chelan County Code, specifically Section 11.88.290.

Commissioners review and discuss thoughts on the proposed changes for Title 11.

Workshop continued to September 12th at 6:30 p.m.

Discussion at the Chair's Discretion:

None

ADJOURNMENT

Meeting Adjourned at 8:37 pm.

Next Planning Commission Meeting to be held on September 12, 2024, at 6:30 pm

All Planning Commission meetings and hearings are open to the public

Economic Impact of **Short Term Rental Properties** in Unincorporated Chelan County

September, 2020

Michael Luis
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P.O. Box 15 | Medina, Washington 98039 | 206-295-7123

Economic Impact of Short Term Rental Properties in Unincorporated Chelan County

Summary of Findings

This paper provides an overview of the economic impact of short term rentals (STRs) on Chelan County. It is focused on rentals located in the unincorporated parts of Chelan County, although the impacts are mostly seen on a countywide basis. Key findings include:

- Between September 1, 2019 and August 31, 2020, 1,714 properties in unincorporated Chelan County that were listed by Airbnb, VRBO and/or HomeAway, had at least one night of paid visitor activity.
- Rental rates across the unincorporated areas averaged $362 per day. The highest average rates were in the areas adjacent to the city of Chelan, at $491 per night, and the lowest rates were adjacent to Cashmere, at $133 per night.
- The average STR was rented out for 94 nights in the past year, and the owner earned an average of about $34,000 in gross rental income.
- The patron of the average STR spent an additional $560 per party per day, with $235 spent on food and beverage services, $101 spent on recreation and $224 spent on retail.
- Patrons in the Chelan and Manson unincorporated areas were estimated to have spent over $1,200 per night in addition to their STR rental fees.
- STRs in unincorporated areas generated a total of about $108 million in direct economic activity, and another $45 million in indirect activity.
- STRs generated about $42 million in wages and supported over 1,400 jobs.
- Spending by patrons of STRs in unincorporated areas generated nearly $820,000 in general sales taxes for Chelan County, which is about 10 percent of total general sales tax collections. That spending also generated about $605,000 each for the two-county transit agency and for a group of smaller agencies that collect sales tax.
- Rental fees for STRs in unincorporated areas generated $2.3 million in lodging taxes, which are used to enhance the visitor industry across the county.

Introduction

This paper provides an overview of the economic impact of short term rentals (STRs) on Chelan County. It is focused on rentals located in the unincorporated parts of Chelan County, although the impacts are mostly seen on a countywide basis. Following the data and methodological sections, the paper covers four areas.

STR activity. The scope of STR activity is described for both unincorporated and incorporated areas. This is based on data collected from listings by Airbnb, VRBO and HomeAway. The data covers at least 90 percent of STR properties.

Visitor spending. Estimates are provided for spending by visitors who have rented STRs in unincorporated Chelan County. Spending estimates are provided for (a) food and beverage services; (b) entertainment and recreation activities; (c) retail.

Economic impact analysis. The STR rental activity and visitor spending data are analyzed to derive estimates for total economic impact of STRs located in unincorporated areas. The impacts are countywide, and cover total economic output, labor income and job generation that result from the STR activity in unincorporated areas.

Tax impact analysis. Estimates are provided for the sales tax and lodging taxes generated by STR activity in unincorporated areas that are collected by Chelan County and several agencies that have countywide taxing authority.

Economic impact analyses are based on a number of assumptions, each of which can have a substantial effect on the final estimates. Every effort has been made to use conservative assumptions, so it is likely that the estimates provided here form a lower bound for the actual impacts.

Geographic Scope

This report estimates the economic impact of short term vacation rentals that are located in unincorporated areas of Chelan County. Geographic scope is as follows:

Property counts and activity measures
The 2,639 properties included in the report all had revenue from at least one visitor-night from September 1, 2019 through August 31, 2020. Figure 1 lists basic data for these properties by eight market areas. Cities lie within five of these market areas, and properties are broken out by city and unincorporated areas.

Visitor spending
Visitor spending on lodging and other expenses is estimated only for properties located in unincorporated areas.

Economic impact
The total economic impact of the spending by visitors renting properties in unincorporated areas is estimated for the entire county.

Tax impact
The total tax revenue impact of the spending by visitors renting properties in unincorporated areas is estimated for the Chelan County government and for other countywide agencies that have sales tax authority.

Data Sources and Notes

Short term rental property activity
The data for the number and activity for STR properties comes from AirDNA, a data service that mines information from the websites of Airbnb and VRBO (which includes HomeAway). AirDNA estimates that about 90 percent of STR properties are listed on one or both of these services. AirDNA provides listings of all active properties in a market area, and includes detailed data on rental activity, rental rates, fees and occupancies.

AirDNA listings for Chelan County are divided into eight market areas: Cashmere, Chelan, Entiat, Leavenworth, Malaga, Manson, Peshastin, Wenatchee. The AirDNA listings do not specify whether the unit is located within a city. Each listing includes latitude and longitude coordinates which were used to identify which units are in cities and which are in unincorporated areas.

> *When reading this report, remember that it does not cover all STRs in Chelan County, but only those listed on Airbnb, VRBO/HomeAway. Thus, it understates activity to some extent.*

Visitor spending
No recent visitor spending surveys were identified for all of Chelan County, so it was necessary to develop estimates of spending from other data. Estimates of visitor spending were derived from tourism spending data provided by the U.S. Bureau of Economic Analysis Travel and Tourism Satellite Account. From this data, for three categories—food and beverage service, entertainment and recreation, retail—we calculate the ratio of spending on each category to spending on lodging. These ratios were then applied to the average rental rates for STRs in the unincorporated areas of each market area.

It is assumed, therefore, that visitors will spend about the same proportion of their travel budget on each category, no matter the size of that budget. These ratios are based on national data, so some caution is advised.

Tax revenue impacts
Tax revenue impacts were calculated from sales and lodging tax rates provided by the Washington State Department of Revenue. Tax revenue estimates are based on the following assumptions:

- Chelan County collects sales tax (1.8 percent combined rate) and lodging tax (4 percent) on units located in unincorporated areas, and that tax revenue is listed.
- About 12 percent of taxable retail sales (NAICS 44 and 45) in Chelan County occur in unincorporated areas and are subject to the county's full combined local tax rate of 1.8 percent.
- About 88 percent of taxable retail sales in Chelan County occur in cities, and Chelan County government receives 0.15 percent sales tax on those purchases.
- Several agencies with countywide sales tax authority receive sales tax from all properties.

Economic Impact Methodology

The core of economic impact analysis is the determination of the effect of the injection of new money from outside the geographic area under consideration. Any geographic area—a county in this case—has two kinds of economic activity. "Primary" activity, also known as the economic base, brings new money into the area from outside. That money is then circulated by businesses and consumes within the area in the "secondary" economy.

Economic impact analysis estimates the effects of new activity in the primary economy on the secondary economy. These estimates can be made in a number of ways. This report uses multipliers that are applied to primary activity to generate estimates of total activity (primary plus secondary). The multipliers used in this report were developed by the U.S. Bureau of Economic Analysis for its Regional Input-Output Modeling System (RIMS II) and are specific to Chelan County.

Spending by visitors from outside the county is considered a primary economic activity. Each type of spending—lodging, food and beverage service, entertainment and recreation, retail—has its own multiplier, which is then applied to spending in that category. Estimates are provided for the following economic impacts, as shown below in Figure 3.

- Total output. This is the total dollar value of all economic activity, including the new primary activity and the resulting secondary activity.
- Total labor income. This is the total dollar value of wages paid to workers in primary and secondary activities in the county as a result of the total output.
- Total jobs. This is the total number of new jobs created in the county by both the primary and secondary activities.

Note that the economic impacts on the secondary economy apply to the entire county, whether in incorporated or unincorporated areas, whereas the primary activity being measured consists only of STRs in unincorporated Chelan County.

In calculating the economic impact of STRs, we assume that most of the units are owned by people who do not live in Chelan County. Without a thorough review of ownership we cannot have an accurate count of how many units are owned by local investors, but given the number of units that show large numbers of blocked out dates (when the owners, presumably, are using the unit for their own vacations) we know that the great majority of units are not locally owned. To account for the economic impact of unit ownership, we make three assumptions.

- 10 percent of units are assumed to be owned by Chelan County residents, and all rental revenue from those units stays in the county.
- Locally owned units realize a net of 30 percent of gross rental income after paying management and ownership expenses (interest, taxes, insurance, maintenance).
- For the units not owned by Chelan County residents, we estimate that 14 percent of gross revenue is retained in Chelan County in the form of management fees. All cleaning fees are assumed to be retained in Chelan County.

Short term rental activity 2019-2020

Short term rental activity in Chelan County has grown significantly in recent years. Figure 1 shows activity booked through Airbnb, VRBO and HomeAway for the 12 months from September 1, 2019 through August 31, 2020.

Figure 1 Short Term Rental Activity In Chelan County

Market Activity* Sept 1, 2019 through August 31, 2020

Market Area	Units with revenue	Nights occupied	Average daily rate**	Total annual revenue
Cashmere				
City	5	542	$209	$113,048
Unincorporated	37	4,396	$133	$586,626
Chelan				
City	517	42,260	$295	$12,462,893
Unincorporated	146	8,516	$491	$4,180,247
Entiat				
City	1	100	$84	$8,350
Unincorporated	8	460	$183	$84,178
Leavenworth				
City	305	27,268	$281	$7,651,520
Unincorporated	1,026	111,612	$345	$38,484,226
Malaga	6	569	$177	$100,535
Manson	367	24,542	$488	$11,970,090
Peshastin	63	6,584	$296	$1,951,380
Wenatchee				
City	97	8,111	$120	$975,095
Unincorporated	61	5,226	$214	$1,120,843
Incorporated total	925	78,281	$271	$21,210,906
Unincorporated total	1,714	161,905	$361	$58,478,125
Countywide total	2,639	240,186	$332	$79,689,031

*Units listed through Airbnb and/or VRBO-HomeAway
**Includes cleaning fees

Source: AirDNA

65 percent of the listed units that had revenue during the past year were located in unincorporated Chelan County. 67 percent of unit-nights and 73 percent of total revenue were realized in unincorporated areas. The city of Chelan has about 20 percent of the units in the county, with about 80 percent of the Chelan City inventory consisting of apartments, condominium and resort properties.

The most expensive properties are found in the unincorporated areas around Chelan and in Manson. Average daily rents approach $500 in these areas, with the most expensive property in the county—a 7,200 square foot house on Moonlight Bay—listed for $2,794 per night, with a cleaning fee of $995.

The total rental fees (including cleaning fees) collected from the properties in unincorporated Chelan County for the most recent 12 month period add up to $58.5 million. This is up from $52 million in calendar year 2019. The Washington State Department of Revenue reported about $127 million in taxable sales of accommodations (NAICS 721) in all of Chelan County for calendar year 2019. Thus, STR sales in unincorporated Chelan County accounted for about 41 percent of all accommodations sales in the county in 2019. Total countywide sales of STRs in both cities and unincorporated areas accounted for 56 percent of all accommodations sales in the county in 2019.

Estimated Visitor Spending

The economic impact of STRs derives from the combination of rental income and visitor spending. Absent a recent comprehensive visitor spending survey that covers the diverse markets of the county, it is necessary to estimate visitor spending, as noted above. Figure 2 shows estimates of visitor spending by STR patrons in the past 12 months by market area. The estimates cover only spending by parties renting units in unincorporated areas, but most of the spending will take place in cities.

Figure 2 Estimated Visitor Spending by STR Patrons Unincorporated Chelan Co.

Based on Market Activity Sept 1, 2019 through August 31, 2020

Market Area	Average daily rental rate	Estimated daily vistitor spending per party: Food & beverage service	Entertain & recreation	Retail	Total daily visitor spending	Total all spending per day
Cashmere	$133	$87	$37	$83	$207	$340
Chelan	$491	$319	$137	$304	$761	$1,252
Entiat	$183	$119	$51	$113	$284	$467
Leavenworth	$345	$224	$97	$214	$534	$879
Malaga	$177	$115	$49	$110	$274	$451
Manson	$488	$317	$137	$302	$756	$1,244
Peshastin	$296	$193	$83	$184	$459	$756
Wenatchee	$214	$139	$60	$133	$332	$547
Total all markets	$361	$235	$101	$224	$560	$921

Sources: AirDNA, U.S. Bureau of Economic Analysis, author's calculations

Economic Impact of STR Rental and Visitor Spending

Figure 3 shows the estimated economic impacts of all spending by patrons of STRs. See methodological notes above.

Figure 3 Economic Impact of Short Term Rentals In Unincorporated Chelan Co.

Based on Market Activity Sept 1, 2019 through August 31, 2020

	Annual direct output	Annual total output	Total labor income	Total jobs
Net lodging	$1,523,976	$2,076,874	$480,967	12
Cleaning fees	$7,678,935	$11,555,261	$4,784,744	152
Management fees	$8,110,159	$11,052,524	$2,559,566	65
Food & beverage serv	$37,991,011	$54,076,406	$15,002,650	519
Entertain & recreation	$16,365,359	$24,065,260	$6,367,761	253
Retail	$36,237,580	$50,051,346	$12,951,311	404
Total	$107,907,020	$152,877,671	$42,147,000	1,404

Sources: AirDNA, U.S. Bureau of Economic Analysis, author's calculations

Most of the impact comes from visitor spending, since the great majority of units consist of entire homes that are owned by people living outside of Chelan County. Figure 3 breaks out an estimate of the cleaning fees and management fees, assuming that nearly all of that revenue would stay in Chelan County in the form of wages and fees paid to contractors.

By these estimates, the STRs in unincorporated Chelan County generate around $153 million in annual economic activity in the county. The U.S. Bureau of Economic Analysis estimates the gross domestic product (GDP) of Chelan County at about $4.7 billion. The economic activity of STRs in unincorporated Chelan County accounts for about 3 percent of the county's GDP.

To put this in perspective, the direct output of about $100 million is larger than the county's information sector, transportation sector or durable goods manufacturing sector. It is about equal to the non-durable goods manufacturing sector, which includes the food processing industry.

Figure 3 estimates that spending by patrons of STRs is responsible for over 1,400 jobs. The state Employment Security Department reports about 44,000 covered jobs in the county in 2019, so the STR sector accounts for about 3 percent of the county's employment.

Tax Revenue Impact of Visitor Spending

The economic activity associated with STRs throws off a variety of tax revenue streams. Figure 4 shows sales and lodging tax revenue received by Chelan County for lodging and visitor spending, based on rental activity from September 1, 2019 through August 31, 2020. It also shows the estimated sales tax paid by workers living in the county whose earning derive from the STR business.

Fig 4 Tax Impacts of Short Term Rentals In Unincorporated Chelan Co.

Based on Market Activity Sept 1, 2019 through August 31, 2020

	Total taxable	County sales tax	Public Transit sales tax	Other Countywide sales taxes	County lodging tax
Unit rental fees	$58,478,125	$584,781	$233,913	$233,913	$2,339,125
Visitor spending	$81,534,555	$205,467	$326,138	$326,138	
Worker spending	$15,594,390	$39,298	$62,378	$62,378	
Total		$829,546	$622,428	$622,428	$2,339,125

Sources: AirDNA, Washington State Department of Revenue, author's calculations

The county's 4 percent lodging tax applies to all rentals in the unincorporated areas and goes entirely to the county for its lodging tax fund. Sales tax charged on rentals goes entirely to the county general fund (1 percent) to Link Transit (0.4 percent) and several other countywide special funds (combined 0.4 percent)

Sales taxes on other visitor spending are more complicated. First, not all spending is taxable. Most notably, food purchases at grocery stores are not taxable. The estimates assume that 10 percent of all visitor spending is non-taxable.

Second, although we are considering spending by visitors staying in unincorporated areas, most retail, food service and entertainment spending will occur within city limits and the sales taxes will be remitted to the city. According to the Department of Revenue, about 12 percent of taxable retail sales in Chelan County take place in unincorporated areas, so we attribute 12 percent of regular sales tax revenue (at the 1 percent rate) from visitor spending to Chelan County itself. For the other 88 percent of spending that occurs in cities, counties collect 0.15 percent regular sales tax on those sales.

Sales taxes on visitor spending that are collected by the transit agency and other countywide agencies go entirely to those agencies, each at a rate of 0.4 percent.

In all, spending by visitors to STRs generates about $829,000 for the county, which is about 10 percent of its sales tax revenue for the year. This spending also generates about $622,000 for the transit agency and the other agencies combined. Lodging tax should bring about $2.3 million into the county lodging tax fund.

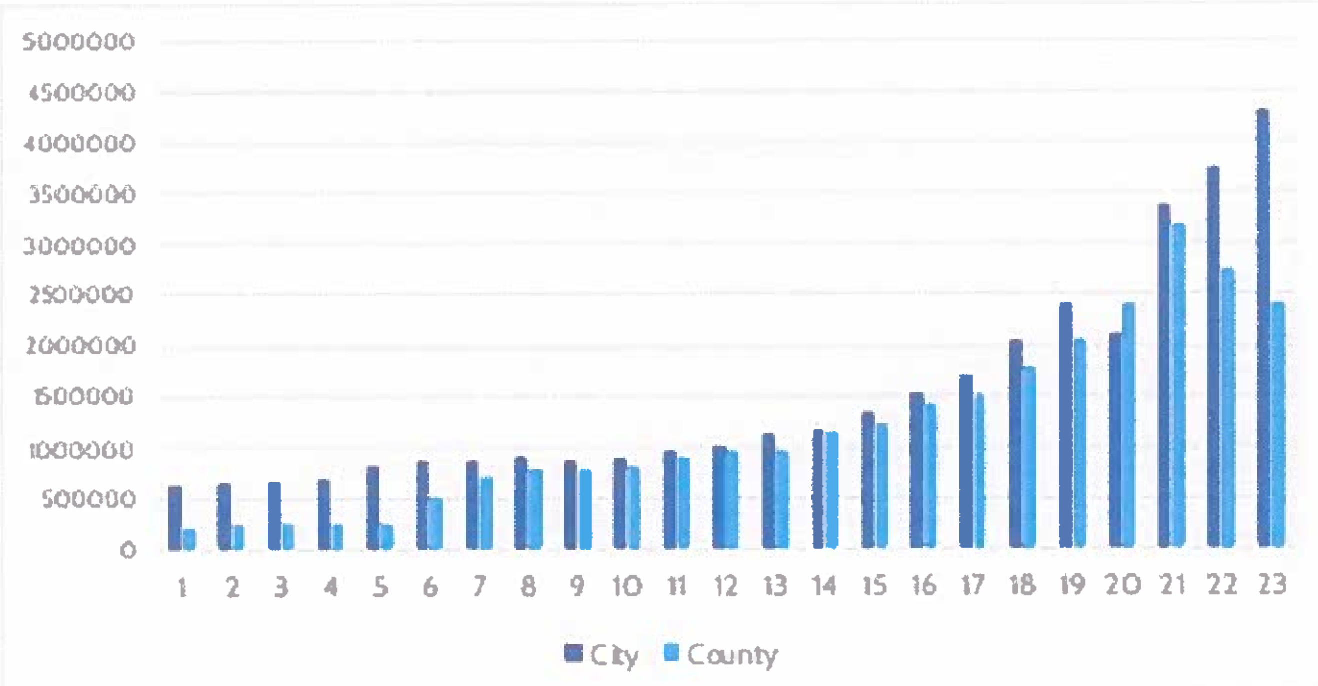
Conclusion

The short term vacation rental market has emerged as an important source of economic activity in places such as Chelan County that have attractive visitor features and limited hotel properties. They stimulate the market for vacation properties by making such properties more affordable through rental income. While most STR properties are owned by people outside the county, and therefore much of the rental income itself leaves the county, visitor spending is robust and provides hundreds of jobs in the county.

STRs also stimulate the balance of the visitor industry. Spending on STR rentals constitutes over half of countywide accommodation sales, so the spending by patrons of STRs may as much as double the size of the non-accommodation tourism sector. When vacation properties are occupied for more of the year, local retailers, restaurants and other services have a more stable customer base.

This report was prepared by Michael Luis. 206-295-7123. luisassociates@comcast.net

Lodging Tax Collections ‘01 to ‘23



Due to short term rental legislation passed in early 2021, the amount of rentals in the county has decreased as evidenced by the declining tax revenue.

AEI Housing Center

Setting the record straight on short-term rentals, housing affordability, and misguided government market interventions

Tobias Peter – Co-Director, AEI Housing Center (Tobias.Peter@AEI.org)
November 2023[1]

Governments around the country have found a new scapegoat for widespread housing affordability: short-term rental (STR) companies such as AirBnB and others. Many cities such as Dallas, Philadelphia, New Orleans, Los Angeles, Boston, and more recently New York City (NYC) have placed restrictions on STRs. While this approach may play well with local unions, people concerned about high housing costs, and the progressive media, it is, at best, a distraction from these governments' own policy failures. The true culprit for high housing costs is a variety of government distortions that have made hotel room capacity scarce, zoning and land use regulations that have made housing both scarce and expensive, and demand boosters like low interest rates that have gotten capitalized into higher prices. Faced with increasing carrying costs and tighter homeowner budgets, STRs can provide a modicum of supplemental income to tapped out homeowners, while also filling the vacuum caused by the lack of hotel rooms and jacked up room rates. STRs thus represent an entirely rational market response to a series of government regulatory failures.

The following examples provide data on the duration of an average STR rental, the nature of STRs, and how misguided government interventions created housing unaffordability long before STRs even came into existence.

Example 1: NYC has made hotel room capacity scarce to curry favor with unions

NYC's actions on STRs need to be considered in the larger context of the city's actions on hotels. The Atlantic reported earlier this month:

> In 2010, New York City banned youth hostels, closing 55 establishments across town. In 2018, the city made it harder to build hotels in areas zoned for manufacturing use. Then, in December 2021, the city council made it harder to build hotels across the city. Prior to these changes, developers could put up hotels as long as they followed existing zoning and building regulations. Now hotels must also acquire a special permit. The city's own projections warned that the regulatory changes would leave the city with insufficient hotel capacity. They were right to worry: In the 12 months following this change, not a single special-permit application was filed.

It is thus particularly ironic that NYC's government actions, in large measure, have created the demand for STRs. According to the New York Times, as cited in the Atlantic article, the "city was doing the bidding of the hotel workers' union, the Hotel Trades Council, which had 'long pushed to limit the construction of new hotels, which are often nonunion. Its calculation [was] that limiting the

[1] The views expressed are those of the author alone and do not necessarily represent those of the American Enterprise Institute.

development of such hotels ... would tend to increase hotel room prices generally and bolster the higher-end hotels where many of its workers are employed.'" It should come as no surprise that "The Hotel Trades Council was also involved in the short-term-rental crackdown."

While STRs may be filling the market vacuum created by NYC officials, the city misdiagnosed the cause and effect. Its response was to impose a law in September 2023 that requires STR hosts to register with the city and meet several requirements. For example, the owner must be present during the guest's stay and cannot rent out the entire unit. Preliminary data indicate that STR listings have dropped by 80% in the city, invariably lining the pockets of hotels, which will be able to increase their occupancy and rates.

On the other hand, those most affected from the city's STR ban will be cash-strapped travelers, especially younger and lower-income ones, as well as tapped out owners that are no longer able to earn additional income from temporarily renting out their homes. In that sense, STRs should be considered as not too different from ride sharing apps such as Uber or Lyft. These apps filled a market need when over-regulation made regular taxi service too expensive and provided poor service. All one needs to do is look at NYC taxi medallion prices that cost as much as $200,000 during the 1990s and fetched as much as $1 million in around 2014, before falling down to earth with the introduction of ride-share apps.

Today, many ride-share app drivers use their car as a way of generating additional income. The same largely applies to STRs. According to reporting from the WSJ, NYC had about 38,500 STR residential listings. The annual net revenue for these listings was $85 million. Based on these stats, the average net revenue per STR listing in NYC pencils out to about $2,200/year. Furthermore, NYC has about 3.5 million housing units, implying that about 1.1% of NYC's housing units are listed as STRs. Given that the median rental unit rents for about $3,400/month, STRs must be listed for about 19 days or about 5% of the year. Clearly many small-scale hosts are sharing their homes on occasions, much like ride-sharing drivers. In total, STRs affect about 0.05% of the available time of NYC's total housing stock – a truly trivial number that does not merit NYC's sledgehammer approach.

The chutzpah of the NYC government is truly remarkable: First, the city government limits hotel rooms to help its union friends. Then, when STRs spring up in response to a lack of hotel rooms, the city vilifies private individuals for filling a market need using their own private property. Cities such as NYC should just take a look in the mirror.

This example also reveals the modus operandi of governments: a seemingly never ending morass of whack a mole distortions that beget even bigger distortions until the market is no longer able to function on its own. At that point, government steps in as a white knight to correct a market failure, when in reality it was government regulatory failures that created said market failure.

Example 2: A data deep dive into Hawaii's hotels and STRs

Hawaii has been at the forefront of the debate on housing affordability. Over the years, progressives have blamed various entities such as foreign buyers, vacant homes, institutional investors, and now STRs. While many of these narratives have been debunked, STRs are the latest scapegoat. But just like in NYC, the data actually show that the market is responding rationally to government distortions that have created a scarcity of hotels.

Similar to NYC, there are too few hotel rooms in Hawaii, making STRs more profitable than a normal long-term rental. Before the pandemic, a 2019 report on hotel performance from the Hawaii Tourism

Authority showed that Hawaii along with NYC had the highest revenue per available room and highest average daily rates for hotels in the US.[2]

Data from Insideairbnb-- which comes directly from Airbnb listings-- suggests that about two-thirds of STRs in Hawaii are infrequently booked.[3] Based on simple calculations using these data, the infrequently booked STRs earn about $4,700 per year on average. At a rate of about $250-500 per night, that implies that these listings are only used about 10-20 days of the year.

Hawaii Short-term Rental Listings

	Number of Listings	Avg. income	Avg. price/night	Avg. nights booked
All	33,339	$ 15,329	$ 411	63
Frequently booked	10,854	$ 37,253	$ 240	163
Infrequently booked	22,485	$ 4,746	na	na

Source: Insideairbnb (as of 11/18/2023) and AEI Housing Center.

This suggests that someone else is living in these homes for the rest of the year—presumably the owner. Banning all STRs would therefore be unlikely to meaningfully increase the housing supply, while it would hurt lower-income Hawaii residents that are using STRs as a way to supplement their income by renting out their home for one or two weeks, while they go on vacation or stay with family or friends.[4] It would also further increase hotel costs on the islands.

Example 3: The root causes of high housing costs are misguided government interventions

What should give everyone pause is that in places reeling from housing unaffordability such as NYC, Hawaii or California, housing was unaffordable long before STRs came into existence 10-15 years ago.[5] Particularly in Hawaii and California, home prices - measured by the median price-to-median income ratio - have been far above the national average since at least the 1980s.

STRs are at best a relatively small contributing factor to housing unaffordability. While it is entirely plausible that STRs reduce housing supply and increase rents by removing a unit that otherwise may have been used as a long-term rental, most studies have found a rather small effect of STRs on housing

[2] The report also highlights that four of Hawaii's islands ranked in the top seven of highest revenue per available room for "sun and sea destinations" in an international comparison. Hawaii had the third highest hotel occupancy rates in the US after NYC and San Francisco.

[3] On average, listings are only booked for about 61 nights. About one-third of listings are never booked and another one-fifth are booked for less than a month. The roughly 33,000 listings account for about 6% of Hawaii's housing stock of around 568,000 units. .

[4] This range of room nights per year makes sense, as a homeowner may rent a home out for up to 14 night per year and not report the earnings to the IRS. https://www.irs.gov/taxtopics/tc415.

[5] AirBnB was founded in 2007 and only started to gain traction back in 2010.

costs of around 3-5%.[6] The University of Hawaii Economic Research Organization (UHERO) admits that even in the absence of all STRs, Hawaii would still "suffer from extremely high home prices."[7]

This focus on STRs does not address the root causes of housing affordability, which are on the supply side. In 1922, the federal government began promoting the widespread adoption of zoning by municipalities, which particularly encouraged single-family detached (SFD) zoning as a backdoor to achieving constitutionally prohibited racial segregation. This legacy of zoning and land use continues today: Residential districts are economically segregated as the original planners intended, with the vast majority of zoning codes reserving large areas of land exclusively for single-family detached homes.

Over the following decades, a booming economy, coupled with restrictive land use regulations and "Not in my backyard" (NIMBY) residents abusing environmental reviews, prevented many markets from responding to any additional demand. By freezing land use, government action—not builders or markets—has prevented the building of enough housing to sustain our growing population.[8] In Hawaii for example, according to the Grassroot Institute only about 5% of buildable land is used for housing and large swaths of it are zoned for SFD only.

As a result, supply in high-demand places has failed to keep up. When home prices rise faster than incomes, housing unaffordability ensues. Across the country, once-affordable neighborhoods gradually priced out existing residents and potential newcomers; high land prices make even older, smaller homes unaffordable to moderate-income buyers and renters. Nowhere is this trend more visible than in California, which had home price-to-income ratios not too different from the national average in the 1970s. In 2020, the price-to-income ratio in California was nearly double the level of the entire country (8.4:1 relative to 4.4:1 for the United States).[9]

The root cause of hosing unaffordability is not STRs, but rather government restrictions. Zoning laws, land use regulations, and environmental laws that have been weaponized by "Not in my backyard" (NIMBY) residents, limit the amount of buildable land or limited the buildable density to single-family detached housing only, thus ensuring scarcity of housing. By many estimates, the country is currently short between 4-20 million housing units.[10]

However, policymakers at the federal level have focused their energies on creating yet more housing demand, which has predictably resulted in higher prices and lower affordability. The list of such

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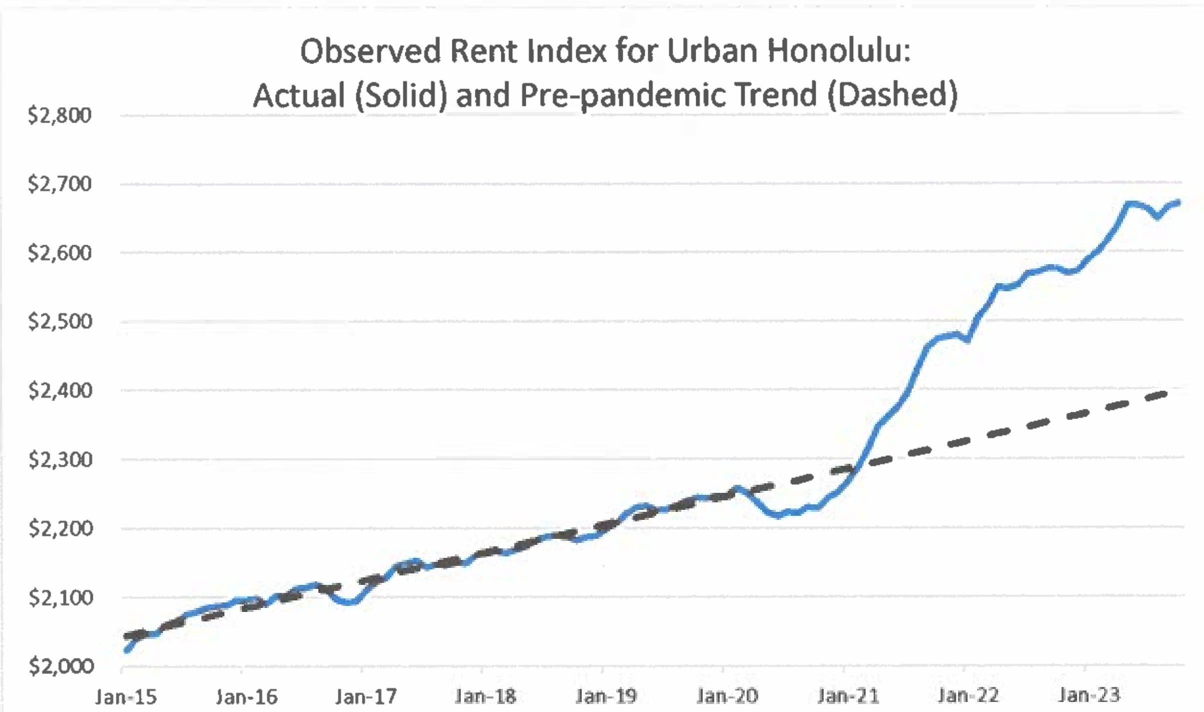
[6] See for example, the following links for findings for the entire US, for Boston, for Los Angeles, for Barcelona, Spain, or for Greater London, UK.
[7] The UHERO study applies the results from studies from London, Barcelona, and Los Angeles directly to Hawaii (even though these results may not directly apply). It estimates that housing cost may be 5% lower in the absence of all STRs.
[8] For more on this, please see How Government Policy Made Housing Expensive and Scarce, and How Unleashing Market Forces Can Address It.
[9] See for example, https://www.aei.org/research-products/report/addressing-californias-homeownership-problem/.
[10] See for example, Kingsella, Mike, Kolachalam, Anjali, and Leah MacArthur. "Housing Underproduction in the U.S. 2023." 2023., Khater, Sam. "One of the Most Important Challenges our Industry will Face: The Significant Shortage of Starter Homes." Freddie Mac: Perspectives, 23 Apr. 2021., or Corinth, Kevin, and Hugo Dante. "The Understated 'Housing Shortage' in the United States." IZA Working Paper, 2022.

programs is long[11], but more recently, the Fed's Quantitative Easing (QE) and Zero Interest Rate Policy (ZIRP) had a particularly pernicious effect on housing affordability across the country. These Fed policies had the explicit goal of stimulating asset prices by pushing interest rates lower. Unfortunately, the Fed continued these policies for far too long, even when the effects on home price appreciation and inflation were entirely foreseeable. As a direct consequence, housing costs have skyrocketed all over the country.

We use data from Hawaii to illustrate this point: While STR listings in Hawaii have been stable from 2019 to 2023, rents have gone through the roof. Today, rents are about 11% above their pre-pandemic trend line as seen in the chart. The Fed's excessive monetary stimulus lasted far too long and has had a far more outsized impact on housing affordability than STRs ever had.



Source: Zillow and AEI Housing Center.

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[11] Foreclosure-prone affordable housing policies began in 1954, when Congress authorized FHA to use the 30-year loan and permit smaller down payments, policies primarily targeted at lower-income and minority borrowers. By the early-1960s FHA's foreclosure rates was burgeoning. Thirty years later the federal government undertook more efforts to expand the homeownership rate. This credit easing started in the early 1990s and continued until 2007, fueling a housing boom that temporarily boosted the homeownership rate, but eventually led to 12 million defaults. More recently, in an effort to combat rising entry-level prices and rents, the federal government has implemented various other demand boosters such as FHA's lower mortgage insurance premium, expanded cross-subsidies from loan level pricing adjustments, and debt ratios up to 50% and 57% for Fannie, Freddie, and FHA respectively.

Home prices and rents are high due to demand outstripping supply. Just like ride-sharing apps, STRs are popular because they represent a cost-effective alternative to hotels and allow the owner of a home or car to earn some revenue from an under-utilized asset.

Rather than curtail or even ban STRs, cities and states should target more home construction by removing red tape for of all sorts of housing construction. They should follow the examples of Arlington, Virginia; Minneapolis, Minnesota; Charlotte, North Carolina; California; Washington; Montana, and Oregon, which have recently passed light-touch density legislation deregulating their land use and opening up possibilities for more private sector housing construction.[12]

The solution to today's high housing costs and the growing popularity of STRs is to build more housing and hotels, rather than making political hay by banning STRs altogether.

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[12] These areas have permitted moderately higher density through lot splits or permitting multiplexes or townhomes in areas typically reserved for single-family detached homes. For more information on these recent zoning reforms see links below. For Arlington, Virginia, see "Arlington ends single-family-only zoning" by Teo Armus in the *Washington Post*. https://www.washingtonpost.com/dc-md-va/2023/03/22/arlington-missing-middle-vote-zoning/. For Minneapolis, Minnesota, see "Eliminating Single-Family Zoning Isn't the Reason Minneapolis Is a YIMBY Success Story" by Christian Britschgi in *Reason*. https://reason.com/2022/05/11/eliminating-single-family-zoning-isnt-the-reason-minneapolis-is-a-yimby-success-story/. For Charlotte, North Carolina. see the text for Charlotte's *Unified Development Ordinance (UDO)* at https://charlotteudo.org/. For California, see "California Enacts Two Important New Zoning Reform Laws" by Ilya Somin in *Reason*. https://reason.com/volokh/2021/09/17/california-enacts-two-important-new-zoning-reform-laws/. For Oregon, see "Eight ingredients for a state-level zoning reform" by Michael Andersen for *Sightline Institute*. https://www.sightline.org/2021/08/13/eight-ingredients-for-a-state-level-zoning-reform/. For Montana, see "Montana Passes Sweeping Legislative Package to Rescind 'California-Style-Zoning'" by James Brasuell in *Planetizen*. https://www.planetizen.com/news/2023/04/122638-montana-passes-sweeping-legislative-package-rescind-california-style-zoning.