



City and Borough of Sitka

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A Coast Guard City

MEMORANDUM

To: Mayor Eisenbeisz and Assembly Members

From: Assembly Members Knox and Mosher

Date: March 2, 2022

Subject: Moratorium on Short Term Rental Permits

Background

The purpose of this ordinance is to take measures to protect the availability and affordability of housing in Sitka. Maintaining the availability and affordability of housing are legitimate and important goals for the City and Borough. As affordable and available housing is of major concern in Sitka, and with the expected rapid growth of tourism and healthcare sectors in our economy further strain will be placed on our available housing inventory. The concern with the proliferation of short-term rentals in R-1 or related zones and R-2 or related zones may threaten the availability and affordability of housing in Sitka. This ordinance seeks to place a one – year moratorium on the granting of conditional use permits for short-term rentals in R-1 or related zones and R-2 or related zones in order to evaluate potential solutions to address the effects short-term rentals have on housing availability and affordability in Sitka.

Cities and local governments across the country are grappling with the rapid growth of STRs. Since Sitka started tracking STR data in 2017, permit numbers have doubled from 29 (2017) to 64 (2020). Many companies like Airbnb, Flipkey, VRBO had their start in people renting out rooms in houses that they occupy as their primary residences. However, that trend has shifted as owners have discovered that STRs can be a lucrative source of disposable income, and there are now more ‘independent dwelling units’ on the market, which is an entire home or apartment that is unoccupied and used solely as a short-term rental. It stands to reason that if short-term rentals were not an option, there would be limited options for these independent dwelling units other than long term rentals. According to the 2021 Short Term Rental report produced by the CBS Planning Department, 90% of the short-term rentals in residential areas are independent dwelling units.

The significant gains in income generated by short term rentals has increased the number of people investing in Sitka’s real estate market for the purpose of using properties as short term rentals. In 2021, the STR market in residential areas remitted

over \$47,000 in bed tax, with total implied revenue equating to over \$788,000. The average price per night is \$270, which can turn a STR property into a significant revenue stream.

There also has been a significant impact that hasn't been quantifiably measured to the long term rental market and owner-occupied real estate market. Short-term rentals can impact the affordability and availability of local housing in a number of ways, from reducing the inventory of long term rentals, to increasing the monthly rental costs of currently available units, to the increased inflation of real estate prices in general. Short-term rental permits have been granted to property owners that live outside of Alaska year-round and operate short-term rental businesses in other states. There are houses that are being taken off the market by owners who will never occupy these places as their primary residence, and own the property with the intent of solely using the asset as an STR. At the same time, many people living and working in Sitka year-round report experiencing hardship in finding a property to rent or buy, especially at an affordable price¹.

Across the West, housing crises are causing labor shortages, crippling local businesses and preventing sustainable, long-term economic development. In the 2019 Sitka Business Survey prepared by the McDowell Group for the Sitka Economic Development Association, "availability of housing for employees" was the second most significant barrier to a business/organization's growth, behind cost of living². Out of 109 businesses, 47% of survey respondents cited housing availability as a significant barrier. In the same survey, a recurrent answer to the question of what specific measures the Sitka city government could take to support economic development in Sitka was to "support affordable housing".

Housing availability and affordability are a complex issue; sensible short term rental regulation is part of the solution. Sitka is on the cusp of experiencing exponential growth in the tourism and healthcare industries, along with an expected increase in federal government employees. Currently, once a short term rental permit is granted, there is no mechanism for the permit to expire, as long as its use is maintained every year. In order to support this growth and maintain the ability of Sitkans to live and work in this community, the Sitka Assembly should put a pause on the current pace of conversions of housing inventory to STRs and act to explore the impacts of short-term rentals, determine common-sense solutions, and analyze future needs, before it is too late.

Sitkans have expressed their concerns about short-term rentals and their desire to see policy addressing their proliferation in residential areas, as evidenced by a survey that received 291 respondents in May 2021. 65% of respondents replied that they were concerned about the number of STRs in Sitka, with 56% stating that they believe STRs have a negative impact on the housing market.

¹ CBS Community Survey on Short Term Rentals, July 2021

²<https://static1.squarespace.com/static/582222e36a49637d2e6e6edb/t/5cc208f19b747a23e77dab02/1556220147327/McDowell+Group+SEDA+Sitka+Business+Survey+Final+Report+4-24-2019.pdf>

Analysis

It is recognized that not all STRs are depleting long-term rental stock. STRs can increase the affordability of housing for owners by offsetting housing costs with rental income. Many Sitkans use independent dwelling units attached to their primary residences to host family members and visitors, and wish to host a STR in the period in which the attached apartments are vacant. Other considerations to take into account for Sitka are that many families travel for extended periods of time, and many fishing families are out on the water for months at a time, thus leaving their primary residences unoccupied for short periods in which an STR can provide some disposable income.

However, there is a correlation between STRs and negative impacts to available housing stock for residents, long-term rental rates, and increased purchase prices for housing in general. This can be addressed by creating a few common-sense regulations that align with Sitka's unique situation and protect housing stock from being converted to STRs. There are multiple potential solutions that will be examined for suitability for Sitka, including increasing fees or taxes associated with short-term rentals, requiring property owners to reapply for short-term rental permits upon transferring property, putting a city-wide cap on short-term rentals, requiring the rental to be the primary residence of the occupant, and/or limit the neighborhood concentration of short-term rentals.

This ordinance was not put before the Planning and Zoning Commission. The intent of not routing the ordinance through the commission was intentional. Sponsors of this proposal wished to remove what is a political decision from an appointed and advisory commission and put it directly in front of the Assembly.

Fiscal Note

There potentially could be a flood of applications received in the weeks following the passage of a moratorium for owners trying to secure a permit before the deadline.

This ordinance was initially drafted with the enactment date of the day after the date of its passage (March 23, 2022) for a year, but after consideration by staff it was requested that the start date be April 7, 2022 for one year, end date April 6, 2023.

This would assist in any work done by citizens, planning commission and/or planning department on any potential STR applications they could receive for the 4/6/2022 planning commission meeting (deadline for materials 3/16/22). If this ordinance were to pass on second reading (3/22/22) and go into effect day after date of passage (3/23/22) then materials submitted on 3/16/22 for 4/6/22 planning meeting would be obsolete. The advice, work product, and time of staff, commission, and citizens could be considerable.

Recommendation

Approve Ordinance 2022-05 as recommended. Further recommendations will be directed to the Planning Commission and/or a taskforce to address future solutions and needs with the Short Term Rental market.