

# **2019 Annual Short-term Rental Report**

## **City and Borough of Sitka**

### **Planning and Community Development Department**

#### **March 18, 2020**

**Prepared for Chair Spivey and Members of the Planning Commission**

**Copy provided to: Mayor Paxton and Assembly Members**

**John Leach, Municipal Administrator**

#### **Report Sections**

##### **I. Permit Holder Data**

A. Financial Data

B. Property Data

C. Marketing Platforms

##### **II. Known Comments, Feedback, and Concerns**

A. Permit Holder Feedback and Comments

B. Community Survey Results

##### **III. Direction of Staff**

##### **IV. Attachments**

Please note the following:

This report only covers short-term rentals or bed and breakfast establishments that operate through the conditional use permit process. This report does not have information about short-term rentals that are operated as a right within the Central Business District, Commercial 1 District, Commercial 2 District, Waterfront District, General Island District, and/or Recreational District.

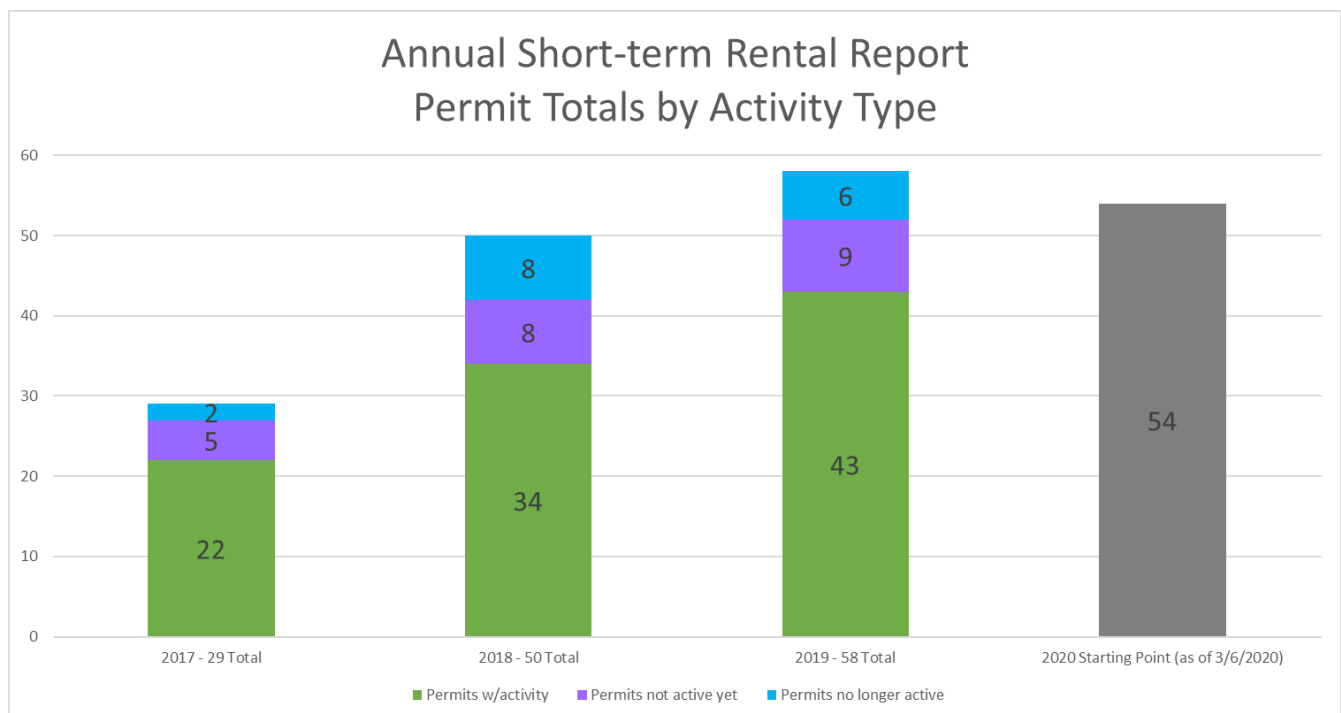
The term “short-term rental” or STR, will also be used to describe bed and breakfast establishments permitted through the conditional use permit (CUP) process.

## I. Permit Holder Data

### A. Financial Data

Permit Data	2017	2018	2019
Total Permits	29	50	58
Active permits in use	22	34	43
Active permits not yet used	5	8	9
No longer active permits	2	8	6
Rental Data			
Total nights rented	1155	2928	3190
Average nights rented per CUP	53	86	74
Minimum nights rented	2	2	2
Maximum nights rented	146	446	259
Financial Data			
Total bed tax remitted	\$ 14,979.78	\$ 27,950.30	\$ 39,137.55
Total implied revenue	\$ 249,663.00	\$ 465,838.33	\$ 652,292.50
Average bed tax remitted per CUP	\$ 680.90	\$ 822.07	\$ 910.18
Average implied revenue per CUP	\$ 11,348.32	\$ 13,701.13	\$ 15,169.59
Minimum bed tax remitted	\$ 12.50	\$ -	\$ 14.40
Maximum bed tax remitted	\$ 2,434.29	\$ 3,107.72	\$ 3,776.19

Summary: The Commission approved 14 new CUPs for STRs in 2019, while 6 became inactive in that time. This means that new approvals outpaced “natural decline” of permit holders at an approximate 2:1 ratio. Of the permits approved in 2019, 7 became active within the calendar year. The remaining have not yet begun operation, but are still within the activation period wherein the permit can be utilized.



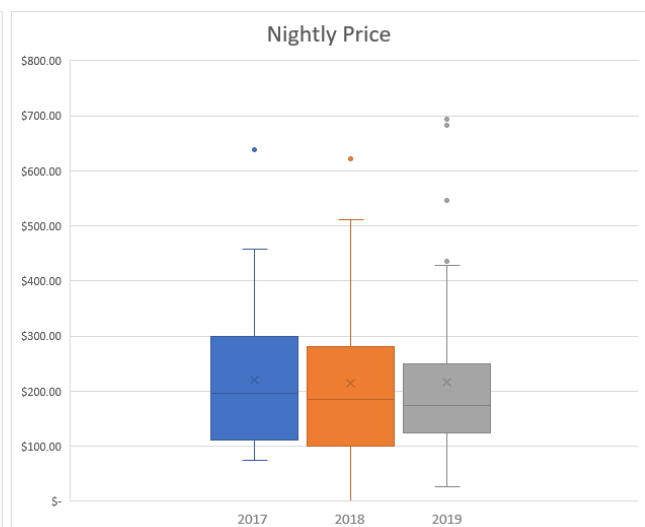
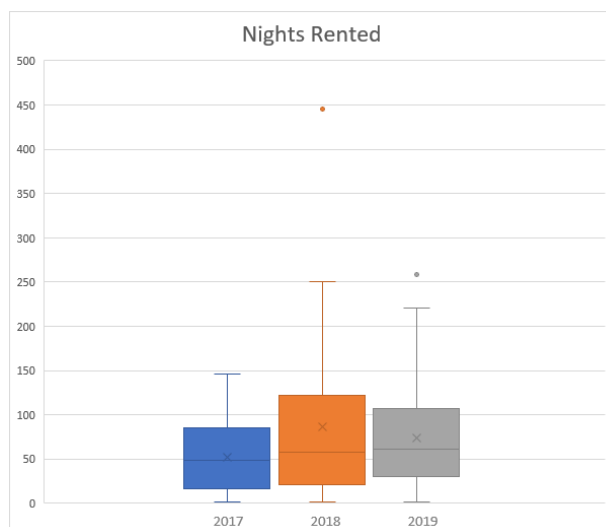
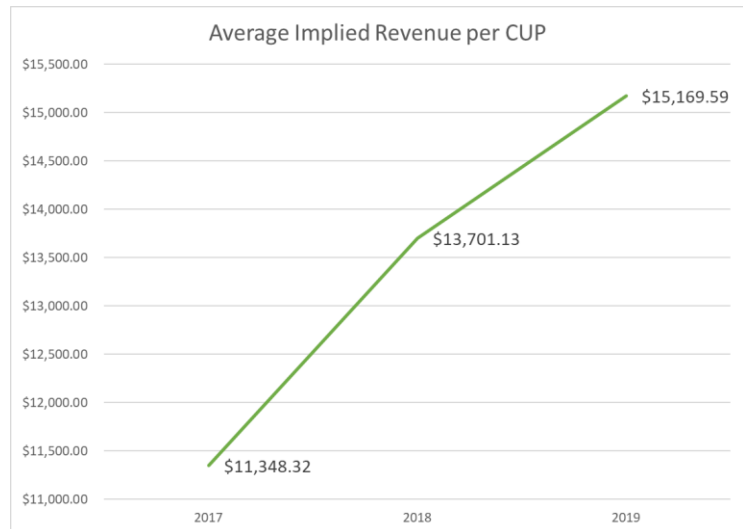
These permits, as well as the 4 permits approved in 2020 to date were included in the “2020 Starting Point as of 3/6/2020” in the graph above.

As Sitka’s bed tax on short-term rentals is 6%, and the average bed tax remitted was \$910.18; this means that the average revenue for permit holders was approximately \$15,169.59. For the 43 active users that reported in 2019, this is a significant revenue source that could substantially offset housing expenses. If the total bed tax remitted from these permits was \$39,137.55, this means that the total revenue from short-term rentals was approximately \$652,292.50; a sizable revenue stream that was not otherwise captured at hotels, lodges, or short-term rentals/bed and breakfast establishments in other zoning districts.

The average implied revenue per CUP has increased year-on-year since the data was aggregated in 2017.

In the case of short-term rentals, revenue is a fairly simple equation – the nightly price of a rental multiplied by the nights rented. Therefore, understanding the trend of why average revenue is rising should be a function of understanding trends in rental price and nights rented.

Nightly price was derived from the bed tax remitted. The below box and whisker plots depict the distributions of bed tax remitted and rental nights. The shaded boxes indicate the middle two quartiles of each data set, with the average indicated with an “x”. The “whiskers” denote the range in the bottom and upper quartiles. Dots outside the box and whiskers show statistical outliers, which skew the average.

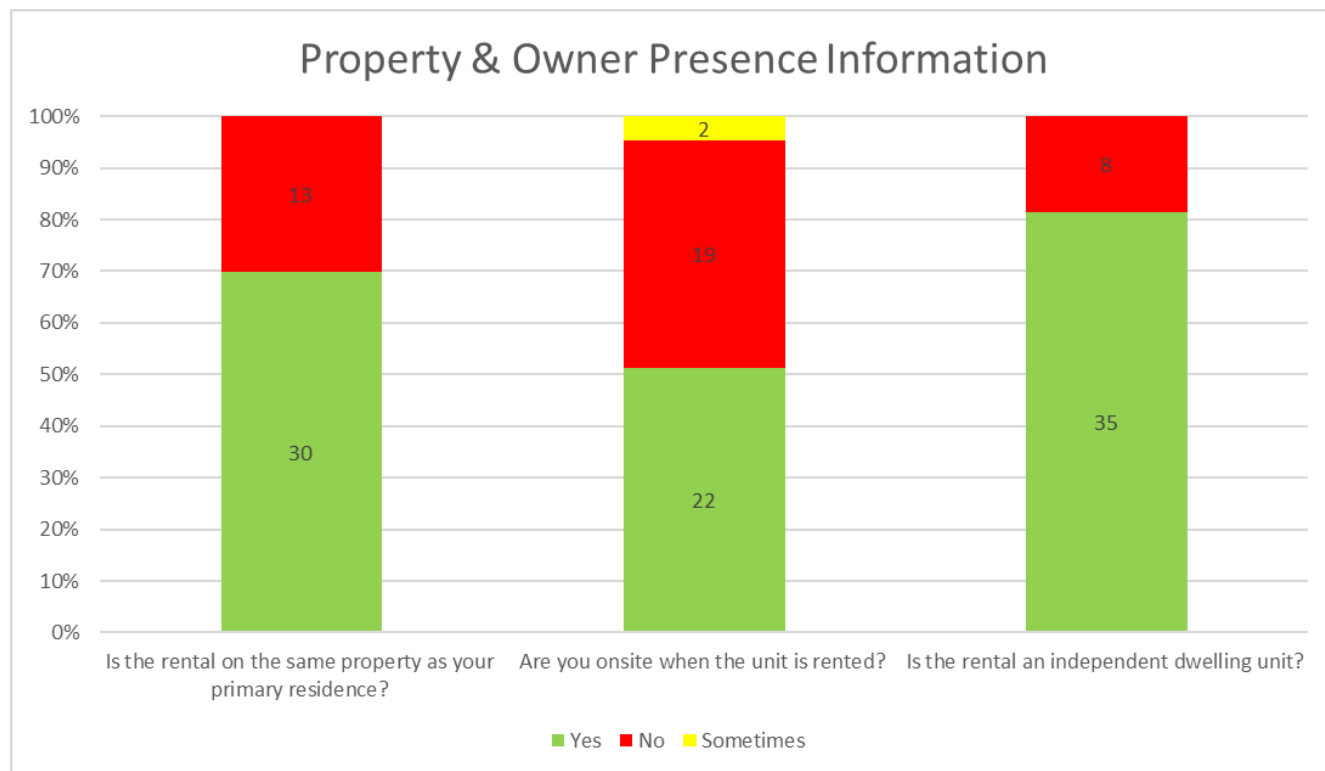


The presence of four outliers in the nightly price for 2019 are indicative that outliers are more likely the cause of the substantial increase in revenue per CUP in 2019; the middle quartiles are actually in a narrower band of distribution than previous years, which would imply a tightening of prices in the

middle ranges. It appears that more high-price or “luxury” type short-term rentals are present in the 2019 responses, resulting in an increase in average revenue per CUP. The maximum reported bed tax amount for 2019 was \$3,776.19 which would imply total revenue of \$62,936.50. While there is a broad range of revenues being made per CUP, it is still evident that permit issuance has the potential to be very valuable to current and potential permit holders.

## B. Property Data

In an attempt to answer the question, “to what extent are short-term rentals decreasing the available pool of long-term rentals?” staff included some questions about the property and owner presence during rental periods in this year’s report.



70% of active permit holders responded that the rental was on the same property as their primary residence, and there was about a 50/50 split between permit holders being onsite during rental periods. 80% of the rental units were reported as independent dwelling units.

Of the 13 respondents who stated that the rental was not on the same property as their primary residence, 12 of those rentals were described as independent dwelling units. It would stand to reason that if the property is not a primary residence and is an independent dwelling unit, it would have limited use outside of long-term rental were it not for the short-term rental option.

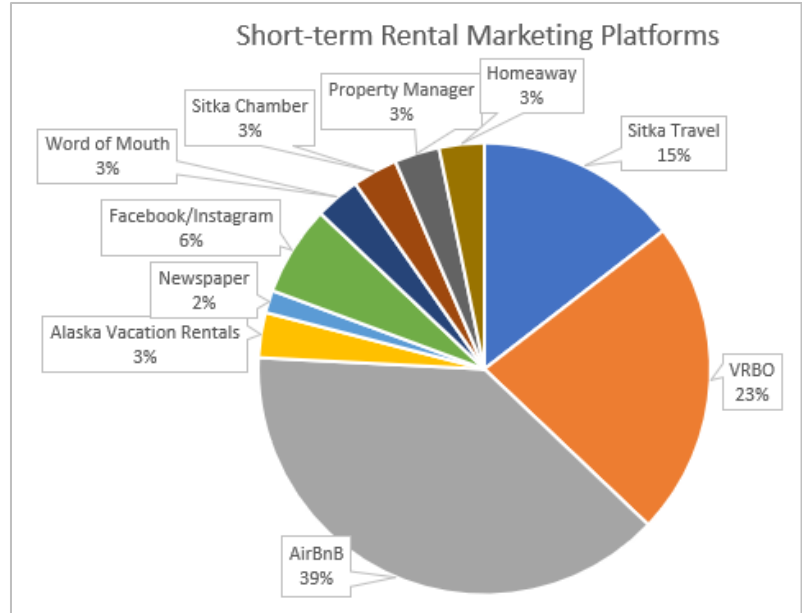
It is more challenging to make this determination within the pool of those who claim the rental is part of their primary residence; among this group, 23 are reported as independent dwelling units. The choices to utilize a dwelling unit within one’s primary resident include guest space, hobby space, or just additional living area; we cannot definitively say these short-term rentals detract from the long-term rental pool.

### C. Marketing Platforms

Another new addition to the 2019 report was a question to permit holders the marketing platforms used. Staff felt this was helpful information to assist in monitoring short-term rental activity as well as understanding how many short-term rentals are professionally managed.

Most respondents listed multiple marketing platforms, such as using multiple websites, or a manager as well as a private listing site (such as Airbnb, VRBO, or HomeAway).

Airbnb was far and away the most popular marketing platform, followed by VRBO.



30% of those with active permits stated that they were using professional services such as Sitka Travel and Alaska Vacation Rentals, or unnamed property managers.

## II. **Known Feedback, Comments, and Concerns**

### A. Permit Holder Feedback and Comments

Permit holders reported some of the feedback that is to be expected in running a lodging business; difficulty in communicating to renters, managing reservations, cleaning, etc. Three permits that were active or eligible for activity in 2019 have indicated that they plan to discontinue use in 2020. Some requested more modernized methods of communication and payment such as a desire to make bed tax payments online. Two permit holders expressed gratitude for the ability to run short-term rentals, as they felt it made a significant contribution to their income.

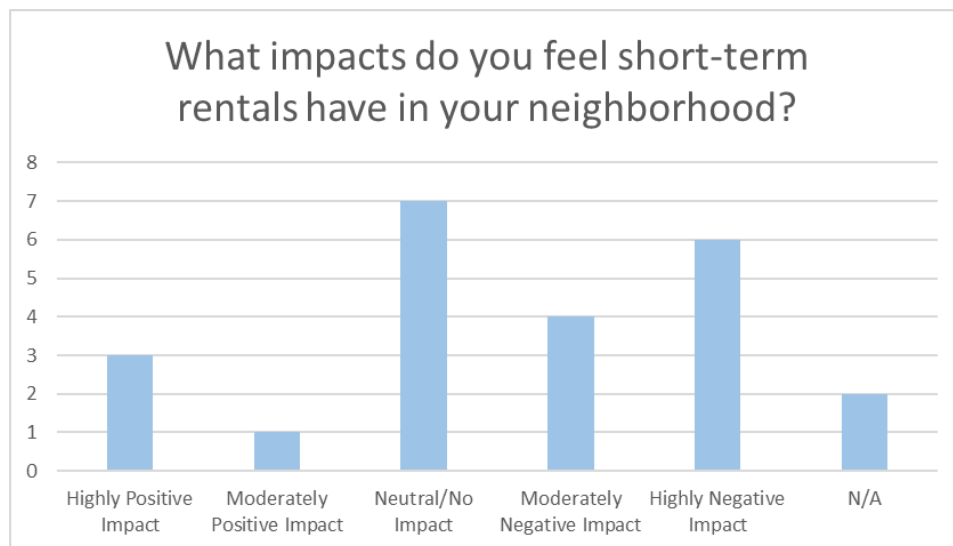
### B. Community Survey Results

This year, staff also wanted to survey the larger community to gauge attitudes towards short-term rentals. 23 individuals responded to the survey. Of those, approximately 74% were aware of short-term rental activity in their neighborhood, and approximately 70% felt there should be limitations on short-term rentals.

Common themes in the open comment/feedback/suggestion section:

- Short-term rentals take the place of long-term housing
- Short-term rentals increase housing costs
- Short-term rentals should be better managed to minimize impact to the neighborhoods they are in
- Spacing/distribution of short-term rentals matters
- CBS/Planning Commission should study short-term rentals and limit their growth
- Short-term rentals provide less expensive lodging alternatives and revenue to the city
- Short-term rentals provide income to property owners to offset cost of living
- The market should be able to regulate itself

For those who felt there should be limitations on short-term rentals, 30% were in favor of limitations based on housing type, 40% were in favor of limitations based on location, 60% were in favor of limitations based on neighborhood concentration or density, and 60% were in favor of limitations based on a total, city-wide cap. It's notable that 15% of respondents answered that no limitations were needed.



### III. Direction of Staff

Given the reported information, Staff would like to hear feedback from the Commissioners about their thoughts and feedback on the status of short-term rentals operating through the conditional use permit process.

A report done by 2<sup>nd</sup> Address notes highlights short-term rental laws in major cities, this report is attached for your reference. A popular provision being utilized is that the host must be the primary residence of the rental unit. This is the case in New York City, LA, Washington D.C., Boston, and Denver. Many have instituted city permitting, registration, and bed tax regulations that are already in effect for Sitka.

Staff would like direction from the Commission on two questions:

1. Is the Commission interested in pursuing code changes to further regulate and/or limit the issuance of new conditional use permits for short-term rentals?
2. If yes, what particular changes is the Commission interested in pursuing:
  - a. Owner vs. non-owner occupied units
  - b. Densities within neighborhoods
  - c. Overall city-wide cap
  - d. Transferability of the permit
  - e. Other

### IV. Attachments

2<sup>nd</sup> Address Report

Short-Term Rental Distribution Maps

Rental Statistics from the Department of Labor