SEATTLE CITY COUNCIL
CENTRAL STAFF

August 29, 2017

M E M O R A N D U M

To:	Affordable Housing, Neighborhoods & Finance Committee
From:	Aly Pennucci, Central Staff Legislative Analyst
Subject:	Short-term Rental Regulations & Tax

On Wednesday, September 6, 2017, the Affordable Housing, Neighborhoods & Finance Committee (AHFN) will discuss proposed legislation that would establish a regulatory framework for short-term rental activity in the City of Seattle. In addition, the Committee may consider an excise tax on short-term rental businesses. To implement, the Council will consider three council bills that would:

1. Introduce regulatory license requirements and enforcement provisions.
2. Establish a land use definition for short-term rentals and development standards.
3. Introduce an excise tax on short-term rental businesses.

This memo provides background on the proposed regulations; a brief discussion on the growth rate in the short-term rental industry; and a description of the proposed short-term rental tax.

BACKGROUND

In June of 2016, the AHNF Committee began discussions on regulating short-term rental activity. The primary goal of both the original and revised proposal is to balance the economic opportunity created by short-term rentals with the need to maintain supply of long-term rental housing stock at all price ranges. The secondary goals are to (1) ensure a level playing field for individuals and companies, and (2) protect the rights and safety of owners, guests and neighbors of these short-term rentals.

The original discussion focused on limiting the number of nights a dwelling unit can be provided as a short-term rental if it is not the operator's primary residence. After additional discussion with stakeholders and staff analysis that highlighted the challenges the City would face in enforcing those provisions, the proposal was revised. Instead of limiting the number of nights a non-primary dwelling unit could be used as a short-term rental, the revised proposal limits the number of units a person can operate as a short-term rental.

This short-term rental proposal would:

- Define and establish a regulatory framework for the licensing and operation of short term rentals as a type of land use and a business activity;
- Establish a cap on the number of dwelling units a person can operate as a short-term rental to two dwelling units;
- Allow exceptions to otherwise applicable numeric limits on short term rental units per operator, for the continued operation of existing short-term rental units in specific areas within the Downtown, South Lake Union, and Uptown Urban Centers and for certain building types in the First Hill/Capitol Hill Urban Center;
- Incorporate in the Land Use Code an existing requirement in SMC Title 6 that all short-term rental operators have a business license from the City; and
- Require that all short-term rental operators and platform companies have a Title 6 Regulatory License.
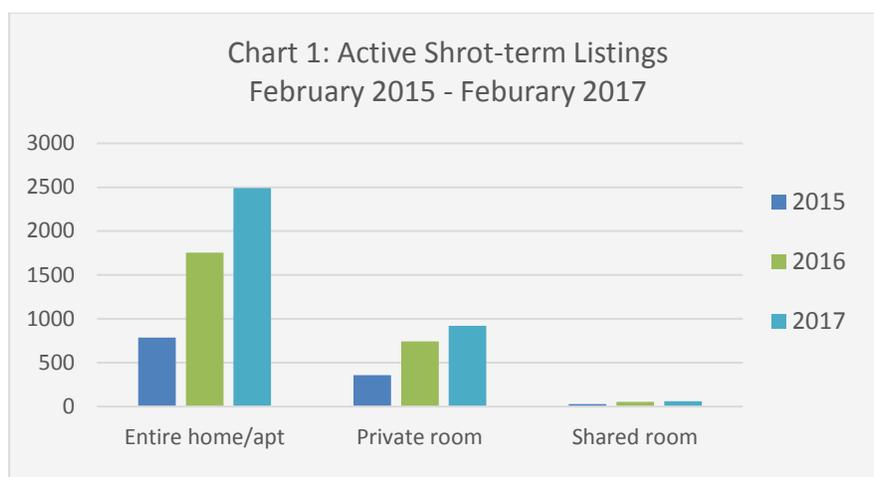
This proposal will allow many short-term rentals to continue operation while limiting the number of housing units that may be removed from the long-term housing market. The proposal recognizes that there are some benefits short-term rentals provide to people who operate them as well as their visitors. Operators of short-term rentals have stated that their short-term rental business allows them to afford the cost of living in the City and to pay various expenses. In addition, it can be less expensive to stay in a short-term rental than a hotel; and short-term rentals often provide more room and access to a kitchen, making this type of vacation accommodation more affordable for families or larger groups.

While the proposed regulations acknowledge the potential benefits of short-term rental activity, there are larger concerns about potential impacts on the already strained housing market in the City and secondarily, potential negative impacts on neighbors. Housing units that are removed from the long-term housing market to be used solely for short-term use reduces the supply of residential units available for the City's permanent residents. The City of Seattle expects 120,000 new residents and 70,000 new housing units by 2035. Further, the City's Housing Affordability and Livability Agenda has a goal of 50,000 new housing units, including preservation and production of 20,000 affordable units, over the next 10 years. When units intended for the long-term housing market are lost or replaced as short-term rentals, this undercuts the City's housing goals and plans for growth. The proposed regulations seek to balance some of the benefits short-term rental operations can provide while furthering the goal of preserving dwelling units for permanent housing.

GROWTH IN SHORT-TERM RENTAL ACTIVITY
Detailed information that represents the full universe of short-term rental listings and usage data in Seattle is not readily available. A few platforms have provided summary information on short-term rental activity accommodated through their platforms, however, detailed information for independent analysis and comparison across platforms has not been made available. Data available from several third-party organizations, which are focused on the short-term rental platform company Airbnb, provide some insight into the short-term rental market in Seattle.

This data reveals that there has been significant growth in the short-term rental industry in Seattle. Chart 1 (below) illustrates the growth in active listings in the month of February between 2015 to February 2017 on Airbnb's website. The average growth rate for short-term rental listings of entire homes during this period was approximately 80 percent annually.

Source: Airdna: https://www.airdna.co/ (March 2017); City of Seattle

In addition to the growth occurring in the short-term rental market generally, the most growth is occurring among operators who manage multiple listings. Between February 2015 and February 2017, the average growth rate among operators with more than two listings was approximately 105 percent annually.[1] During the same period, the average growth rate among operators with one or two listings was approximately 60 percent annually. Under the proposed regulations, if hosts are limited to two listings, the estimated number of units that would no longer be eligible for short-term rental use is approximately 400-700 units.

TAXING SHORT-TERM RENTALS

In addition to the regulatory changes, the Council may consider exercising its taxing authority on short-term rental businesses to raise general revenue for the City. Taxing short-term rentals was a recommendation forwarded by the Housing Affordability and Livability Agenda Advisory Committee.

The potential tax would be applied as a flat rate on a per night basis to each short-term rental. The per night rate would be generally equivalent to, or less than, the average amount charged per night for the convention and trade center tax that is applied to lodging uses with 60 or more rooms. The short-term rental tax would raise general revenue for the City, however, it is not unusual for the City to dedicate tax revenues to a particular purpose. The Council may choose, for example, to direct the tax revenue to (1) paying off potential future issuance of a bond for affordable housing, and (2) funding for implementation of the Equitable Development Initiative. In addition, Council could choose to direct some of the tax revenue to offset the cost of administering the proposed short-term rental regulations.

NEXT STEPS

Following the discussion on September 6, legislation will be introduced and the AHNF Committee will continue the discussion at its September 15 meeting.

cc: Kirstan Arestad, Central Staff Director
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[1] *Source: Airdna: https://www.airdna.co/ (March 2017); City of Seattle*
The number of listings per operator is derived from the number of listings associated with a unique host id. Companies that manage short-term rentals on behalf of property owners may list all of the properties they manage under one host ID; this could result in skewing the estimated number of units associated with each host.