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Staying Power: The Effects of Short-Term Rentals on California's Tourism Economy and Housing Affordability

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EXECUTIVE SUMMARY

Short-term rentals (STRs) are critical to regional economies, offering unique and affordable experiences to visitors, generating significant tax revenue to support local governments, and providing hosts significant income. In some places where hotel inventory is limited due to land constraints or other development challenges, STRs expand the number of visitors a region can accommodate, helping bring more money into a region. STRs were also more resilient towards the COVID-19 pandemic due to increased preferences for more isolated, home-like stays—helping regions to maintain a level of tourism in a time when the world shut down.

But STRs are often cited as major contributors to growing housing shortages across California, which has led to various regions adopting or proposing strict regulation on STRs, such as permitting caps, zoning restrictions, and bans. Yet STRs account for about only 1 percent of California's housing stock and most are expensive single-family homes that would not otherwise add to needed affordable housing supply. STRs are not a significant driver of increasing housing unaffordability and availability, which is instead driven by decades of underdevelopment, especially of affordable multifamily units. Furthermore, skyrocketing housing costs in large cities like Los Angeles and San Francisco and increased remote work resulting from the pandemic are pushing people out to more affordable, rural communities.

California's vacation destinations—like Big Bear, Lake Tahoe, Sonoma, the Palm Springs Desert, and the High Desert—face unique challenges in deciding short-term rental policy because these are tourism-dependent communities where regulation could have major consequences on their economies. While STRs tend to account for a higher share of housing stock in these regions (23.5 percent in Big Bear, 14.5 percent in Lake Tahoe, 5.8 percent in the High Desert, 5.3 percent in the Palm Springs Desert, and 1.5 percent in Sonoma), these are also regions where vacation homes have historically accounted for a higher share of regional housing inventory. In vacation destinations, underdevelopment of dense housing coupled with high shares of second homeownership (where homes sit empty for most of the year) are main drivers of housing shortages that prevent the local workforce from living near jobs.

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Community leaders have reason to be concerned about housing affordability and availability; however, STRs have a relatively small impact on, and are not the root cause of, the larger problem. Even if the state could convert California's thousands of STR properties into long-term housing, such a measure would not make up for the millions of needed housing units that were never built. In addition, these restrictive STR policies would have a negative impact, especially in tourism-dependent regions like those analyzed in this report. Such policies limit the number of visitors a region can accommodate, reduce tax revenue to support state and local governments, and deprive STR hosts of income from properties that would otherwise sit vacant. There is no evidence that restrictive STR policies could effectively mitigate California's critical housing shortage, especially in regions dependent on tourism. This claim only distracts from the core issue: the need to provide more housing—particularly affordable housing for workers earning below the area median income.

Implementing more impactful and innovative strategies is needed to address housing shortages that lead to sustainable growth. Through extensive research and stakeholder engagement, the Milken Institute recommends the following strategies to increase supply of workforce and affordable housing that do not hinder regional tourism growth:

1 Provide incentives for second homeowners to rent their vacation properties that would otherwise sit empty to the regional workforce:

Offer incentives such as paying for deed restrictions or mortgage financing support for second homeowners to rent out their properties that would otherwise sit empty to the regional workforce.

2 Allocate portions of new housing development to workforce occupancy:

Establish programs that allocate portions of new housing supply to workforce occupancy through mechanisms such as deed restrictions.

3 Provide local incentives to streamline workforce and affordable housing development:

Leverage budget surplus dollars to implement programs and reconsider past initiatives (e.g., SB 795) to develop a bottom-up approach to address these growing needs, targeting households earning at or below 80 percent of area median income by increasing the supply of affordable market-rate and government-assisted multifamily housing units.

4 Promote regional tourism through investment and development in existing programs to support resiliency needs and growth in tourism destinations:

Scale and adapt existing mechanisms (e.g., Community Economic Resilience Fund, California Competes Tax Credit) and create a coordinated state tourism campaign that promotes regional and cultural events while advocating for needed investment in infrastructure and overall competitiveness of the state's tourism economy.

INTRODUCTION

The Role of Short-Term Rentals in California's Tourism Industry

California's tourism industry is vital to the vibrancy and strength of the state's economy, accounting for 2.5 percent of California's gross domestic product in 2019, before the COVID-19 pandemic shuttered the industry.[1] Visitors spent $145 billion at various businesses across the state, including accommodation and transportation, as well as restaurants, retail stores, and attractions, directly supporting 1.2 million jobs.[2]

Short-term rentals (STRs) play a critical role in the state's tourism industry by increasing the supply and variety of tourist accommodation, which makes traveling more affordable and enjoyable. In 2019, STRs accounted for more than 13 percent of the occupied accommodation supply in California. In tourism-dependent communities that have historically used vacation homes to generate economic activity—including Lake Tahoe, Big Bear, Palm Springs, the High Desert, and Sonoma County—STRs play an even larger role. In 2019, STRs accounted for 32 percent of occupied accommodation supply in Sonoma County, 21 percent in the Palm Springs Desert, 45 percent in Tahoe, 51 percent in the High Desert, and 68 percent in Big Bear (see Appendix for regional definitions).[3]

Short-term rentals also provide a significant source of tax revenue for local governments, particularly from revenue collected through transient occupancy tax paid by visitors, which is locally administered and generally ranges from 8 to 14 percent of the lodging unit rate, depending on the jurisdiction.[4] Moreover, STRs provide income for property owners and, for many, the income gained from renting out their property helps them afford the state's high costs of living.

The COVID-19 pandemic and public health crisis, resulting in business shutdowns and travel restrictions, significantly impacted California's travel industry, especially in tourism-dependent communities like those mentioned above. In 2020, travel-related spending contracted by 55 percent to $65 billion, 316,000 industry jobs were lost, and state and local governments received $6 billion less in tax revenue generated by travel-related spending.[5] STRs helped mitigate the impact, as pandemic lockdowns and restrictions urged cooped-up Californians working from home to travel short distances for needed "staycations." STRs are particularly appealing to in-state travelers[6] and helped attract visitors and continue economic activity in tourism-dependent communities throughout the pandemic.

However, many vacation rental communities have recently adopted or proposed restrictions on STRs. Restrictions include capping the number of STR licenses issued, establishing designated areas for STRs, limiting the number of days a year a property can be rented, or banning STRs entirely. The trend toward STR restrictions follows complaints that the increased volume of STR stays during the pandemic has resulted in community disturbances and growing unaffordability of housing by replacing housing supply with tourist accommodation. While sensible restrictions on STRs are needed to maintain community health and safety (such as occupancy limits, certain licensing requirements, and rules for guests), extreme restrictions (i.e., bans) could challenge the sustainability of these regions' vital tourism industry.

Short-Term Rentals and Housing Affordability in Vacation Destinations

Community leaders have reason to be concerned about housing affordability and availability; however, STRs have a relatively small impact on, and are not the root cause of, the larger problem. For decades, California has faced an extreme housing shortage, as construction has become more challenging because of zoning restrictions, lengthy permitting times, increasing costs, and community opposition. Together, these challenges disincentivize the development of affordable housing—typically higher density, multifamily units. This is especially true in vacation destinations, where single-family homes account for upwards of 80 percent of housing inventory, and vacation rentals and second homes have historically been part of these communities.[7]

Lake Tahoe and Big Bear are known for their ski resorts and hiking trails, Palm Springs Desert for its sunny weather and natural hot springs, High Desert for hiking and camping in Joshua Tree National Park, and Sonoma County for wineries and historic towns. These communities offer different cultural and recreational experiences than cities do and have historically been places to which people escape. In 2020, vacation homes accounted for 67 percent of housing in Big Bear, 39 percent in Lake Tahoe, and 25 percent in the Palm Springs Desert (compared to 3 percent statewide). These percentages have remained relatively consistent over the last few decades—in the 1980s, vacation homes accounted for a large share of these regions' housing inventory: 68 percent of housing in Big Bear, 25 percent in Lake Tahoe, and 21 percent in the Palm Springs Desert.[8]

The largest pressures inflating housing costs in these communities are increasing unaffordability in large cities coupled with the growing popularity of remote work and second homeownership in rural places, which showed a vast surge during the pandemic.[9] Although vacation destinations have high housing costs, which have significantly increased as a result of the pandemic buying spree, they are still more affordable than cities. In Los Angeles and San Francisco, for instance, the

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median home sales prices are $945,000 and $1.5 million, respectively, compared to $799,000 in Sonoma County, $748,000 in South Lake Tahoe, $730,000 in Big Bear Lake, $667,500 in Palm Springs, and $465,000 in Joshua Tree.[10]

Adopting strict regulation against STRs does not solve the housing shortage and could have the unintended consequence of depriving state and local governments of a major source of tax revenue as a result of reduced travel-related spending.

Policy Considerations

A robust housing supply remains a fundamental element in any community development strategy that aims to facilitate social mobility and equity. Yet more than 10 years after the Great Recession, solutions to increase housing accessibility are scarce across the US. California, in particular, has faced an extreme housing shortage for decades. Conditions are most severe in large metros including Los Angeles and San Francisco,[11] and these effects spill over to surrounding communities as people are pushed out of cities. The pandemic and resulting work-from-home environment have only increased the shift in demand.

To better sustain economic growth, bolster regional competitiveness, and reverse recent out-migration trends, regions across the state need to embrace policies and practices that support the development of more affordable housing, enhance equity, and promote economic opportunity. In turn, this will improve affordability in California's vacation destinations and boost tourism.

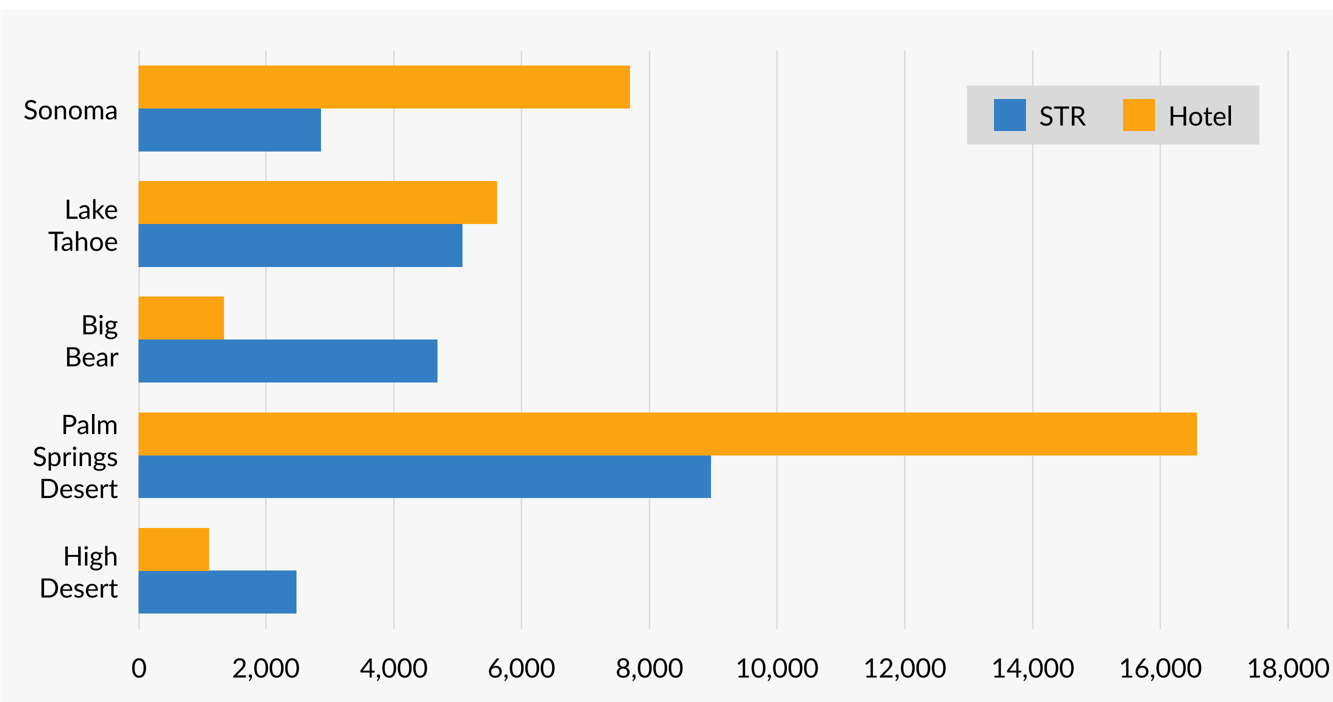
THE ECONOMIC IMPACT OF SHORT-TERM RENTALS

Short-term rentals are critical to California's tourism industry, especially in vacation rental communities such as Lake Tahoe, Big Bear, the Palm Springs Desert, the High Desert, and Sonoma County. Short-term rentals increase the supply and variety of tourist accommodation, making travel more affordable, especially for families and groups for whom purchasing multiple hotel rooms can be costly. In places where hotel accommodation is especially limited, increasing the visitor lodging supply is critical.

In January 2022, there were more than 128,000 short-term rental listings and 565,000 hotel rooms in California.[12] Some vacation rental communities—including Big Bear and High Desert—offer more STR units than hotel rooms, as shown in **Figure 1**. Although there are more hotel rooms than STR units in Sonoma, the Palm Springs Desert, and Lake Tahoe, most STRs are single-family homes with multiple bedrooms that can accommodate more people per unit at lower rates per person.

As shown in **Figure 2**, STRs have higher visitor capacity than hotels across all regions. The data show how the availability of STRs expands the number of overnight visitors these regions can accommodate. While STRs and hotels can substitute for one another, this may not be the case where hotel-room inventory is limited and STRs such as vacation cabins have long been part of the visitor-accommodation landscape.

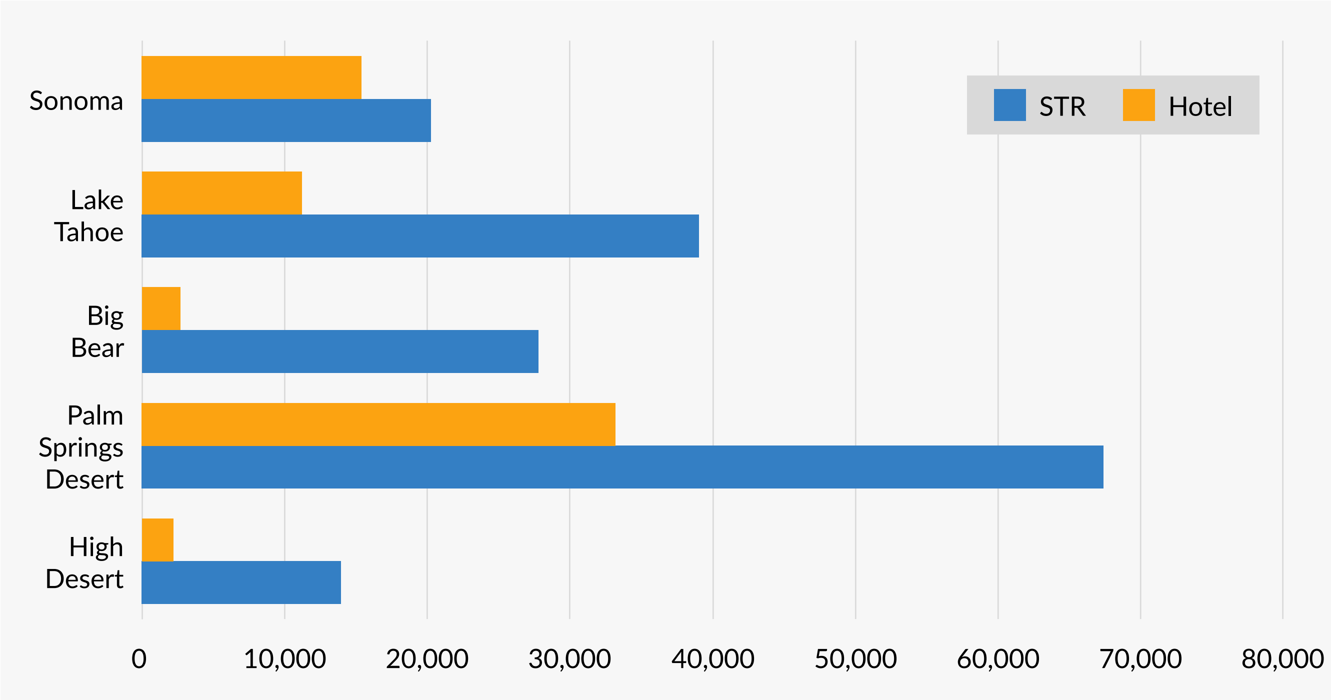
FIGURE 1: STR AND HOTEL ROOM INVENTORY, JANUARY 2022



Note: See Appendix for region definitions.

Source: Milken Institute analysis using Costar (2022) and Transparent (2022)

FIGURE 2: STR AND HOTEL VISITOR CAPACITY, JANUARY 2022



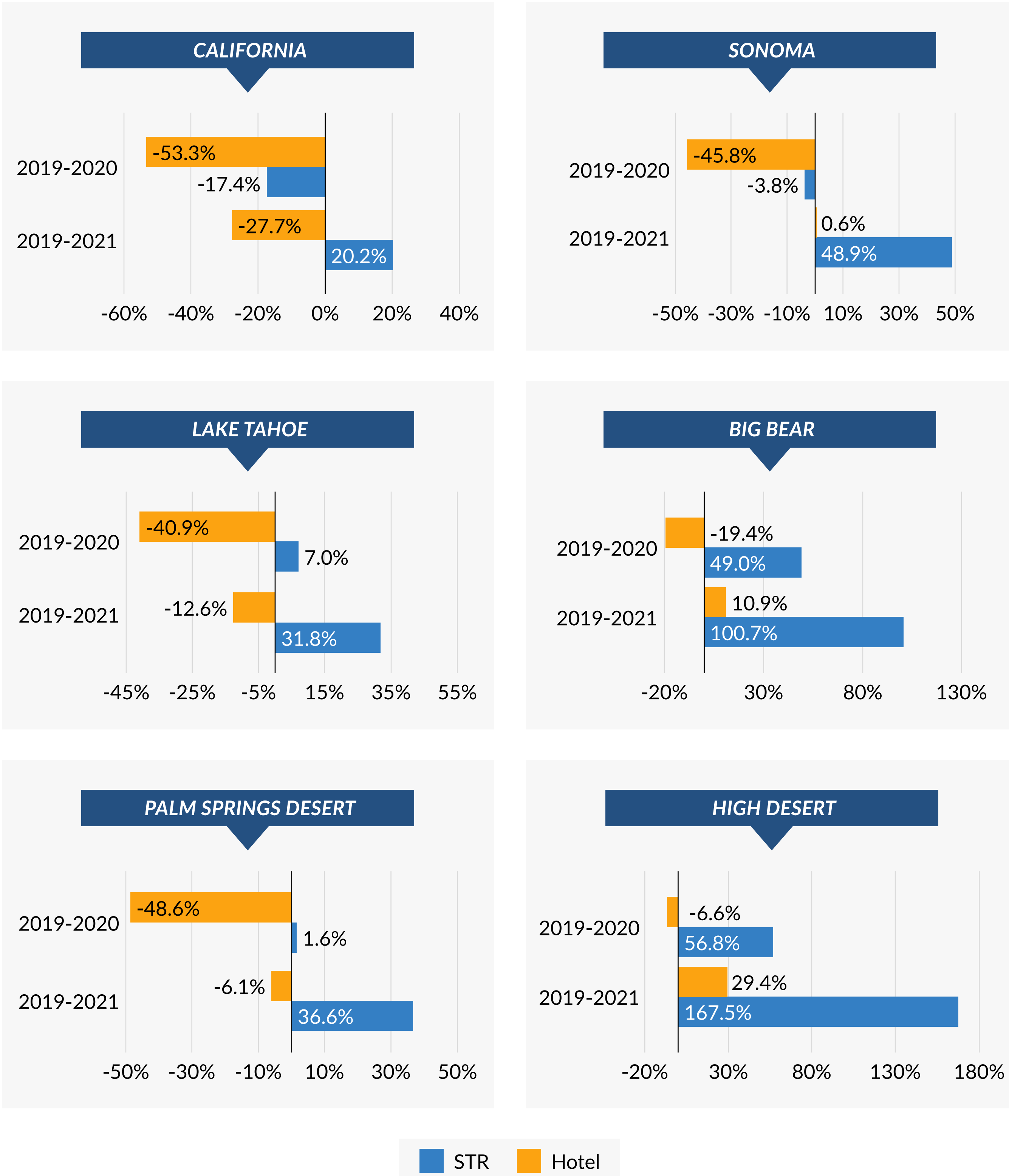
Note: See Appendix for region definitions. Visitor capacity estimates for hotels are based on two persons per hotel room. STR estimates are based on two persons per bedroom based on the median number of bedrooms in each region for every "entire home" STR unit, two persons on one booking for every "private room" STR unit, and two persons on separate bookings for every "shared room" STR unit. It is assumed that STRs that are nontraditional housing units (e.g., glamping and RVs) can accommodate two persons per unit.

Source: Milken Institute analysis using Costar (2022), Transparent (2022), and US Census Bureau American Community Survey Five-Year Estimates (2019)

STRs, which are less dependent on business travelers, were not as negatively impacted as hotels during the COVID-19 pandemic. In California, hotel operating revenue declined 53 percent between 2019 and 2020 compared to 17 percent for STRs, as shown in **Figure 3**.[13] Although both hotels and STRs lost international and out-of-state travelers, STRs are especially appealing to in-state travelers, who were generally the only travelers at the beginning of the pandemic.[14] Travelers were looking to escape congested cities to areas that were isolated and surrounded by nature, like the communities analyzed in this report.[15]

As a result, in some vacation rental communities, STR revenue was even greater in 2020 than in 2019; STR operating revenue grew 57 percent in the High Desert, 49 percent in Big Bear, and 7 percent in Lake Tahoe during this time period. Moreover, STR operating revenue in California was 20 percent higher in 2021 than in 2019, while hotel operating revenue remained 28 percent below pre-pandemic levels. High growth in STR revenue is partly explained by higher growth in average daily rates due to increased demand. These outcomes provide further evidence for the significant role STRs played in mitigating the impact of the pandemic in these regions, not to mention their increasing importance in a post-pandemic world.

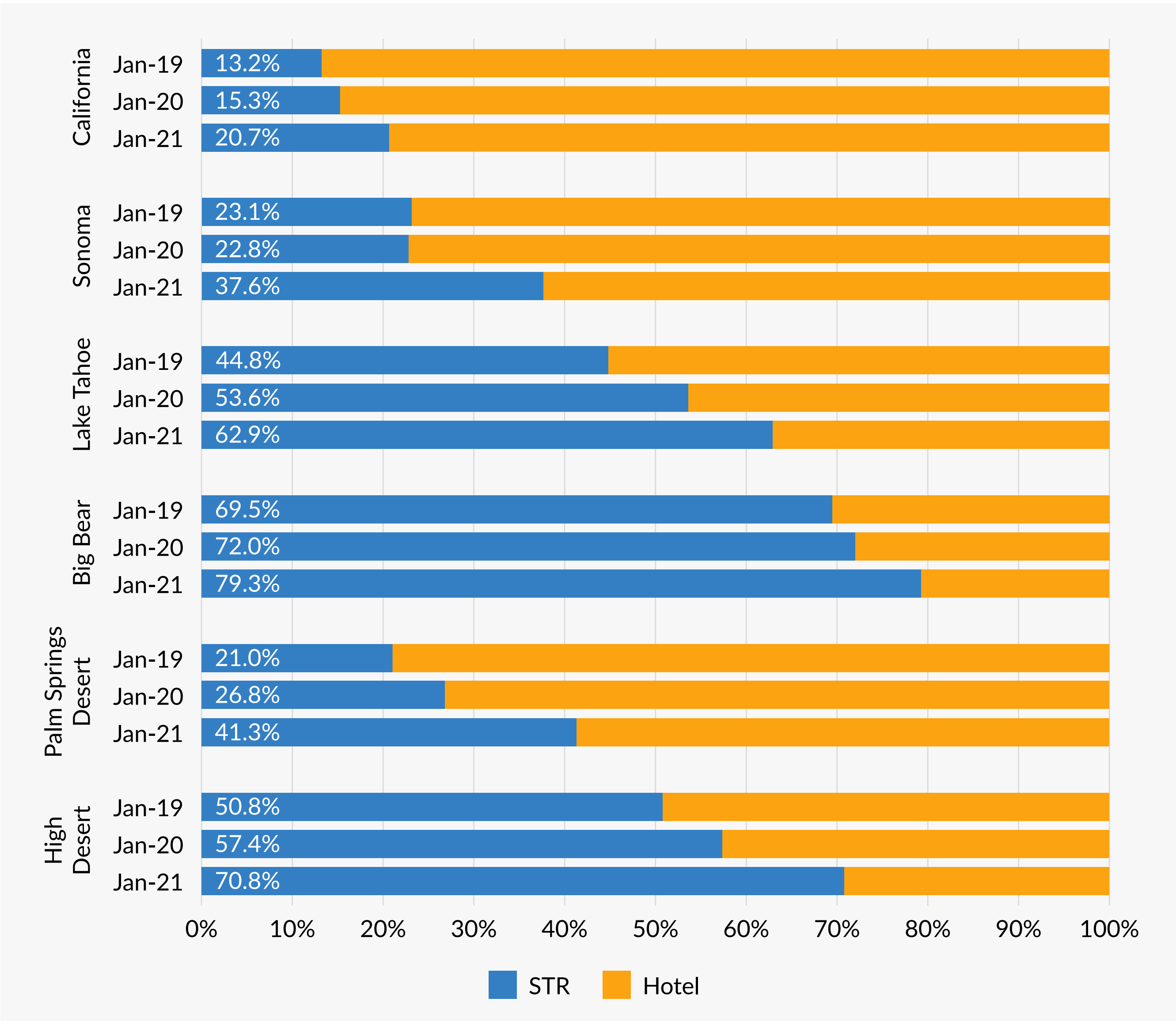
FIGURE 3: PERCENT CHANGE IN STR AND HOTEL OPERATING REVENUE, 2019–2020 AND 2019–2021



Source: Milken Institute analysis using Transparent and CoStar (2019-2021)

Short-term rentals contribute to a growing proportion of these regions' economies. In most regions, the STRs' share of occupied accommodation supply grew year-over-year between January 2019 and January 2021, as shown in **Figure 4**. In California, STRs accounted for 15 percent of occupied accommodation supply in 2020 (up from 13 percent in 2019) and nearly 21 percent in 2021, whereas the hotel sector took longer to recover.[16] The difference illustrates the greater resilience of STRs during the pandemic and how they helped blunt the impact of COVID-19 in these economies. California's tourism industry is not expected to reach pre-pandemic levels until 2023, as domestic and in-state travelers drive earlier stages of recovery and where STRs will play a pivotal role.[17]

FIGURE 4: STR SHARE OF OCCUPIED ACCOMMODATION SUPPLY



Source: Milken Institute analysis using Transparent and CoStar (2019-2021)

STR-related spending—spending by visitors staying at short-term rentals—generates significant economic activity across California's communities. In addition to accommodation, visitors spend their money at many different businesses, including restaurants, stores, recreational resources, and tourist attractions. As shown in **Table 1**, spending by visitors staying at STRs directly supported more than 175,000 jobs across California and generated $16 billion in economic output in 2019. These impacts ripple throughout the economy, generating additional activity through business supply chains and increased household spending. With the addition of these ripple (or secondary) impacts, STR-related spending supported 246,000 jobs and generated nearly $30 billion in economic output in California in 2019.

TABLE 1: ECONOMIC IMPACT GENERATED BY STR-RELATED VISITOR SPENDING IN CALIFORNIA, 2019

Impact Type	Employment*	Output (Thousands)
Direct Impact	176,171	$15,923,502.36
Secondary Impact	69,603	$13,971,902.07
Total	**245,774**	**$29,895,404.42**

** Includes full-time, part-time, and seasonal jobs.*

Note: Monetary values are reported in 2022 dollars. Totals may not be exact because of rounding.

Source: IMPLAN; Milken Institute analysis using Transparent and Visit California (2019)

STR visitor purchases also generate significant tax revenue to support state and local governments, as shown in **Table 2**. In 2019, STR-related spending generated $2.7 billion in state and local tax revenue, most of which (56 percent) supported local governments. For local governments, property taxes and taxes levied on visitor lodging—transient occupancy tax (TOT)—are critical sources of revenue that support various activities, such as infrastructure improvements, public parks, and environmental preservation.[18]

More than 450 jurisdictions in California administer TOT,[19] which is a critical revenue source for vacation destinations. In Indian Wells, Rancho Mirage, South Lake Tahoe, and Big Bear Lake, TOT makes up about 45 percent of general-purpose tax revenues.[20] About $732 million was generated in TOT revenue as a result of STR-related spending in 2019 in California. For more information on section data and methodology, see Appendix.

TABLE 2: TAX REVENUE GENERATED BY STR-RELATED SPENDING IN CALIFORNIA, 2019

Tax Type	Local (Thousands)	State (Thousands)	Total (Thousands)
Sales Tax	$163,021.79	$515,925.07	**$678,946.86**
Transient Occupancy Tax	$732,032.53	-	**$732,032.53**
Property Tax	$562,286.39	$26,617.75	**$588,904.15**
Income Tax	-	$442,945.16	**$442,945.16**
Other*	$82,424.39	$221,391.02	**$303,815.41**
Total	**$1,539,765.10**	**$1,206,879.00**	**$2,746,644.10**

** Other includes social security tax, corporate profits tax, motor vehicle license, severance tax, special assessments, and other taxes.*

Note: Results include direct and secondary effects and are reported in 2022 dollars. Totals may not be exact because of rounding.

Source: IMPLAN; Milken Institute analysis using Transparent, Visit California, CoStar, and Dean Runyan Associates (2019)

SHORT-TERM RENTALS AND HOUSING AFFORDABILITY

Short-term rentals have recently made headlines for allegedly contributing to housing shortages and increasing costs in communities across California. In response, many local jurisdictions, including vacation rental communities, have adopted or proposed strict regulations on STRs. Some have even banned them altogether or are in the process of phasing them out. But the notion that decreasing STR supply will mitigate California's extreme housing shortage is not supported by the evidence. The only solution to California's housing crisis is to provide more housing: specifically denser, more affordable multifamily housing units.

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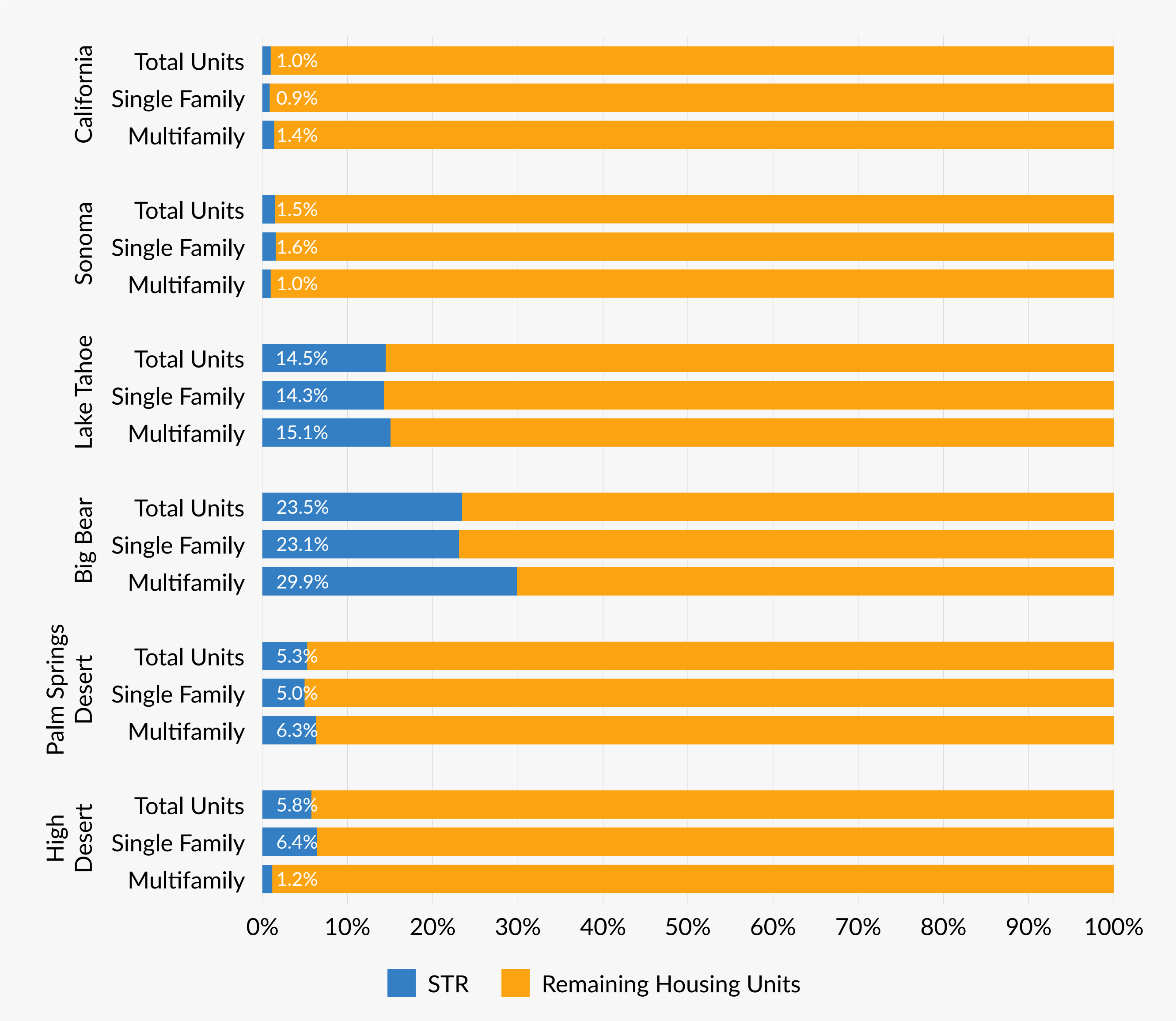
Short-term rentals make up a small share of housing units, particularly when the broader context of regional markets is considered. As shown in **Figure 5**, about 1 percent of housing units in California are STRs, but not all STRs are transferable to long-term housing. The share of STRs reported here only includes properties listed as entire homes; it excludes shared- or private-room listings to control for primary residences that would not translate to additional long-term housing because tenants already live there. Additionally, in California, the share of total housing stock comprising STRs is likely to be overestimated, as a portion of entire-home STR listings is, in fact, primary residences. In Los Angeles and San Francisco, for instance, local laws only allow primary residences to be listed as STRs, yet they are included in the 1 percent figure.[21]

FIGURE 5: STR HOUSING MARKET SHARE BY REGION

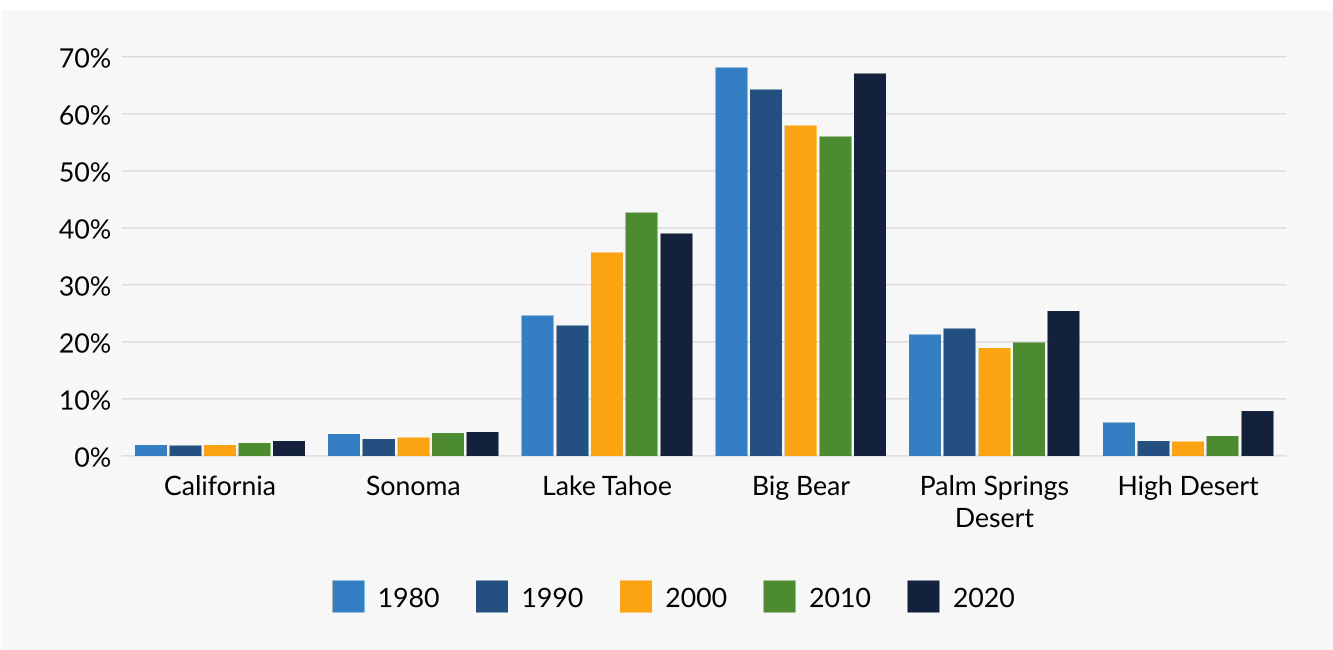


Note: STR units include only single-family and multifamily properties listed as "entire homes." Shared and private-room listings are not included to control for primary residences that would not translate to additional long-term housing because tenants already live there. STRs that are nontraditional housing units (RVs, glamping, boats) are also not included because these types of units are not part of total housing stock or considered suitable for long-term housing. California and Sonoma use 2021 data because more recent housing estimates are reported by the California Department of Finance at the state and county level. All other regions use 2019 data from the US Census Bureau.

Source: Milken Institute analysis of US Census Bureau American Community Survey Five-Year Estimates (2019), California Department of Finance (2021), and Transparent (2019 and 2021)

The market share of STRs tends to be higher in vacation destinations; however, these communities need to be evaluated in a different context because they are generally places where a large percentage of properties have always been available to visitors as vacation properties. As shown in **Figure 6**, vacation homes have historically accounted for a larger share of housing in vacation rental communities compared to the state as a whole, especially in Big Bear, Lake Tahoe, and the Palm Springs Desert. Many STRs are second homes, and without the opportunity to capture extra value from short-term renting, many would simply remain vacant rather than be converted to permanent housing. Such is the case in Lake Tahoe, where the majority of homes sit empty for most of the year.[22] STRs provide opportunities to generate more economic activity for cities and property owners through properties that would otherwise be vacant.

FIGURE 6: HISTORICAL SHARE OF VACATION HOMES TO HOUSING INVENTORY



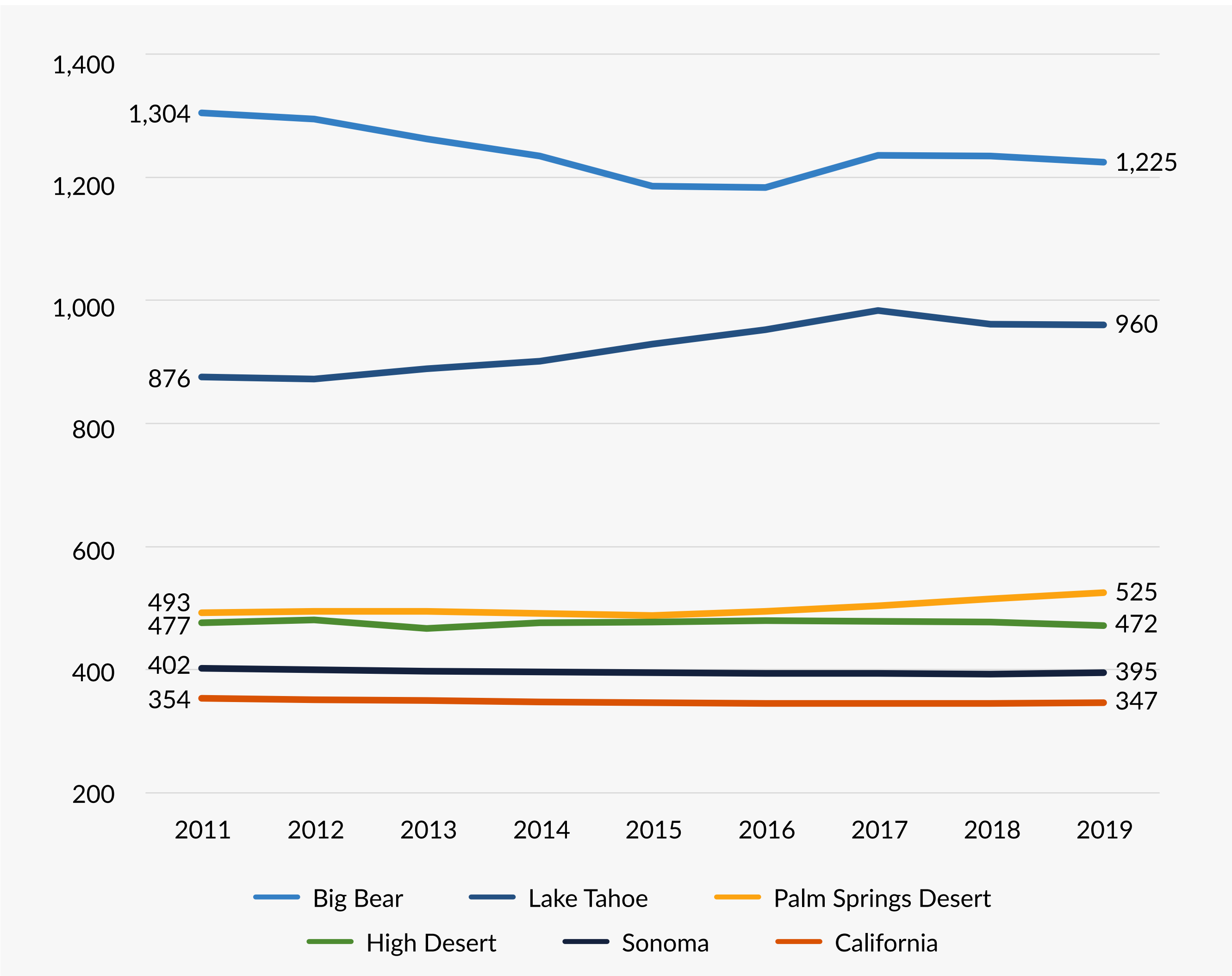
Note: "Vacation homes" are vacant homes for seasonal, recreational, or occasional use as defined by the US Census Bureau.

Source: Milken Institute analysis of US Census Bureau via IPUMS NHGIS, University of Minnesota (1980, 1990, 2000, 2010), and US Census Bureau American Community Survey Five-Year Estimates (2020)

Vacation rental communities with higher shares of STRs also have more housing units per capita, as shown in **Figure 7**. The two regions with the highest shares of STRs (Big Bear and Lake Tahoe) are also the two regions with the most housing units per 1,000 people. In Big Bear, the number of housing units exceeds its population; for every 1,000 people, there are 1,225 housing units.

But California faces a critical housing shortage; the state is short by an estimated 2 million units, ranking above only Utah for lowest housing units per capita,[23] and conditions are not improving. In 2019, California had only 347 housing units per 1,000 people—down from 354 in 2011. In Sonoma County, there were 395 housing units per 1,000 people in 2019, compared to 402 in 2011. The High Desert had 472 housing units per 1,000 people in 2019 and 477 in 2011. These data clearly show that the state's housing supply does not meet the growing demand.

FIGURE 7: HOUSING UNITS PER 1,000 PEOPLE



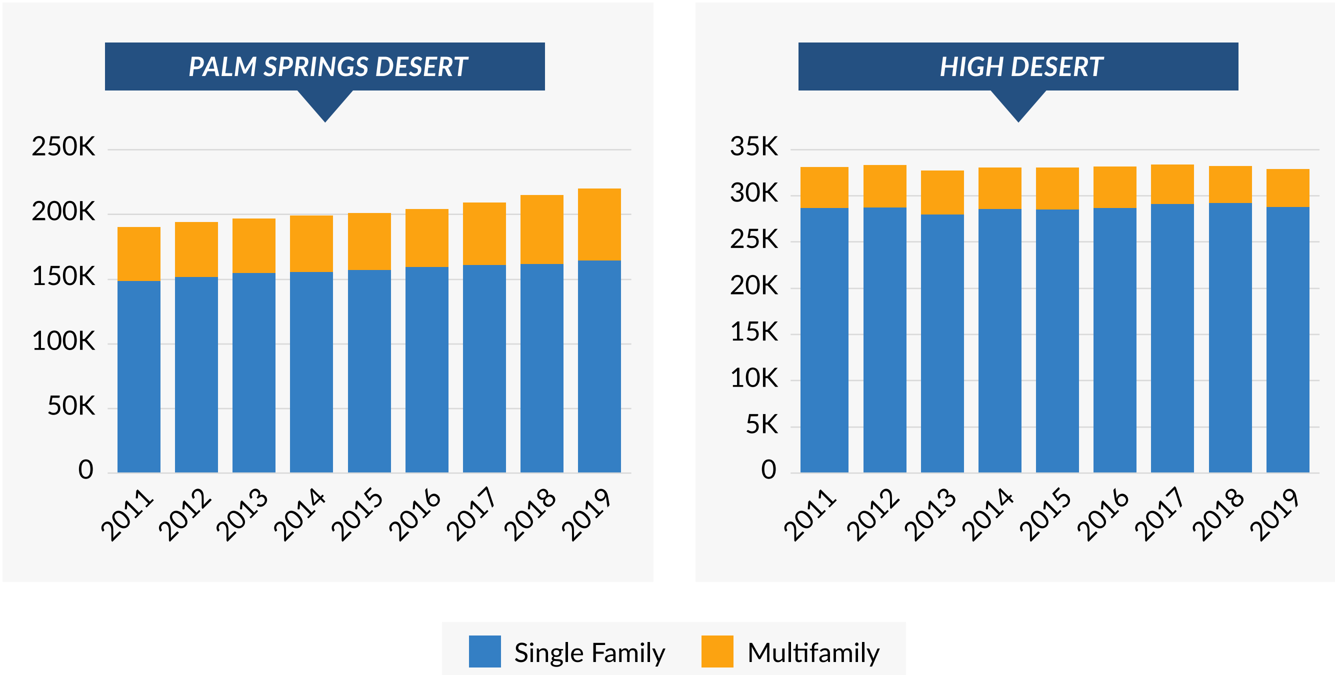
Source: Milken Institute analysis of US Census Bureau American Community Survey Five-Year Estimates (2011–2019)

Housing units per capita have fallen in California because housing production has not kept pace with population growth. Between 2010 and 2020, California's population grew by 2.4 million people, but only 660,000 housing units were added. At the same time, rents and home values increased 43 percent and 60 percent, respectively, but wages remained relatively stagnant (when adjusted for inflation).[24]

The median price of a single-family home in California is more than $800,000,[25] which is out of reach for most Californians. Only 23 percent of California households can afford a typical single-family home,[26] yet most of the state's housing inventory comprises single-family units (65 percent), and the share has remained relatively unchanged over time, as shown in **Figure 8**. In vacation destinations, this share is even higher: 79 percent in Sonoma, 81 percent in Lake Tahoe, 94 percent in Big Bear, 75 percent in the Palm Springs Desert, and 88 percent in the High Desert. While Palm Springs Desert has experienced high growth in multifamily housing development relative to other regions, it still faces a critical housing shortage.

FIGURE 8: HOUSING UNITS

FIGURE 8: HOUSING UNITS (CONT.)



Source: California Department of Finance (2011-2021) and US Census Bureau American Community Survey Five-Year Estimates (2011-2019)

Most short-term rentals are also single-family homes, as shown in **Figure 9**. Compared to multifamily units (which are typically more affordable), the share of single-family homes tends to be even higher in vacation-rental communities. Other types of units, such as glamping, also make up a significant share of STRs in the High Desert. It is highly unlikely that these types of units would directly translate to long-term rentals and owner-occupied housing if STR restrictions were to be adopted.

FIGURE 9: STR SUPPLY BY PROPERTY TYPE

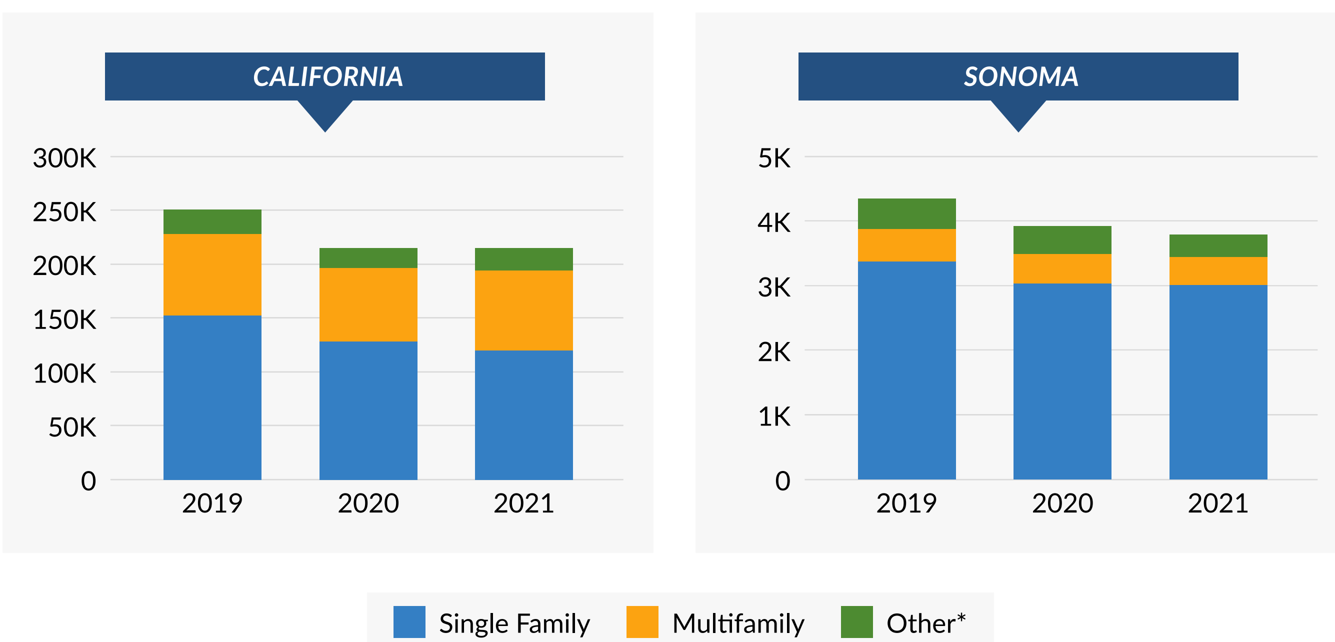


FIGURE 9: STR SUPPLY BY PROPERTY TYPE (CONT.)

** "Other" includes glamping, RVs, boats, and other unique units.*

Source: Transparent (2019-2021)

In particular, most of the regional workforce would not be able to afford such homes. As shown in **Figure 10**, the statewide annual median wage in 2019 was $40,000. In most vacation destinations, the wage is even lower, around $30,000. **Figure 10** also shows how vacation destinations are dependent on tourism-related industries, including accommodation and food services; arts, entertainment, and recreation; and retail trade. These industries, however, tend to pay far below the area median wage.

FIGURE 10: TOP INDUSTRY EMPLOYMENT AND WAGES

CALIFORNIA

Industry	2019 Emp.	Industry Emp. Share	Annual Median Wage
Health care & social asst	2,310,487	12.4%	$41,800
Retail trade	1,950,499	10.5%	$26,100
Manufacturing	1,692,820	9.1%	$50,500
Prof, sci, & tech svcs	1,645,118	8.8%	$77,800
Educational svcs	1,593,631	8.6%	$44,200
Accommodation & food svcs	1,432,206	7.7%	$20,000
Total, all industries	**18,591,241**		**$40,000**

SONOMA

Industry	2019 Emp.	Industry Emp. Share	Annual Median Wage
Health care & social asst	32,032	12.5%	$45,300
Retail trade	29,750	11.6%	$26,900
Manufacturing	24,321	9.5%	$52,100
Educational svcs	21,681	8.5%	$42,100
Construction	20,905	8.2%	$51,600
Accommodation & food svcs	19,960	7.8%	$18,500
Total, all industries	**256,074**		**$40,700**

LAKE TAHOE

Industry	2019 Emp.	Industry Emp. Share	Annual Median Wage
Accommodation & food svcs.	4,576	14.8%	$22,400
Arts, entertain., & rec.	3,743	12.1%	$32,200
Health care & social asst.	2,970	9.6%	$53,100
Construction	2,852	9.2%	$49,500
Retail trade	2,532	8.2%	$28,300
Total, all industries	**30,929**		**$32,700**

FIGURE 10: TOP INDUSTRY EMPLOYMENT AND WAGES (CONT.)

BIG BEAR

Industry	2019 Emp.	Industry Emp. Share	Annual Median Wage
Accommodation & food svcs	1,428	18.0%	$22,000
Health care & social asst	788	9.9%	$54,600
Construction	770	9.7%	$41,800
Retail trade	702	8.8%	$26,600
Educational svcs	662	8.3%	$35,700
Total, all industries	**7,947**		**$34,400**

PALM SPRINGS DESERT

Industry	2019 Emp.	Industry Emp. Share	Annual Median Wage
Retail trade	23,025	13.3%	$25,400
Accommodation & food svcs	22,546	13.0%	$22,400
Health care & social asst	21,336	12.3%	$40,100
Construction	13,199	7.6%	$32,200
Admin, support & waste mgmt	13,069	7.5%	$22,800
Total, all industries	**173,422**		**$29,400**

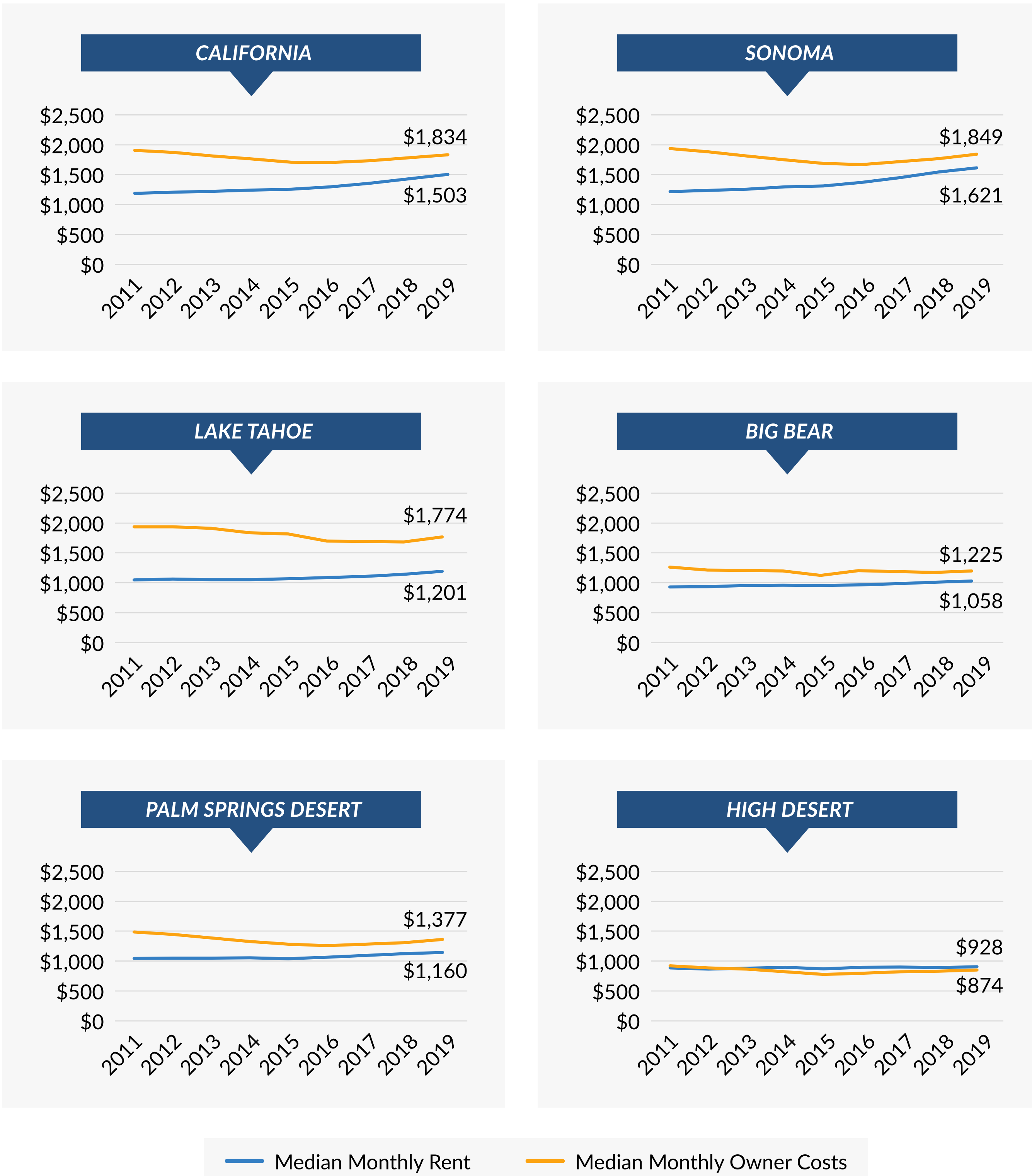
HIGH DESERT

Industry	2019 Emp.	Industry Emp. Share	Annual Median Wage
Health care & social asst.	3,642	16.4%	$31,400
Retail trade	3,141	14.1%	$22,700
Public admin	2,377	10.7%	$43,700
Accommodation & food svcs	2,308	10.4%	$15,500
Educational svcs	1,996	9.0%	$47,600
Total, all industries	**22,199**		**$30,500**

Source: US Census Bureau American Community Survey Five-Year Estimates (2019)

Based on the median monthly housing costs shown in **Figure 11**, the minimum annual wage needed to avoid housing cost burden in 2019 was $60,100 in California, $64,800 in Sonoma, $48,000 in Lake Tahoe, $42,300 in Big Bear, $46,400 in Palm Springs Desert, and $35,000 in the High Desert.

FIGURE 11: MONTHLY HOUSING COSTS

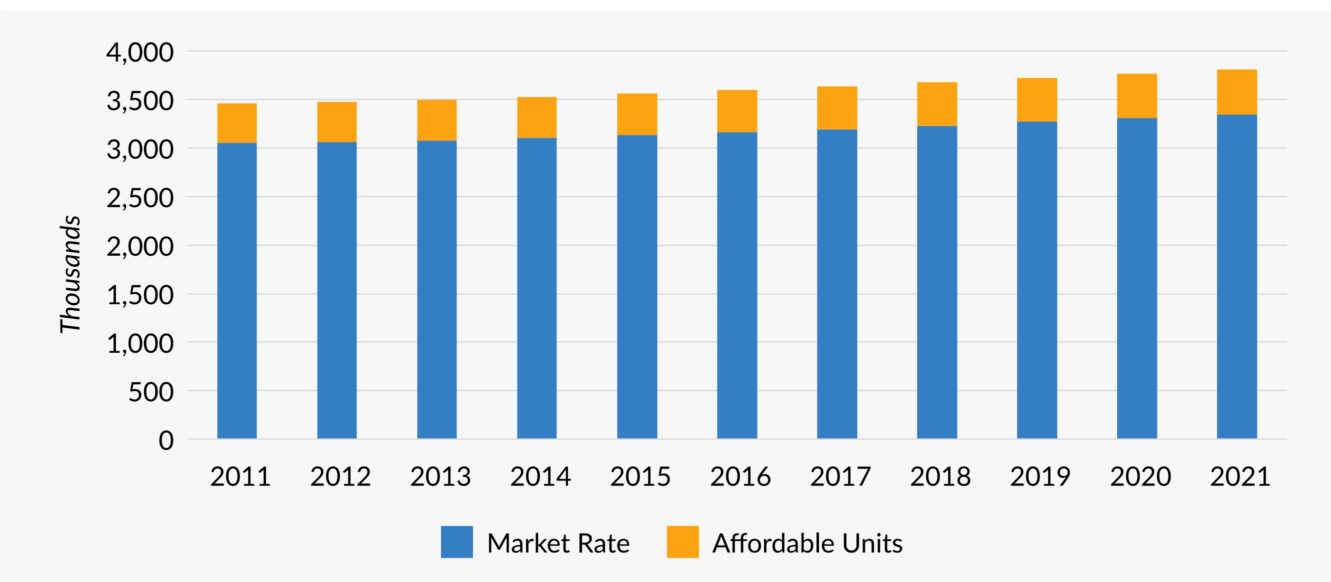


Source: US Census Bureau American Community Survey Five-Year Estimates (2011-2019)

Whereas the typical asking monthly rent per unit in California at market rate is more than $2,100 (as of first-quarter 2022), the typical rent for affordable units—units that are rent-controlled, rent-restricted, rent-stabilized, or rent-subsidized—is $1,200.[27] Affordable housing units account for 12 percent of multifamily housing inventory, and this share has remained relatively unchanged for the last decade, as shown in **Figure 12**.[28]

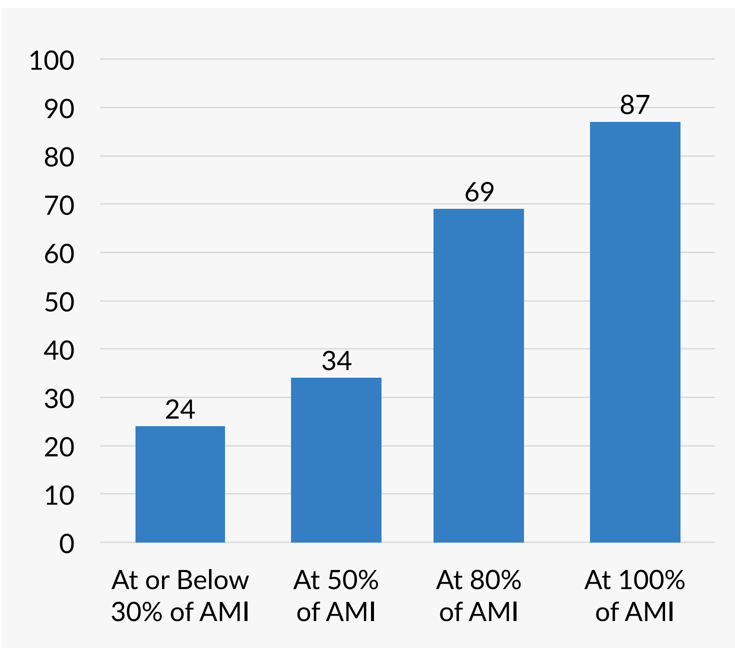
Typically, the minimum household income required to qualify for affordable housing is at or below 80 percent of the area median income (AMI). But increased support is particularly needed for households making less than 50 percent of AMI. As shown in **Figure 13**, there are 34 affordable and available units for every 100 renters at 50 percent of AMI and only 24 units for every 100 renters at or below 30 percent of AMI. Not only has California's housing production significantly slowed since the late 1980s, but the types of housing units being built—single-family homes and luxury apartments—are further widening the affordability gap.

FIGURE 12: MULTIFAMILY HOUSING UNITS BY AFFORDABILITY, CALIFORNIA



Source: Milken Institute analysis of CoStar data (2011-2021)

FIGURE 13: AFFORDABLE AND AVAILABLE HOMES PER 100 RENTER HOUSEHOLDS, CALIFORNIA (2019)



Source: National Low Income Housing Coalition (2019)

As illustrated throughout this report, STRs have a very small impact on the state's housing inventory and cannot be considered a meaningful driver of California's housing shortage. Short-term rentals are particularly valuable to tourism-dependent communities like those analyzed in this report. Reducing STR supply as a way to address California's housing shortage does not solve the issue and, moreover, deprives regions of needed tax revenue to support local governments.

STRATEGIES FOR INCREASING AFFORDABLE HOUSING SUPPLY AND SUPPORTING CALIFORNIA'S TOURISM ECONOMY

Vacation destinations face unique challenges in navigating short-term rental policy and measuring subsequent community impacts. On one hand, communities face shortages in affordable housing supply and increasing housing costs that prevent the local workforce from living near jobs. These factors make attracting workers a challenge and can also lead to longer commutes that further strain California's infrastructure. On the other hand, while regional housing costs continue to rise—driven by housing shortages resulting from decades of underdevelopment—local governments have few tools available to spur housing development in the short-term. As a result of these dynamics, tourism-dependent communities face daunting challenges in mitigating the effects of STR policies that can restrict local tourism and small business commerce, obscure needed community related investments (e.g., mobility and housing), and limit the state's overall tourism economy. How can communities balance housing needs and implement STR policy that supports their local tourism economies?

This section provides policy considerations that aim to address how state and local jurisdictions can better support workforce housing needs and enhance regional tourism. Recommendations are drawn from extensive research and engagement between the Milken Institute and public- and private-sector stakeholders in state and regional tourism, housing policy, and economic development.

Policy Considerations

Accelerating affordable and workforce housing development is needed across California, and innovative strategies for increasing this supply needs to be considered to address shortages in the near term and in communities where land for new development is limited. At the same time, tourism was one of the hardest-hit sectors by the COVID-19 pandemic and tourism-dependent communities are still grappling with the impact of reduced visitor spending that affect small business growth and tax revenue generation. The Milken Institute recommends the following considerations to increase supply of workforce and affordable housing that do not hinder regional tourism growth:

1 Provide incentives for second homeowners to rent their vacation properties that would otherwise sit empty to the regional workforce

In many vacation destinations, the largest pressure on the local housing market is many units are second homes that sit empty for most of the year. As data shown earlier in this report illustrated (Figures 5 and 6), many housing units in these communities are vacation homes that are not rented short-term. In Big Bear, for instance, over 67 percent of housing inventory was vacation homes in 2020 while only 24 percent of housing inventory was short-term rentals. Offering incentives such as paying for deed restrictions or offering mortgage financing support for second homeowners to rent out their properties that would otherwise sit empty to the regional workforce will help increase affordable supply.

Vail, Colorado adopted such an innovative policy in 2017 through its Vail InDEED program. Through the program, managed by the Vail Local Housing Authority and funded through the town's general fund, the town pays property owners for deed restrictions on their homes to limit occupancy to individuals working in the county. The deed restriction is in perpetuity and is maintained at the property even if it's transferred to a new owner. The program does not limit the resale or rental price of a home, but because of the occupancy requirements, prices fall to meet the demand of qualifying renters or buyers who are part of the regional workforce, removing the wealthier out-of-towners from the market who normally price them out.[29] Through this program, the town increases its workforce housing supply without lengthy and costly development processes. The average purchase price of a deed restriction is about $68,000—more cost-efficient than new housing development which is already challenging due to limited land availability.[30] In its first four years the town purchased deed restrictions on 165 units.[31] Similar programs have been adopted in South Lake Tahoe (Lease to Locals) and Truckee (Truckee Workforce Rental Grant Program), where incentives are provided for second-homeowners to rent out their properties long-term to the regional workforce who meet income criteria.

2 Allocate portions of new housing development to workforce occupancy

Although there is a need for more affordable housing in California, much of the state's new production is still geared towards the higher end of the market (single-family homes and ultra-luxury apartments) because these types of developments are significantly more profitable. Like the previous consideration, local governments should establish programs that allocate portions of new housing supply to workforce occupancy through mechanisms such as deed restrictions.

In addition to purchasing deed restrictions on existing homes, the Vail InDEED program has also done so on new housing developments. The town offered the developer of Solar Vail, a 65-unit apartment building, $4.2 million (the assessed value of the land) in exchange for deed restrictions on every apartment unit. Opened towards the end of 2019, the building primarily houses seasonal hotel employees but also qualified year-round workers. The town paid only once construction was complete, reducing risk to the public sector by preventing construction delays and unexpected costs.[32]

3 Provide local incentives to streamline workforce and affordable housing development

While the first two considerations are shorter-term strategies to alleviate workforce housing shortages, long-term solutions are ultimately needed to further incentivize and streamline production of affordable housing. A bottom-up approach is needed to address these growing needs, first targeting households earning at or below 80 percent of AMI by increasing the supply of affordable market-rate and government-assisted multifamily housing units.

In March 2022, San Diego signed the first part of its "Homes for All of Us" initiative, which aims to produce more affordable housing in the city. The initiative aims to implement state law related to housing development (e.g., Senate Bill 9), align state and city housing programs, incentivize new housing opportunities for all income levels, and amend city development regulations and property use to accelerate housing production. Amendments include allowing new fire stations, libraries, and other civic projects to include workforce housing projects, making it easier for businesses to build onsite housing for their workers, providing incentives for developers to build larger family units (3+ bedrooms) and units for people with disabilities, and making it easier for developers to use the city's density bonus and build residential projects in commercial zones.[33]

With a budget surplus, California should also reconsider past initiatives, such as funding support for Senate Bill 5, introduced in 2019, which would have established an Affordable Housing and Community Investment program to help cities and counties afford to develop more affordable housing. The bill would have allocated $2 billion annually over five years for affordable housing projects in proximity to transit. SB 5 was ultimately vetoed due to budget constraints regarding its source of funding through property taxes originally allocated to schools. The legislation was later revised in 2020 as SB 795, which amended the original funding route to pull directly from the state's general fund and thereby alleviating concerns that schools would lose money, but ultimately failed.[34]

4 Promote regional tourism through investment and development in existing programs to support resiliency needs and growth in tourism destinations

Although it's clear that tourism has considerable economic benefits for both state and local governments, communities must face other non-housing related tourism externalities like increased congestion that can also lead to community resistance towards STRs. Accordingly, that state has several tools and programs that can be adapted to mitigate these types of community impacts: the Community Economic Resilience Fund, although still in the planning phase, tourism-based growth concerns and needs should be included in regional plans and state funding allocations; the Transformative Climate Communities Program, which aims to reduce greenhouse gas emissions and local air pollution; and the California Competes Tax Credit, which can help support business formation and jobs in tourism destinations.

Scaling and adapting these mechanisms and providing long-term investment in other types of cultural and recreational tourism destination spots is vital. Creating a coordinated state tourism campaign that promotes regional and cultural events while advocating for needed investment in infrastructure and overall competitiveness of the state's tourism economy is integral for sustainable growth.

Final Considerations

As the overall economy reorients to remote work and faces considerable reductions in travel, jobs and revenue loss, California communities must make a concerted effort to re-capture its pre-pandemic tourism advantages. State and local leaders should take bold steps to incentivize the development of vital housing supplies that support regional economic development and tourism economies.

Identifying more impactful approaches to increasing housing supply that go beyond STR restrictions is essential. As demonstrated throughout this report, STRs do not contribute significantly to housing shortages and rising costs, and aggressive STR regulation restricts regional tourism, which many communities depend on economically. In vacation destinations, the underdevelopment of multifamily housing and the high share of second homeownership resulting in high vacancies are main drivers of continuing housing shortages. Innovative solutions are needed at the state and local levels, such as those recommended above. Enhancing housing supply and policy will create a friendlier environment for STRs to operate in, thereby bolstering regional tourism and economic growth.

APPENDIX

Region Definitions

The regions profiled in the report are defined below. Lake Tahoe, Big Bear, Palm Springs Desert, and High Desert are defined at the zip code level.

Industry	Geography Definition
Sonoma	Sonoma County
Lake Tahoe	96140 (Carnelian Bay), 96141 (Homewood), 96142 (Tahoma), 96143 (Kings Beach), 96145 (Tahoe City), 96148 (Tahoe Vista), 96150 (South Lake Tahoe), 96161 (Truckee)
Big Bear	92333 (Fawnskin), 92315 (Big Bear Lake), 92314 (Big Bear City), 92386 (Sugarloaf)
Palm Springs Desert	92201 (Indio), 92203 (Indio), 92210 (Indian Wells), 92211 (Palm Desert), 92234 (Cathedral City), 92236 (Coachella), 92240 (Desert Hot Springs), 92241 (Desert Hot Springs), 92253 (La Quinta), 92258 (Palm Springs), 92260 (Palm Desert), 92262 (Palm Springs), 92264 (Palm Springs), 92270 (Rancho Mirage), 92276 (Thousand Palms)
High Desert	92252 (Joshua Tree), 92256 (Morongo Valley), 92268 (Pioneertown), 92277 (Twentynine Palms), 92278 (Twentynine Palms), 92284 (Yucca Valley), 92285 (Landers)

Data and Methodology

The economic analysis defines STR-related visitor spending as money spent by guests staying at short-term rentals. Data provided by Transparent—which reports STR data from multiple channels, including Airbnb, VRBO, Booking.com, and TripAdvisor—on annual revenue paid to STR hosts by visitors were used to measure the amount spent on accommodation by visitors staying at STRs in 2019. In addition to STR purchases, data on state spending profiles from Visit California were used to estimate non-lodging spending by STR guests in 2019, such as the amount spent on food, retail, transportation, entertainment, attractions, and recreation. Total STR visitor spending was adjusted according to the share of in-state and out-of-state travelers reported by Visit California to measure economic activity stemming from new money entering the state.

The IMPLAN modeling system is used to estimate the economic impact of STR-related visitor spending. IMPLAN is an economic modeling system used to predict the likely impact of specific economic changes on a given regional economy or to estimate the effect of past or existing economic activity. IMPLAN estimates direct and secondary effects on regional employment, economic output (total production value of an industry), and tax revenues. Employment includes the number of full-time, part-time, and seasonal jobs supported—new jobs generated and existing jobs maintained or expanded in scope—by STR visitor spending. The *direct impact* is the initial change in economic activity as a result of STR-related spending. The *secondary impact* is the additional economic activity further down business supply chains stemming from the initial changes caused by the direct impact and the additional activity resulting from changes in household spending. For example, STR visitors spend money dining at a local restaurant *(direct effect)*, maintaining or increasing demand for the restaurant's food. As a result, the restaurant continues to purchase supplies—maintaining or increasing business for the supplier—and pay its workers—maintaining or increasing workers' income that they use to purchase their own goods and services *(secondary impact)*.

The STR revenue data provided by Transparent do not include the amount paid in taxes by STR guests. As a result, TOT revenue was estimated separately using total TOT data by jurisdiction, consolidated by Dean Runyan Associates, and removed from the corresponding IMPLAN results to avoid double-counting. The portion of TOT revenue attributable to STRs was estimated based on corresponding shares of STR and hotel lodging revenue.

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Acknowledgments

The authors would like to thank the Travel Technology Association for its support in the completion of this report, as well as the private- and public-sector leaders who provided insight into regional challenges and opportunities related to the state's tourism-based economy and housing issues.

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