



CITY COUNCIL STAFF REPORT

DATE: March 7, 2018 NEW BUSINESS

SUBJECT: DISCUSSION REGARDING THE DIRECT ARGUMENT AGAINST THE INITIATIVE ORDINANCE TO PROHIBIT VACATION RENTAL OF SINGLE FAMILY RESIDENCES IN THE CITY – UPDATE ON THE IMPACT ANALYSIS REPORT

FROM: David H. Ready, City Manager

BY: Office of the City Clerk

SUMMARY

City Council will discuss and provide direction to the Subcommittee on the argument against the measure to prohibit vacation rental of single-family residences in the City of Palm Springs. In addition, review and consider updated information relative to the Vacation Rental Ballot Measure Impact Analysis Report, previously submitted at the City Council Meeting of February 21, 2018.

RECOMMENDATION:

1. Review and discuss updated information pertaining to the previously submitted Impact Analysis Report.
2. Review and provide direction regarding the argument against the measure.
3. Authorize each member of the City Council to execute all necessary documents for the submission of the argument against the measure.
4. Determine whether to authorize a City Council *ad hoc* Subcommittee to author the rebuttal argument against the measure or whether to authorize another person to sign the rebuttal argument.
5. Authorize each member of the City Council to execute all necessary documents for the submission of the rebuttal argument against the measure.

ITEM NO. 5.B.

BACKGROUND:

A citizens' initiative petition to prohibit the vacation rental of single-family residences in the City of Palm Springs has qualified for placement on the ballot. On January 24, 2018, the City Council ordered a report analyzing the impacts of the initiative measure, pursuant to Elections Code (EC) 9212.

On February 21, 2018, the City Council was presented with the initial draft of an Impact Analysis Report and provided direction regarding additional information desired. At the same meeting, the City Council authorized its members to author the argument against the measure and provided for the filing of rebuttal arguments. The Council selected Councilmember Kors and Mayor Pro Tem Roberts to draft the argument. The deadline to file the argument and City Attorney's Impartial Analysis is Thursday, March 8, 2018, by 6:00 p.m.

Following the close of the argument deadline, the City Clerk will transmit the arguments to the opposing authors. The rebuttal arguments are due not more than 10 days after the direct arguments are due. However, the 10th day falls on a weekend and therefore the deadline for rebuttal arguments will be the close of business day on Thursday, March 15, 2018. The City Council may authorize in writing any other person or persons to prepare, submit, or sign the rebuttal argument. If so desired, the City Council will need to identify who the authors will be and authorize itself to execute the necessary authorization form.

If the City Council elects to author the rebuttal itself, it may select a Council *ad hoc* Subcommittee to write the rebuttal and provide for each member to be a signatory. However, unless the City Council calls a Special Meeting, other members of the City Council will not have an opportunity to provide feedback or modifications to the rebuttal.

City Attorney Comments re Ballot Initiative Language

The ballot measure proponents have included language in their proposed ordinance that is internally inconsistent. That inconsistency relates to the issue of whether the ballot measure would prohibit homesharing in R-1 zoned areas. The ballot measure contains a pair of findings that are incompatible. One says that homesharing is prohibited in single-family residences; the other says that it is legal. Despite the ballot measure purporting in some language to allow homesharing in R-1 zoned single family residences, the single word "them" causes the proponents' version of Palm Springs Municipal Code (PSMC) Section 5.25.020(a) to prohibit Vacation Rentals and Homesharing in those same residences. Then, by blending old language and new, the ballot measure proponents prohibit providing "any portion" of a single-family residence for rent for 28 consecutive days or less. Given the ordinance's definition of "homesharing," the prohibition of renting a portion of a single-family residence effectively prohibits homesharing in those residences. This prohibition is located in Section 5.25.075(a) of the proponents' proposed ordinance, which addresses "Specific Prohibitions."

The ballot measure's ordinance provisions referenced here are provided below.

5.25.020(a) – the finding that homeshares are prohibited

“This Ordinance confirms Vacation Rentals and Homesharing as ancillary and secondary uses of for privately owned individual multi-family dwelling units, including without limitation Condominiums, and prohibits them for R-1 zoned Single Family and rental Apartment residential property in the City.” (emphasis added in boldface)

5.25.075(a) – the prohibition of homeshares

“No person or entity shall offer or provide a Single Family Residence or a rental Apartment, or any portion thereof, for rent for 28 consecutive days or less to any person.” (emphasis added in boldface)

Despite language in the notice of intent to circulate petition, and a ballot measure “finding” that indicates homesharing in single-family residences remains legal, see *PSMC Section 5.25.020(c)*, the ballot measure as a whole, inclusive of the prohibition language shown above, is internally inconsistent on this point.

Impact Analysis Report – Updated Information

As the proposed ballot measure could have the effect of disallowing homeshares as vacation rentals, an additional sixty-two (62) units, or 3.3% of the overall inventory, would be ineligible as vacation rental properties.

With regard to condominiums, should the ballot measure pass, the total number of permitted condominiums allowed to continue with vacation rentals was estimated at 382 (as presented to City Council on February 21, 2018). As the City currently requires units that are part of a Home Owners Association (HOA) to obtain written approval from their HOA indicating that vacation rentals are allowed in their complex, it is anticipated there will be a reduction in condo permits in 2018 by 33% (128 permits) due to an inability to obtain such a HOA letter. Based on this information, the number of condominiums not anticipated to be affected by the proposed change in vacation rental regulations should be reduced to 254 units.

Combined, the additional condominium, homeshare, and apartment units to be affected by the proposed ballot measure, or phased out, increases the percentage of units that would be removed from the inventory of available vacation rentals from 74% to 86.3% of the current inventory of vacation rental units (1,653 instead of 1,468 as previously presented).

If homeshares are allowed as vacation rentals, the percentage of units to be removed from the inventory of available vacation rentals changes from 74% to 83.0% of the current inventory of vacation rental units (1,591 instead of 1,468).

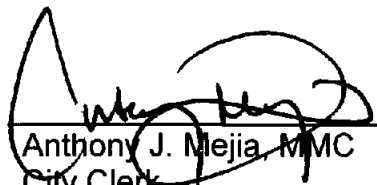
Possible Effect on Palm Springs Residential Real Estate Market

Staff has received a letter and data from Jim Franklin, Government Affairs Director of the Palm Springs Regional Association of Realtors in regard to impacts the proposed ballot measure may have on the residential real estate market in the City of Palm Springs (Attachment 1). Mr. Franklin raises the following concerns based on discussions with Realtors who sell properties for vacation rentals:

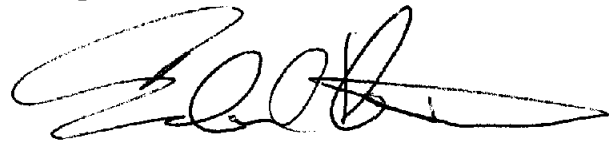
- There are approximately 410 single family residential properties currently listed in the City of Palm Springs. That number could easily double within 6-9 months and cause prices to come down. There is not really a market for these properties as 30-day rentals, as the rental cost would be too high for most possible tenants.
- Home prices would drop 10-15 percent over the first 6 to 9 months and could trigger a "race to the bottom" that possibly within a year brings us in line with other cities in the valley at 25% below the current median price.

FISCAL IMPACT:

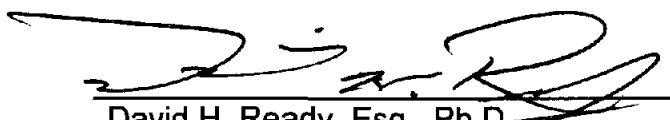
At the City Council Meeting of February 21, 2018, the Vacation Rental Ballot Initiative Economic Impact Report was presented with information regarding the loss of revenue to the City from several funding sources such as "hotel occupancy taxes," "sales taxes," "property taxes," etc. As indicated above, the updated information will cause the fiscal impact to be effected as well. Staff will submit the information to the consultant who prepared the initial impact report for modifications as appropriate. The updated report will be presented to City Council at the following meeting on March 21, 2018.



Anthony J. Mejia, MMC
City Clerk



Edward Z. Kotkin
City Attorney



David H. Ready, Esq., Ph.D.
City Manager

Attachments:

1. Palm Springs Regional Association of Realtors Letter



2018 Officers

George Rider
President

Renee Edly
President-Elect

Ben Leaskou
Treasurer

Heather Ozur
Secretary

2018 Board of Directors

Stephen Burchard
Director

David Cantwell
Director

John Cyr
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Adree Rojas
Director

Meda Thompson
Director

Tony Vaccaro
Director

Jim Webb
Director

James Ronald Whitney
Director

Lucio Bernal
Past President

Association Staff

Ann Ritchie
CEO

March 1, 2018

Mayor Moon

Councilmember Kors

Councilmember Roberts

Councilmember Middleton

Councilmember Holstege

After discussions with a number of Realtors who have sold properties for vacation rental the general consensus is that should the ban go into effect that prices would drop 10-15 percent over the first 6 to 9 months and could trigger a "race to the bottom" that possibly within a year bring us in line with other cities in the valley at 25% below the current median price. I have contacted our California Association of Realtors and our National Association of Realtors to see if they have any studies that show an "artificial" market, such as our market in Palm Springs, that in part is being influenced by the option of vacation rentals or other issues and what happened when that influence was taken away.

Our predictions are that some owners would continue to do vacation rentals anyhow, especially without enforcement. The owners that were buying the properties to eventually live in would probably just continue on that path and then there would be the owners who would put their property on the market that would increase inventory. We have about 410 SFR listings as of today, that could easily double within 6-9 months and that would cause prices to come down. There is not really a market for these properties as 30 day rentals as the rental cost would be too high for most possible tenants.

I have attached 2 charts, the desert housing report, just the first page is the main one that shows the median detached home prices for the valley. I am working on getting a break down for Palm Springs and the chart that shows home sales in Palm Springs since 2004.

As far as values and affordability the average home owner could lose as much as 25% of the value of their property and it still would not be "affordable" compared to other cities in the valley.

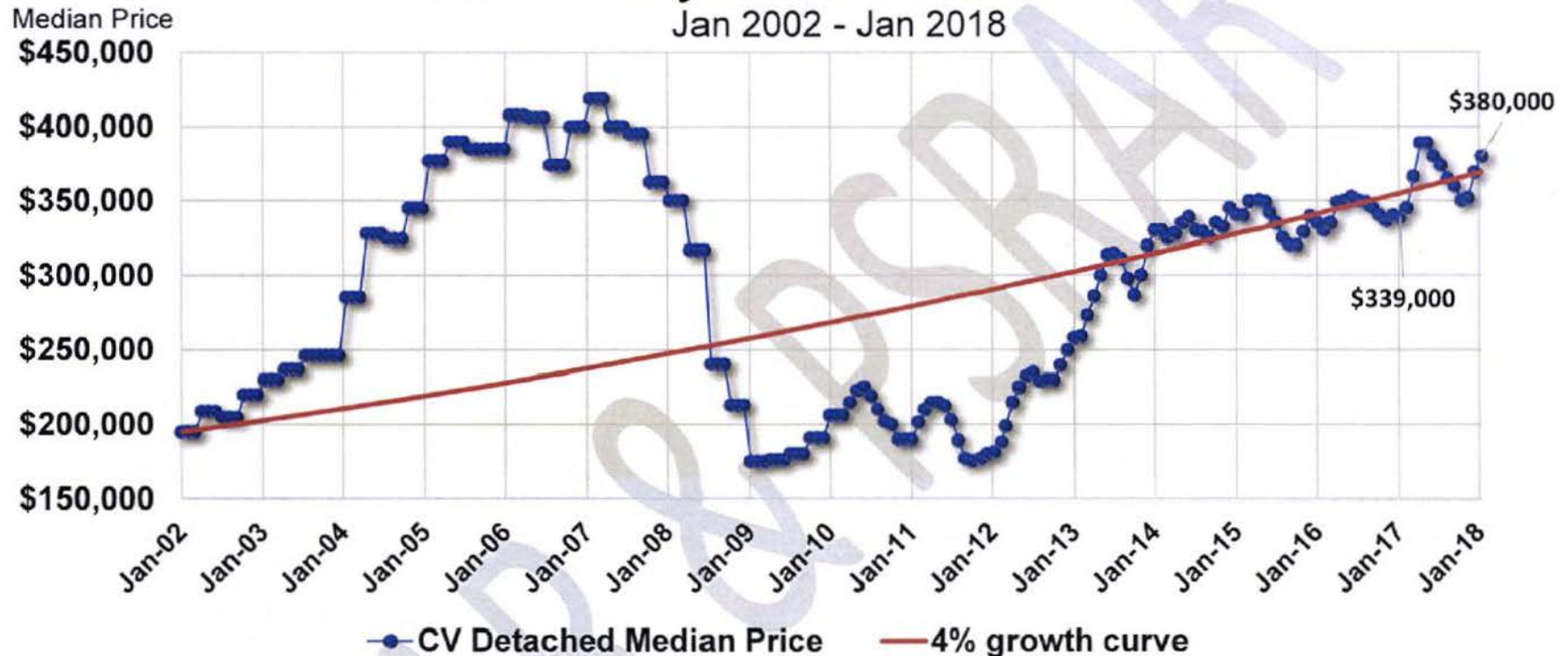
Sincerely,

Jim Franklin

Government Affairs Director

Coachella Valley Median Detached Home Price

Jan 2002 - Jan 2018



Summary

The median Valley price for detached homes in January was \$380,000 up 12% over January of 2017. This represents a strong start for the New Year. The median price of Valley attached homes in January was \$255,000, which is 8.6% above January of last year. We think this is a positive sign for the attached market price wise, which has been lagging the detached market by trending sideways for the last four years. Year over year changes in detached median home prices of the nine cities remains remarkably strong. Only La Quinta has a lower median price than a year ago. The other eight cities are all higher. Coachella is higher by 3.3% and Desert Hot Springs continues to lead in month over month price changes, being up 21.6% over a year ago. The average of twelve month sales takes out all seasonality and allows comparing year over year sales at any month. January shows an increase of 14% in attached sales compared to 2016, a 12% increase in detached sales and a 12.7% increase in total sales over a year ago. Inventory rose 330 units in the month of January for a reading of 4,083 units listed on February 1st. As the graph clearly shows, for the last five years every January has shown an increase in inventory, some larger than others.



The Desert Housing Report

January 2018



Detached Homes

	Jan-18	Year Ago	12 Month Change	2011 Low	Gain off 2011 Low	2006 High	% from High
Desert Hot Springs	\$225,000	\$185,000	21.6%	\$85,000	164.7%	\$295,000	-23.7%
Palm Desert	\$409,000	\$360,000	13.6%	\$287,000	42.5%	\$543,000	-24.7%
Palm Springs	\$635,000	\$559,000	13.6%	\$335,000	89.6%	\$600,000	5.8%
Indio	\$310,000	\$285,000	8.8%	\$158,500	95.6%	\$380,500	-18.5%
Cathedral City	\$314,000	\$289,000	8.7%	\$139,000	125.9%	\$395,000	-20.5%
Indian Wells	\$832,500	\$796,250	4.6%	\$540,000	54.2%	\$1,205,000	-30.9%
Rancho Mirage	\$642,500	\$620,000	3.6%	\$423,000	51.9%	\$950,000	-32.4%
City of Coachella	\$253,000	\$245,000	3.3%	\$121,950	107.5%	\$335,000	-24.5%
La Quinta	\$405,000	\$473,000	-14.4%	\$245,000	65.3%	\$682,020	-40.6%

Attached Homes

	Jan-18	Year Ago	12 Month Change	2011 Low	Gain off 2011 Low	2006 High	% from High
Rancho Mirage	\$321,500	\$265,000	21.3%	\$260,000	23.7%	\$510,000	-37.0%
Indio	\$169,000	\$147,500	14.6%	\$75,000	125.3%	\$279,000	-39.4%
La Quinta	\$327,489	\$305,000	7.4%	\$265,000	23.6%	\$532,500	-38.5%
Palm Desert	\$267,500	\$255,000	4.9%	\$175,000	52.9%	\$410,000	-34.8%
Palm Springs	\$225,000	\$218,500	3.0%	\$150,000	50.0%	\$350,000	-35.7%
Cathedral City	\$153,000	\$152,500	0.3%	\$107,500	42.3%	\$270,500	-43.4%
Indian Wells	\$380,000	\$428,500	-11.3%	\$321,500	18.2%	\$557,500	-31.8%
Desert Hot Springs	\$70,000	\$95,000	-26.3%	\$86,000	-18.6%	\$303,000	-76.9%
City of Coachella	N/A	N/A	N/A	N/A	N/A	N/A	N/A

12 Month Change in City Median Prices

Year over year changes in detached median home prices of the nine major cities remain remarkably strong. Only La Quinta has a lower median price than a year ago. The other eight cities are all higher. Coachella is higher by 3.3% and Desert Hot Springs continues to lead in month over month price changes, being up 21.6%. The attached market continues to show marginal price increases. The two largest condo cities – Palm Desert and Palm Springs – show increases of 4.9% and 3.0% respectively.