



THE CASE FOR REGULATING AND COLLECTING TOT FROM RESIDENTIAL VACATION RENTALS IN NAPA COUNTY

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2010

**DESTINATION OF NAPA VALLEY
WILL BE RECOGNIZED AS A
THRIVING AND SUSTAINABLE
COMMUNITY WITHIN AN
AGRICULTURAL TREASURE.”**

***NAPA COUNTY VISION
STATEMENT***

“Napa County recognizes that protecting the economic vitality of agriculture is critical to the county’s future and that tourism and supporting industries that are compatible with agriculture also contribute to its vitality.”

NAPA COUNTY GENERAL PLAN

THE NAPA VALLEY VACATION RENTAL ALLIANCE

The Napa Valley Residential Vacation Rental Alliance [NVVRA], in response to a request of the Napa County Board of Supervisors, has been working collaboratively with stakeholders and the County to analyze the impact that existing residential vacation rentals (VRs) currently have on our local tourist/agriculture economy. We commend the Supervisors for recognizing that now is the time to look at this issue. Based on a detailed review of existing conditions, NVVRA believes there is sufficient evidence to persuade the Board of Supervisors to:

- *Recognize that VRs are a thriving industry that contributes an estimated \$40+ million annually to our local economy.*
- *Recognize that VRs support the agricultural and economic goals of the County as expressed in the General Plan.*
- *Establish a residential vacation rental permit process for regulating VRs.*
- *Start collecting Transient Occupancy tax on these VRs, as the County does on hotels and a B&BS and as Napa City does on all accommodations including VRs.*

WHAT RESIDENTIAL VACATION RENTALS ARE AND ARE NOT

- A VR is a privately owned, fully furnished existing, legal dwelling. There is no increase in the intensity or type of use and the potential cumulative impact of the residence has already been considered for planning purposes. Average occupancy rates by vacation rental guests are less than 90 days a year.
- During any given year, a VR may be occupied by the owner for a significant portion of the time, non-paying guests and family members, tenants of more than 30 days and short term residential vacation rental guests for 2-30 nights.
- Because most VRs are used by the owner for much of the year, they are not generally available or suitable for long term rentals or workforce housing.
- VRs have no signs, lights, parking lots and no offsite impacts.
- VRs are compatible with agriculture uses. No new development, infrastructure or changes to a property are required. The use is incidental and subordinate to the primary use of the land.
- VRs are not a commercial use and are no more commercial than when leased for a week than when leased for more than 30 days. The use is akin to a child care center which is considered a residential use in all areas of the county.
- VRs have less impact than other allowable commercial uses in various agricultural and residential zones including residential care facilities, dog kennels, vet facilities, farm worker housing and winery gift shops.
- Corporately owned properties, time shares, vacation clubs, destination clubs and fractional clubs **are** commercial uses and are **not** residential vacation rentals.

RECOGNIZING AND TAXING VACATION RENTALS IS CONSISTENT WITH THE COUNTY'S TOURISM GOALS

- VRs meet the needs of a distinct and growing segment of leisure travelers who seek a unique, authentic, and immersive “live like a local” Napa Valley experience.
- VRs deliver legendary guest services – VR homeowners are the ultimate Napa brand ambassadors sharing their insider knowledge, superb hospitality and passion for Napa Valley with visitors. Staying in a VR is like having a well-connected friend in the wine country.
- VRs are a specialized/alternative segment of the lodging industry and complement rather than compete with the traditional hotel/motel model. Vacation rentals have been part of the Napa tourism industry for decades.
- The incremental \$1.1 + million in TOT collected from VRs could fund some of Napa County's Tourism efforts.
- VR's should participate in the TBID tax.

RESIDENTIAL VACATION RENTALS SUPPORT THE ECONOMIC VITALITY OF THE AGRICULTURAL AND WINE INDUSTRY

- The Napa wine “brand” is about the grapes, soil and a sense of place.
- For many high spending wine enthusiasts, the opportunity to “live like a local” is the ultimate connection to the soil and sense of place - a stay in a VR instills a deep loyalty to the Napa wine brand.
- VR guests are affluent and spend a lot : they consume a lot while visiting Napa, purchase wine to send home, join wine clubs, recommend Napa wine to others and purchase Napa wine at their local restaurants and retailers back home.
- These wine enthusiasts are well traveled and will develop a brand loyalty to other destinations that offer the opportunity to “live like a local” if Napa does not.

RESIDENTIAL VACATION RENTALS REPRESENT THE MOST SIGNIFICANT GROWTH TREND IN THE TRAVEL INDUSTRY OVER THE LAST 5 YEARS

- The residential vacation rental industry is a \$24 Billion industry nationwide comprising over 1/5th of the U.S. Lodging industry and 8.1% of the total US travel market.
- Nationwide, the average rental stay is 6 days vs. 2.3 days for a hotel stay; average of 5+ guests per rental stay. This compares to an average overnight stay in a Napa hotel of 2 nights and average number of people per stay of 3.
- VR guests are extremely satisfied and likely to return – they are affluent, educated and travel frequently,
- HomeAway (VRBO parent company) will launch a multi-million dollar ad campaign promoting the benefits of a residential vacation rental based vacation during the 2010 Super Bowl.

Sources: PhoCusWright: A comprehensive analysis and forecast of the U.S. vacation rental marketplace; Napa County Visitor Profile Study & Economic impact Study.

RESIDENTIAL VACATION RENTER PREFERENCES ARE DRIVEN BY THE UNIQUE ATTRIBUTES OF VACATION RENTALS

- ✓ **Need for a kitchen** – *many food and wine enthusiasts want to cook with the local ingredients, or hire a local chef or caterer.*
- ✓ **Privacy** – *want to reconnect with friends and family or high profile individuals who need privacy and security*
- ✓ **Amenities of a private home** - *“I want to stay in a place that is as nice as or nicer than my own home.”*
- ✓ **Space and fit for a group of friends/family** – *great for family gatherings, multi-generational groups.*
- ✓ **Comfort for a longer stay** - *extended stay visitors want the comforts and space of a private home.*
- ✓ **The desire to experience a destination like a local - vacation rental stays represent the quintessential and authentic Napa experience.**

Source: PhoCusWright: A comprehensive analysis and forecast of the U.S. vacation rental marketplace

NAPA RESIDENTIAL VACATION RENTAL VISITORS SPEAK OUT

The owners of several permitted residential vacation rentals in Napa City surveyed their guests from 2008 and asked if they would have visited Napa if residential vacation rentals were not available, and asked about their spending during their visit. Over 35 responses were received.

- Overwhelmingly these visitors reported that they would ***not*** have come to Napa. Instead they would have visited another California destination where they could stay in a residential vacation rental.
- Guests cited desire for a local experience, traveling with friends and family.
- These visitors reported spending thousands of dollars a day.

THE POSITIVE IMPACT OF RESIDENTIAL VACATION RENTALS ON THE NAPA ECONOMY AND TOURISM INDUSTRY IS SIGNIFICANT AND CANNOT BE IGNORED.

Our analysis likely understates the true economic impact:

\$ 9,517,500 VR rental revenue (1)

\$22,207,500 Other direct spending food service, wine, retail sales, art, entertainment, recreation, gas, food stores (2)

\$31,725,000 Total Direct destination spending by VR visitors

\$13,324,500 Napa Tourism multiplier effect - 1.42X (3)

\$45,049,500 Total VR visitor spending impact

\$1,142,100 Lost TOT =12% Transient Occupancy Tax

Note: (1) 235 STRs X 90 rental days per unit = 21,150 total home rental nights X \$450 per night. Assumes 24.6% occupancy (many homeowners occupy their homes for a portion of the year, some do a combination of short term and 31+ day rentals. (2) average spend per person, \$175 per day, average occupancy = 6 guests, 21,150 home rental nights. (2005 Napa Visitor study reported average daily spending of \$146 per person outside of accommodations) (3) Napa County Visitor Profile Study & Napa County Economic Impact study.

NAPA TOURISM BENEFITS IN OTHER WAYS FROM RESIDENTIAL VACATION RENTALS

- Disperses visitors throughout the valley rather than concentrating visitors, reducing traffic and increasing discovery of the valley.
- Low impact Tourism – infrastructure already exists.
- Leading travel and lifestyle media have written extensively about the benefits of VR stays. The wine country vacation rental experience has been featured in media: **Travel & Leisure, Conde Nast Traveler, National Geographic, Robb Report, WSJ, NYT, Food & Wine, petergreenberg.com; Virtuoso Life, Forbes.com; 7X7; Black Ink (American Express Centurion); Luxury Travel Advisor, USA Today.**
- Allows Napa to more effectively compete with neighboring Counties that embrace VRs including Sonoma, Lake, Mendocino, Marin & Solano, and California wine destinations, especially Monterey and Santa Barbara.
- More effectively compete with other wine destinations around the world that embrace VRs: France, Italy, Spain, South America, South Africa, New Zealand and Australia.
- Attracts extended stay visitors who want to stay for 1-4+ weeks: families, international, retirees, relocation related.

HOTELS, B&BS AND RESIDENTIAL VACATION RENTALS ALL BENEFIT FROM A COMPREHENSIVE OFFERING OF LODGING ACCOMMODATIONS IN NAPA VALLEY.

- The strength of VRs is driven by consumer demand rather than supply...however the overwhelming number of leisure travelers still prefer to stay in a hotel.
- Visitors who prefer VRs for group stays are not the target segment for hotels. Napa's hotel industry has little product to offer these visitors.
- Many of these visitors dine in Napa hotel restaurants. Some of these will return and stay in these hotels when traveling alone, with their spouses or for business purposes.
- The typical residential vacation renter has visited Napa before and is hosting a group stay for friends and family. Many of these additional guests experience Napa for the first time and will return again to stay in a hotel or residential vacation rental.

THE LIVELIHOOD OF THOUSANDS OF NAPA RESIDENTS WOULD BE NEGATIVELY IMPACTED IF RESIDENTIAL VACATION RENTALS ARE NOT REGULATED...

...These businesses, entrepreneurs, homeowners and workers who are already suffering from the economic crisis:

- Small owner-operated businesses benefit from the supply and maintenance required for VRs: pool and lawn services, contractors, plumbers, electricians, laundry and dry cleaners, hardware stores, insurance services and housekeepers.
- The spending impact is broader than that of hotel guests. For example, millions are spent by vacation rental visitors at local grocers, wineries, liquor stores, farmer's markets and artisan food purveyors.
- VR homeowners make significant expenditures that benefit the local economy. They must upgrade their properties, provision and furnish these homes to a high standard, and many borrow money from local banks to finance this spending

PERCEIVED MYTHS AND REALITIES ABOUT RESIDENTIAL VACATION RENTALS

- **Vacation rentals have operated under the radar**
Regulating VRs and collecting TOT will ensure they pay their fair share and comply with Napa Valley standards and contribute needed funds.
- **Will reduce housing available to Napa workforce.**
VR homes for the most part, would not be available or affordable as workforce housing. These are fully furnished homes occupied by the owner for a significant portion of the time.
- **Will Increase noise, crowding and disruption.**
VRs disperse rather than aggregate visitors; and their occupancy rate is significantly lower than hotels.
- **Will increase strain on roads and sewers, add to pollution.**
VRs don't increase demand on infrastructure; arguably the opposite if homes are full time rentals as avg. occupancy is < 25%. VR guests live like locals in existing private homes. The impact has already been accounted for in the county planning process.

MORE MYTHS AND REALITIES ABOUT RESIDENTIAL VACATION RENTALS

- **VRs have a negative impact on agriculture**

These homes already exist and their impact has already been accounted for. The majority of VRs are second homes that are used only occasionally by the owners and rented on avg. < 25% of the year. Most VRs are not on existing vineyard parcels.

- **VRs commercialize non commercial areas**

VR visitors live like locals in already existing and permitted dwellings. There are no additional signs, public access, public parking, events or other commercial activities. All activities would be regulated and subject to local, county and state laws, or other special permits.

- **Encourages investors and speculators to buy/build VR homes**

VRs, particularly in expensive real estate markets like Napa rarely generate a profit. VR owners are motivated to offset some of their carrying costs, not to make a profit. With occupancy rates of < 25%, it is unlikely that demand can support a significant increase in VRs.

- **Creates unfair competition to B&BS, hotels and resorts.**

VR guests are a different market segment than B&BS, i.e., travelers who prefer vacation rental accommodations for all the reasons mentioned above. Allowing VRs to collect TOT will eliminate unfair competition.

OPTIONS TO ADDRESS CONCERNS AND MITIGATE POTENTIAL ADVERSE IMPACTS

- **Require residential vacation rental license or permit**
- **Require applicants to meet certain conditions designed to minimize any potential adverse impact.** Some options include:
 - ✓ Overnight occupancy limits based on # of bedrooms
 - ✓ Daytime guest/occupancy limits
 - ✓ Limits on parking spaces and cars
 - ✓ Noise curfew, limits on amplified music
 - ✓ Neighborhood notification prior to issuing license
 - ✓ Notification of 24/7 contact number for neighbors/sheriff's office
 - ✓ Applicant must follow requirements for liquid & solid waste disposal including recycling.
 - ✓ Must post guest code of conduct
 - ✓ Lighting/glare guidelines
 - ✓ Penalties & loss of license for violations.

SUMMARY

Residential vacation rentals are an important part of Napa's wine and tourism economy. Regulating and taxing vacation rentals is consistent with the goals outlined in the Napa County General Plan and is compatible with ag preserve and unique character of Napa Valley.