



CITY OF PALO ALTO OFFICE OF THE CITY CLERK

December 15, 2014

The Honorable City Council
Palo Alto, California

Colleagues Memo From Vice Mayor Kniss and Council Members Holman, Klein and Price Regarding Regulation of Short-term Rentals in Residential Neighborhoods (e.g., Airbnb and Related Businesses)

Requested Action: Direct staff to conduct a study session with Council no later than March 31, 2015, on the various questions posed by businesses that facilitate short-term rentals of rooms, apartments or houses in residential neighborhoods (e.g., Airbnb, VRBO, etc.), what actions the City has taken, and what actions, if any, the City should take.

Discussion: “Sharing economy” websites such as Airbnb, VRBO, and others provide applications that allow owners of residential property to rent some or a portion of their properties to travelers seeking such accommodations. Airbnb, for example, is only four years old but it is already a world wide business with a multi-billion dollar valuation. These businesses are also controversial.

Among the Palo Alto issues posed by these businesses are: the collection of the transient occupancy tax on rentals and whether our zoning regulations should allow such rentals in residential neighborhoods. Other cities are finding other problems with the Airbnb model such as its impact on the availability and cost of housing (San Francisco) and potential traffic and parking impacts in the neighborhoods.

Another concern raised by community members is one of safety. Without some form of registration, as a hotel would have, or some means of notification, residents have no way of knowing who is taking up residence, albeit on a short term basis, next door to them.

Palo Alto presently has about three to four hundred Airbnb listings per night, about the same as San Jose (see S.J. Mercury News of Dec. 8, 2014). San Jose, with a 10% TOT estimates that they have been losing \$150,000 per year in taxes. With our 14% TOT our calendar 2015 equivalent number is \$210,000.

San Jose, San Francisco and a few other larger cities have been negotiating agreements with Airbnb and other similar businesses on taxation and other matters. Our situation may be different than these larger cities in some respects, but we believe it's time for us to review what has been done and consider what additional steps Palo Alto should take.

We have provided an advance copy of this memo to the Manager and Attorney per our protocols.

Resource Impact

Existing staff (Planning, ASD and the City Attorney's Office) will collaborate on preparation of background material to support an initial study session. Follow up tasks, such as community outreach and preparation of potential zoning amendments, broad enforcement efforts or initiation of legal action, may require substantial additional staff resources in Planning, Code Enforcement, Communications and Legal. Reprioritization of other work and/or supplemental outside resources may be required. These are factors that will need to be considered, subsequent to the study session, if Council decides to make changes in our ordinances and practice.

Department Head: Beth Minor, Acting City Clerk

