

Recap: An Economic Analysis of Non-Coastal Residential Short-term Rentals (STRs) for Measure M in PG

Proponents of Measure M believe in the Pacific Grove (PG) tradition that residential neighborhoods are for neighbors. The City Charter states that “Pacific Grove is primarily a city of homes and that business and industry shall be compatible with its residential character.

- The PG City Council without voter approval broke with this tradition and allowed the hotel industry to creep into our neighborhoods in the form of STRs for economic benefit through transient occupancy tax (TOT). Measure M would reverse this for non-coastal residential zones.
- STRs garner as much as 50% or more rent than long-term rental (LT)s, reduce affordable housing units, significantly raise home prices and invite out-of-town investors .
- Recent academic research found: “STRs “reduce the supply of long-term rental units and increase the price for residents looking for long-term housing.” Further, “home prices rise with rents” and STRs “enable homeowners to generate income from their property, making their homes even more valuable.”
- Residential STRs have cannibalized the PG hotel industry adding approximately 60-75% more available rooms based on licensed STRs at the end of FY18, assuming 2.5 to 3.0 bedrooms each.
- Commercial hotel occupancy in PG has been flat at less than 65% while Monterey hotels, where STRs are NOT allowed, have been at 74%.
- PG hotels have also not been able to raise rates as evidenced by the flat TOTs contributed.
- The City Council now wants to raise more TOTs from the hotel & STR industry with Measure U, increasing the TOT rate from 10% to 12%.
- Is it fair to the hotel industry to raise their taxes by 20% after also imposing STRs on them?
- The Council had the Matrix Consulting firm look at the financial impact of Measures M & U.
- If approved together, Measure M would result in an estimated loss of \$ 1,096,470 in TOTs & Measure U would result in an estimated increase of \$1,023,574 in TOTs, a NET loss of only \$72,896.
- Not considered by the Council was the fact that removing the non-coastal residential STR rooms from competition with the hotels would allow PG hotels to increase occupancy and pay more in TOTs, an increase from 65% to Monterey’s 74% occupancy rate could generate \$500,000 more in TOTs on top of the \$910,651 estimated to be generated under Measure U by hotels.
- Measure M does NOT affect commercial STRs which can grow and benefit from less competition and can contribute more in TOTs as well.
- The hotel industry would also be more attractive to new development, yet another source of TOTs.
- STRs have apparently NOT contributed much to the local economy, as some claim, as sales taxes have been flat for years as STRs have been on the rise.
 - STRs come with kitchens, so renters can cook at home, not eat in restaurants.
 - STR customers are probably more comfortable booking on line, so they probably would buy on line more even if they found something interesting at a local PG store.
 - 82 % of STRs owners don’t live in PG, so much their income goes elsewhere.
- PG and the hotel industry can clearly gain economically by approving both Measures M and U.
- STR owners can still enjoy profits and free up more affordable housing by renting long-term.
- Passing both Measures M & U plus the additional upside in TOTs from a healthier hotel industry adds to PG’s economic wellbeing.
- Measure M restores the zoning rules that once protected our neighborhoods and returns hotels back to commercial zones as the City Charter intended.