OFFICE OF THE CONTROLLER

CITY AND COUNTY OF SAN FRANCISCO

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MEMORANDUM

TO: Honorable Mayor London Breed
The Honorable Board of Supervisors

FROM: Ted Egan, Chief Economist, Office of Economic Analysis

DATE: April 22, 2022

SUBJECT: **Scale and Potential Impact of Intermediate-Length Housing in San Francisco**

Introduction

The City defines intermediate-length occupancy units ("ILOs") as residential units that are leased for periods greater than 30 days and less than one year. As defined, the length of an ILO tenancy falls between that of a short-term rental ("STR"), which is 30 days or fewer, and a standard residential rental, which is one year or longer.

In 2020, with Ordinance 78-20, the City began to define and regulate ILOs. Under the terms of the ordinance, managers of most permissible ILO units are required to obtain a building permit from the Department of Building Inspection. If the building containing the ILO has more than 10 units, a Conditional Use Authorization from the Planning Commission is also required.

No more than 1,000 ILOs may be permitted. Additionally, if a Conditional Use is required, it must be denied if it would result in more than 333 of the permitted ILOs being located outside of the downtown core (C-3 zoning districts), or within a set of Census tracts representing a "sensitive community", as defined by a research group at UC Berkeley.

Student housing, certain non-profit housing, and residential hotels (SROs) are not subject to these permitting requirements, or these specific unit limits. On the other hand, other types of units, including those subject to rent control, located in a mixed-use zoning district, or in a building with three or fewer dwelling units, are prohibited from being used as an ILO.

As of March 10, 2022, according to the Planning Department, 33 ILO units had received a required CU, 4 had received a required building permit, and 1 had completed all permitting requirements. ILO unit managers have until June 30, 2022 to submit their required approval applications.

The Ordinance also requires the Controller's Office to report on the extent and potential impact of ILO units on the city's housing market. This report fulfills that code requirement. It covers the following areas:

- ILO Market Participants
- Number of Unique Units by Platform
- Importance of the ILO Market to Platforms
- Legal Arrangements and Business Models
- Distribution of ILO Units by Age and Property Type
- Location of ILO Units
- Potential Impacts of ILO Units

This report builds on data gathered with web-scraping software tools to extract market information from websites that advertise ILOs in San Francisco. The Controller's Office contracted with the Blue Sky Consulting Group to conduct this research. The report itself was drafted by Controller staff, and the Controller's Office is responsible for any errors or omissions that it may contain.

ILO Market Participants

Using media reports and earlier research, including a 2020 report by the Budget and Legislative Analyst of the Board of Supervisors[1], the Blue Sky project team identified 22 sources for ILO rentals in San Francisco. These sources fall into three categories:

1. Platforms – who directly link managers of ILO units to potential customers.
2. Aggregators – who generate search results from multiple platforms
3. Brokers – who secure clients for a specific set of ILO units, on behalf of their managers.

These sources are listed below in Table 1.

[1] "Intermediate length occupancy housing in San Francisco", February 24, 2020.

Table 1: ILO Market Participants

Platforms	
	AirBnB
	VRBO
	2nd Address
	Corporate Housing By Owner
	International Executive Rentals
	SF Corporate Rentals
	Zeus Living
	NestApart
	Roomster
	Housestay
	Avenue West
	Anyplace
	Blueground
	Furnished Quarters
	Bungalow
	Churchill Living
Aggregators	
	Nestpick
	Corporate Housing
Brokers	
	Express Corporate Housing
	Key Housing
	National Corporate Housing
	Suite America
	Synergy Global Housing

Generally, platforms are the best source for information on the state of the ILO market. In order to use platforms, managers need to publicly disclose information about the features, location, and asking rent of the unit. Aggregators re-publish information found on one or more platforms, without a direct relationship to an ILO unit or manager. Thus aggregators do not add new information to what can be learned from examining platforms. Brokers generally work on behalf of ILO unit mangers to find clients, although some work on behalf of large corporate clients to find ILO units for their employees who are relocating to the city. As a rule, they do not publicize information about specific units, their transactions takes place offline, and their websites do not contain useful market information.

Number of Unique Units by Platform

The project team made an estimate of the number of ILO units currently listed for rent for each platform, using web-scraping software tools. These tools can quickly search for and retrieve ILO unit information from platform websites.

Using these tools, during January and February 2022, the project team ran four searches for 15 of the platforms listed in Table 1[2]. The four searches consisted of two 60-day searches with different start and end dates, and two 90-day searches with different start and end dates. These searches were restricted to entire units, on those platforms that also permit searching for shared units and shared rooms within units. Because of existing reservations, among other reasons, the number of available ILO units were generally different across the four searches. An estimate of the total number of units available on each platform was made by averaging the results of the four searches.

A complication with using publicly accessible data on platform websites is that ILO managers often list units on multiple platforms. This makes it difficult to avoid double-counting units, and thus over-estimating the total number of ILO units.

The project team addressed this issue by taking a sample of search results from each platform, and attempt to find matching units on Airbnb, the largest platform. The matching was done manually, by comparing images in the listings on each platform.

Table 2 below shows the estimated number of unique units, which are not also found on Airbnb, for each of the platforms. Some have few, or no units shown – this is because most or all of the units found on those platforms were also found on Airbnb. It should be pointed out that this method somewhat overstates the importance of Airbnb. Since Airbnb was used as the benchmark, any duplicate unit was counted as an Airbnb unit, and not as a unit on another platform. However, this method is still valuable as a way of estimating the total number of unique units across all platforms.

In total, the project team estimated 3,074 unique units across the sixteeen platforms identified.

[2] Unit counts for the platform AnyPlace were determined separately.

Table 2: Number of Unique Units by Platform

Platforms	Estimated Full-Unit, > 30 day Listings
AirBnB	2,155
VRBO	355
Blueground	142
Corporate Housing By Owner	132
International Executive Rentals	60
2nd Address	54
NestApart	46
Housestay	34
SF Corporate Rentals	31
Roomster	22
AnyPlace	20
Avenue West	14
Furnished Quarters	5
Bungalow	4
Churchill Living	1
Zeus Living	0
Total	**3,074**

Importance of the ILO Market to Platforms

Many ILO platforms exclusively focus on, and brand themselves for, the ILO market. They do not offer units for a lease period of less than 30 days – which is generally the time period that tourists seek. According to the BLA's report, relocations to the city are the leading motivation for customers seeking a lease of this length. An intermediate-length stay gives these customers more time for a thorough search for permanent housing. Short-term assignments by employees who permanently live elsewhere is another important source of ILO demand.

The largest platforms by unit count, Airbnb and VRBO, do not exclusively focus on longer-term stays and are more widely known as being alternatives to hotels and resorts for short-term tourists. Nevertheless, in San Francisco at least, both Airbnb and VRBO have become heavily reliant on the ILO market. Using the listing information obtained with the web-scraping tools, the project team could calculate the percentage that required a stay of more than 30 days, from the number that were available for more than 30 days. This represents the percentage of cases in which the unit manager explicitly focused on the ILO market. In the case of Airbnb, 74% of the listings available for 30 days required a stay of that length. For VRBO, the percentage was 76%. For each of the other platforms, 100% of the available units required a stay of at least 30 days.

Since 2014, San Francisco has regulated short-term rentals by creating registration and annual reporting requirements, requiring the units to pay the hotel tax, and limiting the number of days a unit may be rented in a year. ILO units, on the other hand, are not subject to hotel tax, which is limited to transient stays of 30 days or less. Possibly for that reason, rental managers, at least on some platforms, currently focus more on the ILO market. Alternatively, it may be that intermediate-length occupancy has become a more popular lifestyle since the start of the pandemic, given the decline of in-office work and the diminishing need to live close to an office. Combined with a serious decline in tourism in San Francisco, unit managers may be shifting from short-term to intermediate-term renting.

The overall importance of the ILO market to the platform's business in San Francisco is a slightly different question, and one that the project team was able to address for Airbnb, the platform with the largest number of ILO units in the city. Table 3 shows the number of full-unit and room-in-unit rentals, broken out by whether the listing had a 30-day minimum (indicating an ILO rental), a 30-day maximum (indicating a short-term rental), or no limit. Table 3 indicates that 50% of all Airbnb listings in San Francisco have a 30-day minimum stay requirement.

Table 3: Distribution of Airbnb Listings in San Francisco, By Type and Length-of-Stay Requirement

	Full Unit Listings	Room in Unit Listings	Total
30 Day Minimum	1,590	480	2,070
30 Day Maximum	868	362	1,230
Neither Restriction	565	238	803
Total	3,023	1,080	4,103
% with 30 Day Minimum	53%	44%	50%

Legal Arrangements and Business Models

According to the project team's research, market participants on the supply side differ in their business model, and in their legal relationships with ILO managers and their units. ILO aggregators, like internet aggregators in other industries, generally earn a referral fee from the platforms that ultimately complete the transaction. Brokers are commonly paid a commission by the ILO unit manager or a finders fee by renters.

Platforms have developed two main business models, one of which is exemplified by Airbnb and VRBO, and the other by the newer market participants, such as Zeus Living, and Blueground. The more-established platforms are essentially intermediaries. They broker the transaction online, and earn revenues from fees, either annually or when a transaction is made.

The latter platforms more actively participate in the city's housing market, by leasing units from owners on a long-term basis, and then sub-letting them to companies and individuals for stays of more than 30 days. Thus, they have a long-term tenant relationship with the property owner, and a master tenant relationship with the resident or the company that provides the stay for the resident. In some cases, the platform may actually purchase units and become landlord to intermediate-length tenants, which is a more capital-intensive version of the same business model. The potential value of this business model is that it gives the platform greater control over the process. The platform handles move-in and move-out, is responsible for cleaning and maintenance, and can ensure the overall quality of the unit. However, when a platform acquires – either through lease or purchase – a large share of the units in a building, it can change the character of the property and create unwanted disruption for permanent residents.

These different business models have implications for the potential of different industry segments to grow, if and when demand and supply factors create the potential for growth in the ILO market. The intermediary business model appears to have greater potential to rapidly scale up and down with the growth of the market. This is partly the reason why companies like Airbnb have been able to grow so rapidly: listing a unit for short-term use, searching for place to stay, and completing a transaction are much faster and easier than they were in the past.

Table 4: Legal Relationships and Business Models of ILO Unit Platforms

Platform	Legal Arrangement	Financial Arrangement
AirBnB	Intermediary / Manager	Fee-based (per rental)
VRBO	Intermediary / Manager	Fee-based (per rental)
2nd Address	Intermediary / Manager	Fee-based (per rental)
Corporate Housing By Owner	Intermediary / Manager	Fee-based (annual)
International Executive Rentals	Owner / Landlord	Direct rental income
SF Corporate Rentals	Intermediary / Manager	Fee-based (per rental)
Zeus Living	Master Tenant	Sublease revenue-share

NestApart	Intermediary / Manager	Fee-based (per rental)
Roomster	Intermediary / Manager	Fee-based (per rental)
Housestay	Intermediary / Manager	Fee-based (per rental)
Anyplace	Intermediary / Manager	Fee-based (per rental)
Avenue West	Intermediary / Manager	Fee-based (per rental)
Blueground	Master Tenant	Sublease revenue-share
Furnished Quarters	Owner / Landlord / Master Tenant	Direct rental income
Bungalow	Intermediary / Manager	Fee-based (per rental)
Churchill Living	Owner / Landlord / Master Tenant	Direct rental income

Distribution of ILO Units by Age and Property Type

To understand the types of properties which are used for intermediate-length rentals, the project team examined a sample of 180 units available on the Zeus Living, Blueground, and NestApart platforms. These platforms were selected because they provide addresses in the listings; other platforms only provide detailed locational information once a unit is rented. The project team was then able to cross-reference the 180 addresses to publicly available information about the number of units in each property, and the year the building was constructed. This information was used to create Table 5, which classifies the units by whether they were constructed prior to 1979, and whether they are an rental apartment unit, or a condo or duplex unit.

Table 5: Distribution of a Sample of ILO Units by Age and Property Type

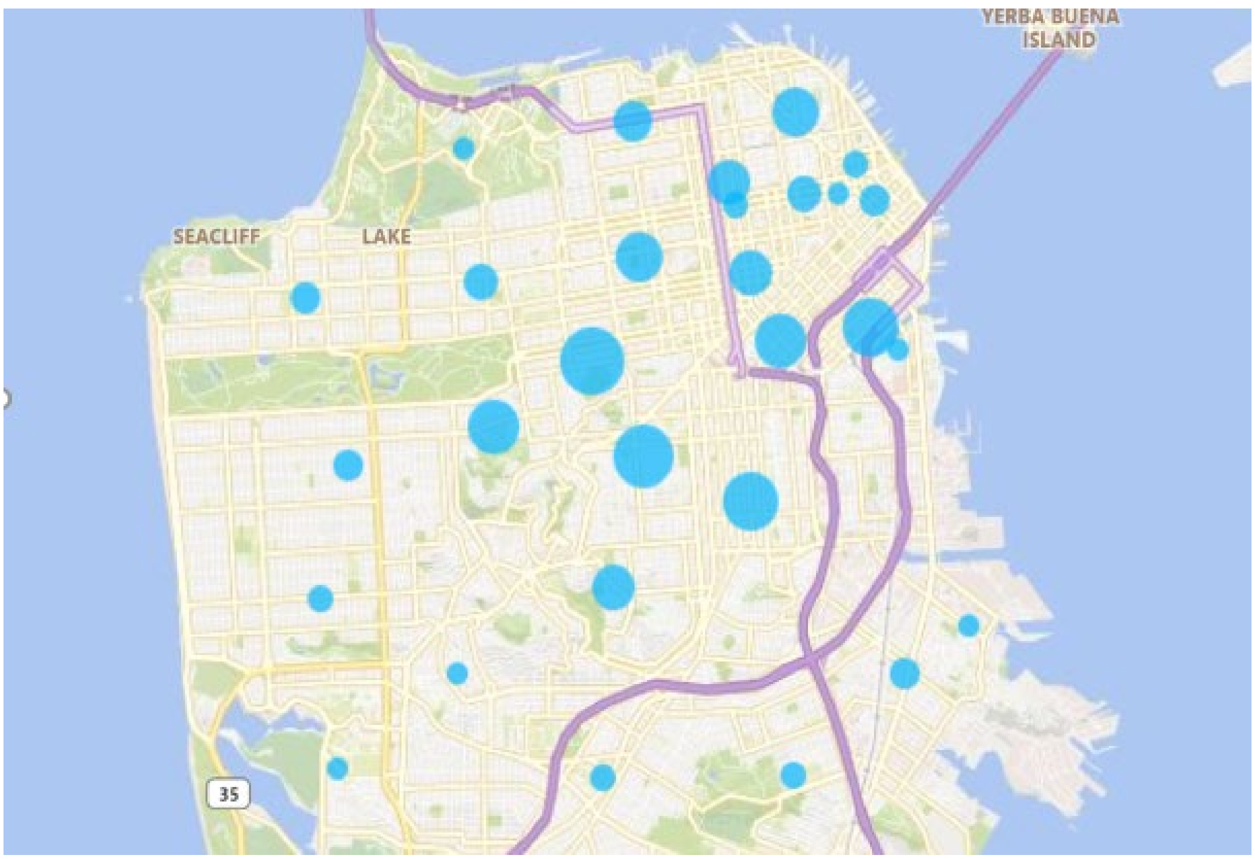
Constructed prior to 1979	Count	Share of Sample
Single unit or Duplex	18	11%
Apartment	64	38%
Sub-total	82	49%
Constructed 1979 or later	Count	Share of Sample
Single unit or Duplex	24	14%
Apartment	63	37%
Sub-total	87	51%
Grand total	169	100%

These classifications are significant because apartments built prior to 1979 are generally subject to the City's rent control provisions, which limit the annual rent increases of occupied units. 38% of units in the sample were found to be apartments in buildings constructed in 1979 or before. As stated earlier, under Ordinance 78-20, units that are subject to rent control may not be used for ILO purposes.

Location of ILO Units

The project team was also able to obtain the zip code of Airbnb listings, using its web scraping scripts. As noted earlier, Ordinance 78-20 establishes a limit of 1,000 permitted ILO units in the city, with a maximum of 333 units outside of the downtown C-3 zoning districts or in sensitive communities. As Figure 1 shows, however, a majority of Airbnb's listings are in neighborhoods outside of downtown, such as Haight-Ashbury, the Castro, the Mission, Mission Bay, and North Beach.

Figure 1: Count of Airbnb Listings With At Least a 30 Day Minimum Stay Requirement



Potential Impacts of ILO Units

Understanding the impacts of ILO units on the city's housing market and economy requires a consideration of their costs and benefits. Our 2015 report on the economic impact of modifying the regulation of short-term rentals in the city[3] analyzed the economic costs and benefits associated with that activity. The primary benefits were identified as the expansion of visitor spending in the city, and the rental income received by STR hosts. The primary cost involved the potential removal of a dwelling unit from the residential market. The report found that when short-term renting results in a housing unit being removed from the residential market, the benefits of higher visitor spending and host income are outweighed by the economic harms of reducing housing supply (higher housing costs), and the net economic impact of on the city's economy is negative.

The situation with ILOs is somewhat similar, because ILOs also stimulate new visitor spending and higher rental income, and very likely involve the withdrawal of units from the residential market[4].

If the economic benefits of ILOs were limited to the local spending and rental income from the temporary resident, it is likely that ILOs would also, like STRs, represent a net negative for the city's economy. However, because temporary housing facilitates migration, employee attraction, and project work, it is possible that the economic benefit of an ILO unit is greater than the benefit of a short-term rental that caters solely to tourists.

To take a hypothetical example, if an ILO unit was unavailable, and that deterred a potential migrant with a job opportunity from completing a move to San Francisco, that foregone employment growth would likely represent a net negative for the city's economy, notwithstanding the gain of an additional housing unit for the residential market. This is because the multiplier effects associated with a full-time resident employee, particularly a high-wage employee, is greater than the multiplier effects of a tourist, and would most likely outweigh the benefit of gaining one housing unit for the residential market.

Alternatively, potential migrants or short-term project employees, if unable to temporarily stay in an ILO unit for an extended period of time, might simply stay in a hotel or short-term rental instead, and complete their work more quickly. In this situation, the temporary worker would take the place of a tourist in a hotel or an STR, and there would be no effect on the residential housing market. In this case, the net economic effect would probably be

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[3] Office of Economic Analysis, "Amending the Regulation of Short-Term Residential Rentals: Economic Impact Report", May 18th, 2015.

[4] Unlike with STRs, it is highly likely that a full-unit ILO rental of more than 30 days can only take place if the previous occupant has vacated the unit. The gain of a unit for ILO use thus necessarily means the loss of a unit from the residential market.

positive, because a relocating employee, or temporary worker, likely stimulates more economic activity than a tourist.

Without better information on the particular value of ILO lodging in relocation and remote work, it is difficult to make an informed assessment. The research presented in this report is the only data we have on the extent of ILO listing activity in San Francisco. Unfortunately, this data is only available for a single point in time, early 2022, which is both an unusual and a precarious time for the city's housing and labor markets.

Apartment rents in the city are still down 15% from their pre-pandemic peak, despite growing rents across most of the rest of the country. While the downtown office industries that led the city's economic growth during the 2010s (particulary the tech industry) now employ more people than at any time in the past, an increasing share of these jobs offer remote work, limiting the need for new hires to physically relocate to the city.

The San Francisco area trails most other large metropolitan areas in post-pandemic return-to-office measures[5], and published survey research indicates that office workers in San Francisco expect to spend more time working at home in the future than their counterparts in any other area in the U.S[6]. Office vacancy rates in San Francisco were 22% by the end of the 1st quarter of 2022, among the highest of any U.S. market. For all of these reasons, it is likely that the type of business travel that drove ILO demand before the pandemic has declined as well.

What limited data exists about migration and job flows during the pandemic suggests that the San Francisco area saw a pronounced drop, on the order of 25-30%, in the number of in-migrants working in the types of office jobs that most commonly use corporate relocation services.

In this context, the number of ILO listings identified in this research seems surprisingly high, although we do not know if the number is more than were available before the pandemic. It may be the case that the number of ILO listings is being driven more by supply-side than demand-side factors. While web-scraping can reveal how many units are being advertised, they cannot reveal how many are actually being rented. Property managers may find the ILO market more attractive than relying on a reduced number of tourists seeking short-term lodging, or facing depressed rents in the residential market. This may particularly be true for managers of rent-controlled units, notwithstanding the fact that rent-controlled units may not be used for ILO purposes under Ordinance 78-20.

Even if the number of relocations is reduced in the current environment, this does not mean that we can be confident that ILOs are less important to the economy. There is

[5] Office of Economic Analysis, "Status of the Re-Opening of the San Francisco Economy: March 2022", March 31, 2022.
[6] Nick Bloom, "What is the Future and Impact of WFH?", March 2022.

reason to believe that they could be more important now, in a time in which both employers and employees are open to the idea of office work being done remotely. If San Francisco were to discourage relocations by excessively limiting ILO availability, it is now easier than it used to be to simply avoid relocation entirely, along with the expense of the city's housing cost and office rents.

This trend, if it materializes, would harm the city's economy. Permanently-reduced demand for offices and housing will eventually result in reduced earnings for San Francisco residents and businesses, and reduced tax revenues for the City. The city's economy would benefit if, after the pandemic, businesses and their potential hires and collaborators would renew their appreciation of the value of living and working in the city.

ILOs may play a fairly small role in someone's decision to relocate to San Francisco. As we have said, it is difficult to assess how vital ILOs actually are to the relocation process, and whether viable and permitted alternatives exist. It is also possible that there are many more ILO units on the market than are needed at present, because of the depressed state of tourism and the residential housing market. Given the precariousness of the office market, however, the City might wish to proceed carefully before overly constraining businesses from returning to the pre-pandemic, in-person pattern of office work.