



Rental Property Options

San Juan County currently has several mechanisms for legally renting a home in the County.

The information below is meant for informational purposes only and does not incorporate all the rules and regulations. It will however provide those who want to learn more about residential renting of homes in the County an overview of at least some of the things they need to consider, and do, prior to listing property for rent.

Long Term Rentals. No permits are required. A long-term rental is typically a term lease and can also be month-to-month. Like short term rentals, professional property management is available and the rates are normally equal to one month's rent paid at the commencement of the occupancy. If rent, collection and property monitoring is included, then the fee is generally 10% per month.

Vacation Rentals. A vacation rental permit from the County is required. Vacation rentals are allowed in all Land Use Districts except Resource, Conservancy and Natural. Further, Town prohibits them unless the property is commercial. The permit application can be processed by a property owner or by a professional who specializes in land use permits. The price range for a Provisional Use Permit, including the consultant is \$2,300-\$3,500. As long as the property lawfully qualifies, the County should approve the permit, even if a neighbor has an objection.

If the property is improved with a main home and a guest house, only one of the dwellings may be designated as a vacation rental. If either the main or guest house is a vacation rental, the other dwelling must be owner occupied or rented to a long-term tenant. A guest house may be internal, attached or detached.

Under a vacation rental permit, the tenant rents the use of the entire house -a house is defined as one that includes at least a kitchen, bath and bedroom(s).

Details of all County requirements can be reviewed online under Vacation (short-term) Rentals of Residences or Accessory Dwelling Units (guest houses) in the San Juan County Code.

<https://www.codepublishing.com/WA/SanJuanCounty/#!/SanJuanCounty18/SanJuanCounty1840.html#18.40.275>

AIR B&B. Surprise, this requires a B&B (Bed & Breakfast) permit from the County, and they are not allowed in all land use designations. There are two options; B&B Residence which is 1-2 bedrooms or a B&B Inn which is 3-5 bedrooms. The permit allows the rental of a bedroom (which may include a bathroom) on a nightly basis, and the tenant shares in the kitchen and other rooms.

No B&B permit is required for the renting of a bedroom for a period of at least 31 days or more.

The requirements for each type of B&B vary and are detailed in Hospitality Commercial Establishments – Bed and Breakfasts Section 18.40.250 of the San Juan County Code.

I have generally defined B&B restrictions below; however, a property owner should read the entire regulation when considering their property's qualifications. The land use designation (zoning) of the area, and the site and building configuration are determining factors in how a building may be rented. Some general statements:

B&B Residential - 1-2 bedrooms.

- Maximum occupancy limit of 6 guests.
- Must be owner-occupied single-family residence.
- Parking must be provided.
- Maximum of 3 guests if located on a private non-surfaced road and when the residence is more than 500 feet along the non-surfaced road.
- Maximum guest stay is no more than 30 consecutive days.

B&B Inn – 3-5 bedrooms.

- A standard of three people per room is used to determine maximum capacity.
- Must be proprietor-owner occupied single-family residence.
- Parking must be provided.
- If the property is served by non-paved County road for more than 500 feet, the permit will be limited to three guest rooms.
- Not allowed if access is by means of a shared private non-surfaced access road.
- Maximum guest stay is no more than 30 consecutive days.

Other Considerations

Covenants, Conditions and Restrictions (CC&Rs). As you may be aware, many plats have voted to restrict vacation rentals, as they deem them as a commercial or non-residential use. Even though the property may qualify for a vacation rental or B&B permit under the County code, the plat CC&Rs will over-rule the County's allowed use. Many plats made the decision to prohibit vacation rentals due to negative experiences. They most likely considered that some tenants were not respectful of the adjacent property owners with their music, loud voices and trespassing. Further, with delicate water and septic systems, vacation rental occupants can add pressure to these systems unless the tenant receives proper instructions.

I was unable to locate any statistical data to support that a person on vacation does more dishes, laundry or uses the bath facilities or road systems any more than a family of four living in a home. My guess is they do use the refrigerator door more to get a fresh beverage and I assume the BBQ never gets a break. I can't imagine any person on vacation creates more recycle than my family, but it is possible.

Prior to making a decision about which type of rental is suitable and what is best for the property, an owner should consider the expenses associated with each type of rental, proposed income, and the

potential impacts. One expense commonly overlooked is B&O (Business & Occupation) tax on the income.

Short Term Property Management. Professional property management fees vary slightly and there are only a handful of property managers on the island. The fees may sound high at 30-35%, but a property owner should consider that these firms are operating your investment similar to a hotel and managing crews for repairs and cleaning. They have service providers on staff or available that respond to their requests in a timely manner. If you decide to self-manage your property, the honeymoon with vacation rentals may be over in a short period of time.

An important note: Those who manage long term rentals for **other people** are required to have a broker's license and maintain a trust account. Management of short-term rentals does not require a broker's license.

Consultants. I highly recommend that you utilize a land use consultant for the permit process. The consultant will not only guide you through the process, they will assist you with the discussions you may need to have with adjacent property owners, with County officials and help you hire service providers such as surveyors, septic inspectors, well testers, etc. They can also give you a list of suggested rules to post in your home to ensure that the tenants understand the home's functions and restrictions.

Town Water. Homes on the Town's water system that are not zoned commercial do not qualify for a vacation rental permit. The best rumor I could find on this decision was at one time the hotel, B&B and motel owners felt that single family homes with vacation permits were direct competition and asked the Town to restrict the permits; water was a good vehicle to do so. However, now that periodically during the year the hotels, motels and B&B are fully occupied, it may be something that the Town should reconsider. Again, is there evidence that a vacation rental occupant on Town water uses more water than a primary resident? I don't see the town changing this regulation any time soon.

Insurance. For the operation of a vacation rental home or B&B the property owner should have adequate insurance. Their carrier must write a commercial policy, the standard rental policy assumes month-to-month or long term, not nightly. The property owner should also consider having a liability umbrella policy in the event of a major injury to the tenant. The property manager's policy insures them, not the property owner. Commercial homeowner's insurance may be twice the price of a standard owner-occupied insurance policy.

Owner Builder. If your home was built after 1988 under the San Juan County Owner Builder program, prior to selling or renting, you must have an Owner Builder Life Safety Inspection from SJC and all deficiencies corrected. This would be important to insure that your Homeowners Insurance firm doesn't find a reason to disapprove a claim.

Local Regulations. The vacation rentals by owner (VRBO) and Air B&Bs are a young industry and not yet fully regulated in many cities. In 2018 our County Council updated our vacation rental permit guidelines and the result was a set of workable rules and regulations. As someone in the industry, I think they did a good job in updating the rules.

Impacts to Affordable Housing. Many believe that having so many vacation rental permits has an impact on the availability of affordable housing. However, one can note that the most successful vacation rentals offer many features; amenities such as views or water access and are large homes that can sleep several groups. These are typically not the type of home that would rent for a term lease for under \$1500-\$2000 per month. These homes would rent much higher and would not be in reach of some of our school teachers, retailers, construction workers, tradespeople and other middle class

service providers. There are a lot of unanswered questions about the affordable housing solution in the islands but that is an entirely different topic that needs to be dealt with.

Economic Decision. Property owners will soon realize that neither vacation rentals nor long terms rentals “pencil” on this island. Rents may be high enough to pay taxes and insurance and some maintenance, but our levels do not typically meet or exceed the debt service of a highly leveraged property such as one with an 80% loan to value mortgage.

Many property owners here assume if Seattle is a robust market then the San Juan Islands are one as well, but that is not the case. Our sale and rental markets are very different from the metropolitan areas, and yes, a vacation rental in the Seattle area will debt service much better than one located in San Juan County.

I believe that the vacation rental versus long term question will resolve itself for homes that are valued under \$500,000. When a property owner does the math and realizes that the net income is very similar for both a long-term tenant versus a vacation rental, the romance of vacation rental income will tarnish. It will be quickly replaced with a property owner’s overly burdensome, never ending, chore list of maintenance, repairs and tenant requests or monthly property management fees.

Tax Advantage. The strongest driving factor is the advantage of using your investment home for personal use when it is not occupied by a tenant. Your tax schedule E form offers a wonderful impact to your tax filing versus having only your second home write-offs. With an investment property, the majority of your expenses may be deducted from the income but only some expenses can be deducted for a second home. It is the best of all worlds; while using your home, you do some touch up paint or other chores and you may be able to write off your visit for repairs and maintenance. If your home was rented long-term, you would not be able to use it until the tenant turnover. Of course, the downside is you want to use it on July 4th which is one of the most popular and highest rental rate dates during the year.

Loans and Vacation Rentals. Lenders don’t like the commercial use that surrounds vacation rental activity in the home. They prefer owner occupied collateral or second homes loans were the home sits vacant when not being used by the owner. Very few lenders, if told, will fund a conventional conforming loan with a vacation rental as collateral. Most lenders do have a commercial lending department that is happy to loan, but at a higher interest rate and fee schedule. P.S. Not telling your lender is considered fraud.

Impacts to the Economy. Homes offered into the long-term rental pool provide local housing for islanders. Residents living and working here over the long term tend to have pride in community which results in maintenance of the home and may result in a lifelong commitment to being a San Juan citizen.

Vacation homes offer economic gain into the community and to the owner. While visiting, tenants enjoy retail therapy, restaurants, kayaking, and whale watching. Some may end up deciding that residing here is in their future.

B&O tax is generated back from the state into our local government.

Unfortunately, the vacation rental homes are mostly occupied in the summer months and this coincides with the second homeowners return and desire to hire staff or service providers to help with their property maintenance. These service providers may be the very ones seeking the elusive, affordable and long-term rental housing.

Bottomline. There are lots of pros and cons to the decision of whether to rent your investment property long or short term. If you follow the permit regulations and use a professional property manager to control the situation, the use of your investment as a vacation rental can be very beneficial. Bottomline, it is better for a home to be occupied than sit vacant for many months out of the year. Oh, and those tax write offs are a treat! Good luck with the decision process.

If you have any questions about real estate, please be sure to contact me.