



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 of 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, but 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. The permit application can be processed by a property owner or by a professional who specializes in land use permits. The range for a Provisional Use Permit, including the consultant is \$1,400-\$2,800. As long as the property qualifies lawfully, the County will approve the permit, even if a neighbor objects.

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 on line under Section 18.40.270 Vacation (short-term) Rentals of Residences or Accessory Dwelling Units (guest houses) in the San Juan County Code <http://www.codepublishing.com/WA/SanJuanCounty/html/SanJuanCounty18/SanJuanCounty1840.html#18.40.270>

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 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

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 insure that the tenants understand the home's functions and restrictions.

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 received proper instructions. Occupancy numbers may be elevated if the tenant decides to have a party just like I had last week.

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.

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? This will be a tough decision for the Town to weigh the pros and cons on.

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.

Options

Having said all the above, options may change in the future. Rumor has it that the Council is considering amending the vacation rental ordinance and the need for a moratorium has been mentioned in public meetings.

One stated reason on the need for a moratorium on the issuance of additional vacation rentals permits is to increase the pool of long term rentals available to island families in disparate need of a place to live.

The unintended consequences of a moratorium may be that property owners will illegally operate a vacation rental in their home or use the 31 day loophole to avoid non-compliance. If a property owner has a rental agreement with a tenant for 31 days or more, that is defined as long term. Whether that tenant is on vacation and is paying what would be considered "Summer Rates" and only stays for 10 days isn't an issue, they contracted for 31 days.

If the Council decides to place a moratorium on the permits, they may also need to consider enforcing non-compliance under a proactive pattern versus compliant based response. Enforcement may require a full time vacation rental police person.

How will that look? A cease and desist order is provided to the property owner who must call all of the future booked tenants and tell them that they were operating illegally? Now the County is no longer allowing them to rent their home, so sorry that your 10 year reunion with your entire family is now cancelled. Good luck with finding a new location.

This issue is not unique to San Juan County, this is a national issue due to demand created by people traveling and not overly excited about going to other countries or staying in large and expensive hotels. Other cities are considering moratoriums -although some are not as dependent upon the tourism industry as we may be.

The vacation rentals by owner (VRBO) or Air B&Bs are a newly created industry, and not yet fully regulated in most cities. We are all in the same boat and must review how these units are functioning and review the governing ordinances; similar to how cities are addressing Uber; which I assume is heading our way as well.

Lack of affordable rentals and housing in general must be addressed, but is it the best option to restrict how a property owner decides to have their property produce income? A lot of unanswered questions; and affordable housing is related, but an entirely a different topic that needs to be dealt with.

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.

I believe that the vacation rental versus long term situation will correct 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.

As in the case of real estate sales, 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.

As someone that works in the industry, I believe that before a moratorium is considered, a revision to the regulations should be implemented first. The greatest opposition is concerns over the tenant’s behavior and that is directly attributed to a lack of rules and use instructions provided by the property owners. I believe that the vacation rental permits should be renewed periodically. Complaints should be taken into consideration at that time and the permit suspended if there were ongoing violations.

In a perfect world, the County would collect evidence of business license and B&O tax payments as part of the renewal. Having the property owner evidence their septic inspection and well testing is reasonable, but a nightmare for administration to monitor and follow-up. Unfortunately, this type of administration would require another full time vacation rental police person and would no doubt increase the fee structure.

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.

The vacation rental homes are mostly occupied in the summer months and this coincides with when the second home owners return and desire to hire staff or service providers to help with their property maintenance. These service providers may be the very ones seeking rental housing.

Lots of pros and cons and last, but not least, to the SJC Council: good luck with the decision on how to restructure the vacation rental ordinance and whether to consider a moratorium. It is going to be a very difficult process.

Referrals:

Consultants in Alphabetical order for Vacation Rental or B&B Permit

Jack Cory 360-378-4900

Bob Querry 360-378-7053

Francine Shaw 360-378-6278

Property Management Firms:

San Juan Property Management

www.sanjuanpm.com

Vacation Doorways

www.vacationdoorways.com

Windermere Property Management

Vacation Rentals Only 360-378-2070

Vacation Rentals Only 800-391-8190

Long Term Rentals 360-378-3600

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