

The City of Los Angeles Proposed Vacation Rental Ordinance: Housing Effects and Fiscal Impacts

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The following analysis comes from a forthcoming study evaluating the policy implications of the proposed Vacation Rental Ordinance (VRO) - council file 25-0029-s1 - in the City of Los Angeles, and its impacts on Transient Occupancy Tax (TOT) revenue.¹ The proposed Vacation Rental Ordinance would allow a limited amount of new short-term rental (STR) supply to be licensed, taxed, and regulated - capped at 1% of the city's housing stock.

Existing TOT revenue generated by short-term rentals:

The city generates about \$34M per year in TOT from short-term rentals. In the last full year before the city's original Home Sharing Ordinance (HSO) was implemented in 2019, the City of Los Angeles raised \$61M from short-term rentals, which would be \$81M in inflation adjusted dollars today. After the implementation of the 2019 HSO, LA's TOT revenue dropped 50%, whereas STR markets in most California cities have more than doubled since.

If Los Angeles had created a capped registration system for vacation rentals alongside the HSO in 2019, and Los Angeles had followed the average STR growth pattern of other large California cities, its market would be worth roughly \$1.2B today.² Instead, it is worth about \$0.5B, **42% of its estimated counterfactual level**. This means **the city would have collected \$439M more in TOT than it did**, and would be generating over \$80M per year in STR TOT instead of \$34M.

Additional TOT revenue generated by the proposed Vacation Rental Ordinance:

If the City Council passes and implements the proposed Vacation Rental Ordinance, STR-related tax will more than double within three years, **generating roughly \$70 to \$80M annually**.³ Without the VRO, STR TOT has been around \$34M for 5 years.

LA City Tax Generated following implementation of VRO (\$M)	FY 25-26	Year 1	Year 2	Year 3
STR TOT	\$33.8	\$44.6	\$58.9	\$70.7
STR-Spending Related Sales Tax		\$2.8	\$3.7	\$4.4
Total		\$47.4	\$62.6	\$75.1

¹ Later this month Beacon Economics will release a full report detailing these findings further. This study was financially supported by Save our Services. It draws on data from AirDNA, the American Communities Survey, the Bureau of Economic Analysis, and relevant literature.

² Analysis assumes the currently proposed 1% city-wide cap on vacation rentals.

³ Estimates are based on econometric models from existing literature (Koster et al, 2021), city case studies, and trends of the California STR market, customized to the City of Los Angeles housing and tourism market.

When tourists stay in Los Angeles short-term rentals, they spend money on transportation, food and beverage, amusements, retail, and other industries.

- Every **\$1.00 in STR-related visitor spending is estimated to generate approximately \$1.48 in total economic output** in Los Angeles County through direct, indirect, and induced effects.⁴
- Every \$1M in STR-related spending supports nine full-time equivalent jobs, \$574k in labor income, and generates about \$10k in sales tax for the City of Los Angeles.

Housing impacts in the current short-term rental market:

Los Angeles' STR footprint in 2025 amounted to roughly 7,201 annualized housing-unit equivalents⁵ on an active-listing basis, or **0.45% of the city's 1.59 million housing units**.⁶

- This share is lower compared to other large urban STR markets in California such as San Diego (1.35%), Santa Monica (1.23%), or San Francisco (0.62%).
- At its peak in 2019, prior to passage of the original Home-Sharing Ordinance, LA hosted roughly 10,700 housing-unit equivalents, or 0.72% of stock.

Prohibiting short-term rentals would impose a significant fiscal cost while delivering limited benefits to overall housing availability:

- Using elasticities from Kung (2020, Regional Science and Urban Economics), **if 1% of LA housing were removed from the long-term market, the implied rent effect would be about 0.07%, or an increase of \$1.75 per month.**

Effects of the Vacation Rental Ordinance on housing:

Existing STR activity is concentrated in higher-income, lower rent-burden neighborhoods. **Approximately 37% of existing listings are in the least rent-burdened quintile, compared to just 9.7% in the most rent-burdened areas**, indicating limited overlap with the segments of the market facing the greatest affordability pressures.

In general, short-term rentals tend to cluster in established second-home markets, and we expect the same would be true with implementation of the Vacation Rental Ordinance. The conditions that make these markets popular, such as tourism and seasonal use, existed decades before the rise of the short-term rental market.

- According to the US census, **seasonal and recreational homes account for only 0.85% of Los Angeles' housing stock**, so there is ample opportunity for vacation rentals to grow without converting rentals or owner-occupied homes.⁷

⁴ Based on an Input Output model from IMPLAN and the Bureau of Economic Analysis

⁵ Σ Total active listing nights / 365

⁶ Source: California Department of Finance E-5 Population and Housing Estimates.

⁷ The US Census defines these as "units used or intended for use only in certain seasons or for weekends or other occasional use throughout the year. Seasonal units include those used for summer or winter sports or recreation, such as beach cottages and hunting cabins."