

Investing in South Orange County

A practical guide to rental property in South Orange County

South Orange County draws visitors, families and long-term renters year round, which makes it a strong place to own rental property. The rules vary from city to city, though, and the wrong assumption about permits can change your numbers completely. This guide walks you through three common ways to invest: short-term rentals, long-term rentals and ADUs (accessory dwelling units, sometimes called granny flats or casitas).

Choosing Your Strategy

	Short-term rental	Long-term rental	ADU
What it is	Furnished stays of 30 days or less, often booked on Airbnb or Vrbo	A lease of 30 days or more, usually 12 months	A second, smaller home on the same lot, rented long term
Income potential	Highest per night, but seasonal	Steady and predictable	Extra income from a property you may already own
Time and management	High: guests, cleaning, reviews, taxes	Moderate: tenant screening, repairs	Moderate, plus a construction project up front
Biggest hurdle	Permits are limited or banned in many cities	California rent and tenant protections	Build cost and permit timeline
Best fit	Coastal buyers who can secure a permit and want hands-on or managed income	Buyers who want simpler, long-term appreciation and income	Owners with the lot space to add a unit

Short-Term Rentals

A short-term rental (STR) is a furnished stay of 30 days or less. In South Orange County, each city sets its own rules, and several ban STRs entirely. Before you buy, confirm three things: the city allows STRs at that address, a permit is actually available, and the HOA allows them.

Key point

In the cities that allow STRs, permits generally belong to the owner, not the house. Don't count on a seller's existing permit transferring to you. Plan on applying yourself.

City	Short-term rental status	What to know
Dana Point	Allowed by permit, with caps	Up to 115 permits in the coastal zone and 115 outside it (with no more than 60 non-owner-occupied outside it). Owner-occupied and home-stay rentals get priority. A waitlist applies once caps fill. In the coastal zone, HOA approval is required.
San Clemente	Allowed in designated areas	Permitted in mapped STLU (Short-Term Lodging Unit) areas, mainly visitor-serving, mixed-use and some residential neighborhoods near the beach, downtown and the Pier Bowl. Most low-density single-family neighborhoods are excluded. Each area is capped at 20% of its homes. Requires a one-time zoning permit, an annual operating license and bed tax registration.
Laguna Beach	Limited to commercial and mixed-use areas	New STRs are banned in residential zones. Permits are available in certain commercial, mixed-use and downtown districts, capped at 300 citywide, plus up to 165 home-share permits where the host stays on site. Permits last three years and don't transfer with a sale.

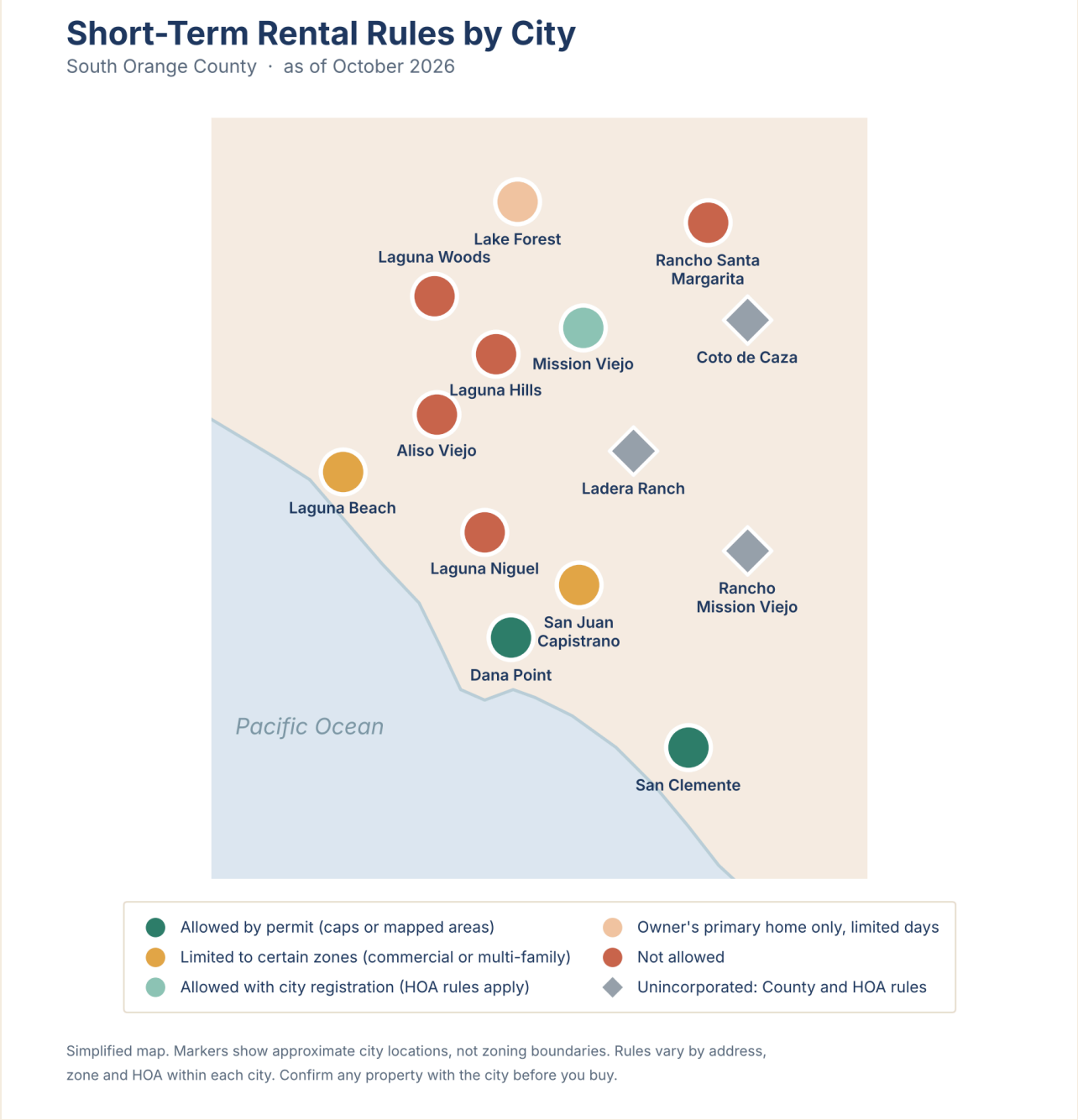
San Juan Capistrano	Multi-family zones only	Not allowed in single-family zones. Allowed only in multi-family (RM) and very high density zones, with a business license and bed tax registration.
Mission Viejo	Allowed with city registration	Requires city registration and bed tax collection. Many HOAs in the city prohibit STRs, so check the CC&Rs first.
Lake Forest	Owner's primary home only, limited	Investment STRs aren't allowed. Owners may rent their own primary home up to three times a year (90 days total), with registration and bed tax.
Laguna Niguel, Aliso Viejo, Laguna Hills, Laguna Woods, Rancho Santa Margarita	Not allowed	Rentals under 30 days are prohibited.
Unincorporated areas (Ladera Ranch, Rancho Mission Viejo, Coto de Caza, Las Flores)	County rules plus HOA rules	County of Orange rules apply instead of a city's. These master-planned communities have strict HOA rules, so check the CC&Rs before anything else.

Running an STR also means:

- Collecting and paying transient occupancy tax (TOT), a bed tax on each stay, typically around 8% to 10% depending on the city
- Following occupancy, parking, noise and trash rules, with fines for violations
- Carrying short-term rental insurance, which standard homeowners policies usually don't cover
- Notifying neighbors in some cities, and posting a local 24/7 contact

Rules change often, especially in coastal cities. Always confirm a specific address with the city's planning department before you make an offer.

Where Short-Term Rentals Are Possible



Within the cities that allow STRs, eligibility still comes down to the specific address. Use the official city maps to check a property:

- San Clemente: Map of STLU Allowed Areas (sanclemente.gov)
- Dana Point: Interactive map of permitted STRs and the current permit list (danapoint.org)
- Laguna Beach and San Juan Capistrano: confirm the property's zoning with the city's planning department

---

Thinking About the Short-Term Rental Route?

A well-run STR takes pricing, guest communication, cleaning, maintenance, reviews and tax filings, often seven days a week. A local short-term rental property manager can handle all of it and help you estimate income before you buy.

I work with a trusted South Orange County short-term rental manager.

If you're considering this route, I'm happy to introduce you so you can get a rental income estimate on a specific property. Reach out to me and I'll connect you directly.

Long-Term Rentals

A long-term rental is a lease of 30 days or more, usually 12 months. It's allowed everywhere in South Orange County, subject to HOA rules, and it's the simplest way to build income and equity over time.

California rules to know:

- **Statewide rent cap:** Under the Tenant Protection Act (AB 1482), rent increases on covered units are limited to 5% plus local inflation, never more than 10% a year.
- **Common exemptions:** Single-family homes and condos owned by individuals (not corporations or REITs) can be exempt, but only if the required exemption notice is in the lease. Homes built within the last 15 years are also exempt.
- **Just-cause rules:** Once a tenant has lived in a covered unit for a year, you generally need a legal reason to end the tenancy. Some no-fault reasons require relocation assistance equal to one month's rent.
- **Fair housing and security deposits:** California limits most security deposits to one month's rent and has strict fair housing and screening rules.

Run the numbers on:

- [ ] Realistic market rent (ask me for recent rental comps)

- [ ] Mortgage, property taxes, insurance and HOA dues
- [ ] A vacancy allowance and a repair and maintenance budget
- [ ] Property management, typically a percentage of monthly rent if you hire a manager
- [ ] Your HOA's leasing rules, such as minimum lease terms or rental caps

TIP

Lenders treat investment properties differently from a home you live in. Expect a larger down payment and a higher rate, and get pre-approved for an investment loan before you shop.

ADUs (Accessory Dwelling Units)

An ADU is a second, smaller home on the same lot: a detached backyard cottage, an addition, or a converted garage. A JADU (junior ADU) is a smaller unit of up to 500 square feet carved out of the main house. California law makes ADUs easier to build than almost any other kind of addition.

What state law generally allows:

- At least one ADU, and often a JADU too, on most single-family lots
- Detached ADUs up to 1,200 square feet, with reduced side and rear setbacks
- A decision on a complete permit application within 60 days
- No impact fees on ADUs under 750 square feet (school and utility fees can still apply)
- No owner-occupancy requirement for ADUs. JADUs still require the owner to live in either the main home or the JADU.

Renting it out

Cities can require ADU rentals to be longer than 30 days, and most do. Plan on an ADU as a long-term rental, not a short-term one.

Before you buy a home with ADU plans:

- [ ] Confirm the lot's size, slope, access and utilities can support a unit
- [ ] Check HOA rules and the city's ADU standards, especially in the coastal zone
- [ ] Get a realistic build estimate and timeline from a local ADU builder
- [ ] Compare the expected rent to your build cost and financing

Buying a home that already has an ADU? Ask for the permits and certificate of occupancy. An unpermitted unit can affect your financing, insurance and rental income.

Investor Mistakes to Avoid

- Assuming a seller's STR permit comes with the house. In most cities it doesn't. Confirm you can get your own before you buy.
- Skipping the HOA documents. Many South County HOAs ban short-term rentals or set minimum lease terms, even where the city allows them.
- Using vacation-season income for the whole year. Base your numbers on a full year, including slow months and vacancies.
- Forgetting bed tax, insurance and management fees. They can take a big share of STR revenue.
- Buying a home with an unpermitted ADU. It can limit financing, insurance and the rent you can legally collect.
- Missing the exemption notice in a lease. Without it, a single-family rental you own can fall under the state rent cap.
- Waiting to talk to a lender. Investment loans have different down payment, rate and reserve requirements.

Ready to find the right investment property?

Let's talk about your goals, budget and timeline, and which strategy fits you best.

No pressure, no obligation.

Morgan Margherita | REALTOR®

Coldwell Banker Realty

Email: Morgan@Morgansellssocal.com | Text or Call: 949 883 8264

DRE #02445729

This guide is for general educational purposes only and is not financial, legal or tax advice. Short-term rental, ADU and rental housing rules change often and vary by address, zone and HOA. Information is believed accurate as of October 2026 but is not guaranteed. Confirm current rules with the city or county, and consult a qualified attorney, tax professional or lender before you buy.