



SHORT-TERM RENTALS: LEVERAGING OPPORTUNITIES AND MITIGATING CHALLENGES

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If you're one of the few communities who doesn't already have short-term rentals (STRs), just wait...you will! This relatively recent phenomenon is shaking the foundation of the traditional lodging market, and impacting everything from housing affordability to the viability of homegrown enterprises.

For the uninitiated, short-term rentals can be broadly defined as any place designated for housing, and rented for a duration of less than a month. The reason for vagueness with the definition is that capturing all the possibilities is a continual challenge. Believe it or not, you can engage in short-term rental of moored boats, parked RVs, haunted mansions, mothballed hospitals...if it's tied down, and it can be slept in, someone is figuring out a way to market it as an STR.

Equally as difficult is navigating the potential opportunities and challenges associated with the short-term rental concept. As is true in most economic development efforts, opinions vary as widely as the impacts on individual communities.

The Opportunities

As a local leader, you're constantly working to improve the economic condition of your community. STRs represent a unique way to transition potentially underutilized assets into economically productive properties. Some benefits to STRs include:

- A Lower Bar to Entry in the Lodging Market: So many smaller communities have been chasing a decent hotel to locate in town. A solid hotel property creates lots of other economic opportunities, and can be the anchor to a great tourism strategy. That said, for many small, rural communities, a national chain hotel is well out of reach. Many of the roadside hotels hit their glory days in the '50s, and have been declining ever since. STRs, particularly unique properties, can introduce tourism into your local economic mix.
- New Tourism Dollars into Communities: With new lodging facilities come new visitors —

bringing new visitor dollars! If you're a community that benefits from sales tax, this can mean a big win for local government. Even without the benefit of sales tax dollars, local restaurants and retailers see a big influx in spending when tourists come to town.

- No-Cost Indirect Marketing: While people generically refer to STRs as "AirBnBs," there are dozens of platforms out there, showcasing properties from around the world. This means that multiple websites are showing off the best of your community, and they're doing it at no cost to the local government! While these may not have the reach of **Travel and Leisure** or **Conde Nast**, it's still a new channel, highlighting your great little town.
- Renewed Property Investment/Management: To get the best booking rates, most STR operators ensure that the property is well-kept, clean, and in top shape. Rarely, if ever, will you experience overgrown lawns, (sustained) garbage or litter issues, or the "chipped and peeling paint" infractions that sometimes come with underutilized property.

The Challenges

While the upside can be sweet, there are nearly as many challenges that communities face when working with STRs. Even in the case of great operators, there are still alterations to the economic ecosystem when a concentration of STRs move into a community. You might see:

- Quality of Life Impacts on Neighborhoods: When STRs are introduced into traditionally single-family neighborhoods, the performance of the property shifts. Transient occupants have different traffic patterns, different practices for dealing with garbage, and vacationers are on a totally different schedule than most permanent residents. Increased traffic, noise, garbage, and errant parking are the top concerns voiced by residents in neighborhoods with STRs.
- Housing Affordability/Availability Challenges: Simple market dynamics tell us that when supply goes down and demand stays the same (or increases), prices go up. Many communities are experiencing heightened sale values by purchasers who intend to use the property as a short-term rental. Additionally, housing stock that was once available to permanent residents is diminishing as STR conversions take place. The most recent housing crunch has highlighted this price escalation and decline in available stock, and is something

for communities to continue to monitor as you develop your housing strategies.

- Impacts to Resident-Driven Businesses: While, generally speaking, more people in town is better, in this case a body is not a body; and a dollar is not a dollar. Tourists and other visitors spend their dollars on certain things — meals, entertainment, and even apparel (several years ago, the #1 item purchased on vacation was shoes!). They don't typically go to the dentist, buy hardware, or see a lawyer, veterinarian, or optometrist (what a terrible vacation that might be!). In a local economy, those businesses get fewer customers as STRs (and tourists) take the place of traditional residences.
- Unequal Treatment of Regulations: The lower bar to entry for STRs versus traditional lodging facilities was referenced earlier as an opportunity. A big factor in lowering that bar is that the building code, fire departments, health departments, and other regulatory agencies treat STRs like single-family residences (in most cases). The national chain hotel has to deal with sprinklers, health department inspections, and a myriad of other local regulations, while the STR gets by with very little regulatory attention.

A Sound Regulatory Approach

So, how do we capture the economic potential of STRs without steering our community to heck-in-a-handbasket? A balanced regulatory effort, based on clearly identified outcomes, is your best bet. Some things to consider when getting started with STR regulations include:

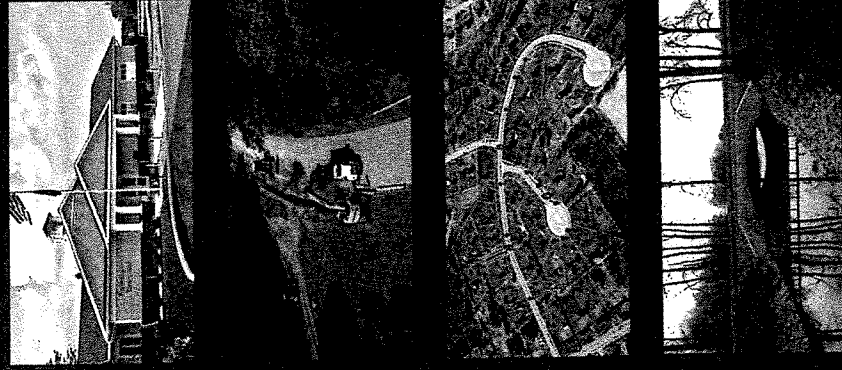
- Begin with WHY: When writing laws, so many communities jump right to WHAT. "Parking!" "Garbage!" "Traffic!" These are all "WHATs": Sit down and ask your constituents and fellow leaders WHY we want to deal with STRs via regulation. Protecting quality of life, ensuring resident safety, reinforcing property values, maintaining community character...these are all WHY statements. Get to the heart of the concerns raised by STRs, then develop the regulations around that.
- Clearly Define STRs: Boats, RVs, She-Sheds. All of these are currently for rent on one or another of the STR platforms. You'll need to clearly define where you will allow it, and where you will not. Focus on the activity at hand—someone is living and sleeping in a certain space. Seek out model language, lean on your attorney. You do not need to reinvent the wheel on this.

- **Develop a Predictable Process:** Residents and applicants alike benefit from a clear, predictable review process. Make clear the information needed for any application, and the criteria you will use to evaluate approvals. Designate the appropriate entity for final determination (code enforcement officer, planning board, etc.), and ensure that they have the proper training and grasp of the regulations at hand.
- **Be Intentional about Enforcement:** As you're developing the regulation, ask yourself HOW and WHO will be enforcing this. Can they actually enforce the measure being contemplated? What resources will they need to enforce? What constitutes a violation, and how can that be proved in court? Equip your team, and stand behind them when the tough decisions are made.
- **Avoid Regulatory Pitfalls:** Court precedent is getting clear on STRs: outright bans and/or concentration limits (i.e. no more than 'this many' per block) will be tough to defend in court. You'll need to think more creatively about

how to address your priorities. Like most economic development activity, you will rarely find unanimous agreement in your community with respect to short-term rentals. It appears that this style of lodging is going to be here for a while, and most certainly presents unique opportunities and challenges for all types of communities.

Work with your residents and other stakeholders to glean their desired outcomes, structure a regulatory framework to ensure that residents' needs are met, and dedicate resources to sound application, review, and enforcement processes. With these boxes checked, you'll be in a much better place to capitalize on the new economic activity, without compromising the quality of life your residents have come to expect.

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