

Three Oaks STR Committee Report

March 31, 2023

Purpose of this Report

Over the last year or two, Three Oaks residents have expressed emerging concerns regarding the growing number of short-term rentals (“STRs”), and their impact on the Village. To address these issues, Council President Richard Smith requested that the Village Planning Commission (“PC”) conduct a study of Three Oaks’ STR industry, to explore the current and future effects STRs may have on our Village in the following areas of concern:

- Overall economy
- Specific burdens on Village services
- Housing availability and pricing
- Net tax revenues
- Effects on quality of life for residents

In addition, the Commission was asked to look at the appropriateness of applying Village governmental powers to respond to these effects, and to recommend appropriate uses of those powers, if any.

Based on this request, the PC assembled an STR Committee, composed of the following members, all of whom are full-time Village residents and property owners:

- Steve Diller- member of the PC
- Tom Flint- member of the PC
- Mike Holfels- member of the Zoning Board of Appeals
- Richard Smith- president of the Village Council
- Gene Svebakken- chair of the PC

- Becky Thomas- member of the Village Council
- Ron Zaranenello- DDA member

In addition to this group, Lois Jones, a member of the Village Council and the PC, attended numerous meetings and contributed a great deal to the discussion. In particular, she provided in-depth tax revenue information and other governmental insights that rounded out our understanding of the context of STR impacts on the Village.

The STR Committee has since convened five meetings, obtained feedback from local residents, explored the full range of issues listed above, and has conducted a range of research activities designed to inform itself and the Village of all relevant STR topics that could drive a response from Three Oaks government. With feedback from numerous residents, and discussion within the Committee, we have generated this report for Three Oaks residents.

The report summarizes the findings of our research and discussions, and includes two more appendices. One covers the economic impacts of STRs across the country, and the other emerging best practices for regulating STRs with two goals in mind: nurturing a locality's STRs, while ensuring that other important community concerns, such as affordable housing and maintaining a sense of community, are supported as well. In addition, we've included a link to the dataset derived from a Village-wide survey about STRs, in which 188 respondents provided us with a rich source of insights about what they think about STRs, their benefits and their potential downsides.

1. The Economic Effects of STRs on Localities

Understanding the effects of STRs over time in Three Oaks has been challenging. The Village doesn't possess an official economic analysis

function, so the collection of data can be difficult, and pulling apart any positive vs. negative effects of STRs within the broader Three Oaks economy can't be easily accomplished.

What we do know is that, as of the writing of this report, Three Oaks had 70 STRs. Three of those STRs were individual rooms hosted by full-time residents in their homes, and the rest were entire structures available for rent.

Beyond that basic information, we need to look to other sources of information to understand the economic, social and tax effects of this industry. Our exploration indicates that one can look at studies conducted in other localities and see patterns that likely apply in Three Oaks. And, the Village does have some useful data that can complement the broad understand we have developed by looking at data from elsewhere.

STR Economic Impacts Across the US

To address these questions, the Committee researched and reported how STRs may economically impact the Village (and resources,) community/residents, businesses and housing. Three questions were key:

1. How do STRs impact the local economy?
2. How many jobs are provided through STRs?
3. How dependent are our local businesses on STRs?

Many hours of research included reviews of articles, stories and news articles published throughout the last decade with an emphasis on economic impact versus quality of life, community support/disapproval, etc. In addition, interviews were conducted with a variety

of people with knowledge of the industry to gather first-hand information for topic questions that had limited or no search results.

The discussion below is a summary of findings. The entire write-up is in Appendix 1 of this report.

1. Broadly speaking, it seems clear that STRs positively impact local economic activity. While no studies of comparable villages were available, others, such as Midwestern studies of Chicago and St. Joseph, MI indicate that STRs increased overall economic activity to a significant extent.¹
 - a. **In Chicago**, short-term rentals generated \$108 million in overall economic activity in 2013 with \$70.6 million of that activity attributable to visitor spending on short-term rentals and related on food, recreation, transportation, and other expenses. For every \$100 a traveler spent on short-term rentals, they spent an additional \$69 on food, \$24 on transportation, \$59 on shopping, and \$48 on arts, entertainment, and recreational activities.
 - b. The study also found short-term rental activity created 920 local jobs, primarily in restaurants and bars and in the arts, entertainment, and recreation sectors. Beyond the \$70.6 million in direct and indirect spending on short-term rentals, that activity has a multiplying effect on the local economy in the form of increased wages, which are spent in those local communities.
 - c. The data also suggest that STRs address a different market segment than traditional lodging options.
 - d. **St. Joseph**, with a population of just 8,311 compared to the 2.7 million residents of Chicago, also shows signs its residents are enjoying the benefits of short-term rentals.

¹ VRMIIntel Article / STRAC Study* Published March 13, 2014

According to a separate study conducted by TXP, an Austin, Tex.-based economic analysis firm, St. Joseph and the surrounding Berrien County experienced \$24 million in overall economic impact from short-term rentals in 2013. Visitor spending on short-term rentals and related activities amounted to \$22.2 million and supported 300 jobs. The higher overall economic impact figure reflects the multiplying effect short-term rental spending in the local economy, namely in the form of increased wages.

2. Burdens STRs may place on Village resources

The Committee was curious as to whether STRs can stress Village resources. The resources in question could be police/fire (first responders), local government and administration, utilities (water/sewer/trash) and/or recreation facilities.

Based on the insights of local landlords, including those on the Committee, it appears that the primary areas where any additional burden may occur is for police enforcement of Village ordinances, and administration of the STRs themselves.

Overall, Village officials believe that Three Oaks isn't effectively supervising our existing STRs. Doing so, these officials have stated, would require hiring an inspector, which might cost approximately **\$50,000/year**. In addition, there may be additional costs for policing. However, so far, we don't see a significant number of visits by police to STRs requiring additional revenue to pay police staff.

On the other hand, STRs most likely use fewer city/village services annually due to the frequency of rental use. A long-term tenant uses their home and services 365 days a year while STRs mainly use services over the weekends with less use during the "low season." So overall,

aside from administration and possibly police, STRs appear to reduce Village infrastructure and services costs, though how much exactly is unclear.

3. Impacts of STRs on housing costs and property values

Broadly speaking, STRs remove housing from the market that might otherwise be available for long-term rentals or owner-occupancy. In the absence of new construction compensating for this removal, the effect seen across the country appears to be an increase in prices for both rental and owner-occupied housing. In addition to the benefits to existing property owners, localities likely raise more revenue from property taxes than they otherwise would if STRs weren't stimulating the market.

In addition to raising property values, California State University's Edward Kung, an assistant professor of economics, found in a 2022 study that the presence of STRs stimulated nearby housing development. Conversely, he found that restrictions on STRs resulted in less new housing construction than would otherwise be the case.²

The research found that, on average, a 1 percent increase in Airbnb listings led to a 0.769 percent increase in building permit applications, suggesting that Airbnb can play a significant role in supporting local real estate markets, while boosting the local tax base at the same time. When the researchers compared Airbnb listings and residential permit applications in the three years before and after short-term rental restrictions were passed in a given community, they found a downward trend in both listings and permits after the regulations were enacted.

² CSUN Article / California State University
Published January 11, 2022

Airbnb listings fell an average of 21 percent and residential permit applications fell by an average of 10 percent.

The study also compared residential permit application requests in communities adjacent to neighborhoods that had imposed short-term rental restrictions. In adjoining communities, applications were higher — by 9 percent for non-accessory-dwelling units and 17 percent for accessory-dwelling units, which are additions to existing homes. The research also found that property values grew at a faster pace in communities without short-term rental restrictions than in communities that had such regulation.

Kung speculates that housing specifically constructed for STRs may also, over time, contribute to the long-term housing market.

Our conclusions

- Overall, STRs clearly stimulate local economies, particularly those reliant on tourism such as Three Oaks
- They generate increased costs associated with regulating their activities, such as inspections, permit processing and policing, but likely have no other impact on village services and infrastructure
- They generally increase property values, and likely increase property taxes
- They simultaneously cause increases in the cost of housing, putting increased pressure on lower-income households, those with children, and seniors on fixed incomes

4. STR Effects on Village Net Tax Revenue

Three Oaks receives revenues from a variety of sources. Most of them likely aren't affected by the uses of residential property. However, two of them appear to be:

- Revenue sharing from the State
- Property tax revenue

Looking at the impact of conversion of residential housing to STRs on revenue is necessary to determine whether STRs have a positive, neutral, or negative effect on net revenue to the Village. If the effect is negative, then one can argue that permitting fees should, at minimum, cover the revenue deficit.

Revenue sharing from the State

The State of Michigan shares approximately \$100/year in revenue with Three Oaks for every permanent resident. Therefore, the number of permanent residents directly impacts revenue from this source. In 2011, The Village population was 1622. By 2021, it had declined to 1370, a decline of 252 residents. That translates to a loss in revenue from this source of around \$25,000/year.

As of March 2023, the Village has 70 residential STRs, up from zero in 2011. An average property has three residents, which would mean 210 full-time residents who would otherwise be in Three Oaks aren't here. This means that 85% of the decline in full-time residents can be attributed to conversion of housing for STRs.

These numbers tell us that the total loss to the Village from the decline in revenue sharing attributable to the conversation to STRs is \$21,250/year, or \$304 per STR.

Incremental increase in property tax revenue resulting from STR influence on the market

While we've lost revenue sharing dollars due to STRs, some of the increase in property tax revenue in the last 10 years may be due to our STRs stimulating our housing market.

In 2011, our property tax revenue totaled \$498,830. In 2021, it came to \$534,390, or a 6.7% increase, or \$35,560 in revenue. Unfortunately, there's no way to determine with precision what percentage of the increase is the result of our STRs influencing our local market. However, if we conservatively assume 10% (since STRs have reached around 10% of our housing total), that would mean our tax revenue increase due to STRs would be \$3,556. If we subtract this \$3,556 from the \$21,250 loss in revenue sharing, we can estimate that the Village has lost approximately \$17,694 in net revenue, or \$253 per STR.

Our Conclusions

- Three Oaks has definitely lost revenue sharing from Lansing as a result of our population loss. While STR owners may have responded to opportunity rather than displaced residents when their STRs were established, using housing in this way has the unintended effect of preventing population numbers from rebounding. While STRs also likely have caused an increase in property tax revenue, this increase probably doesn't fully cover the loss of revenue sharing. Consequently, they contribute to a net loss of revenue probably around \$17,700/year.
- While this loss is unfortunate, it's important to remember that, overall, STRs almost certainly provide significant benefits to Three Oaks. And most residents agree with that assessment. The goal here, therefore, should be to support the STR industry, while using STR permitting fees to, at minimum, make up for this revenue loss.

5. Quality of life for residents

The consensus view on the Committee is that ultimately, to judge the overall value of STRs in Three Oaks, we need to deeply understand the perspective of our residents as they encounter STRs and guests on our streets and in our retail establishments. Towards that end, the Committee studied residents' attitudes and perspectives in late 2022.

A total of 188 responses were received. 73% were from full-time residents, 11% were from part-time residents, and 6% were from property owners (many of whom are residents), and 10% were other.³ 77% said STRs were present on their streets. Responses were distributed from across the Village. Key findings are outlined below, and the full data set can be accessed at https://docs.google.com/forms/d/1_6rAvAD6r5Pt5VNErsIRro_hyOdN5pd87ls8qKGw27k/viewanalytics

Positive attitudes toward STRs

Based on our survey, it seems clear that most Three Oaks residents see the current crop of STRs as beneficial or neutral. Overall, 71% of respondents felt that the current level of STRs either had a positive or neutral effect on their neighborhood.

When people were asked to rate the overall effect of STRs on Three Oaks on a scale from 1-5, where "1" is very negative and "5" is very positive, the average rating was 3.87. We interpret this to mean that most residents see benefits outweighing negatives with the current status of STRs in Three Oaks.

- Key positives to residents:

³ "Other" is made up of numerous categories of responses, and in some cases, respondents may have selected more than one response. Please see the survey data (accessible via the link provided) for additional information.

- They stimulate business, increasing employment, enlivening downtown and allowing stores to stay open year-round;
- They often involve rehabbing old housing that needs updating, and maintenance on STRs is generally high;
- Tourists will stay in the region regardless. Better that Three Oaks gets revenue than just our neighboring towns; and
- There's a higher principle at work here- that property owners should be allowed to use their property as they see fit.

Negative attitudes toward STRs

While most people believe the current number of STRs constitute a positive presence for the Village, 65% felt that limits should be placed on the maximum number of STRs in the Village. In addition, respondents mentioned negatives almost as often as positives when they had the opportunity to explain their views. Why?

- Overall, 29% felt STRs had caused a decline in their quality of life. It seems likely that this viewpoint was more pronounced among people who have multiple STRs in their immediate vicinity, though we can't definitively conclude this.
- Key negatives to residents:
 - STRs are believed to cause increases in housing prices that shut out first-time buyers, long-term residents, and long-term renters. Our exploration into academic research about STRs indicates that this is correct;
 - Short-term renters have no vested interest in Three Oaks. It's not that they're bad neighbors (generally), it's that they're not neighbors at all. And that weakens community; and
 - A number of respondents believed that the only significant beneficiaries of STR development are the landlords, many of whom aren't residents.

Our conclusions

- Most residents see benefits in the current levels of STRs, and, after completing our research, the Committee agrees with this viewpoint. Three Oaks residents have benefitted from STRs, in numerous ways:
 - They've increased downtown business activity, providing jobs for locals, and creating a sense of vitality;
 - They've increased property values across the village; and
 - They've frequently resulted from significant rehabbing of structures that otherwise would continue to deteriorate.
- However, a significant increase in the numbers of STRs beyond our current level worries a large majority of residents, primarily because:
 - Continued increases in housing costs for permanent residents may well crowd out larger numbers of people who we need and want to remain; and
 - Concentrated STRs on a street or block would result in a decline in neighborhood cohesion. Parts of our neighborhoods could become more like hospitality zones, rather than places where people raise their kids, support each other, and build community.

Recommendations

The Committee has concluded that Three Oaks needs to simultaneously nurture our STR industry and find ways to regulate it to ensure that what brings visitors to Three Oaks in the first place, its character as a community, is preserved. Ultimately, both the industry and our residents need the Village to do both.

To find the optimal balance, we can look to emerging national “best practices” for localities to manage their STRs, which were researched by the Committee. We recommend that the best practices listed below

be adopted by the Village. A full write-up on best practices produced by the Committee is attached in Appendix 2 of this report.

Four primary factors to consider

Analysts of best practices across the US have noted that different types of regulation are probably necessary, depending on these four factors in a community:

- Attitudes regarding the broad housing trends of a community
- Economic strength of the community
- Ensuring STR conditions reflect positively on the community
- Raising tax revenues from lodging

Broadly speaking, though, we feel that all four of these factors are relevant for us to consider in Three Oaks.

Types of Regulation Used across the US

Regulation typically involves the use of three key tools available to localities:

- Zoning
- Police powers
- Taxation/fees

Because the State of Michigan allows local government to broadly regulate STRs, we believe Three Oaks has the power to regulate STRs with the goal of **ensuring we nurture the STR industry, while protecting the qualities that make Three Oaks attractive to both residents and visitors**. All three of these types of regulatory approaches listed above would be useful in service of this goal, and we recommend all be used.

Primary Zoning Tools

- Hire a new Village employee to manage the STR regulatory program, to be paid from the proceeds of STR permit fees. As mentioned earlier, Village officials believe \$50,000 will be needed to employ this manager. That would mean that, if all permits require the same fee, the 70 STRs currently allowed to operate in Three Oaks would contribute \$715 each to cover costs of the STR program.
- Place a cap on the number of STRs across the Village
 - We suggest an initial cap of 10% of existing residences in the Village, since we know that the current number of STRs is working reasonably well for us, given our survey results. Three Oaks could then, perhaps every year for the next several years, review how well a 10% density of STRs is working, from both real estate professionals' and residents' perspectives, and adjust the percentages in a careful and deliberative manner. The goal is to maintain a healthy STR market, while maintaining the quality of life in the community.
 - We also suggest that STRs offered to people within full-time residents' homes (individual rooms for rent, basically) be exempted from the cap.
 - We're aware that in some cases, property owners have made investments in residences with the intention of applying for STR permits. We suggest the Village consult with attorneys to better understand any legal implications of applying caps that might make acquiring a permit for such individuals more difficult.
- Limit the number of STRs per block with dispersal requirements
 - on any one block; or
 - relative to any already-existing STR- using a "radius" approach
 - The objective is to restrict the establishment of concentrated STR districts in the Village outside of downtown, since we see that when residents find that

multiple nearby structures no longer have fellow residents, the character of their immediate neighborhood changes in ways that don't support community bonds.

- Require STRs, through the permitting process, to:
 - acknowledge they are a Public Accommodation
 - not engage in discrimination in STR rentals
 - agree as a condition for receiving/renewing a permit that they will inform renters that they:
 - cannot throw parties that can be heard outside the property
 - cannot litter; and
 - cannot have more than two cars parked on the street outside the STR, and none where such parking is not allowed and marked with appropriate Village signage
- Prohibit new STRs in Long-Term Rental Housing
- Grandfathering existing STRs
 - Where STRs already exist, they should be allowed to continue
 - If their permit expires, property can be “retired”

Police Powers

While we haven't heard many complaints that visitors at STRs are frequently misbehaving, or that the police aren't responding to problems, we do want to give the police a heads-up that the number of STRs have grown significantly in the last six months, and that maintaining quality of life for STR neighbors may require more attention moving forward.

- Key police powers to use
 - Noise regulation enforcement
 - Litter regulation enforcement
 - Limiting number of cars allowed to be present overall
 - Limiting number of cars allowed to be parked on village streets

Taxation/fees

- Best practice nationwide is to ensure that the cost of an annual permit cover all costs involved in regulating and policing STRs. As mentioned earlier, this means that the lowest cost for a permit, assuming all permits cost the same, will need to be **\$253**, which would cover the estimated loss of tax revenue to the Village discussed earlier. If we add the \$705/STR needed to fund a \$50,000/year inspector salary, **the annual permit would be \$968**. However, we also suggest that the Council look at ways to administer our STRs at lower cost, which could significantly reduce the annual fee.
 - It appears that some neighboring communities charge more for their permits than can be accounted for by likely costs. They may be using such revenue to address needs unrelated to STRs. However, given public discussion to this point, we recommend that the Village only charge what is needed to cover the tax revenue losses and the administration of the STR program.

Appendix 1: Research Write-up Exploring Economic Impacts of STRs

The Village of Three Oaks Planning Commission, Short Term Rental Group held their initial meeting October 31, 2022, with the purpose of developing recommendations to the Planning Commission to assist in their review of STR zoning. I agreed to research and report how STRs may economically impact the Village (and resources), Community/Residents, Businesses and Housing.

Many hours of research include articles, stories and news articles published throughout the last decade with an emphasis on economic impact versus quality of life, community support / disapproval, etc. Of the many published reports I've read, my goal is to report information that can be applied to the needs of Three Oaks.

Of the six questions within topic 2, some search queries turned up many published reports while others had few or none. In addition to the internet searches, I also conducted personal interviews with sources to gather first-hand information for topic questions that had limited or no search results.

Questions: 1. How do STRs impact the local economy? 2. How many jobs are provided through STRs? 3. How dependent are our local businesses on STRs?

Many articles on STRs from regions across the country were reviewed, which included principal cities through small-town America. Of all the information, the following study published 8 years ago shows how STRs can impact our local economy, provide for additional jobs, and help grow local businesses comparing Chicago, Illinois and St. Joseph, Michigan.

VRMIntel Article / STRAC Study* Published March 13, 2014

Studies Find Short-Term Rentals Bring Enormous Economic Benefits to Chicago and St. Joseph

In the Lake Michigan hamlet of St. Joseph and Chicago—America’s third largest city— residents and local tourism economies are enjoying the enormous economic benefits of short-term rentals, according to two economic studies commissioned by the Short-Term Rental Advocacy Center (STRAC).

In Chicago, short-term rentals generated \$108 million in overall economic activity in 2013 with \$70.6 million of that activity attributable to visitor spending on short-term rentals and related on food, recreation, transportation, and other expenses, according to the study by TXP Inc. For every \$100 a traveler spent on short-term rentals, they spent an additional \$69 on food, \$24 on transportation, \$59 on shopping, and \$48 on arts, entertainment, and recreational activities.

The study also found short-term rental activity created 920 local jobs, primarily in restaurants and bars and in the arts, entertainment, and recreation sectors. Beyond the \$70.6 million in direct and indirect spending on short-term rentals, that activity has a multiplying effect on the local economy in the form of increased wages, which are spent in those local communities.

TXP’s study looked at short-term rental listings of Airbnb, HomeAway and FlipKey in Chicago. Those companies had a combined 171,000 nights booked in Chicago and surrounding Cook County in 2013 across 3,620 properties. While the average visitor stays in Chicago 2.4 nights, short-term renters stayed an average of 4.5 nights and had an average party of 2.5 people. Those figures, coupled with an all-time high hotel revenue and occupancy rate last year, suggest short-term rentals address a different market segment than traditional lodging options.

“Chicago’s hundreds of events, unique attractions, vibrant culture and nightlife attract a range of visitors with diverse interests and budgets,” said Jon Hockenyo, president of TXP and an economist that has conducted dozens and dozens of local economic impact studies. “While the number of short-term rentals pale in comparison to the number of hotel rooms and overall housing stock, short-term rentals provide important variety to visitors and play a key role in the future of Chicago’s future tourism growth.”

St. Joseph

While the Lake Michigan destination of St. Joseph has a population of just 8,311 compared to the 2.7 million residents of Chicago, its residents are nonetheless enjoying the benefits of short-term rentals.

According to a separate study conducted by TXP, an Austin, TX-based economic analysis firm, St. Joseph and the surrounding Berrien County experienced \$24 million in overall economic impact from short-term rentals in 2013. Visitor spending on short-term rentals and related activities amounted to \$22.2 million and supported 300 jobs. The higher overall economic impact figure reflects the multiplying effect short-term rental spending in the local economy, namely in the form of increased wages.

“Like in Chicago, short-term rentals in St. Joseph provide much needed diversity to visitor housing options and are key to the continued growth of St. Joseph’s tourism economy,” Hockenyo said.

Short Term Rental Advocacy Center member companies—Airbnb, HomeAway and FlipKey—listed in 695 properties on its sites, leading to 18,000 nights booked last year. This data also revealed that the average short-term rental party size was 5.7 people staying an average of 3.3 nights. Those figures, rising hotel occupancy rates and hotel revenue

suggest that short-term rentals and traditional lodging sources are not in conflict with one another.

“Tourism is very important to St. Joseph and Southwestern Michigan. Visitors spend money at restaurants and they shop at our local stores thereby strengthening our local economy,” said Torrence Moore, a local homeowner who is part of a local group advocating for fair and reasonable regulations. Last year, the city passed a restrictive measure to forbid new short-term rentals in residential neighborhoods.

“St. Joseph needs to have an adequate number of housing options to meet the demand from families coming to St. Joseph,” Moore added. “Currently there are only two hotels in downtown St. Joseph, and short-term rentals offer a solution. However, we risk losing the strong economic benefits of short-term rentals and families will choose surrounding towns with good, fair, and responsible short-term rental policies. We believe there’s a better solution for regulating short-term rentals in St. Joseph.”

The Short-Term Rental Advocacy Center commissioned TXP to assess the economic impacts of short-term rentals attributable to STRAC members’ customers (termed “participating short term rentals” in the reports) in St. Joseph and Chicago. The reports capture visitors spending on short-term rentals in those markets, as well as related spending and the broader implications on those economies, but not necessarily all short-term rentals.

* STRAC was formed in early 2013 by a coalition of short-term rental marketplace stakeholders, working with residents and short-term rental providers to share information, establish best practices and advance smart short-term rental regulation that safeguards travelers, alleviates neighborhood concerns, and provides a framework for ensuring compliance. With 35 local groups across the country, STRAC is

facilitating local advocacy efforts aimed at fair and reasonable regulations benefiting all stakeholders.

Question 4: What stresses do STRs put on Village Resources?

- I could not find any specific articles that specifically report how STRs can stress village resources. I believe the question should be more specific with which resources are in question.

I will surmise the resources in question could be Police / Fire (first responders,) local Government and Administration, Utilities (water / sewer / trash) and/or Recreation facilities, etc.

Question 5: How do STRs impact housing values?

The following study shows how STRs can provide pros and cons to property values, rents, and investment. I chose this article as the study was performed prior to COVID-19 and the 2022 international economic recession. The COVID-19 Pandemic greatly impacted (elevated) home sales prices mid-2020 through mid-2022 with the first noted slow-down of home sales in September 2022 due to escalating home mortgage interest rates.

CSUN Article / California State University

Published January 11, 2022

CSUN Prof: Airbnb Can Have Positive, Long-Term Impact on Local Economies

Edward Kung, an assistant professor of economics at California State University, Northridge, said there is no question that the influx of short-term rentals, like those offered by Airbnb, led to higher rent prices and adversely impacted the housing supply, particularly for long-term renters. He's done the research to prove it.

But Kung, who teaches in CSUN's David Nazarian College of Business and Economics, wondered about other impacts Airbnb might have on the communities they are in, including on the local economy and development of new housing stock. What he and a team of researchers found could give policymakers food for thought as they consider restricting short-term rentals in their communities.

"There's been so much research — including research my colleagues and I did about five years ago — that shows that while the platform, Airbnb, made renting short term easier, it hurt long-term renters by reducing the housing supply and raising rental prices," Kung said. "We wondered about what other aspects of the economy Airbnb might impact because, while initially it has reduced the housing supply for long-term renters, it's also creating a demand for more housing. We wondered if we would see people investing in more housing or different kinds of housing. Would we see, for example, the conversion of a garage into a money-making space, or the development of accessory dwelling units that people can rent on Airbnb more easily?"

"What we found is that people invest more in developing residential properties when demand for Airbnbs increases, and that restricting Airbnbs directly leads to less residential development, less growth in home prices, and that can lead to less tax revenue for cities," he said.

Kung and his colleagues wrote about their findings in an article for the Harvard Business Review, "Research: Restricting Airbnb Rentals Reduces Development." His fellow researchers included Ron Bekkerman, chief technology officer with the real estate data integration platform Cherre Inc.; Maxime C. Cohen, professor of retail and operations management at McGill University; John Maiden, former head of machine learning at Cherre Inc.; and Davide Proserpio, assistant professor of marketing at the University of Southern California.

Kung and his colleagues conducted a large-scale study analyzing a decade's worth of Airbnb listings and residential permit applications in 15 cities across the country. By examining the permit applications, they could measure the amount of investment going into residential properties. They also looked at the impact of local regulations that restricted short-term rentals.

“We found that while the restrictive policies reduced the number of short-term rentals, they also reduced the amount of residential investment as measured by the permit applications,” he said. Their research found that, on average, a 1 percent increase in Airbnb listings led to a 0.769 percent increase in permit applications, suggesting that Airbnb can play a significant role in supporting local real estate markets, while boosting the local tax base at the same time.

When the researchers compared Airbnb listings and residential permit applications in the three years before and after short-term rental restrictions were passed in a given community, they found a downward trend in both listings and permits after the regulations were enacted. Airbnb listings fell an average of 21 percent and residential permit applications fell by an average of 10 percent.

They also compared residential permit application requests in communities adjacent to neighborhoods that had imposed short-term rental restrictions. In adjoining communities, applications were higher — by 9 percent for non-accessory-dwelling units and 17 percent for accessory-dwelling units, which are additions to existing homes. The research also found that property values grew at a faster pace in communities without short-term rental restrictions than in communities that had such regulation.

The research was done before the COVID-19 pandemic hit. “The pandemic could change a lot,” Kung said. “We just don’t know what kind of impact it will have yet.”

Kung said he and his colleagues are not arguing for unregulated growth of short-term rentals.

“I understand policymakers clamping down on the short-term rental market for the benefit of local renters,” he said. “Policymakers have a lot of factors to consider when they are making decisions. When they are making policy regarding short-term rentals, our research indicates that among of the things they need to consider is are the long-term effects their actions may actually have for their city. The short-term rentals may actually spur people to build more housing, to find more ways to densify the housing supply.

“Those very same units that were built to accommodate Airbnb demand may very well transition to long-term housing,” he continued. “In the meantime, the development spurred by the short-term housing demand is adding to the local economy, increasing property values and increasing the overall housing supply.

“It’s a fine balancing act, but one they need to consider,” Kung said.

Question 6: What is the impact on revenue sharing?

The research for “revenue sharing” with regard to Short Term Rentals had no results. Currently, income derived from STRs is considered “passive income” and is taxed by the Federal and State accordingly.

In addition to income tax, STR rent is subject to the State of Michigan “Use Tax” at 6% - the same rate as sales tax. Most booking platforms such as AirBnB, HomeAway, VRBO, TripAdvisor, etc. collect the Use Tax and remit it directly to the State of Michigan. Some STR owners are allowed to forgo this arrangement with the booking platforms and pay the Use Tax directly to the State either quarterly or annually.

Approximately 15 years ago, the local Harbor Country Lodging Association (HCLA) levied an additional 2% tourism/lodging tax on all

lodging facilities (hotels, motels, Bed and Breakfasts and Inns) which should have included STRs. The revenue raised by the additional 2% lodging tax funded the efforts of the HCLA to promote local tourism. For instance, a small Bed and Breakfast with 10 rooms was given 10 votes and a hotel with 300 rooms was given 300 votes. Circa 2013, the HCLA held a vote with the larger hotels out-numbering smaller businesses, defeated the initiative to keep the local 2% lodging tax.

Appendix 2: Three Oaks STR Committee Best Practices Research

November 30, 2022

- All online sources reviewed indicated that there isn't a "one-size-fits all" set of best practices, particularly in terms of density, for the management of STRs by municipalities.
 - However, they do identify the range of tools local governments can, and should use, to address the following key challenges:
 - Ensuring that STRs are a net financial benefit to municipal finances, not simply to the owners of the properties or the businesses serving visitors
 - Managing their impact so that STRs don't crowd out current and potential residents
 - Making sure STRs don't lower the quality of life of neighbors
- They see four primary factors to consider when deciding whether or how to regulate STRs, each of which requires deliberation and declared intentions:
 - *Attitudes regarding the broad housing trends of a community.* If lower- and moderate-income people are being forced out by increasing prices and reduced supply, does the overall community consider that a problem? If so, stronger STR regulations are appropriate if allowed by state law
 - *Economic strength of the community.* If a locality is economically depressed, a more relaxed approach to STRs can be helpful to development. If the community is more prosperous, constraints on STRs can be helpful in maintaining the character of the community
 - *Ensuring STR conditions reflect positively on the community.* Regulation is useful for ensuring that STR standards align with the way the community markets itself more generally
 - *Raising tax revenues from lodging.* Ideally, lodging of any type should not only provide economic benefits. It should also, at

minimum, generate enough tax revenue to cover the cost of its regulation. This includes both inspections of properties *and* police enforcement of regulations.

- One other consideration is that even if an STR pays its way for services related to its regulation, the Village still loses revenue from Lansing if no one lives on the property full-time. Consequently, there's an argument for not allowing any new STRs without the presence of a full-time resident on the property
- Regulation of STRs should always involve the use of four key tools available to localities
 - State regulations
 - Zoning
 - Police powers
 - Taxation/fees
- State Regulations
 - The State of Michigan allows local government to broadly regulate STRs, including banning them altogether. Given the control of the State Legislature passing to the Democrats in the recent elections and the Governor's stated opposition to regulatory constraints by local governments, it appears highly unlikely that any bills constraining those local powers will pass in the next several years
 - Therefore, Three Oaks can regulate STRs as it sees fit, within its broad zoning powers
 - In addition, the State Supreme Court has ruled that local governments have the power to regulate STRs as commercial lodging entities
- Primary Zoning Tools
 - While there aren't best practices regarding the optimal number of STRs in a specific area, there are broad actions that communities generally take to effectively manage their STRs:

- *Limit Number of STRs per Area* with Dispersal Requirements. This can take the form of limits on the number of STRs:
 - on any one block; or
 - relative to any already-existing STR (for instance, they must be outside a specific radius from any already-approved and existing STRs); or
 - in any geographic area (distinctively zoned areas for STR usage). For instance, our area zoned “commercial” could have zero constraints
 - *Require Hosting Platform to Collect Taxes*
 - Direct Staff to Monitor Compliance
 - *Require STRs to acknowledge they are a Public Accommodation*
 - *Require STRs to agree* as a condition for receiving/renewing a permit that they will inform renters that they:
 - cannot throw parties that can be heard outside the property
 - cannot litter; and
 - cannot have more than two cars parked on the street outside the STR
 - *Prohibit Discrimination* in STR Rentals
 - *Encourage STRs in Areas Underserved by Hotels*
 - In addition, communities seeking to ensure that they can receive the benefits of visitors without displacement and tax downsides can use two additional regulations:
 - *Limit STRs to homes of Permanent Residents*
 - *No STRs in Long-Term Rental Housing*
 - Grandfathering existing STRs
 - Where STRs already exist, they should be allowed to continue, recognizing that if their permit expires, that

property should be “retired” from the ranks of STRs if it wouldn’t be approved given agreed-upon STR zoning regulations

- Police Powers
 - The advantage of police powers is that they can be applied to every STR, new and existing, without regard to grandfathering constraints
 - Key police powers to use
 - Noise regulations
 - Litter regulations
 - Number of cars allowed to be present overall
 - Number of cars allowed to be parked on village streets
 - Taxation/fees
 - In incorporated locales, visitors are generally taxed with “occupancy fees” adding some percentage to their nightly rate
 - Such taxes are the same whether someone stays at a hotel, motel, BnB or STR
 - If the Village isn’t currently charging such fees, best practice is that it should do so, if allowed under state law
 - As discussed earlier, the cost of an annual permit should cover all costs involved in regulating and policing STRs. In addition, any other revenue losses caused by the conversion of a property to STR should result in higher permitting fees
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Sources:

Fahey, Schultz, Burzych Rhodes, “Short Term Rentals: What You Need to Know,” 2020

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