The New Cottage Industry

The Relationship of the Sharing Economy’s Rental Markets to Land Use and Tax Regulation

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Jessica Garrow, AICP, City of Aspen
Phillip Supino, City of Durango
OUTLINE

• Review of Sharing Economy
• Overview of lodging trends in Mountain Resorts
• Case Studies:
  – Aspen
  – Durango
• Conclusion
KEY TERMS

• **Sharing Economy** – Businesses leveraging excess supply and providing goods and services without formal ownership

• **Grey Market** – A market using irregular methods to circumvent normal channels of business

• **VR** – Short-Term Vacation Rental

• **RBO** – Rental By Owner

  – i.e. properties listed on HomeAway, VRBO, AirBnB

• **VRMC or MC** – Vacation Rental Management Company
THE “SHARING ECONOMY”

• “Peer-to-peer or collaborative economy… built around the sharing of human and physical resources…”
  - Wikipedia

• “…shared creation, production, distribution, trade and consumption of goods and services by different people…”
  - PeopleWhoShare Blog

• “…leveraging information technology to empower individuals, corporations, non-profits and government with information that enables distribution, sharing and reuse of excess capacity in goods and services…”
  - Harvard Business Review
THE “SHARING ECONOMY”

Key Features of Sharing Economy

• Excess or shared resources
• Desirable commodities
• Internet connectivity
• Web-based platform
• Trusted brokers
• Trusted user groups
• Freedom from ownership
T H E  N E W  C O T T A G E  I N D U S T R Y
short-term rentals in Colorado communities

INTRODUCTION

BRIEF HISTORY – PRIVATE VACATION RENTALS

Old School

New School

THE LOVE SHACK
VACATION RENTAL
970-596-2922
cbloveshack.com

Old School

New School

INTRODUCTION
GROWTH OF AN INDUSTRY

• $23 billion in vacation rental (2012)
  • 7% of U.S. travel market (2012)

• 108 million U.S. ‘rented nights’ (2012)

• $211 average daily rate (2012)

• 24% of VR reservations booked online

• 1 in 4 RBO properties are owner occupied

2013 Phocuswright U.S. Vacation Rentals Study
REGULATION OF VACATION RENTALS—NEED?

Community meetings can go like this…
REGULATION OF VACATION RENTALS—NEED?

But sometimes they go like this…
WHY REGULATE VACATION RENTALS?

- Preserve *residential character*
- Collect sales and lodging *tax*
- Create a "*level playing field*" between RBOs and property management companies
- Ensure adequate *lodging options for tourists*
- Ensure adequate *housing options for residents*
- Ensure vacation rentals meet existing *health and life safety regulations*
RESORT HOTEL FEASIBILITY

- Hotel Benefits
  - High Occupancy
  - Marketing Reach
  - Loyalty programs

- Not feasible in seasonal resorts
  - High land and construction costs
  - Seasonal peak, slow off season

- Feasibility: Ownership component
RESORT CONDOMINIUMS

- Value in Ownership
  - Baby Boomers
  - Wealth building
- Pay for What you Use
  - Gen X, Y, Millennials
  - Great Recession
  - Management fees, HOAs, taxes
- VRBO - Offset ownership costs

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INTRODUCTION
LODGING: ECONOMIC DRIVER

• Tourism economy
• Retail Sales
• Lodging “room nights”
• Sales and lodging tax
  – Municipal operations
  – Capital projects
PERCENT OF SALES FROM VISITORS

**Snowmass Village**
- Overnight Visitors
- Permanent Residents
- Day visitors and inflow

**Telluride Mountain Village**
- Overnight Visitors
- Permanent Residents
- Seasonal/2nd Home
- Day visitors and inflow

**Vail**
- Overnight Visitors
- Permanent Residents
- Seasonal/2nd Home
- Day visitors and inflow

**Winter Park**
- Overnight Visitors
- Permanent Residents
- Seasonal/2nd Home
- Day visitors and inflow

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SKI AND LODGING INDUSTRY TRENDS

• Little growth in skiing
• Competition for market share
• Aging lodging
• Development constraints
• “HOT Beds”
• ROB Opportunity
  – Under utilized inventory
  – Lower cost management

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GATEWAY COMMUNITIES

- Amenity rich, sometimes remote
- Ski areas, national parks, national forest, recreation, water
- Location neutral workers
- Entrepreneurs
- Lifestyle seekers (ski bums, etc.)
- Second homeowners
- Retirees
SECOND HOME GROWTH

• Second homes are growing faster than local workforce housing

Percent Change in Housing Units 2000-2010

Eagle, CO
Pitkin, CO
La Plata, CO
San Miguel, CO
Teton, WY

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INTRODUCTION
OUTSIDE INCOME SOURCES

- Investment income
- “Location neutral” workers
- Housing prices decoupled from wages

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Short-term rentals in Colorado communities

Introduction
Family stability and wealth creation
Commuting
- Social health, community involvement
- Environmental
Workforce
- Employee attraction and retention
- Business attraction and retention
RBO: Investor buyers vs. supplemental income (e.g. AirBnB)
DESTINATION ASPEN

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DESTINATION ASPEN

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ASPEN, COLORADO
ASPEN LODGING CONTEXT

• Microcosm of resort economic development constraints
• Approach to VRBO responds to market conditions
• Issues:
  – Economic base: tourism (visitors)
  – High costs
  – Dated inventory, declining #s
  – Development constraints
  – Applies to many Rocky Mountain resort towns
DEMOGRAPHICS

- 6,658 full-time population
- 35,000 at peak occupancy
- 6,000 total housing units, 60% occupancy
- 2,200 total affordable housing units
WINTER ATTRACTION

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ASPEN, COLORADO
SUMMER ATTRACTION

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ASPEN, COLORADO
TRADITIONAL ACCOMODATIONS

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ASPEN, COLORADO
TRADITIONAL ACCOMMODATIONS

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The New Cottage Industry

Short-term rentals in Colorado communities

Declining Bed Base
## INCREASE IN VACATION RENTALS

<table>
<thead>
<tr>
<th></th>
<th>Aspen - Units By Type Comparison</th>
<th>Aspen - Pillows By Type Comparison</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
<td>2012</td>
</tr>
<tr>
<td>Hotel/Lodge</td>
<td>1,160</td>
<td>1,158</td>
</tr>
<tr>
<td>Condo Property</td>
<td>976</td>
<td>932</td>
</tr>
<tr>
<td>Private Home</td>
<td>100</td>
<td>131</td>
</tr>
<tr>
<td>B&amp;B</td>
<td>68</td>
<td>72</td>
</tr>
<tr>
<td>All</td>
<td>2,304</td>
<td>2,293</td>
</tr>
</tbody>
</table>

2012 MTRiP Aspen Snowmass Transient Lodging Inventory Study
BED BASE COMPOSITION

Units by Property Type

- Hotel/Lodge, 50%
- Condo Property, 41%
- Private Home, 6%
- B&B, 3%

2012 MTRiP Aspen Snowmass Transient Lodging Inventory Study
REGULATION OF VACATION RENTALS

• Old Regulations
  – Prohibited in all zone districts except Lodge
  – Non-Lodge zoned properties could rent on short-term basis (30 days or less) twice a year

• January 2011 Analysis
  – At least 150 VRBO rentals were illegal
  – City losing out on $90,000 a year
  – CAST survey
REGULATION OF VACATION RENTALS

Short-Term Rental Review Standards

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other, please explain.</td>
<td>40.9%</td>
</tr>
<tr>
<td>No review standards.</td>
<td>36.3%</td>
</tr>
<tr>
<td>Contact information posted onsite.</td>
<td>18.1%</td>
</tr>
<tr>
<td>Offsite manager required</td>
<td>31.8%</td>
</tr>
<tr>
<td>Onsite manager required</td>
<td>0.0%</td>
</tr>
<tr>
<td>Adequate trash storage area/ removal</td>
<td>18.1%</td>
</tr>
<tr>
<td>Limit number of bedrooms in home to qualify as short term rental property.</td>
<td>4.5%</td>
</tr>
<tr>
<td>Parking requirements/limitations</td>
<td>31.8%</td>
</tr>
</tbody>
</table>

CAST 2011 Short-Term Rental Survey
REGULATION OF VACATION RENTALS

• Proposed Regulations
  – Limited areas
  – Minimum Parking Spaces
  – Bear-proof trash containers
  – Association with a local PMC or other Rep
  – HOA Notification
  – Special notice to neighbors
  – Special Signage
  – Obtain Business License
  – Annual revocable Vacation Rental Permit
REGULATION OF VACATION RENTALS

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ASPEN, COLORADO
REGULATION OF VACATION RENTALS

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ASPEN, COLORADO
REGULATION OF VACATION RENTALS

• Approved Regulations (2012)
  – Allowed everywhere
  – Prohibits single-room rentals
  – HOA Notification
  – Obtain Business License & Vacation Rental Permit
  – Local owner representative
  – Meet applicable City Codes
  – Signs allowed, but not required
PROGRAM SUCCESS

• Vacation Rental permits have doubled
• $225,000 in new revenue
• No complaints

Dear Aspen Homeowners,
If you rent out your home as a vacation rental the regulations have changed. There is no longer a limit on the number of rentals allowed per year. Rentals are now allowed in all Aspen zone districts without limitation.

You now need a permit from Community Development for rentals that are 30 days or less.

For more information please go to http://www.aspenpitkin.com/Departments/Finance-City-of-Aspen/Business-Sales-Tax-License/ or call the Planner of the Day line at 970-429-2764.
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ISSUES: COMPLIANCE

ASPEN, COLORADO
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ISSUES: COMPLIANCE

ASPEN, COLORADO
Under NO circumstances are you allowed to rent your deed restricted home or room out through VRBO, Airbnb or equivalent.

**The Aspen employee housing program exists to help people who work within Pitkin County seeking home ownership or long and short-term rental opportunities, and who would not otherwise have the opportunity to build a life as part of our community. To the left are navigation buttons to useful pages which can answer your questions, notify you of upcoming opportunities, and provide application forms and information for sales and rental units.**

**COULD YOU USE $2,500 TO UPGRADE YOUR HOME?**

IMPROVE THE COMFORT, SAFETY AND EFFICIENCY OF YOUR HOME WITH "REACH"

INCOME-QUALIFIED HOMEOWNERS CAN RECEIVE:

- Insulation
- Heating Appliances
- Solar
- And More!

REACH
www.aspenreah.org/REACH CLICK HERE
KEY TAKEAWAYS

- Outreach is critical
- Simple can be better
- Enforcement is ongoing
- Market continues to evolve
- Difficulties with VR companies
- Opportunities for municipal coordination
DESTINATION DURANGO CO

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DESTINATION DURANGO

Durango-Silverton Narrow Gauge Railroad

Downtown Historic District

Southwestern History

Recreation

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DEMOGRAPHICS

- Durango population: 15,557
- Durango median income: $53,173
- Projected population growth: 3.7%

- La Plata County population: 53,284
- La Plata County median income: $58,080
- Projected population growth: 3.3%
FORT LEWIS COLLEGE

The “Skyhawks”

Located on College Mesa in 1950

Four year state college

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DURANGO, COLORADO
• 3,865 full-time students

• 2,317 (61%) off-campus residents

• 24.5% of Durango residents are FLC students

• 15% of Durango renters are FLC students

FLC Student Housing

- Off-campus: 61%
- On-campus: 39%
Housing Units by Type: 2008 - 2012

- Mobile home: 293
- 20 or more units: 567
- 10 to 19 units: 483
- 5 to 9 units: 737
- 3 or 4 units: 460
- 2 units: 537
- 1-unit, attached: 904
- 1-unit, detached: 3,572

DURANGO

48%
HOUSING OCCUPANCY

Owner Occupied %

Renter Occupied %

2010 2000

DURANGO, COLORADO

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HOUSING PROFILE

Housing Availability

- Homeowner vacancy rate (percent)
- Rental vacancy rate (percent)
- Vacant housing units

2010 vs. 2000
Rental Vacancy Rate in Durango
2009-2014

Vacancy Rates Durango
Linear (Vacancy Rates Durango)
THE CITY OF DURANGO – REGULATING VR USES

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DURANGO, COLORADO
THE CITY OF DURANGO – REGULATING VR USES

Rental Market Pressures

Public Comments & Complaints

Emerging Regulatory Standards

City Council Direction

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short-term rentals in Colorado communities

DURANGO, COLORADO
THE CITY OF DURANGO – REGULATING VR USES

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REGULATION OF VACATION RENTALS

Congenial Community Meetings

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ASPEN, COLORADO
COMMUNITY CONCERNS

Housing Impacts
- loss of long-term rentals
- reduced owner occupancy
- increased housing cost
- speculative investments

Neighborhood Impacts
- parking
- noise
- wildlife protection
- dark blocks

Lodging Impacts
- loss of revenue
- lack of regulation
- safety & taxation

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short-term rentals in Colorado communities

DURANGO, COLORADO
THE CITY OF DURANGO – REGULATING VR USES

Rationale

Neighborhood preservation
Quality of life
Housing preservation

Regulatory Tools

Zoning
Licensing

Strategies

Spacing requirements
Neighborhood caps
Permitting review process
Code enforcement inspections
Monitoring

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DURANGO, COLORADO
STREET SEGMENT CAP

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DURANGO,
COLORADO
PERMITTING

Process for Permitting a Durango Vacation Rental

Owner inquiry → Land use application → Public notice → Staff review → Licensing → Permitting → Annual Review
REVIEW & PERMITTING

LAND USE APPLICATION
$750 application fee

SITE PLAN
parking, bedrooms, egress

PUBLIC NOTICE
neighbor comments, site visit

CODE INSPECTION
noise, wildlife, life/safety

LIMITED USE PERMIT
revocable, non-transferable

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DURANGO, COLORADO
LICENSING

BUSINESS LICENSE
$130 in fees
3% sales tax
submit application to Clerk’s
property inspected
renewed annually

LODGERSD TAX LICENSE
$25 fee
2% tax rate
submit application to Clerk’s
renewed annually

CLERK’S APPROVAL

BUSINESS LICENSE ISSUED
A LIMITED MARKET

- Not allowed in all zones
- Ongoing website monitoring
- Ensures compatible land uses in EN neighborhoods

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short-term rentals in Colorado communities
A LIMITED MARKET

- Prevents market saturation
- Reduces conflict with traditional lodging
PERMITTED VACATION RENTALS

Total permits = 43
Total allowed = 49
PERMITTED VACATION RENTALS – EN1 Zone

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short-term rentals in Colorado communities

DURANGO, COLORADO

22 Active Permits in EN-1 Neighborhood
MONITORING AND ENFORCEMENT

Neighborhoods
resident comments
public notices
code enforcement officers

Licensing & Permitting
renewed annually
revocable

Revenue & Enforcement
code compliance
increased taxes
website & advertising
public outreach

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DURANGO, COLORADO
CONCLUSIONS

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TRENDS IN MOUNTAIN COMMUNITIES

• Require licensing

• Collect lodging taxes

• Pursue delinquent lodging tax remittance

• Some specific zoning regulations on RBOs

THE NEW COTTAGE INDUSTRY

short-term rentals in Colorado communities
TRENDS IN MOUNTAIN COMMUNITIES

- Enforce zoning restrictions
- Monitor size of RBO market through internet searches
- Preserve community & neighborhood character
- Encourage diverse lodging
REGULATORY OPTIONS

• Many options, but no uniform solution.

• Regulate Vacation Rentals based on your unique social and economic needs.

• Ask: what are the community goals and what issues you are addressing?

DestiMetric’s “Results of Grey Market Vacation Rentals Policy Analysis” prepared for Town of Vail, 11/2014

U.S. Census, 2012, Community Survey Data

City of Durango, 2013 Vacation Rental Survey

CAST, 2010 Vacation Rental Survey