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VERMONT SHORT TERM RENTAL ALLIANCE

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RESEARCH REVIEW

Best Practices in Regulating Short-Term Rentals

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About this Report

This report was created by the Vermont Short-Term Rental Alliance (VTSTRA) in partnership with Rent Responsibly for use by municipal governments across Vermont. Its purpose is to provide relevant information about short-term rentals (STR) and the context required to understand the national and local STR landscape.

The Vermont Short-Term Rental Alliance is a coalition of individuals and businesses interested in advocating for the legal protection of a responsible short-term rental industry in Vermont. VTSTRA values a thriving vacation home and short-term rental industry in Vermont that: strengthens the Vermont economy; prioritizes guest safety; offers exceptional hospitality; promotes the best of Vermont; respects neighbors; and cares for Vermont communities and environment. Learn more at VTSTRA.org. Contact VTSTRA at info@vtstra.org.

Rent Responsibly is the community building and education platform for local short-term rental alliances. Their tools and alliance management services equip local leaders to build successful, self-sustaining organizations of short-term rental hosts, managers, and all other stakeholders. They make it easy for leaders and members to connect, collaborate, solve common challenges, work in partnership with their local governments, advocate for themselves, steward their communities, and rent responsibly. Learn more at RentResponsibly.org.

Summary of Findings

In most states, regulation of short-term rentals (STRs) falls to the jurisdiction of municipalities with a focus on mitigating neighborhood impacts rather than partial or complete prohibition.

Regulations that ban STRs have shown to have little effect and low compliance, according to research by the National Conference of State Legislatures. Instead, caps and standards tend to be the most effective regulatory solutions and yield higher rates of compliance.

Requiring online travel agencies (OTAs), such as Airbnb and Vrbo, to inform platform users of local policies, and contracting with STR compliance service providers, such as MuniRevs/GovOS, are the most effective mechanisms for regulation awareness and enforcement.

Short-term rentals are significant assets to local communities. Policy solutions demonstrated by other cities and states have enabled local governments to capitalize on the significant benefits of STRs while maintaining control of the industry to mitigate adverse impacts.

Background on Short-Term Rentals

What is a Short-Term Rental?

Short-term rentals (STRs) are most often defined as the rental of residential property in part or in whole for a fee for less than 30 consecutive nights.

Short-term rentals typically fall into four categories:

- Private room or guest suite rentals within a primary residence
- Whole-home rentals of a primary residence
- Whole-home rentals of a secondary residence
- Whole-home rentals of an investment property

Short-term rentals are typically owned and managed by individual homeowners or, less often, by a vacation rental management company. The majority of short-term rental properties are used flexibly throughout the year, serving as a part-time residence, and seasonally moving between short-, mid- and long-term rental periods. Short-term rentals are advertised directly to guests through personal websites or through online travel agencies (OTAs), like Airbnb and Vrbo. (Note: OTAs do not own short-term rentals).

In Vermont, a 2021 survey of 229 Vermont STR owners found that 86% of property owners operate only 1 or 2 short-term rental properties, and 69% of Vermont STR owners surveyed offer their rental unit as a long-term or seasonal rental for part of each year as well.[1]

While there is no aggregate data on how short-term rentals enter the marketplace, an STR is mostly likely to have derived from three potential sources:

1. A newly constructed or rehabilitated space;
2. A vacant seasonal camp or second home; or
3. A converted long-term rental or housing unit.

Consideration of how STRs are entering the marketplace is an important factor in determining the impact on housing availability and affordability.

[1] Vermont Short Term Rental Alliance, 2021, unpublished online survey. For details contact: info@vtstra.org

Background on Short-Term Rentals

STRs in Vermont

Vermont has a long-established history as a popular tourist and second home destination. Vacation home rentals have existed in Vermont for decades. In 2017, 17% of Vermont's housing stock were second homes, a rate that's among the highest in the nation, second only to Maine.[2]

Vacation homes and short-term rentals have popularized since the launch of the online platform, Airbnb, in 2008, and the capacity to offer short- and medium-term accommodation to visitors in Vermont continues to grow and diversify. About 3,600 out of the more than 877,000 US listings on Airbnb as of July 2021 are located in Vermont.[3]

In Vermont, the number of short-term rentals available to the general public fluctuates from year to year, ranging from roughly 6,000 to 8,600 between the years 2017 and 2021. This equates to about 2% of the state's housing stock, according to census data compiled by the Vermont Housing Finance Agency.[4] The prevalence of STR listings varies by county. Vermont counties with the most STR listings are: Windham, Windsor, Lamoille, and Rutland counties. Essex, Franklin, Grand Isle counties have the least number of STR listings.

Vermont STR Laws

Short-term rentals are regulated by the Department of Health, the Department of Public Safety's Division of Fire Safety, and the Department of Taxes. Act 10 (2018) defines a short-term rental as "a furnished house, condominium, or other dwelling room or self-contained dwelling unit rented to the transient, traveling, or vacationing public for a period of fewer than 30 consecutive days and for more than 14 days per calendar year" and gives authority to Vermont municipalities to regulate short-term rentals.

Vermont STR operators are required to pay the state's 9% Meals and Rooms Tax (MRT) on any rental that is less than 30 consecutive nights. Some municipalities charge an additional 1% local option tax on rooms. Vermont state law requires STRs to display the 'Short Term Rental Safety, Health and Financial Obligations' form inside the rental, but does not require it to be filed with the Department of Health.

Collecting and remitting MRT is the responsibility of the STR owner. However, in 2016, the Vermont Tax Department entered into an agreement with Airbnb wherein the platform agreed to collect and remit meals and rooms tax for every transaction at a property in the state.[5] In 2018, VRBO also began collecting and remitting MRT to the Vermont Tax Department on behalf of their Vermont hosts. This has ensured the vast majority of short-term rentals in Vermont are paying the appropriate taxes.

[2] 2017 Benchmark Report Tourism In Vermont, Vermont Department Of Tourism & Marketing, https://accd.vermont.gov/sites/accdnew/files/documents/VDTM/BenchmarkStudy/VDTM-Research-2017BenchmarkStudyFullReport.pdf
[3] AllTheRooms.Analytics, "Airbnb & Vacation Rental Statistics," April 2021, https://www.alltherooms.com/analytics/airbnb-statistics/
[4] https://www.housingdata.org/profile/housing-stock/short-term-rentals
[5] Hewitt, Elizabeth, "Airbnb to collect taxes for Vermont rentals," VT Digger, Sept. 15, 2016.

Background on Short-Term Rentals

State Regulation of STRs

Most states do not regulate short-term rentals, but rather leave the creation of standards and restrictions up to the municipalities, according to a review of STR regulations by state compiled by the National Association of Realtors in 2018.[6] In recent years, a growing number of local governments across the country, including many in Vermont, are creating ordinances and laws to regulate short-term rentals at a local level.

Short-term rental regulations have taken the form of local zoning restrictions, municipal or state-level registration requirements, or banning of short-term rentals completely. Nieuwland and Van Melik (2020) found that most cities are relatively lenient towards STRs, and set little to no complete prohibition restrictions, and rather choose to adopt regulations that mitigate neighborhood impacts.

The most common municipal regulations focus on setting limits to the number of guests, nights, and times of the year a property can be rented short-term. Other common requirements are defined safety precautions, information provisions for renters, or the requirement of primary residency for the host. However, in all cases, enforcement remains difficult due to the dynamic nature of the STR market.[7]

Photo Courtesy of Pete Curialle

"Regulatory intervention is less likely to restrain the growth of the home-sharing economy in the long-run even though there is a short-term deterrent effect of STR regulation on new entrants to the market...cap, standards, and eviction restrictions, have a parsimonious effect on containing both the new listing and the delisting."

~ Chen et al. (2021)

[6] https://realtorparty.realtor/wp-content/uploads/2018/11/HTA-Chart-State-Short-Term-Rental-Regulation.pdf
[7] Shirley Nieuwland & Rianne van Melik (2020) Regulating Airbnb: how cities deal with perceived negative externalities of short-term rentals, Current Issues in Tourism, 23:7, 811-825, DOI: 10.1080/13683500.2018.1504899

Community Impacts of STRs

Homeownership

Several studies have found that many people turn to STRs as a way to afford their homes, pay a child's school tuition, or "age in place." Especially in cities with expensive housing markets, STRs can help families afford to keep their homes, confirms Brumby McLeod, an Associate Professor of Hospitality and Tourism Management at the College of Charleston, studying short-term rentals.

- In South Lake Tahoe, a survey of 1,600 people revealed that 63% of property owners used STRs as "supplemental income in an expensive housing market."
- In Vermont, a survey of 229 STR owners found that 24% said their "STR is currently their primary source of income" and the majority of STR owners are over 50 years old.
- Across the United States, an Airbnb survey discovered 55% of all hosts said short-term rental hosting helped them to afford their homes.

Tax Revenue

The tax revenue generated by short-term rentals is not insignificant, especially for smaller municipalities. STRs can mean a new tax revenue stream for a municipality. And an important consideration is how short-term rental any tax revenue is allocated and used in a municipal budget.

- $7.8 million in Meals and Rooms Tax (MRT) and Local Option Taxes were remitted to the state of Vermont by Airbnb alone in 2018. The same year, Airbnb drew 341,000 guests to Vermont, yielding some $48.5 million in income for hosts, according to the Rutland Herald.
- $97.4 million in Meals and Rooms Tax was generated by tourism in 2019, according to the Vermont Agency of Commerce and Community Development.

In 2020, researchers from Harvard University's Joint Center for Housing Studies found that Wall Street-backed investors who own apartment housing raise rents faster than individual landlords, and between 2001-2015, the share of individual landlords in the rental housing market dropped from 65% to 40%.

Community Impacts of STRs

Job Creation & Local Business Activity

STRs are one of the fastest-growing shared economies in the world; and an extremely resilient sector of the hospitality industry. Having rebounded faster than hotels amid the COVID-19 pandemic recovery period,[8] the average duration of stays has increased, with monthly rentals becoming increasingly popular with the boom in remote working and relocation. Thus short-term rentals function in part as a temporary and transitional housing option for visiting and seasonal workers, and new residents.

Additionally, the secondary and tertiary economic benefits of STRs far exceed the income earned by the owner and lodging taxes paid to cities and states. STR guests shop at local stores, eat at local restaurants, and pay for local services and entertainment.

In 2019, visitor spending brought $3 billion into Vermont, according to the Vermont Department of Tourism and Marketing's 2017 Tourism Benchmark Report. Small town businesses benefit the most from the patronage of STR guests. In Vermont, hotels are concentrated in larger towns, but many small, rural Vermont towns and villages have zero visitor capacity aside from short-term rentals to draw additional revenue for local businesses.

According to an Airbnb survey in January 2019:

- 92% of hosts said they recommend restaurants and cafes to guests,
- 56% said they suggest cultural activities such as festivals, museums, and historical sites
- 41% of guests' spending occurs in the neighborhood where they stay.[9]

Fang et al. (2016) found that the presence of short-term rentals in US cities generates more jobs.[10] The industry not only supports higher-paying jobs in the hospitality industry, such as housekeeping and property care services, but also vendors, suppliers, and jobs in food and beverage, tourism, and other services that guests might use during their stay.

One example from an economic analysis of the impact of STRs in San Diego found that in the year between July 2014 and June 2015, STR guests spent nearly as much on things like food, beverages, entertainment, and transportation as they generated in lodging taxes. The added business activity supported 1,842 jobs in San Diego, according to the analysis by the National University System Institute for Policy Research.[11]

The key findings from a Lake Tahoe study[12] concluded that STRs:

- Significantly increased tax revenues for the city
- Captured a larger share of the tourist accommodation market (compared to hotels)
- Increased code enforcement complaints
- Decreased pressure on home values in the city

[8] Oliver, David, "Travelers are flocking to Airbnb, Vrbo more than hotels during COVID-19 pandemic. But why?", USA Today, Aug. 26, 2020, https://www.usatoday.com/story/travel/hotels/2020/08/26/airbnb-vrbo-more-popular-than-hotels-during-covid-19-pandemic/5607312002/
[9] Airbnb, "Airbnb Estimated Direct Economic Impact in the US nears $34 billion," July 22, 2019, https://news.airbnb.com/airbnb-estimated-direct-economic-impact-in-the-u-s-nears-34-billion/
[10] Fang, B., Ye, Q., & Law, R. (2016). Effect of sharing economy on tourism industry employment. *Annals of Tourism Research*, *57*, 264–267. doi: 10.1016/j.annals.2015.11.018
[11] National University System Institute for Policy Research, "Short-Term Rentals in the City of San Diego: An Economic Impact Analysis," October 2015.
[12] 2017, Socioeconomic Impacts Of Vacation Home Rentals In South Lake Tahoe, City of South Lake Tahoe, https://cityofslt.us/DocumentCenter/View/7908/SLT-Vacation-Home-Rental_Final-Report_6-5-17?bidId=

Community Impacts of STRs

Housing Availability & Affordability

Housing availability & affordability depend on several factors, the top influencers being the rate of housing supply growth relative to community demand, and restrictive zoning regulations. In 2021, the Vermont Housing Finance Agency reported that "Vermont's housing growth rate has declined considerably since the 1980s when it was increasing at a rate of 1.81% per year." The report states that "housing experts point to several causes contributing to this long-standing decline in home construction, including increasing costs for construction materials, labor shortages, regulatory restrictions and local opposition to development."

The housing affordability crisis is sometimes cited as a reason for banning or curtailing STRs. Some cities are concerned that STRs take up local affordable housing stock and drive up prices, presenting housing challenges for local residents. In an interview with Rent Responsibly, Brumby McLeod, an Associate Professor of Hospitality and Tourism Management at the College of Charleston who studies short-term rentals said that "the effect of STRs on the housing stock depends greatly on the housing mix in a specific community." The first step in regulating STRs, therefore, is to analyze the makeup of the housing stock in the local community and how it's being used, McLeod said. Many vacation homes in communities like Vail, Colorado, for instance, would not be part of the housing stock even if STRs were banned. "Many of those homes are not affordable for most people to purchase so that is not relevant to the housing stock or workforce housing," McLeod told Rent Responsibly.

Research by Oxford Economics suggests that STRs have a nominal impact on housing and long-term rental prices and that other factors are primarily driving housing unaffordability. In a 2019 study commissioned by Vrbo, Oxford Economics found that STR growth contributed just a 0.2% point of the 4.3% increase in rents, 1% of the 14.9% increase in housing prices between 2014 and 2018. In other words, had the number of STR remained the same (i.e. no growth) between 2014 and 2018, rents would have been just $2 per month less in 2018 than they actually were, according to the analysis.[13]

In the country's most expensive markets, housing has not been affordable for decades-long before STRs entered the scene. In Burlington, Vermont, for example, the annual vacancy rate was lower in 2006-2011 before Airbnb (founded in 2008) became popular. The annual vacancy rate grew from 0.7% in 2006-2011 to 1.5% in 2012-2018, despite the expansion of STRs in the city.[14] An annual survey in October 2020 on the apartment market in Chittenden County, home to Vermont's largest city, showed that the number of apartment units built each year directly influenced rent inflation. In the period of 2000-2009, when the number of new units averaged 154 per year, rent inflation averaged 4.2%. But in 2010-2019, when the average number of new units reached 416, average inflation was cut almost in half, to about 2.4%.[15]

The stagnation of median incomes compared with rising rental and house prices and lagging new construction amid high demand have played much greater roles in exacerbating the housing affordability crisis, the Oxford Economics study found. "This has important implications for a policy debate that has focused heavily on short-term rentals as both the cause of the problem of high house prices and its solution," the study stated. "The major sources of volatility in rental and house prices lie in economic and labor market outcomes." Curtailing the STR industry is unlikely to resolve housing unaffordability, the study concluded. Instead, the best way to decrease housing prices (and rents) is to increase the housing supply by issuing more building permits.

[13] Oxford Economics, Vrbo, "The Drivers of Housing Affordability," November 2019. https://www.oxfordeconomics.com/recent-releases/the-drivers-of-housing-affordability
[14] https://www.burlingtonvt.gov/sites/default/files/Agendas/SupportingDocuments/Composite%20Slides%20STR_to%20post%20to%20web%2012012020_0.pdf
[15] Allen, Brooks & Minor, Report on the Chittenden County Apartment Market, October 2020.

Best Practice Regulatory Solutions

Registration Systems

Creating a framework to track and understand the STR landscape in a town identifies and defines positive and negative impacts of STRs in a community and enables policymakers to design data-driven regulations that address verified issues and deliver desired outcomes. While industry data providers can provide approximations, the best way to get a more accurate picture is through a registry. The registry must be backed by a data security system to keep registrants' personally identifiable information protected.

Registration programs can help local governments identify how much of their housing stock operates as STRs, collect tax revenue they're owed and increase communication and educational exchanges with operators.

A challenge in the new STR regulation landscape is awareness of and compliance with new regulations. Fortunately, technology is quickly developing to help local jurisdictions with compliance. STR compliance software can help state and local governments to flag STRs that are out of compliance by aggregating and monitoring internet listings for STRs and cross-checking them with records from the local jurisdiction, including tax payments, licenses, registrations, and permits.

Complaint Reporting Services

Platform Reporting

Major STR platforms have systems for reporting STR issues to local authorities. For example, Expedia Group has the Stay Neighborly portal, where neighbors and government officials can report problems to the company. Airbnb has a similar system, and the two platforms recently announced the Community Integrity Program, which allows the platforms to share information about problematic properties to prevent a bad operator from platform hopping when banned from another platform.

Phone Hotlines

Twenty-four-hour hotlines have shown to be an effective solution for addressing STR-related complaints. The city of Killington, Vermont, for instance, requires owners to register their STR with the city. Additionally, the city has hired a compliance software company to manage a complaint hotline where residents can report noise and other nuisance incidents. Thanks to the registry, city employees have contact information for the owner or manager of the STR and can quickly get in touch with them when an incident occurs.

A hotline that started in September 2020 in Sedona, Arizona, where there are about 1,269 short-term rentals, receives an average of about 26 calls per month, which represents about 2% of all listings, according to LODGINGRevs, which administers the hotline.

Ultimately, educating hosts and managers is critical to successful compliance, and cities and other local governments are in a unique position to educate hosts during municipal licensing or registration processes.

Best Practice Regulatory Solutions

Safety Standards

Because renting a home as an STR is a residential use, the regulations are different from those of traditional lodging establishments such as hotels and bed and breakfasts. STRs generally are required to comply with the International Building Code and local rental codes like any rental. Creating additional safety standards for STRs is an important regulatory action a local government can take.

“The Vermont Division of Fire Safety has one of the best safety checklists in the country, yet many Vermont STR owners are unaware of the requirements,” says Justin Ford, an STR safety expert with Breezeway and a former fire chief. Inspections that rely on municipal inspectors to ensure safety compliance can be an expensive and time-consuming undertaking for both local jurisdictions and owners. In Palm Springs, where officials enacted one of the most stringent safety ordinances, STR owners pay nearly $1,000 a year for annual registration and safety inspections, Ford said.

While cities have the option of creating their own inspection programs, whether routine or complaint-based, many have chosen to outsource the task. Breezeway, for instance, is developing standardized inspections through its safety checklist app, which could be leveraged by a city or state. Alternatively, municipalities could require owners to sign a form attesting that they have complied with local safety requirements.

Insurance Requirements

STR insurance is another area where local governments can improve safety at STRs and provide peace of mind for neighbors. Standard homeowners insurance policies do not cover STR activity, so more and more jurisdictions are requiring liability or STR-specific insurance. However, the language in these ordinances often doesn’t define the type of liability insurance that is required. Few local governments have enacted exact language. However, some cities, like Nashville, have adopted the requirement for a minimum of $1 million liability insurance.

Requiring specific types of STR insurance may also help to trigger safety inspections by underwriters and checklists for things like smoke alarms, fire extinguishers, and chimney cleaning. STR insurance companies like Proper Insurance verify that standard safety measures are in place.

Other cities, like Chapel Hill, North Carolina, opted out of requiring STR-specific insurance policies in their ordinance, citing the liability to the city in the event of an incident not covered by such a policy or incomplete coverage, said Alexa Nota, co-chair of Chapel Hill’s STR Task Force. Instead, Chapel Hill opted to notify STR permit applicants at the time of application that standard homeowners’ policies do not cover certain losses or liability related to STR activity and that they should have proper STR insurance coverage for reservations booked outside of the insurance-providing platforms.

Best Practice Regulatory Solutions

Nuisance Prevention

Nuisance incidents, such as excessive noise and parking issues, tend to be the top complaint about STRs from neighbors in the U.S. In a survey in South Lake Tahoe, for example, more residents cited noise, trash, and parking problems than any other concern related to STRs.[16]

Noise is one of the most cited disruptions attributed to STRs.[17] Overall, STRs don't generate more noise than long-term rentals on average, according to a noise audit of 40 properties in Charleston, South Carolina, in 2016.

A VRM Intel article reported that:

- Living next to a short-term rental does not necessarily mean you will have a louder neighbor than living next to a long-term occupant.
- The positive correlation of maximum capacity with loudness indicates that the higher the number of occupants at a property—whether short-term or long-term—the greater the chance of potential noise issues.[18]

Local governments have effectively taken proactive steps to prevent and quickly mitigate noise incidents with mechanisms like establishing complaint hotlines and requiring a responsible party to be available 24/7 to handle noise (and other) issues. Another up-and-coming trend in these types of policies is requiring STR owners to install noise monitoring systems. During a 30-day pilot in Scottsdale, Arizona, for example, noise monitoring cut the length of the average noise incident from 42 minutes to 21 minutes, said Eric Pace, Senior Director of Partner Operations at NoiseAware, manufacturer of a popular noise monitoring device.

In April 2021, Hollywood, Florida, began requiring noise-level monitoring at STRs, following in the footsteps of Henderson, Nevada, near Las Vegas, and North Las Vegas, both of which passed similar ordinances in 2020. In Hollywood, the noise monitoring requirement is part of the STR licensing requirement, presenting an opportunity for educating hosts on how they can reduce the chance of noise nuisances at their properties.

In most cases, towns and cities have nuisance ordinances and enforcement mechanisms that apply to *all* properties, and the simplest solution is often to ensure community members know how to report issues and violations accordingly. Still, policymakers can equip their STR ordinance with STR-specific nuisance prevention measures, such as requiring proof of adequate parking and trash removal procedures, noise monitoring, occupancy limits, and a designated responsible party to handle any issues arising from STR activity.

[16] Michael Baker International, "Socioeconomic Impacts of Vacation Home Rentals in South Lake Tahoe, June 5, 2017.
[17] Porch, "Do Short-Term Renters Make Good Neighbors?", Porch, https://porch.com/resource/do-short-term-renters-make-good-neighbors
[18] Krauss, David, "Average Noise Levels Compared in Short-Term Rentals and Long-Term Occupied Homes," VRM Intel, Aug. 6, 2018.

Conclusion

The STR industry has become an increasingly important part of visitor lodging and transitional housing in cities around the world providing opportunities for tax revenue and economic growth within communities. Cities need to adopt fair, effective and customized regulations for STRs.

Regulations can capitalize on the benefits of the industry like generating tax revenue, growing the number of jobs, opening up affordable lodging options to the general population, expanding tourism in areas with limited hotel accommodations, and supporting homeownership and aging-in-place in high-cost housing markets. They also can protect the local community from noise and other nuisances and guests from unsafe lodging situations.

By collaborating with members of the STR industry, cities and states can learn about technology options that will help them achieve their goals in regulating STRs while crafting policies that balance the interests of the community at large.

City and town officials are invited to refer to the VTSTRA's Policy Guide for Regulating Short-Term Rentals for detailed guidance on how to design and implement best-practice regulations for short-term rentals in Vermont's municipalities.

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