



---

Memorandum

TO: Town Council

FROM: Finance Department

DATE: April 5, 2022

SUBJECT: Short-Term Rental Study

## I. SUMMARY

The purpose of this memo is to propose policy change recommendations to the current short-term rental ordinance based on the conclusion of data and analysis from the short-term rental (STR) study presented at the January 18, February 15, and March 15, 2022, Vail Town Council Meetings. Council indicated their support at the last meeting to increase penalties for violations, increase fees for registrations, create requirements for increased insurance and fire safety inspections. This memo focuses on further discussion on a potential cap for STR registrations in business license Zone 2 and requests feedback on new fees to fund housing initiatives.

## II. BACKGROUND

### Conclusions of the Short-Term Rental Study

Throughout the short-term rental study, a considerable amount of data and analysis was presented on short-term rental activity in the Town of Vail. To summarize, the study reviewed current regulations, real estate market impacts, peer community approaches to regulation, and the granular location densities and inventory composition of the registered STR properties throughout town.

Below is a summary of key findings from the study:

- 31% of residential parcels were registered as STRs (a total of 2,454 units)
- 18% of units in Zone 2 were registered as an STR in 2021 with new registrations in Zone 2 occurring at a higher rate since January 2020 than in prior years
- 138 of the 410 properties sold (one-third) during 2021 were registered as an STR before the sale, after the sale or both
- Vacant homes and those used for seasonal, recreational, or occasional uses represent 69% of the town's housing stock according to census data; this did not change significantly between 2010 and 2019
- Saturation of STRs in business license **Zone 2** is significantly lower than the overall rate of 32%. When adjusted for STRs located in developments with 24/7 onsite management, **the saturation rate is at or below 20% in these areas**

- Data suggests that though the full-time resident population in Vail has increased, **the population of locals aged 18-34 has declined**
- The number of owner-occupied housing units increased from 2010 to 2019, while the number of long-term rentals decreased resulting in a **net loss of 162 local occupied rental housing units**

### III. DISCUSSION

The study has presented the challenges that come with managing STR activity while trying to address local housing availability. In this discussion, we will revisit registration limits (“caps”), as well as the different types of fees the town could implement for STR registrations. In response to questions raised during the last Council meeting, staff is providing further context for a registration limit.

#### Registration Limits (“Caps”)

At the February 15 Council meeting, two options for limiting STR registrations in business license Zone 2 were discussed with the Town Council requesting further clarification and consideration of a limit or “cap.” The below “Options” are the same as proposed on March 15<sup>th</sup>:

#### Option 1:

**In Zone 2, no more than 20% of units in a multi-unit building or complex governed by a common HOA with 6 or more units may obtain an STR registration – unless the unit is a fractional property or in a building with a 24/7 front desk present.** This type of cap has been implemented in other places in an attempt to counter “distortions” of the housing market impacted by STR activity. The City of Minneapolis limited total registrations in buildings with 20 units or more to no more than 10% of available units. Their Business, Inspections, Housing and Zoning Committee identified this ordinance as a “safeguard [for] the availability of affordable housing for low-income residents.” In 2021 in the Town of Vail, attached housing products (all residential units other than single-family homes) had a median sale price 11% lower than the overall median sale price of \$1.4M. The properties located in these types of structures are therefore more attainable to low and median-income earning residents than single-family residences.

#### Option 2:

**Rather than limiting registrations by building or development, limit the overall number of registrations in Zone 2 (or in specific neighborhood areas) to their current level.** This option would not depend on the home type as option 1 would require. Zone 1 consists of properties primarily located in the resort village areas, while zone 2 is the outlying areas of town. Staff recommends adopting this with the same exemptions listed above and one additional exemption:

- A. Beginning **January 1<sup>st</sup>, 2025**, units that have been owned continuously by the same person or entity for a period of not less than **5 years** immediately before the registration application date, shall be exempted from the registration cap. *Staff recommends this*

*exemption to reduce the potential undesirable side effect of second homes which may remain vacant if not allowed to rent short-term. This would also curtail buyers only interested in STR properties as a source of revenue. It would also limit new STRs to owners which have been invested in the community and individual neighborhoods for a significant period.*

**Staff recommends considering these options as a way to limit potential speculative buying of properties by new owners interested in converting units into an STR “business.” Requiring a 5-year ownership period prior to newly registering an STR would impact the potential revenue flow of a prospective buyer while limiting registrations in multifamily buildings would target more affordable housing options.**

**Both options would limit STR registrations to a level similar to where they are now, thus reducing the potential impacts on neighborhood character caused by further STR registrations in Business License Zone 2.**

**These options are not mutually exclusive and could be combined. Because this type of limitation on STR activity in mountain towns is relatively new, staff recommends revisiting the efficacy of such ordinance periodically.**

### **Tiered Registration Fees**

The Town of Vail’s current registration fees are lower than peer communities and are well below the town’s administrative costs for STR enforcement. Staff recommends using a tiered fee structure based on impact levels and usage. At the last council meeting, Town Council expressed support for the following base fees for STR registrations.

- **Base Fees to Cover Administrative Costs**

Base Fees (to cover Admin costs)		Annual Estimated Revenue
Fractional Managed by Owner	\$25 Per Owner	\$2,000
Fractional Managed by Front Desk	\$150 Per Unit	\$25,000
Owner Occupied, Primary Residence		
30-Day Registration	\$25	\$2,500
Owner Occupied, Primary Residence STR	\$150	\$22,500
Non-Primary Residence STR	\$150	\$300,000
		<b>\$352,000</b>

The estimated \$352k in base fees would cover the following administrative costs at the town:

- STR registration and compliance software fees
- The salary of the full-time Short-Time Rental Specialist employee
- Legal and other administrative costs
- Costs related to responding to STR complaints, including fire department and code enforcement staff time

- e. The anticipated costs of the proposed fire safety inspection requirement for STR registrations

- **Per Bedroom Fees to Fund Local Housing Initiatives**

Town Council also expressed support at the last meeting toward adopting a per-bedroom fee to fund housing initiatives. As covered previously by the fee nexus study, guests staying in STRs spend money in the local economy. This spending is primarily in the retail, food and beverage, and recreation industries which supports jobs that do not pay enough for employees to afford market-rate housing in the town. The basis of this fee is therefore the gap between what employees can afford and the cost to purchase an attached home in Vail. The calculation also accounts for the possibility that a home used as an STR could be occupied by a local resident, and the fee is further based on the difference between the impact of guest spending on the local economy versus the baseline impact of local residents spending. The charts below show a few options for per bedroom fees, based on the maximum fee of \$5,912.

Description	Fee Per Bedroom	Est. Annual Revenue
<b>Maximum Annual Fee</b>	<b>\$5,912</b>	<i>5,700 bedrooms</i>
<b>Mitigation Rate</b>		
15%	\$900	\$5,130,000
20%	\$1,200	\$6,840,000
25%	\$1,500	\$8,550,000
30%	\$1,800	\$10,260,000
35%	\$2,100	\$11,970,000
40%	\$2,400	\$13,680,000
45%	\$2,700	\$15,390,000
50%	\$3,000	\$17,100,000

---

Source: Economic & Planning Systems

**Staff recommends considering a lower per-bedroom fee for owner-occupied primary homes and fractional owner registrations**, a total of 460 units would apply.

Description	Fee Per Bedroom	Est. Annual Revenue
-------------	-----------------	---------------------

**Maximum Annual Fee**      **\$5,912**      *5,700 bedrooms with 460 at reduced rate*

**Mitigation Rate**

15%	\$900	\$4,852,000
20%	\$1,200	\$6,454,000
25%	\$1,500	\$8,056,000
30%	\$1,800	\$9,658,000
35%	\$2,100	\$11,260,000
40%	\$2,400	\$12,862,000
45%	\$2,700	\$14,464,000
50%	\$3,000	\$16,066,000

The revenue generated by the per bedroom fee would be allocated to the town's Housing Fund for investment in housing initiatives, developments, and programs.

**To provide context on how these fees may impact STR revenues, the following chart shows average nightly advertised rates in zone 1 and 2 and potential STR unit revenues based on different levels of rental activity.**

	Average Nightly Rate	Average # of Bedrooms per STR	Est. Revenue @ 30 Nights Per Year	Est. Revenue @ 100 nights per year	Est. Revenue @ 200 nights per year	Est. Monthly Avg. Rental Rate Per Bedroom	Est. Annual Avg. Revenue for Long-Term Rental
Zone 1	\$1,096	2.3	\$32,894	\$109,645	\$219,290		
Zone 2	\$499	2.7	\$14,981	\$49,938	\$99,876	\$1,350	\$43,740

At \$2,000 per bedroom, the total base fee and per bedroom fee for an average unit in business license zone 2 would be **\$5,550 per year**. This is estimated to be more than 10% of the average revenue generated per STR unit in Town. With the recommended lower fees for owner-occupied primary residences, the average annual fee would be \$295 for a 30-day or less rental or \$405 for unlimited host-present rentals.

#### IV. CONCLUSION

The short-term rental study has analyzed data across several areas of interest to help understand a broad scope of the short-term rental industry and re-examine our current town ordinance. Staff has identified multiple areas of adjustments in town policy to meet the Council's expressed interest to amend the short-term rental ordinance. In summary, the policy recommendations address life safety standards, complaints and violations, registration fees, improving compliance, and the impacts of STRs on long-term housing availability.

## **V. ACTION REQUESTED OF COUNCIL**

Please provide feedback and direction to staff regarding these recommendations for policy updates to the short-term rental ordinance.

1. Does the Council wish to implement a limit to the number of registrations in business license Zone 2 or in more specific neighborhood areas? Is there a preference for the method of limiting registrations i.e. Option 1 or 2?

During the March 16<sup>th</sup> meeting, Town Council was supportive of the following items, however, staff is requesting additional feedback or confirmation of support as we draft an ordinance that will be presented on April 19<sup>th</sup>:

1. Council supported increasing fines and penalties for violations of the STR code to \$1,500 and \$2,650 and supported late fees for registration renewals of \$2,650.
2. Council supported increasing fees to cover administrative costs, but does Council also support increasing fees to offset term long-term housing impacts? At what level? Does the Council wish to implement tiered fees and registrations with reduced rates for primary residences occupied by local owners and fractional units?
3. Council supported an update to health and safety standard requirements for STRs including
  - a) Fire department inspections
  - b) Insurance requirements
  - c) Occupancy limits
4. Council was supportive of the administrative change to remove local representative requirements for fractional units and units with 24/7 onsite management.