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Authors	Weddell, Melissa;Bigart, Elena
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Introduction

Short Term Rentals (STR) are considered a part of the sharing economy. The term “sharing economy” refers to the borrowing or renting of unused assets, which may include a car, a parking space, a bedroom, a house, a boat, or intellectual property (Forgacs & Dimanche, 2016). One of the defining features of STRs is their flexibility. They can be rented out on a nightly or weekly basis, allowing travelers to find accommodations that suit their needs and schedules. Short-term rentals can take many forms, including vacation homes, apartments, condos, and even individual rooms within a larger residence. Many STRs are available through online platforms such as Airbnb, VRBO, and HomeAway, which allow hosts to list their properties and renters to search for and book accommodations. STRs have become increasingly popular in recent years as they offer a more personalized and affordable alternative to the expensive commercial hotel setting, the opportunity to interact with local people, the convenience of a kitchen, the “at-home feeling,” and novelty (Nickerson & Fitzgerald, 2018). However, they have also raised concerns about their impact on housing affordability, community safety, local tax revenue, and triggering gentrification processes (Nieuwland & Van Melik, 2020; Nickerson & Fitzgerald, 2018). As a result, governments have been challenged to regulate and manage the impacts of STRs (Gottlieb, 2013; Nieuwland & Van Melik, 2020).

Montana experienced almost 12% population growth between 2010 and 2021, with its largest increase of 1.7% between 2020 and 2021. This growth has been concentrated in Western Montana, specifically in areas like Bozeman, Missoula, and Kalispell. This is in unison with the growth of STRs, bringing perceptions of both positive and negative impacts on the communities, hosts, and guests. Platforms like VRBO and Airbnb have streamlined the process for owners and renters to communicate and transact. T The COVID-19 pandemic exacerbated the demand for STRs as people were looking for accommodations with little human interaction, and remote workers were seeking places to stay for extended lengths of time. While these rentals benefited tourists and generated income for homeowners, communities struggled with housing shortages, affordability, and inflation (Furukawa & Onuki, 2019). While tourism entered the narrative as a key cause of the housing crisis, the housing shortage post-pandemic was multifaceted with many contributing factors, including increased demand in rural areas, low interested rates, supply chain disruptions, land-use regulations, existing housing inventory, and economic inequality (Clancy, 2020). This research aims to understand the multiple factors and broader context that contribute to tight housing markets in Montana, which has over 12 million tourists in contrast to 1 million residents.

Literature Review

The vacation rental market was revolutionized by Airbnb in 2008, when individuals could rent rooms, camping sites, and entire homes directly from the owner. They now have 4 million hosts and more than 1 billion guest arrivals in almost every country globally (Airbnb, 2023). Vacation Rental by Owner (VRBO) was founded in 1995 and followed a more traditional home rental model, often set up in local communities by property management companies, and now has 2

million vacation rentals on its platform (Hotel Charter Report, 2022). The advances in STR online user platforms and market demand by vacationers, in addition to the opportunity for homeowners to earn extra income, have led to discussions about unstable housing markets and the potential impact of STRs on housing shortages and affordability. Recent studies (Furukawa & Onuki, 2019; Clancy, 2020; Robertson et al. 2020; Wyman, et al. 2022) have found that many factors contribute to the housing crisis, and the relationship between STR and availability may not be a strong one.

STR Impact

Short-term rentals can have several positive aspects, including offering flexibility in terms of location, length of stay, and amenities; being more cost-effective than commercial hotels for families or groups who need multiple rooms or amenities like kitchens and laundry facilities; providing unique experiences such as staying in a farm, treehouse, or boat; providing an economic boost to local communities by generating tourism revenue and supporting local businesses; and providing a source of additional income for homeowners and landlords to cover mortgage payments or other expenses. Overall, short-term rentals can offer a range of positive benefits for travelers and local communities but must be balanced with the potential negative impacts. STRs can be problematic for several reasons. They can disrupt residential communities by bringing in a revolving door of unfamiliar faces, noise, and parties. This can lead to conflicts with neighbors, property damage, and general disruption to the peacefulness of a residential area. STRs can also contribute to housing affordability issues by reducing the available supply of long-term rental units. Homeowners and landlords may find it more profitable to rent their properties short-term, leaving fewer options for long-term renters. Another concern is that STRs are not subject to the same regulations and safety standards as commercial hotel and hospitality businesses. This can create safety concerns for renters, as there may be no inspections, background checks, or safety features or using STRs for tax evasion and not reporting rental income to appropriate authorities. While STRs can provide a convenient and flexible lodging option for tourists, they have the potential to impact communities, housing affordability, safety, and tax revenue.

Several studies have attempted to document both positive and negative STR impacts in the U.S. and beyond. For example, DiNatalie et al. (2018) examined the prevalence and characteristics of Airbnb, the revenue potential from lodging taxes, and the impact on long-term housing supply in 237 small Oregon communities. The authors found that the prevalence of STRs varies drastically across cities and is highest in tourist areas. In the cities where hotels are not available, STRs positively impact lodging opportunities, but in other cities, they pressure tight housing markets and draw complaints from residents. However, while cities perceive STRs to be an issue, only 35% of survey respondents were regulating STRs in Oregon at that time. Garza and Hooton (2017) examined the relationship of STRs with the residential housing market and the hotel market in Seattle, WA, using data from STR providers, the hotel industry, American Housing Survey, and other sources. No evidence was found that STRs negatively impact either the residential housing market or the commercial hotel market. Rather, case studies provided some initial evidence that STRs may support homeownership for individuals and families by effectively providing revenue to local neighborhoods and leading to market creation in diverse accommodations.

Wills (2016) looked at the STR impacts on communities and the economy in South Carolina. The paper compared stated Airbnb's positive impacts on (1) consumers and the hotel industry, (2) neighborhoods and local businesses, and (3) residents and households with the STR impacts in South Carolina. Stated impacts include, in particular, the attraction of new visitors who stay longer than traditional tourists, spend more on local businesses, and are more likely to return to the market due to their experiences. Also, the income earned from STRs helps local hosts pay for regular household expenses like rent and groceries; for some, it is a deal breaker to remain in their homes. Many issues Charleston has faced regarding STRs have arisen from confusing and less-than-transparent zoning ordinances and regulations in a growing STR market. Robertson et al. (2020) examined how STRs contribute to "tourism gentrification" along with significant investments in promoting mass tourism in New Orleans, MS. The study examined the growth of STRs and impacts on the existing rental housing market through varied data sources and found STR platforms quickly open and close rent gaps in historic, low-income neighborhoods outside of traditional tourist locations.

Moreover, STR allowed significant revenues for a small group of landowners/investors and potentially removed long-term rental units from the market. This study also noted that while most STRs were in tourist zones, others were in historically Black lower-income neighborhoods that face tourism gentrification pressures. Wachsmuth & Weisler (2018) also analyzed the relationship between STRs and gentrification but focused on New York City. Using spatial analysis, they identified neighborhoods whose housing markets have already been significantly affected by STRs, neighborhoods under threat of gentrification, and the amount of rental housing loss to Airbnb. They found that Airbnb introduced a new potential revenue flow into housing markets which is systematic but geographically uneven, creating a new form of rent gap in culturally desirable and internationally recognized neighborhoods.

Nickerson and Fitzgerald (2018) reviewed STR opportunities and challenges for Whitefish and Gardiner, Montana residents. Opportunities included financial benefits for homeowners, especially for singles with high rents, retirees with empty homes, or couples with spare rooms that need extra income. Investment is another opportunity, as the STR rental market is growing. Income from STRs can sometimes make more money for the owners than long-term leases, and owners could occasionally have a vacation home to enjoy themselves. Impacts and challenges included increased home prices, reduced workforce housing, affordable housing stock, and changes in a neighborhood's complexion. Wyman et al. (2020) examined the economic motives and costs of short-term rental properties in the City of Isle of Palms, SC. Using home sales data, they found that STRs sell at a price premium relative to long-term rentals and owner-occupied properties, which provides evidence as to why residential property owners select STR operations. No pricing impact associated with proximity to STRs was found, indicating homebuyers are unconcerned with the perceived community nuisances. According to the study, the positive economic return accruing to STRs suggests that the STR marketplace will continue to develop as a strategic competitor to traditional tourist lodging operators.

STR Policies and Regulations

STR's negative impacts often encourage state and city officials to propose specific regulations and policies to mitigate adverse effects. Several studies have focused on analyzing such regulations and their effectiveness or lack thereof. Scanlon (2017) looked at the STR impacts on housing and neighborhoods in New York City, Santa Monica, and Denver and associated zoning laws to restrict STRs. He argued that these cities continue to struggle to "find the sweet spot of protecting the property rights of citizens while protecting the quality of life of their neighbors" (p. 591). One of the ways to regulate STRs is zoning. However, while the authority to enact zoning laws is extensive, it should be exercised with caution and address the complexity of the STR phenomenon.

Gottlieb (2013) argued that the expansion of STRs presents local governments with a controversial policy debate, requiring them to decide whether to ban, encourage, or limit STR regulations. Many existing regulations were drafted without consideration of this type of use and often failed to provide clear guidance to either homeowners or regulators. Palombo (2015) looked at the approaches of New York City and San Francisco to regulate STRs. He argues that NYC's conservative position finds Airbnb detrimental to the city and its hospitality and tourism industries. At the same time, San Francisco, the birthplace of Airbnb, takes a more liberal approach and seeks to regulate STR operations by incorporating them into the city Administrative Code. The latter, in combination with Airbnb's Shared City Initiative, was named the "ideal catalyst for the future of home-sharing in cities across the U.S." Lee (2016) provided an overview of the Los Angeles affordable housing crisis, and STRs impact on it. The paper suggests that Airbnb is a response to, not a cause, of gentrification and the affordable housing crisis in the city. Unregulated rentals may cause rent increases, reduce the housing supply, and exacerbate segregation. The call is for Airbnb to become a responsible partner and facilitate the goals of affordable housing advocates. Cloonan (2017) suggests that STRs and local governments should cooperate and co-exist instead of fighting and proposes zoning and land use regulations as a tool to help companies like Airbnb flourish. Airbnb, in turn, should help cities by forcing their hosts and guests to comply with local law. Kim et al. (2017) empirically examined the effects of regulation restricting STRs on property sales prices in Anna Maria Island, Florida. The results showed that non-resident ownership of properties on the island and property values decreased following the rental regulation, except in areas where the density of non-resident owned STRs in a neighborhood was relatively high.

Internationally, Aguliera et al. (2019) looked at the diversity of policy responses to STRs in Barcelona, Paris, and Milan. Their principal findings emphasize that the differences in regulations can be explained by the type of actors who politicized the issue and the distribution of competencies between the city and higher tiers of government. Also, the main stakeholders involved in proposing regulations include professional STR operators, an association of hosts, the hotel industry, residents' associations, sharing economy advocates, and corporate platforms. Nieuwland & Van Melik (2020) examined the negative impacts of STRs on housing, neighborhoods and hotels, and existing policies and regulations in several European and American cities. It was found that most cities are relatively lenient towards STRs, with little to no (complete) prohibition. Instead, cities tend to limit the number of guests, nights, and times a property can be rented, demand certain safety precautions and information provisions, or require

primary residency. Regulations are primarily directed to mitigate neighborhood impacts. Enforcement remains challenging due to the STR market's dynamic nature and online practice.

This review of selected studies suggests that STR impacts, policies, and regulations differ significantly within the U.S. and worldwide. Consequently, many local factors determine the development of STRs, and it is critical to study the local context to understand better the full scope of challenges and opportunities associated with STRs at a community level.

In 2020, The Institute for Tourism and Recreation Research (ITRR) assessed some of these impacts and usage of STRs in Montana and reviewed AirDNA data for selected metrics (Bigart et al., 2021). Since 2014, there has been a clear growth trend in the number of listing nights for the STRs that offer the entire place to their guests. For example, the number of available listing nights for entire places in Montana in June 2020 increased 25 times compared with June 2015, while the number of booked listing nights increased 33 times, respectively. It was found that over 12,000 STRs had been active in Montana in 2020, with Flathead and Gallatin Counties (near iconic National Parks) showing the highest volumes and Madison and Park Counties having the highest densities of STRs per household. In addition, a wide variety of regulations were revealed around the state, ranging from no regulations in some smaller towns and counties to special use permits, specific zoning for STRs, and limitation on the numbers in tourism communities. Perceived positive impacts of STRs in Montana included diverse visitor accommodation options and income opportunities for residents. At the same time, disruptions for neighbors, loss of community identity, change of community feel, and potential impact on long-term rentals and affordable housing were named as perceived challenges. The latter concerns attracted significant interest in the study, resulting in several inquiries about measuring the specific impacts of STRs on housing availability in the state.

The 2023 follow-up study aims at exploring in greater detail the prevalence of STRs in different counties of Montana and the potential connection between STRs and the availability of housing in the state. In addition, this research will expand the Furukawa & Onuki, 2019 study in creating an STR Friendliness rating based on zoning, licensing, and type of STR, which aims to understand the relationship between STR friendliness, occupancy, and housing markets.

Methodology

The research is being conducted in three phases. First, a thorough literature review to understand the full scope of STR challenges and opportunities, specifically post-pandemic, as the research has expanded. Second, examination of AirDNA data of Montana and map locations of STRs. Third, qualitative interviews with Montana city and county officials to understand changing regulations and their success, as well as current perceptions of STR impacts and changes. This data expands on the previous study related to STRs in Montana and assists the state and communities with data metrics needed for understanding the market over time.

Study Goals

This study aims to examine the changes in the Montana STR market after the 2020 study and expand the research on the relationship between STR, tourism, and housing markets.

Furthermore, this research will examine the changes in the Montana STR regulations, occupancy, and policies over time and perceptions of STR impacts.

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