



# City of Homer

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## Memorandum

TO: Mayor Castner and Homer City Council

FROM: Rob Dumouchel, City Manager; David Parker, Special Projects Coordinator; and Ryan Foster, Special Projects Coordinator

DATE: September 27, 2022

SUBJECT: Short Term Rental Basics

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The popularity of short-term rentals (STRs)<sup>1</sup> have exploded in the last decade with the development and proliferation of online and app-based services such as Airbnb and VRBO. STRs are particularly popular in Homer with an estimated 326 units available, a significant portion of the local housing stock. This memo presents the positive and negative impacts of STRs, local context for STRs, and provides case study information regarding STR regulations methods found in other communities.

### Impacts of STRs

For many years, the public perceptions around STRs in Homer have been largely positive. Anecdotally, STRs have been a method that many residents have used to enhance their income and ensure that they are able to continue to afford living in Homer as a permanent resident. The problem is that as this “side hustle” has grown more common, STRs are also seen as a force that is displacing potential residents and seasonal workers. While the increase in STR inventory is great for tourists, it appears to be coming at the price of the labor required to service the tourists that flock to Homer every summer.

Potential positive effects from STRs are many, perhaps the most acknowledged is that an increase in available STRs in areas with an established or burgeoning tourist industry can augment the number of hotel rooms, increasing opportunities for both businesses and tourists. For non-corporate STR operators, there is increased revenue from “home sharing” in which they rent a portion of their residence to supplement their income. Investors who purchase properties to generate rental income can often find a more financially lucrative benefit from an STR than a long-term rental, including increased revenue and lower costs. In a 2019 study published in the Harvard Business Review<sup>2</sup> home sharing through Airbnb contributes to ~20% of the average annual rental increases in the US and approximately 7% of housing cost. Other studies have similarly found that STRs can result in higher property prices and rents for homeowners.<sup>3</sup> One public upside

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<sup>1</sup> Short-term rentals (STRs) are commonly defined as the rental of all or part of a residential dwelling unit for a duration of occupancy of less than 30 days. There are three basic varieties of short-term rentals: (1) hosted sharing, where the primary occupants of a residence remain on-site with guests; (2) unhosted sharing, where the primary occupants of a residence vacate the unit while it is rented to short-term guests; and (3) dedicated vacation rentals, where there are no primary occupants.

<sup>2</sup> <https://hbr.org/2019/04/research-when-airbnb-listings-in-a-city-increase-so-do-rent-prices>

<sup>3</sup> Zou, Z. (2019). Examining the impact of short-term rentals on housing prices in Washington DC: Implications for housing policy and equity. *Housing Policy Debate*.

to the increased costs is the potential for increased tax revenues for local governments.<sup>4</sup> Additionally, some researchers have found that there is a correlation between STRs and increases in tourists and tourism jobs.<sup>5</sup> While many of these factors are positive for landowners, they don't necessarily benefit year-round residents nor seasonal workers.

There are several associated downsides to the proliferation of STRs. The negative externality most feared by those in Homer is that whole unit STRs reduce the number of available rental properties for residents and seasonal workers. This reduction of housing has a ripple effect across the local economic system, impacting businesses who need employees, customers of those businesses who need services and products, and local governments who rely on property taxes. Other negative impacts of STRs can include increased competition for parking; reduced security and increased disruption by noise and steady flow of strangers within neighborhoods<sup>6</sup>; closure of lower end hotels, income disparity among residents;<sup>7</sup> an undermining of community character and reduction in residents which support community activities;<sup>8</sup> and gentrification, residential segregation, and inequality.<sup>9</sup> Research suggests that the density of STRs in any one neighborhood is a major contributor to the level of disruption caused by the land use. Areas with higher owner occupancy rates are less impacted by the influences of STRs, indicating that whole unit rentals are mostly rented by landlords who are not "on site," indicating that most impacts on the community are from STRs resulting from an investment property.<sup>10</sup>

### **Short Term Rental (STR) Context for Homer, AK**

The housing market is known to be tight in Homer. Many locals perceive one of the major issues to be an overabundance of STRs versus long-term rentals. Looking at the available non-commercial residential parcels (2,201), the number of active STR listings (~326), and an average of only eight active Craigslist postings per week for long-term rentals, it's not difficult to see how people have come to believe that there is a serious housing problem in Homer.

The City of Homer has approximately 5,922 full-time residents living in 2,261 households, of which 1,415 (62.6%) are owner occupied.<sup>11</sup> According to the most recent tax census from the Kenai Peninsula Borough (KPB), the City of Homer includes 4,458 parcels, of which 2,201 (49.4%) are non-commercial residential. Of the residential parcels, 83.5% (1,837) are listed as containing a single residential dwelling, 7.5% (163) are parcels with 2 – 4 residential dwellings, 4.7% (105) are condominiums, 3.6% (79) contain mobile homes (1 – 4), and less than 1 % (17) is a single residential cabin. A common assertion from some members of the public is that corporations are actively buying up residential properties and displacing regular homeowners. At this time, the data does not appear to back that assertion as only 4.4% (96) of residential parcels are owned by a

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<sup>4</sup> Kasturi, P., & Loudat, T. (2014). Economic impact of transient vacation rentals (TVRs) on Maui County, Hawaii. *Global Journal of Management and Business*, 14(1).

<sup>5</sup> Jorday, E., & Moore, J. (2018). An in-depth exploration of residents' perceived impacts of transient vacation rentals. *Journal of Travel & Tourism Marketing*, 35(1), 90-101.

<sup>6</sup> Wegmann, J., & Jiao, J. (2017). Taming Airbnb: Toward guiding principles for local regulation of urban vacation rentals based on empirical results from five US cities. *Land Use Policy*, 69, 494-501.

<sup>7</sup> Lee, D. (2016). How Airbnb short-term rentals exacerbate Los Angeles's affordable housing crisis: Analysis and policy recommendations. *Harvard Law & Policy Review*, 10.

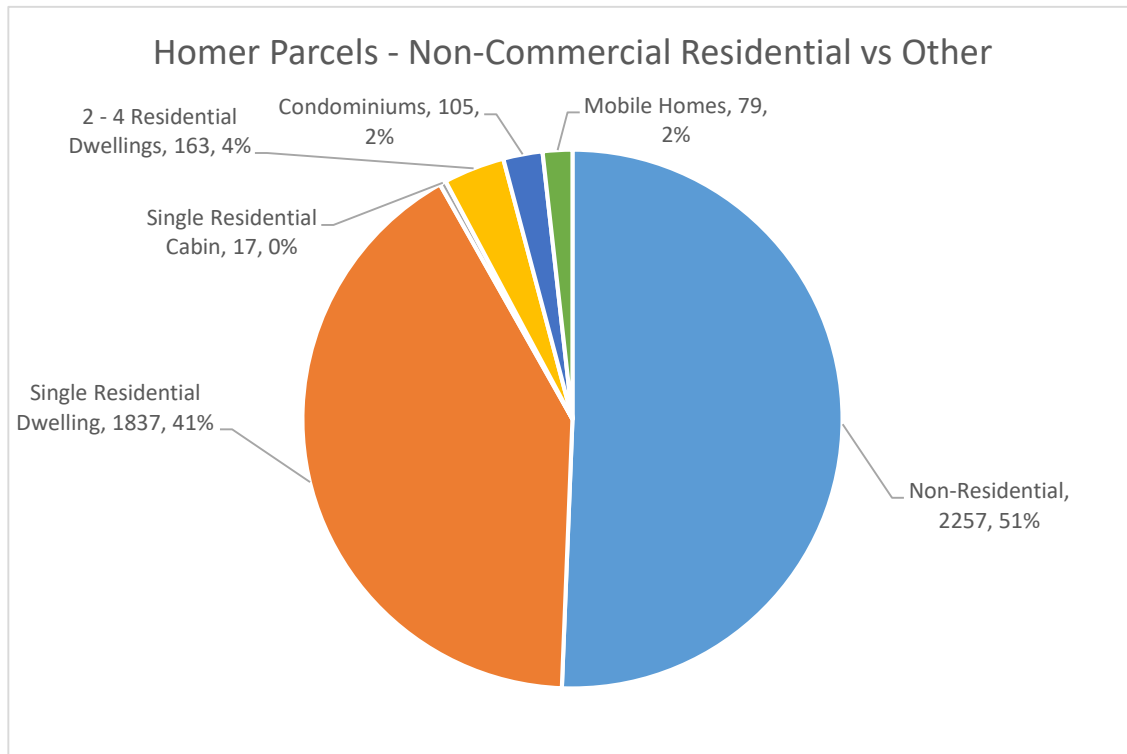
<sup>8</sup> Jorday, E., & Moore, J. (2018). An in-depth exploration of residents' perceived impacts of transient vacation rentals. *Journal of Travel & Tourism Marketing*, 35(1), 90-101.

<sup>9</sup> Lee, D. (2016). How Airbnb short-term rentals exacerbate Los Angeles's affordable housing crisis: Analysis and policy recommendations. *Harvard Law & Policy Review*, 10.

<sup>10</sup> <https://hbr.org/2019/04/research-when-airbnb-listings-in-a-city-increase-so-do-rent-prices>

<sup>11</sup> <https://www.census.gov/quickfacts/homercityalaska>

limited liability corporation (LLC). A further 12.4% (272) are owned by a trust, however, that does not necessarily indicate that the home is not owner-occupied.



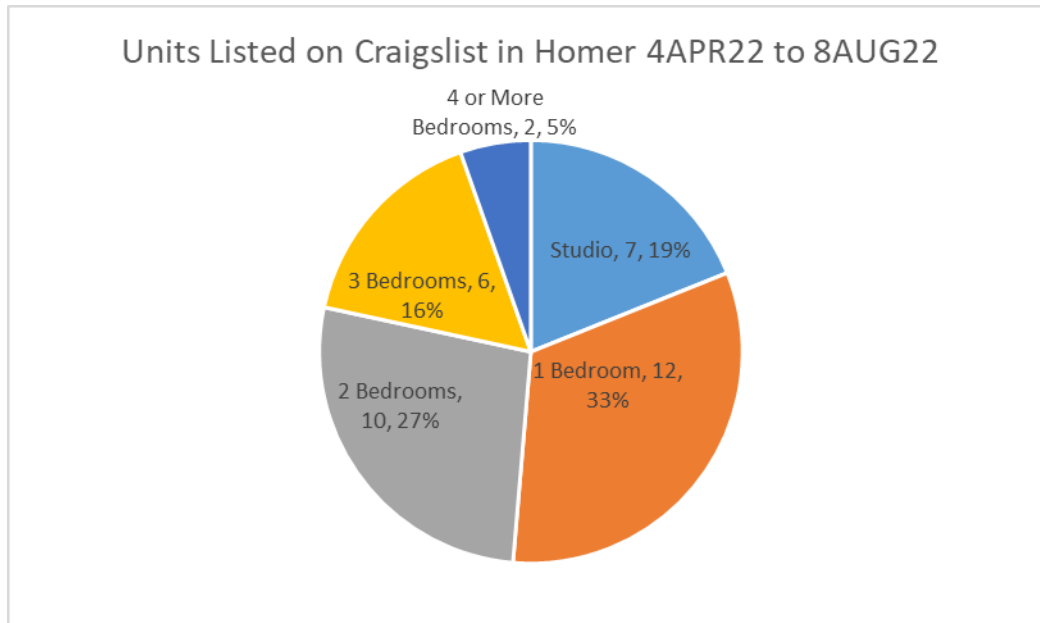
Current estimates on the number of short-term rentals (STRs) listed on Airbnb, VRBO, and other sites for the City of Homer is 326 units, which accounts for almost 15% of all the residential dwellings in Homer and 38.5% of all non-owner-occupied housing (per 2020 US Census statistics)<sup>12</sup>. At an average of 2.63 people per household in Homer<sup>13</sup>, STRs may have displaced as many as 769 potential year-round residents. The average daily rent for the high season (May, June, July) is \$295 and \$195 for the low season. During the lower rent season, both the daily average rent and the number of units listed decrease, while the number of available units increases. A conservative estimate on the revenue generated for the high rental season using an average daily rent of \$295 for 326 units at 85% occupancy is \$7,520,494. For the lower rental season, assuming a 30% occupancy of 296 units at a reduced average cost of \$195 per night for half the remaining nights of the year (137) would generate \$2,372,292 in total rent. The total estimated rent for STRs annually is \$9,892,786. Assuming 60% of the units are currently registered as a business and are paying the appropriate tax, this unrealized revenue to the City of Homer would be \$191,920. This represents 4.85% sales tax.

The long-term rental market is difficult to track. People in Homer use Craigslist, Facebook, community message boards, word of mouth, and other methods to find housing. As a representative sample of the health of the long-term rental market, we tracked listings on Craigslist from April 4, 2022, to August 8, 2022. Every Monday, we would visit the site and use the map tool to identify listings that were available within the city. During the 17-week period of observation, only 38 unique listings were recorded. Of those, only 35% were available as year-round rentals and only 62% were available during all, or part, of the summer tourist season. The average price for a rental during this period was \$1,591 and the median was \$1,500. Daily prices

<sup>12</sup> <https://www.census.gov/quickfacts/homercityalaska>

<sup>13</sup> <https://www.census.gov/quickfacts/homercityalaska>

ranged from \$520 for a dry cabin to \$4,000 for a larger property with six bedrooms. Most of listings were one-bedroom or studio apartments, and 68% of listings came either fully or partially furnished.



When comparing the income potential for a long-term rental (net income of \$19,092 per year) versus the (possible but unlikely) scenario of an STR that is booked daily (net income of \$106,200 at \$295/night average), it's easy to see why so many homeowners are tempted to exit the long-term rental market. Using the more realistic and conservative booking estimate from earlier in this memo of 85% occupancy at \$295/night in May through July and 50% occupancy at \$195/night the rest of the year, the average unit would be on track to generate over \$30,000, a significant increase in annual profit over a traditional long-term rental.

	Daily	Weekly	Monthly	Yearly
<b>Avg. Long Term Rental</b>	\$52.31	\$367.15	\$1,591	\$19,092
<b>Avg. Short Term Rental –</b>	\$295	\$2,065	\$8,850	\$106,200

### A Look at STR Regulation

As the STR market increases across the US, there is no reason to believe these trends will decrease. Because of the impact on local communities, it is important for municipalities and units of government to develop guidance, policy, and codes to regulate this industry. The City of Homer is starting with a blank slate, we currently have no regulations related to STRs. As we begin to consider options for regulation, staff is very conscious of the need to balance efforts between maintaining the community, promoting economic opportunity, and ensuring businesses are registered and taxed. This will require an intentional effort to educate and engage the community. It will also require a significant amount of leadership from Council and Administration to carefully change the culture and regulatory structure around STRs.

There are several benefits to short-term rental regulatory programs:

- Life Safety inspections can ensure that rentals are safe for commercial use.
- Ensures short-term rental owners are remitting both city and borough sales tax

- Permitting can provide vital information for policies related to short-term and long-term rentals.
- Permitting that is both easy to understand and transparent.
- Improves management of public nuisances such as noise and parking

Along with benefits, there are challenges to short-term rental regulatory programs:

- May discourage STR small businesses
- Permitting and regulations can be an administrative/cost burden
- Fear of uncertainty
- Unintended consequences, such as leapfrogging STRs outside City limits
- Ensuring regulations fit the community
- Housing is a multifaceted challenge and STR regulations alone cannot fix a housing availability issue

As there is no bed tax in Homer, the taxes charged would be the regular sales tax of 4.85% daily up to \$500 rental per day.

### **Case Studies**

Issues surrounding STRs are not unique to Homer. All over the country different municipalities are struggling to find solutions that fit their cities appropriately. The following provides an analysis of eight similar sized, outdoor oriented communities, each with substantial vacation visitors, and the steps they have taken to create a regulatory framework for short-term rentals. The attached Short-Term Rentals Case Study Comparison Matrix provides a detailed comparison of all eight-case study short-term rental regulatory programs.

#### *Seward, AK*

In 2019, Seward introduced a permit application for all short-term rentals and began using automated software that tracks vacation rental apps and websites 24/7 so city staff can compare that information to tax rolls. This ensures vacation rental owners are in compliance with the program, including remitting both city and borough sales tax, as well as the city's local bed tax. The regulatory program for Seward is unique in several aspects:

- A City of Seward and Alaska State Business license is required.
- There is no short-term rental application fee.
- Principal owner is required to be on-site in single family and two-family zoning districts.

#### *Palmer, AK*

In 2018, Palmer introduced a permit application for all short-term rentals. This ensures vacation rental owners are in compliance with the program, including remitting both city and borough sales tax, as well as the city's local bed tax. The regulatory program for Palmer is unique in two key aspects:

- There are 5 permit types, the most of eight case studies evaluated.
- Certain permit types and zoning districts require adjacent property notification.

#### *Other Alaska Cases*

Sitka, AK is currently considering a one-year moratorium and a short-term rental regulatory program. Juneau, AK is currently considering a short-term rental regulatory program.

### *Taos, NM*

On April 1, 2022, the City of Taos Planning Department began accepting applications for short term rentals, with a maximum of 120 permits available in the City. Applications are submitted through an online portal. The regulatory program for Taos is unique in several aspects:

- A maximum of 120 Short-Term Rental permits available.
- Short-term rentals are explicitly prohibited from the Central Business District and Historic Districts/Overlays.
- Violations can result in a misdemeanor offense.

### *Aspen, CO*

In December 2021, Aspen City Council approved a temporary moratorium on the issuance of short-term rental (STR) permits. Council's decision to impose this moratorium was a direct response to community impacts from under-regulated land use. Ordinance No. 26, Series 2021 was a necessary tool to create space for engagement, analysis, policy development, and decision making. This temporary moratorium on the issuance of STR permits is currently in effect and is scheduled to extend until September 30, 2022, with the City accepting applications in October of 2022. There will be three permit types differentiated based on the permittee's residency, zone district, and usage of the unit, and each permit type has different regulatory and financial requirements:

- *Lodge-Exempt (STR-LE) Permit*
  - Available to lodging and condo-hotel properties which meet the definition of "lodge" and/or "condo-hotel" per Ordinance No. 9, Series 2022.
  - No annual limit on the number of nights per year the STR may operate.
  - Not limited by number in any zone district where STR is a permitted use.
  - One permit may cover the entirety of the lodge and/or hotel.
  - Batch filing of taxes is allowed.
- *Owner-Occupied (STR-OO) Permit*
  - Available to title property owners who reside in their City of Aspen residential property as their primary residence for a minimum of 6 months per year.
  - Limited to 120 STR rental nights per year.
  - Not limited by number in any zone district where STR is a permitted use.
  - Permittee must submit two pieces of documentation indicating that the STR address is the permittee's primary residence.
- *Classic (STR-C) Permit*
  - Available to non-owner occupied OR owner-occupied residential properties.
  - No annual limit on the number of nights per year the STR may operate.
  - Limited by number in certain residential zone districts; new applicants will be subject to a waitlist in zones with capped numbers of available STR-C permits.
  - Property owner name required on the application; LLCs without a verifiable name of a natural person will not be accepted.

### *Durango, CO*

The City of Durango has allowed and regulated 'Tourist Homes' in certain parts of the City since 1989. The rise in popularity of online vacation rentals has led to the adoption of regulations that limit this use to appropriate areas. The goal of Durango's vacation rental program is to provide opportunities for property

owners to pursue this use while reducing potential impacts on neighborhood character and housing availability for City residents.

Vacation rentals are only permitted in the following zones: the Central Business zone, Mixed-Use zones, select Planned Development zones, and Established Neighborhoods (EN) 1 & 2. There is a cap on the number of available permits in the EN zones, with a total of 22 vacation rentals allowed in EN-1 and 17 in EN-2. In the other zones where vacation rentals are permitted, caps are applied on a development-specific basis, so that only a certain number of residential units may be permitted as vacation rentals within a certain building or development. Caps have been reached in most cases and properties must be placed on a wait list before being eligible to apply.

#### *Pacific Grove, CA*

Pacific Grove, CA provides two types of short-term rentals: a Short-Term Rental License for renting an entire dwelling unit, and a Home Sharing License for renting individual rooms of a residence. The regulatory program for Pacific Grove is unique in several aspects:

- Rentals are limited to Coastal and Commercial zones.
- The subject property must comply with the 55-foot Zone of Exclusion at the time of application. The zone of exclusion is the distance of fifty-five (55) lineal feet from an existing STR parcel boundary.
- Licenses are capped, with a maximum limit of 250 City-wide.
- Owner or property manager must reside within 30 minutes of property.

#### *Palm Springs, CA*

In April 2017 Palm Springs, CA amended the City's adopted Vacation Rental Ordinance. The new Ordinance imposed additional restrictions on occupancy and use of Vacation Rental properties in Palm Springs, and additional enforcement oversight. The regulatory program for Palm Springs is unique in several aspects:

- There are two main permit types: Vacation Rental Owner and Vacation Rental Agency, with an Estate Home Addendum for homes with more than 4 bedrooms.
- No limits on the number of rental nights, but a maximum of 36 contracts annually.
- Owner or property manager must respond to property within 30 minutes.
- Rentals are allowed in all zoning districts, though applications are limited to single family, duplex, and condominiums.

#### *McCall, ID*

The City of McCall, ID adopted new codes regarding Short-Term Rentals (STR) within the City on effective March 01, 2020. McCall is the least restrictive of the eight evaluated case studies, with no limits on zoning, the number of rental nights, the number of total rental permits, and no requirement for principal owner or operator to be on-site. McCall has two types of permits, less than 20 persons in a rental requires a declaration of compliance form, and 20 or more persons at a property requires a conditional use permit.

### **Summary of Case Study Findings**

Most case study regulatory programs were created or updated recently, in roughly the 2017-2022 time period, in reaction to a new technology that has been highly utilized in only the last 10 years or so. While each of the case studies created a unique approach to a regulatory framework that fit their community, they generally fell into three categories:

Light Regulation:

- No limits on zoning, the number of rental nights, or total number of permits
- No requirement for life safety inspections
- No requirement for principal owner or operator to be on-site

Moderate Regulation:

- No cap on the number of permits
- Moderate zoning district limitations
- Requires life safety inspections

Robust Regulation:

- Caps the total number of permits
- Limits to the number of rental nights
- Strong zoning district limitations
- Owners or operators must reside within 30 minutes of rental