



CITY OF BANGOR

Planning Division

February 9, 2021

Project: Possible Regulation of Bed & Breakfast, Shared Housing, and Short-term Rentals¹

Project Support: Implementation Project from the Recommendations to Improve the Status of Housing in Bangor from the Bangor Housing Work Group March 2019

Purpose: Receive feedback on options available for regulating the noted uses

Background – Short-term rentals²:

The noted document recommends the city create a policy that covers short-term rentals, defined herein as renting for less than 30 days.

It is assumed that the reason for this recommendation is that there may be a correlation between the proliferation of the short-term rental³ industry and the market for affordable housing. This is based upon the following observations:

- A. People or investors who purchase homes exclusively to rent short-term are able to pay a higher price for the home because the return on investment of the rentals covers or exceeds their costs of the initial investment. In sharp contrast, people who purchase a single-family home or condominium unit for themselves make the purchase based upon many factors but most notably here is what they can afford to pay for a mortgage. This, in many markets, creates a large disparity in price.
- B. The same observation holds for the long-term rental market. People or investors who purchase apartment buildings can make a higher income by renting the units on a short-term basis than year-round rents can generate. This can create a higher market value for apartment buildings or condominiums. This also reduces the supply of year-round rentals, also causing a market jump where demand exceeds supply.

Other concerns with short-term rentals include:

- C. Loss of neighborhood and community connections (not knowing your neighbor).
- D. Issues with noise from parties or events that occur on a regular basis at a rental.

¹ Staff Disclosure: Anne Krieg rents her primary residence in Bar Harbor as a short-term rental and moves to a family home in another town for the summer season. She also worked on creating the initial policy in Bar Harbor in the early 2000's.

² For background about Airbnb: <https://www.businessinsider.com/how-airbnb-was-founded-a-visual-history-2016-2>

³ Defined herein as renting for less than 30 days

- E. Equity issues from hotel and bed & breakfast establishments regarding inspections and life-safety code requirements. This includes concerns with the safety of visitors staying in a home that may not meet basic, yet crucial, code requirements.

There is recent data from other cities that supports these observations. Boston⁴, New York City⁵, and San Francisco have all completed excellent data supporting the observations of A and B above. This abstract from another study, on a national scale, indicates similar results:

We assess the impact of home-sharing on residential house prices and rents. Using a dataset of Airbnb listings from the entire United States and an instrumental variables estimation strategy, we show that Airbnb has a positive impact on house prices and rents. This effect is stronger in zip codes with a lower share of owner-occupiers, consistent with non-owner-occupiers being more likely to reallocate their homes from the long- to the short-term rental market. At the median owner-occupancy rate zip code, we find that a 1% increase in Airbnb listings leads to a 0.018% increase in rents and a 0.026% increase in house prices. Finally, we formally test whether the Airbnb effect is due to the reallocation of the housing supply. Consistent with this hypothesis, we find that, while the total supply of housing is not affected by the entry of Airbnb, Airbnb listings increase the supply of short-term rental units and decrease the supply of long-term rental units.

Citation: Barron, Kyle and Kung, Edward and Proserpio, Davide, The Effect of Home-Sharing on House Prices and Rents: Evidence from Airbnb (March 29, 2018). Available at SSRN: <https://ssrn.com/abstract=3006832> or <http://dx.doi.org/10.2139/ssrn.3006832>

From an investor perspective, it makes it difficult to invest in long term rentals⁶. As noted in the footnoted article:

In big cities, demand is the enemy that is pushing prices, tourists are more ready to be wallet happy spenders unlike locals that's why landlords are focusing on hosting tourists rather than locals. It is all connected in the end, but the conclusion is that Airbnb rental properties are now probably biggest player in the housing market.

A system needs to be created that helps housing affordability while not preventing people from listing properties on Airbnb.

In contrast to other studies, and not without controversy, the City of San Diego and the county of Santa Barbara⁷ looked at short-term rentals from an economic development perspective, namely tourism and job growth. They see spending per household increasing which helps local businesses and the need for maintenance workers and the like which helps their community.

⁴ Study is here: http://repec.umb.edu/RePEc/files/2016_03.pdf

⁵ Study is here: <https://ag.ny.gov/pdfs/AIRBNB%20REPORT.pdf>

⁶ See <https://www.mashvisor.com/blog/4-ways-rental-properties-affect-housing-market/>

⁷ Study here: http://media.independent.com/news/documents/2016/07/20/STR_Effect_on_Housing_Supply_-_2016-05-12.pdf

San Diego used this work to bolster the need to charge an affordable housing fee to rentals to accommodate this workforce population⁸.

There are also many positive aspects of the allowance for short-term rentals including:

1. Potential for tourist/visitor spending on local goods & services.
2. Potential to attract new visitors to the area that prefer to stay in a house or apartment. From experience, this visitor type is often couples traveling on a budget, young families, multi-generational family trips, as well as people attending events together such as weddings or family reunions. In the case of Bangor, Waterfront Concerts and events at the Cross Insurance Center are an added draw. By staying in neighborhoods, there is the potential to attract new residents as Bangor community life can be showcased with short-term stays.
3. Providing short term rentals for the traveling business community as seen with professionals in the medical, sales, and construction industries.
4. Creation of accompanying and support businesses such as home maintenance, landscaping, cleaning and general property management, as well as bolstering local businesses in the retail and food service industries.

One other aspect of short-term rentals worth noting is the positive financial impact to the renter, whether they rent a unit in/on the property, a room, or the entire home. This can provide an income stream that may make it possible for an owner to continue to afford a home where otherwise they may not be able to.

There is also the traditional view of short-term rentals that it is not in the public interest to regulate or monitor the use. Renting your home or unit/room was considered a *customary use of a dwelling*. For decades, this held true for coastal/tourist communities nationwide; however, its success and resulting proliferation has led to a shift in perspective of the public interest.

One element, however anecdotal, that appears to be consistent in discussions on this use in other communities is common support for people who are the primary occupants and owners of a dwelling that rent out their home on a seasonal basis, or rent out an extra room. For many, it is crucial extra income, provides capital to invest in their home and add to their operating budget for upkeep of their home, and for others, a rainy day or vacation fund; all of which are positive investments residents make in community life. It is important that there is equity in this allowance/regulation.

Potentially, for Bangor, allowing short-term rentals is another option for these homeowners to have added sources of income to make the high level of capital investment necessary to maintain, preserve, or restore the historic homes that dominate the high assessed value neighborhoods which help to define Bangor.

Another element to consider is registration of units. Registration is helpful to the city:

⁸ It is not recommended Bangor set a fee higher than the cost of administering a permit, if registration is sought for this use, as Maine does not empower local municipalities to impose a capital fee or a tax on services. An act of the state legislature appears to be necessary to do this. Even the impact fee law in the state statute is limited to public works or school related capital expenditures. The economic impact fee in state statute is only for large-scale residential.

- A. It provides the city data to track how much of the housing stock is dedicated to this use and where rentals may be congregating.⁹
- B. Registration assists with public safety, as it can include a local contact in case of emergencies.
- C. Registration that includes an inspection for life safety codes ensures a safer stay for visitors, which is in keeping with city and state policies and regulations for hotels/bed & breakfasts, which are required to follow life safety codes.

The key with this policy is to balance the positive aspects with the negative impacts. Bangor is in an enviable position as the city is not overrun with short-term rentals at this time; however it is a growing segment of the sharing economy so it is important to have it addressed.

Attached please find a map that a company called Granicus prepared showing listed properties right now in Bangor. Granicus is a company that manages monitoring of short-term rentals for communities (<https://granicus.com/>). They are seeking possible future business in Bangor. I am not advocating funding this service at this time; however I do appreciate a map and it's good to know what we should be thinking about for monitoring/regulating.

Please note the location of the rentals are almost all in the walkable neighborhoods and the downtown area.

What are our options?

1. No regulation, no changes to the Code

Currently the Code Enforcement office deems the use not allowed as it's a use not listed in any district. The issue with this option is people that are renting are in violation and the use is in limbo. This option is not recommended at this time.

2. Allow in all districts with registration and inspection

This option would define the use in the code and make it an allowable use in all districts in the city. This is the best option if the Council wants to have minimal regulation of the use. The benefit of registration and inspection is we ensure visitors have as safe a stay in a unit/room as they would in any transient establishment (as in hotels, b&b's).

The downside of this allowance is it may be difficult for the city to reign in the use later on.

For example, if the city went with this option and in a future time, the city wanted to disallow them in a district or in multi-family units, there may be units that have nonconforming protections¹⁰. This means they had conformed to the allowance and then the code changed and they are no longer allowed – they would be able to continue to operate in this scenario which may not be the desired outcome. The other option in this example would be to what is called

⁹ This isn't necessarily recommending a cap, as Portland and other communities do now. It does force a discussion of a cap when the number of registrations reach a certain percentage of the housing stock. Caps are not typically favorable as the cap makes a permit a commodity and not as its title suggests, permission to do something.

¹⁰ It should be noted that the listings active currently do not have nonconforming protections because the city has deemed the use not allowed. Protections occur when the use was allowed and the code changes and it's no longer allowed. That is not the case currently.

“sunsetting” the use, which means on a date certain, the unit could no longer be rented. This is an aggressive zoning technique that is rarely recommended.

3. Allow in certain districts

This option means that the use would be allowed (assuming registration/inspection) in certain parts of the city. As can be seen on the map, there are clusters of short-term rentals in the core business district, near the waterfront concert space and Cross Insurance Center, and going out towards the hospital and the airport. It is clear there is a market in these locations for this use. These neighborhoods are also neighborhoods that help make up what is great about residential life in Bangor.

If neighborhoods are overrun with short term rentals, then is it a neighborhood anymore? Does it get to affordability if prices rise because of the new income production from a unit/room? Are we standing in the way of a market that is useful and helpful to Bangor’s economy? Are we preventing people from making necessary added income from their property?

We would also discuss which districts, which also goes to the above questions of market versus neighborhood erosion. *If everyone wants to stay in the downtown area, then wouldn’t we allow them there? But if everyone is staying in the downtown area, then what does that do to our downtown neighborhoods?*

This option is recommended only if the city wants to bar certain areas by either the zoning district, or, as a sub-option, by an overlay.

What’s an overlay? An overlay is regulating a use or other zoning element over a specified geographic area. It’s different than a district because, for example, URD-1 encompasses multiple neighborhoods. If the city wanted to regulate this use in just one neighborhood of URD-1, then the city would drop an overlay on top of that neighborhood (and over the URD-1 designation). It’s more surgical zoning but it works if there are neighborhoods that the city is most concerned with for this use.

4. Allow in all districts, but only single-family or in owner-occupied properties (with more than one unit)

As noted previously, in many other communities grappling with this use, one common element is consistent: people who live more than 6 months a year in a house that want to move out and rent their house out, or, want to rent a room in their home on a short-term basis, should be able to do this freely.

If this is an accurate assumption for Bangor, then this option might be workable.

Questions from this include: *Are we okay if an accessory dwelling unit is allowed to be rented short-term? What about multifamily units? If the owner lives in one of the units, is that okay for this use?*

The concern here is the scenario of an entity buying an apartment building and converting it to short term rentals. This happens worldwide and is a concern in many cities. In terms of affordable housing, that is a pretty big loss of available units.

At the same time, the downtown core district units that are rented are in buildings with multiple units. This is an important element to add more life to the core business district by allowing travelers to stay here. *There are limited options for travelers to stay downtown in Bangor – do we want to take that away?*

If the Council chooses this option, perhaps it gives relief to downtown units and allows the use freely in single- and two-family units.

Conclusion

Perhaps the solution is a combination of the above options. Staff does not have a specific recommendation. We do recommend, regardless of where and what type the city allows/disallows, that there is registration and inspection for compliance with life safety codes.

Background – Shared Housing

Wait, why are we doing this now?

Shared housing is also listed in the Recommendations from the Affordable Housing Work Group. Nationally, shared housing is a modern movement in housing options, both for young professionals and elder adults.

In the land development code right now, there is a definition of boarding houses with accompanying allowances. As part of the work for short-term rentals, it is noted that tourist homes are linked by Code with boarding houses. The work here is to modernize the concept of boarding house to a use that is desired in the marketplace today.

Because the definition of “tourist homes”, “bed and breakfast” and “boarding houses” are grouped as one definition in the City’s code, it is recommended we address this use at the same time as short-term rentals.

The elements of shared housing include:

- ❖ The space rented is a sleeping room that may or may not include a sitting space and personal lavatory.
- ❖ Access to kitchen space and a common room or rooms is also included.
- ❖ It is distinguished from a short-term rental or a bed and breakfast in that a shared housing unit is rented monthly, akin to long-term rentals (apartments).
- ❖ It is distinguished from an Accessory Dwelling Unit in that a shared housing unit has shared facilities and common areas whereas an ADU is a distinct dwelling unit.
- ❖ The owner may or may not be on premises. Sometimes it’s a large home that is rented out with the owner living on the premises, other times it may be the owner lives elsewhere and functions like a landlord.

This is a viable option for affordability for low income residents as well as transient workers. There is a market for this type of housing for young adults¹¹ embarking on their careers and living more independently, and also for elderly citizens¹² who may not need assisted living level of care, but do not want to live alone.

There are even start-ups with this use. From TechCrunch¹³:

The early developers of the U.S. suburban planned communities of the 1950s and 60s weren't just selling houses. They were selling a vision of the American Dream, complete with quarter-acre lawns, dishwashers and spacious garages.

By the same token, today's shared housing startups are selling another vision. It's not just about renting a room; it's also about being part of a community, making friends and exploring a new city.

Comments from Inc.¹⁴ regarding new professional co-living:

There are several reasons Millennials are flocking to co-living. First, it's cheaper than living alone, and just as cost-effective as getting a shared room in an apartment.

Second, it gives you built-in community. Instead of watching Netflix alone, you can join the debate in the kitchen about which is less obnoxious, Tinder or Bumble; or watch Game of Thrones with fellow members; or take your guitar to the fire pit and jam with the other musicians in the house.

There are also companies that cater to senior home sharing. From A Place for Mom:

Rodney Harrell, director of Livable Communities for AARP's Public Policy Institute, told The Mercury News that "one of the things we hear a lot is that people do want to age in place. In our latest survey, 8 out of 10 people over 65 want to stay in their own homes or a home environment as long as possible. Shared housing is a great option for someone that's open to it," he says. "It can provide companionship, save costs, and provide a feeling of security having other people in the home."

See also from Curbed¹⁵ about the benefits of multi-generational shared housing:

These projects are billed as a way to address two key social concerns: loneliness and a lack of affordable housing for both older and younger people — two

¹¹ See: <https://www.marketwatch.com/story/millennials-are-lining-up-to-live-in-instagram-worthy-communes-2018-11-21> - shared housing

¹² See: https://www.washingtonpost.com/realestate/the-golden-girls-trend-could-be-a-golden-opportunity-for-retirees-facing-isolation/2019/01/23/6311a3f8-0ec8-11e9-831f-3aa2c2be4cbd_story.html?noredirect=on&utm_term=.d88d95217457

See also <https://www.kcrw.com/culture/shows/design-and-architecture/la-seniors-find-housing-solution-with-home-share-program>

¹³ <https://techcrunch.com/2018/05/19/shared-housing-startups-are-taking-off/>

¹⁴ <https://www.inc.com/melanie-curtin/millennials-are-flocking-to-this-new-kind-of-communal-housing.html> See also:

<https://www.latimes.com/business/la-fi-coliving-development-20256106-story.html>

¹⁵ <https://www.curbed.com/2019/1/23/18192963/nesterly-home-share-program-elderly-university-students> See also

<https://www.wbur.org/onpoint/2018/11/06/senior-citizen-roommates-rent-companions>

generations that are not always likely to intersect in professional or personal environments, but who share these overlapping challenges.

The plight of the modern millennial—burdensome student loans, high housing costs, and unstable employment—has become familiar. When new congresswoman Alexandria Ocasio-Cortez was mocked online for saying she was unable to afford an apartment in D.C. until her congressional salary kicked in, supporters in their 20s and 30s chimed in to share similar situations. According to the Pew Research Center, more millennial households live in poverty than any other generation.

Many seniors in cities with tight housing markets, on the other hand, end up living alone with spare bedrooms they don't use. According to one estimate, there are 5 million empty bedrooms in Ontario alone, and about 40 percent of those belong to seniors. Through senior-student matching programs, students pay affordable rents, often hundreds of dollars below market averages, in return for spending roughly five hours a week helping out around the house, whether that's walking pets, picking up groceries, or shoveling a front walk during one of New York City's or Toronto's predictably lousy winters.

Shared housing also is another economic mechanism for maintaining, preserving and restoring historic homes:

- ⊕ For people currently in a historic home, it allows them to rent rooms to help with costs.
- ⊕ For prospective buyers of historic homes, it provides an optional market for shared housing.

Care needs to be taken to ensure that shared housing doesn't become a housing hazard in derelict properties.

Possible Policy Option – shared housing

- ✓ Remove the term “boarding houses” from the code.
- ✓ Insert “shared housing” and define it.
- ✓ Allow as a conditional use by the Planning Board in historic homes only in the Urban Residence 1 (URD-1) District
- ✓ Allow by right in historic homes only in the Urban Residence 2 (URD-2) District
- ✓ Allow by right in existing building or new construction in the Multi-family and Service District (M&SD), Neighborhood Service District (NSD), Waterfront Development District (WDD), High Density Residential (HDR), and Downtown Development District (DDD).
- ✓ Allow as a conditional use by the Planning Board in an existing building or new construction in the Rural Residence and Agricultural District (RR&A).

Background – Bed & Breakfasts (B&Bs)

Why are we doing this too?

Bed & Breakfast as a use is currently connected in regulation with boarding houses and tourist homes. To change boarding houses and tourist homes forces us to address bed & breakfasts as well so as to not create conflicts and flaws in the Code.

B&Bs are a great option for the traveling public¹⁶ and can be used as a way to showcase your community to tourists¹⁷.

They are also a good technique to save large historic homes; that is, allowing the use of a B&B provides an added niche of buyers to the market. The Historic Tax Credit for Rehabilitation also applies for investments made to historic homes for commercial uses which becomes another benefit¹⁸. This use adds to our visitation numbers and accompanying spending on goods & services, as well as showcasing our community life.

Proposed Policy – Bed & Breakfasts

- Define Bed & Breakfasts as distinct from hotels as the owner/operator resides on the property.
- Allow as a conditional use (thus items as traffic and parking are more closely reviewed) by the Planning Board in historic homes only in Urban Residence 1 (URD-1,) and Urban Residence 2 (URD-2.)
- Keep current allowance as a conditional use in the Multifamily and Service District (M&SD.) and Rural Residence and Agriculture (RR&A.)

This is very complicated set of uses with far reaching implications for housing and residential life, as well as for the economy. It is hoped this document helps the Council deliberate and provide direction to staff. Once we have this direction, then language can be created for further review.

Thank you for this opportunity to facilitate this important conversation.

amk

¹⁶ Including the next generation of travelers: <https://nntp-savingplaces.s3.amazonaws.com/2017/06/27/09/02/25/407/Millennial%20Research%20Report.pdf>

¹⁷ See 2018 Study of B&B consumers: [https://www.independent-innkeeping.org/assets/IndustryNews/PressRelease-TheBBTravelerProfile%20and%20IndustryStudy-2018-v3%20\(AIHP\).pdf](https://www.independent-innkeeping.org/assets/IndustryNews/PressRelease-TheBBTravelerProfile%20and%20IndustryStudy-2018-v3%20(AIHP).pdf)

¹⁸ See info on tax credits: <https://www.irs.gov/businesses/small-businesses-self-employed/tax-aspects-of-the-historic-preservation-tax-incentives-faqs>